

# **KRISHNA SUPPORT STUDY MATERIAL**

**XII Business Studies**

**Support Material,  
Study Notes,  
HOTS and VBQ**

## UNIT 1

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# NATURE AND SIGNIFICANCE OF MANAGEMENT

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

### Efficiency and Effectiveness

Efficiency means doing the task correctly at minimum cost while effectiveness means completing the task correctly. Although Efficiency and effectiveness are different but they are interrelated. It is important for management to be both i.e. effective and efficient.

Example : A business produces targeted 1000 units but at a higher cost is effective but not efficient. Therefore if the business has to be effective and efficient then it has to produce 1000 units within cost.

### Characteristics of Management

1. **Goal oriented Process** : It is a goal oriented process, which is undertaken to achieve already specified and desired objectives.
2. **Pervasive** : Management is pervasive in nature. It is used in all types of organizations whether economic, social or political and at every level.
3. **Multidimensional** : It is multidimensional as it involves management of Work, People and operations.
4. **Continuous** : It is a continuous process i.e. its functions are being performed by all managers simultaneously. The process of management continues till an organisation exists for attaining its objectives.
5. **Group Activity** : It is a group activity since it involves managing and coordinating activities of different people as a team to attain the desired objectives.
6. **Dynamic function** : it is a dynamic function since it has to adapt to the

changing environment.

7. **Intangible Force** : It is an intangible force as it cannot be seen but its effect are felt in the form of results like whether the objectives are met and whether people are motivated or not.

### **Objectives of management**

- (A) Organizational objectives of Survival (Earning enough revenues to cover cost); Profit (To Cover cost and risk); & Growth (To improve its future Prospects).
- (B) Social Objectives of giving benefits to society like using environmental friendly practices and giving employment to disadvantaged sections of society etc.
- (C) Personal Objectives because diverse personal objectives of people working in the organization have to be reconciled with organizational objectives.

### **Importance of management**

- (1) **Achieving Group Goals** : Management helps in achieving group goals. Manager give common direction to the individual effort in achieving the overall goal of the organisation.
- (2) **Increases Efficiency** : Management increases efficiency by using resources in the best possible manner to reduce cost and increase productivity.
- (3) **Creates Dynamic Organisation** : Management helps in creating Dynamic organisation which could adopt changing situations easily.
- (4) **Achieving Personal Objectives** : Management helps in achieving objectives of individuals working in the organisation.
- (5) **Development of Society** : Management helps in the development of society by producing good quality products, creating employment opportunities and adopting new technology.

### **Management as an Art**

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

- (2) **Existence of theoretical knowledge** : In every art systematic & organised study material should be available compulsorily to acquire theoretical knowledge.

- (2) **Personalised application** : The use of basic knowledge differ 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.

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, anytime. The features of science are as follows

- (1) **Systematized body of knowledge** : Science has a systematised body of knowledge based on principles and experiments.
- (2) **Principles based on experiments & observation** : Scientific principles are developed through experiments and observations.
- (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 & observation, which are universally applicable.

As the principles of management are not as exact as the principles of pure science, so it may be called inexact science.

### **Management as a profession :**

Profession means an occupation for which specialised knowledge and skills are required. 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 frame code of conduct relating to the profession.
- (4) **Ethical code of conduct** : All professions are bound by a code of conduct which guides the behaviour of its members
- (5) **Service Motive** : The main aim of a profession is to serve its clients.

Management does not fulfill all the features of a profession and thus it is not a full pledged profession.

## **Levels of Management : Top, Middle and operational levels.**

### **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 heads, Plant Superintendent and Operations Manager 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 & responsibilities to them.

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

Consists of Foremen and supervisors etc.

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

**Functions of Management :** Planning, Organizing, Staffing, Directing and Controlling.

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

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

Staffing is finding the right people for the right job.

Directing is leading, influencing and motivating employees to perform the tasks assigned to them.

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

**Coordination :** The essence of Management : Coordination is the force which synchronizes all the functions of management and activities of different departments.

It integrates the group efforts.

It ensure unity of action.

It is a continuous process.

It is an all pervasive function.

It is a deliberate function.

It is the responsibility of all managers

## IMPORTANT QUESTIONS

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

1. In order to be successful an organization must change its goals according to the needs to the environment. Which characteristic of management is highlighted in the statement? (Answer: It is a dynamic function).
2. To meet the objectives of the firm the Management of Angora Limited offers employment to Physically Challenged persons. Identify the organizational objective it is trying to achieve (Answer : Social Objective).
3. Management of any organization strives to attain different objectives. Enumerate any two such objectives.
4. Give any two characteristics of management.
5. Management is multidimensional. Enumerate any two dimensions of management.
6. Managerial activities are performed in all types of organizations in all departments at all levels. Which management character is highlighted here? (Answer : It is all pervasive)
7. Your grandfather has retired where he is responsible for implementing the plans developed by the top management at which level of management was he working? State one more function of this level of management. (Answer: Middle level management) (Write any one function of this level).
8. List any two social objectives of management.
9. Your grandfather has retired as a Director of manufacturing company. At which level of management was he working? Different functions are performed at this level. State any one such function. (Answer : Top level of management) Write any one function of this level).
10. What is meant by management ?

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

1. There are different Business Objectives and Economic Objectives are one among them. Explain these economic objectives.
2. Explain how management is an art
3. Explain why management is not considered a full fledged profession.
4. Explain how management is science.
5. Coordination is the essence of management . Explain.

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

1. Management is a Profession like Accounting, Medicine and Law as it also has a well defined body of knowledge. Yet management does not qualify to be a full fledged profession. Why? (Hint : No formal qualification is prescribed to enter management, no code of conduct is prescribed).
2. Success of an organization largely depends upon its management Explain any five reasons to justify the statement. (Hint : Give five points of Importance of management).

## UNIT 2

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# PRINCIPLES OF MANAGEMENT

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### Concept of Principle of Management :

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

### 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.
- (2) **General Guidelines** : They are General Guidelines to action which however do not provide readymade solutions as the business environment is very changing or dynamic.
- (3) **Formed by practice and experimentation** : They are developed after thorough research work on the basis of experiences of managers.
- (4) **Flexible** which can be modified by the practicing manager as per the demands of the situations.
- (5) **Mainly Behavioural** : Since the principles aim at influencing human behaviour they are behavioural in nature.
- (6) **Cause and Effect relationship** : They intend to establish relationship between cause & effect so that they can be used in similar situations.
- (7) **Contingent** : Their applicability depends upon the prevailing situation at a particular point of time.



### **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.
- (2) Optimum utilization of resource and effective administration.
- (3) Scientific decisions.
- (4) Meeting the changing environmental requirements.
- (5) Fulfilling social responsibility.
- (6) Management training, education and research.

### **Taylor s Scientific Management :**

F.W. Taylor (1856-1915) was an American mechanical engineer who believed in analyzing the work scientifically and finds one best way to do any work. His book Principles of Scientific Management was published in 1911.

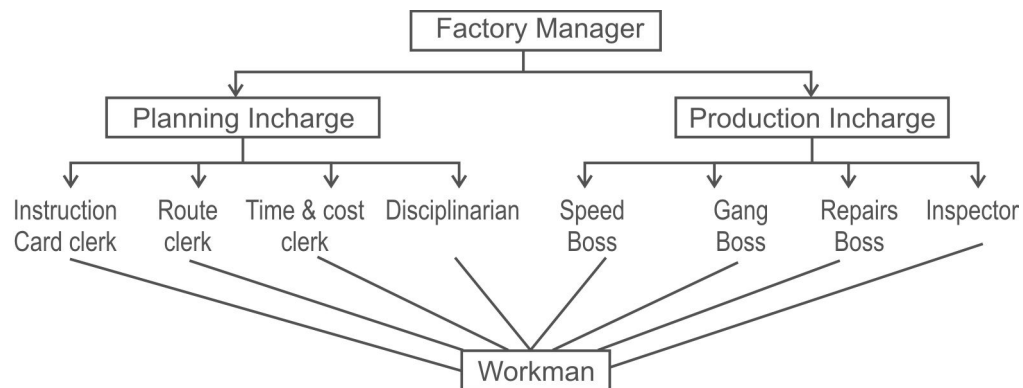
### **Principles of Scientific Management :**

Taylor gave the following principles of scientific management :

- (1) **Science and not the rule of thumb** : which implies developing one standard method through work study unifying the best practices globally which would result in optimum resource utilization.
- (2) **Harmony, Not discord** : which implies that there should be mental revolution on part of managers, workers and owners to respect each other s role and eliminate any class conflict to realize organizational objectives.
- (3) **Cooperation not individualism** : It is an extension of the Principle of Harmony, Not discord whereby constructive suggestions of workers should be adopted and they should not go on strike as both management and workers share responsibility and perform together. Infact there should be complete cooperation between the labour and the management instead of individualism.
- (4) **Development of Each and Every Person to His or Her greatest Efficiency and Prosperity** : Which implies development of competencies of all persons of an organization after their scientific selection and assigning work suited to their temperament and abilities.

## Techniques of Scientific Management

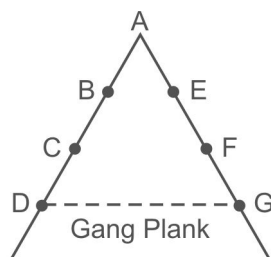
- (1) **Functional Foremanship** : Functional foremanship is a technique in which planning and execution are separated. There are 8 types of specialized professionals 4 each under planning and execution who keep a watch on all workders to extract optimum performance.



- (2) **Standardisation and Simplification of work** : Standardization refers to developing standards for every business activity whereas Simplification refers to eliminating superfluous varieties of product or service. It results in savings of cost of labour, machines and tools. It leads to fuller utilization of equipment and increase in turnover.
- (3) **Method Study** : The objective of method study is to final out one best way of doing the job to maximise efficiency in the use of materials, machinery, manpower and capital.
- (4) **Motion Study** : Motion study seeks to eliminate unnecessary motions in the execution of a job to enable it to be completed in less time efficiently.
- (5) **Time study** : It determines the standard time taken to perform a well defined job. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes & determine labour costs.
- (6) **Fatigue study** : Fatigue study seeks to determine amount and frequency or rest intervals in completing a task.
- (7) **Differential Piece Wage system** : Differential Piece Wage system seeks to reward a more efficient worker by giving him/her more wages for more quantity of standard production achieved.
- (8) **Mental Revolution** : It involves a change in the attitude of workers and management towards one another from competition to cooperation.

**Foyol s Principles of Management :** Henri Fayol (1841-1925) was a French Mechanical engineer who gave 14 general principles of Management which are as under :

- (1) **Division of Work :** Work is divided into small tasks / jobs and each one is done by a trained specialist which leads to greater efficiency.
- (2) **Authority and Responsibility :** Managers are empowered with authority to give orders and obtain obedience and responsible for the accomplishment of task for which they are granted authority.
- (3) **Discipline :** it is the obedience to organizational rules and employment agreement which are necessary for working of the organization.
- (4) **Unity of Command :** There should be only one boss for every employee. If an employee gets orders from two superiors at the same time the principle of unity of command is violated.
- (5) **Unity of Direction :** Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.
- (6) **Subordination of Individual Interest to General Interest :** The Interest of an organization should take priority over the interests of any one individual employee.
- (7) **Remuneration of Employees :** The overall pay and compensation should be fair to both employees and the organization.
- (8) **Centralization and Decentralization :** The concentration of decision making authority is called centralization whereas its dispersal among more than one person is known as decentralization. Both should be balanced.
- (9) **Scalar Chain :** The formal lines of authority between superiors and subordinates from the highest to the lowest ranks is known as scalar chain. This chain should not be violated but in emergency employees at same level can contact through Gang Plank.



- (10) **Order** : A place for everything (everyone) and everything (everyone) in its place. People & materials must be in suitable places at appropriate time for maximum efficiency.
- (11) **Equity** : The working environment of any organization should be free from all form of discrimination and the principles of Justice and fair play should be followed.
- (12) **Stability of Personnel** : After being selected and appointed after due and rigorous procedure the selected person should be kept at the post for a minimum period decided to show result.
- (13) **Initiative** : Workers should be encouraged to develop and carry out their plans for improvements. Initiative means taking the first step with self motivation It is thinking out and executing the plan.
- (14) **Espirit De Corps** : Management should promote team spirit, unity and harmony among employees. Management should promote a team work.

#### **Difference between unity of command and unity of direction**

<i>Basis</i>	<i>Unity of Command</i>	<i>Unity of Direction</i>
(2) Meaning	One subordinate should receive orders from & should be responsible to only one superior.	Each group of activities having save objectives must have one head and one plan
(2) Aim	Prevents dual subordination	Prevents overlapping of activities
(3) Implications	Affects an individual employee	Affects the entire organisation.

#### **Fayol versus Taylor :**

While the work of Taylor concerned shop floor, the work of Fayol concerned General Principles applicable to all types of situations.

## **IMPORTANT QUESTIONS**

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

1. The Principles of Management are different from those used in pure science". Write anyone difference.
2. Why is it said that the management principles are universal?

3. Different techniques were developed by Taylor to facilitate the Principles of Scientific Management. One of them was 'Fatigue study'. What is the objective of this study?
4. List any two principles of "Scientific Management" formulated by Taylor for managing an organization scientifically?
5. What is meant by principles of management?
6. State anyone principle of scientific management.
7. State any one reason why Principles of Management are important.
8. Give the meaning of mental revolution as suggested by Taylor.

**3/4 MARKS QUESTIONS :**

1. Explain the following principles of management:-
  - a) Equity.
  - b) Remuneration of Employees.
2. In your school, you observe that books, are kept in office, chalks in the library and office records in the staffroom. How will that affect the achievement of school objectives? Which aspect of management is lacking and why? As a manager, what steps will you take to rectify the shortcomings?

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

1. Explain any two techniques of Taylor s Scientific Management.
2. Explain the following principles of Fayol with example.
  - a) Unity of Command
  - b) Unity of Direction
  - c) Order
  - d) Espirit De Corps.

## UNIT 3

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# BUSINESS ENVIRONMENT

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

### Features of Business Environment :

- (1) **Totality of external forces** : Business environment is the sum total of all the forces/factors external to a business firm.
- (2) **Specific and General forces** : Business environment includes both specific and general forces. Specific forces includes investors, competitors, customers etc who influence business firm directly while general forces includes social, political, economic, legal and technological conditions which affect a business firm indirectly.
- (3) **Inter-relatedness** : All the forces/factors of a business environment are closely interrelated.
- (4) **Dynamic** : Business environment is dynamic in nature which keeps on changing with the change in technology, consumers fashion and tastes etc.
- (5) **Uncertainty** : Business environment is uncertain as it is difficult to predict the future environmental changes and their impact.
- (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 differ from country to country and region to region.

### IMPORTANCE OF BUSINESS ENVIRONMENT

1. **Identification of opportunities to get first mover advantage** : Understanding of business environment help an organisation in identifying advantageous opportunities and getting their benefits prior to competitors.

2. **Identification of threats** : Correct knowledge of business environment help an organisation to identify those threats which may adversely affect its operations.
3. **Tapping useful resources** : Business environment made 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 knowledge of business environment is necessary.
4. **Coping with Rapid changes** : Continuous study/scanning of business environment help 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 help an organisation in planning & policy formulation.
6. **helps in Improving Performance** : Correct and continuous monitoring of business environment help an organisation in improving its performance.

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

1. **Economic Environment** : It has immediate and direct impact on a business. Rate of interest, inflation rate, change in the income of people etc. are some economic factors which could affect business firms. Economic environment offers opportunities to a firm or it may put constraints.
2. **Social Environment** : It includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Changes in social environment affect an organisation in the long run. Example : now a days people are paying more attention towards their health as a result of which demand for mineral water, diet coke etc has increased while demand of tobacco, fatty food products has decreased.
3. **Technological Environment** : It provides new and advance ways/ techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product.
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. Political environment has immediate and great impact on the business transactions, so the businessman must scan the environment carefully so that necessary changes can be made in the organisation as per requirements.

5. **Legal Environment :** It constitutes the laws and legislation passed by the Government, administrative orders, court judgements & decisions of various commissions and agencies. Businessman had to act according to various legislations and so their knowledge is very necessary.

### **Economic Reforms :**

As a part of Economic reforms, the Government of India announces new Industrial Policy in 1991, whose main features are as follows :

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

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

**Liberalization :** 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.

**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.

**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 economics under the aegis (protection/support) of World Trade Organization.



## 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 are 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. Changes in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.
4. **Need for Developing Human resources** : The changing market corditions of today require people with higher competence and greater commitment, hence the need for developing human resources arise, which could increase their effectiveness and efficiency.
5. **Market orientation** : Earlier selling concept was famous in the market but now its place is taken by the marketing concept. Today firms produces those goods & services which are required by the customers.
6. **Reduction in budgetary Support to Public Sector** : The budgetary support given by the government to the public sector is going on reducing and thus the public sector have to survive and grow by utilising their own resources efficiently.

## IMPORTANT QUESTIONS

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

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

2. Just after declaration of Lok Sabha Elections 2009 results, the Bombay stock exchange's price index (Sensex) rose by 2100 points in a day. Identify the environmental factor which led to this rise. (Answer : Political Environment)
3. State any two impacts of change of government policy on business and industry.
4. The understanding of business environment helps the managers to identify threats. What is meant by threats here? (Answer: Threats refer to the external environment trends and changes that will hinder a firm's performance)
5. Business environment includes both specific and general forces. List any four specific forces. (Answer : Suppliers, investors, customers and competitors).
6. The understanding of business environment helps the managers to identify Opportunities. What is meant by Opportunities here? (Answer-Opportunities refer to positive changes and trends that will help the business to improve its performance.)
7. Business Environment includes both specific and general forces. List any four general forces. (Answer: Social, Economic, Political Legal and Technological).

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

1. Explain any three features of Business Environment.
2. Explain any two impacts of Government policy changes on Business and Industry.
3. Explain Increasing Competition and More demanding customers as impact of Government policy changes on Business and Industry.

**5 Marks Questions (To be answered about 150 words)**

1. Identify the type of dimension of environment to which the following are related :
  - i) Banks reducing interest rate on housing loans.
  - ii) An increasing number of working women.
  - iii) Booking of air tickets through internet.
  - iv) Alcohol beverages are prohibited to be advertised on Door Darshan

**Answer :**

- i) Economic Environment,
  - ii) Social Environment
  - iii) Technological Environment
  - iv) Legal Environment
2. Explain the various dimensions of business environment.

KRISHNA  
PUBLIC SCHOOL

## UNIT 4

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# PLANNING

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### Concept-

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

### Importance of Planning :-

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

### **Features of Planning :-**

1. **Planning focuses on achieving objectives :-** Planning function of management starts with determination of objectives. Once the objectives are set up, the next step is to determine the step that are to be followed to achieve these objectives.
2. **Planning is the primary function of management :** - Planning precedes organising, directing and controlling. It serves as the basis of all other function of management.
3. **Planning is pervasive :** Planning is required in all types of organisations and at all levels of management as well as in all departments of the organisation.
4. **Planning is continuous :-** Planning continues as a continuous process which an organisation has to undertake till its existence.
5. **Planning is futuristic :** Planning is deciding in the present what to do in the future. It is never done for past.
6. **Planning is a mental exercise :** Planning requires application of the mind involving creative thinking and imagination, therefore this is a mental exercise :

### **Limitations of Planning**

1. **Planning leads to rigidity :** A well defined plan is drawn up with specific goals to be achieved within a specific time frame. A plan decide in advance the future course of action. This kind of rigidity in plan may create difficulty.
2. **Planning may not work in a dynamic environment :-** The business environment is dynamic, nothing is constant. Every organisation has to constantly adapt itself to the changes in business environment.
3. **Planning reduces creativity :** Planning is an activity which is done by the top management therefore it reduced other level creativity.
4. **Planning involves huge costs :** When plans are drawn up, huge cost involved in their formulation.
5. **Planning is time consuming :** Sometime plans to be drawn up take so much of time that there is not much time left for their implementation.
6. **Planning does not guarantee success**

### **Planning Process :-**

1. **Setting Objectives :** The first and foremost step is setting objective. Objective may be set for the entire organisation and each department.
2. **Developing premises :** Planning premises are the assumptions about the likely shape of events of 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 objective are set and premises are developed. Then the next step would be to act upon them. All the alternative courses of action should be identified.
4. **Evaluating alternative Courses :** The next step is to be weight pros and cons of each alternative. Each course will have many variables which have to be weighted against each other.
5. **Selecting an alternative :-** After comparison and evaluation the best alternative is chosen for reaching organisation objectives.
6. **Implement the plan :** Once the plan are developed they are put into action.
7. **Follow to action :** To see whether plans are being implemented, activities are performed according to schedule.

### **Types of Plan :-**

1. **Objective :** Objectives can be said to be the desired future position that the management would like to reach.
2. **Strategy :** A strategy refers to future decision defining the organisation's direction and scope in the long run.
3. **Policy :** Policies are general statements that guide thinking or channelise energies towards a particular direction. We don't sell on Credit is the example of sales policy.
4. **Procedure :** Procedures are routine steps on how to carry out activities.
5. **Rule :** Rules are specific statement that tell what is to be done. For example No Smoking is a rule.
6. **Programmes :-** Programmes are the combination of goals, policies and rules. All these plans together form a programme.

7. **Single use plan** : Plan made to be used only one time or at most, couple of times because they focus on unique or rare situations within the organisation eg. program, budget.
8. **Standing plan** : Standing plan are often policies, procedure and program developed to ensure the internal operation of a given business are operating smoothly. They other developed onces & then modified to suit the business needs requirements.
9. **Budgets** : A budget is a statement of expected result expressed in numerical terms for a definite period of time in the future.
10. **Method** : Methods are standardised ways or manner in which a task has to be performed considering the objectives.

### ***1 Mark Questions***

1. Define planning.
2. Explain Procedures.
3. Define Rules.
4. Write the meaning of Budgets.
5. Write one difference between Policies & Procedure.
6. One of the function of management is considered as base for all other function. Name that functions.
7. Name the types of plan in which the movement of competitors is considered.
8. No Smoking in the work shop This statement is related to which types of plan.
9. We do not sell on credit This statement is related to which types of plan.
10. Write the meaning of strategies.

### ***3 and 4 Marks Question***

11. Planning is the heart of management . How?
12. Control is blind without planning. How?
13. How planning provide base to controlling?
14. Write the difference between rules and policies.
15. Write the difference between Policies & Procedures.

**5 - 6 Marks Question :-**

16. Explain any four types of planning.
17. In spite of best effort of managers sometime planning fails to achieve desired result due to its limitations. Explain.
18. Planning keeps the organisation on the right path. In this reference explain the importance of Planning.
19. Explain the features of Planning.
20. Explain the limitations of Planning.
21. Explain the process of Planning.

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## UNIT 5

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# ORGANISING

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### Meaning of Organising :-

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

- \* Thus organising means establishing relationship between various factors of production and it is concerned with establishing relationship amongst jobs, sections, department & position.

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.

### Step Involved in the Process of Organising :-

1. **Identification and Division of Work :-** It involves identification and dividing the 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 specialisation of work & skills. Duplication of work can be avoided by dividing the work into manageable activities.

2. **Departmentalisation :-** The second step in organising 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 which an organisation undertakes to achieve its objective. For example departments may be created for manufacturing, marketing, financing etc.

Departmentalisation is done to achieve coordination & to facilitate unity of efforts.

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

### **Importance of Organising :-**

1. **Benefits of specialisation :** - In organising every individual is assigned a part of total work and not the whole task. Due to this division of work into smaller units and repetitive performance leads to specialisation. Thus organising 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 organising.
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 Utilisation of resources :** The proper assignment of jobs avoids overlapping/duplication of work. This helps in preventing confusion and minimising the wastage of resources and efforts.
5. **Adaptation of change :-** It allows a business enterprise to adapt itself according to changes in the business environment. Organisational structures can be suitably modified according to changes.
6. **Development of personnel :** Sound organisation encourages initiative & creative thinking on part of employees.
7. **Expansion and growth :** It helps in growth & diversification of an enterprise by adding more job positions & department.

### **Meaning of Organisational Structure :-**

It seeks to establish relations among all the persons working in the organisation. Under the organisational structure various posts are created to

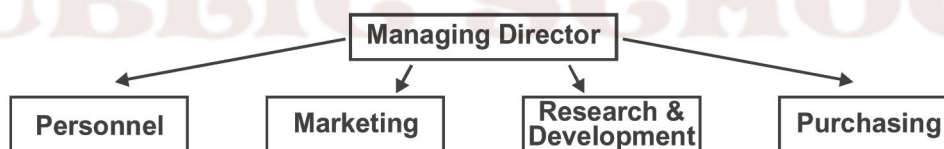
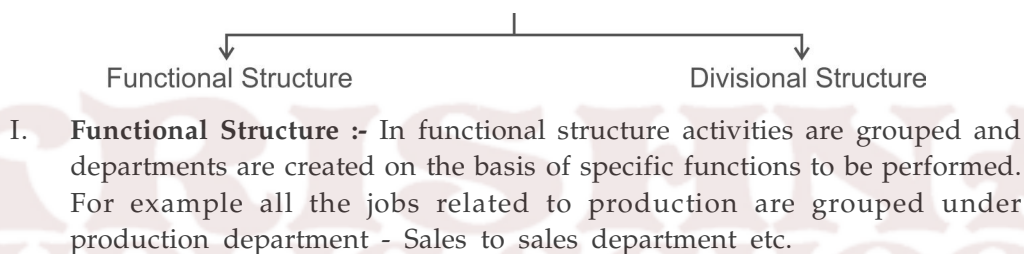
perform different activities for the attainment of the objectives of the enterprise. Relations among persons working on different posts are determined. The structure provides a basis or framework for managers and other employees for performing their functions.

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

### Relation between Span of Management and Organisation structure

- Span of management refers to the number of subordinates that can be effectively managed by a superior. The Span of management to a large extent gives shape to the organisation structure. This determines the levels of management in the structure.

### Types of Organisation Structures



### Advantages :

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

### Disadvantages

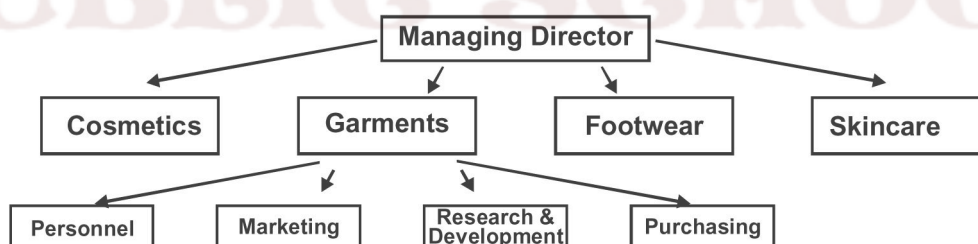
1. **Ignorance of organisational objectives** - Each departmental head works according to his own wishes. They always give more weight to their departmental objectives. Hence overall organisation objectives suffer.
2. **Difficulty in Inter-departmental Coordination** - All departmental heads work as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

### Suitability :-

1. Where the size of business unit is large.
2. Where specialisation is required.
3. Where there is mainly only one product in sold.

## II. DIVISIONAL ORGANISATION STRUCTURE :

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



### Advantages :-

1. **Quick decision making** :- Divisional manager can take any decision regarding his division independently which makes decisions quick and effective.
2. **Divisional results can be Assessed** :- Divisional results (profit/loss) can be assessed easily. On this basis 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.
3. **Selfish Attitude** :- Every division tries to display better performance even sometimes at the cost of other divisions. This shows their selfish attitude.

### **Suitability :-**

1. Where the number of main products are more than one.
2. Where the size of the concern is large enough.

## **FORMAL ORGANISATION**

This structure is designed by the management to achieve organisational 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 - Does not take into consideration emotional aspect.
4. It clearly defines the authority and responsibility of every individual.
5. It is created to achieve organisational 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 commands.
4. Easy to achieve objectives - because of 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 by rules which causes unnecessary delay.
2. Lack of initiatives - because 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 organisation is that organisation which is not established deliberately but comes into existence because of common interests, tastes and religious and communal relations.

### **Features :**

1. It originates from within the formal organisation 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.

### **Advantage**

1. **Speed :** Prescribed lines of communication are not followed which leads to faster spread of information.
2. **Fulfillment of social needs** - enhances job satisfaction which gives them a sense of belongingness in the organisation.
3. **Quick solution of the problems** - because the subordinates can speak out their mind before the officers which helps the officers to understand the problems of their subordinates.

### **Disadvantages :-**

1. **It creates rumours :-** All the persons in an informal organisation talk carelessly and sometimes a wrong thing is conveyed to the other person.
2. **It resists change and lays stress** on adopting the old techniques.
3. **Priority to group Interests** - Pressurises members to conform to group expectations.

#### Difference between Formal & Informal organisation

<i>Basis</i>	<i>Formal organisation</i>	<i>Informal organisation</i>
1. Meaning	If refers to the structure of well defined authority and responsibility.	It refers to the network of social relationships which develops automatically
2. Nature	Rigid	Flexible
3. Authority	Arises by virtue of positions in management	Arises out to personal qualities.
4. Adherence to rules	Violation of rules may lead to penalties and punishments	No such punishments.
5. Flow of communication	Takes place through the scalar chain	Not through a planned route It can take place in any direction.

#### 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 work effectively and efficiently in expected manner the manager creates accountability.

#### Elements of Delegation :-

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

**Principle of Absoluteness of Accountability** - Authority can be delegated but responsibility / Accountability cannot be delegated by a manager. The authority granted to a subordinate can be taken back and re-delegated to another person. The manager cannot escape from the responsibility for any default or mistake on the part of his subordinates.

### Importance of Delegation of Authority

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

### Difference - Authority, Responsibility and Accountability

<i>Basis</i>	<i>Authority</i>	<i>Responsibility</i>	<i>Accountability</i>
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

### Decentralisation :-

**Meaning** - It means to delegate authority to all levels of management for taking decisions. Under decentralisation all the authority except the one which is absolutely necessary for the superiors to hold is given to the subordinates permanently. Under decentralisation the number of centres for taking decisions



increases because the managers belonging to the middle and lower level have the authority to take important decisions.

**Centralisation and Decentralisation** - represents the pattern of authority among managers at different levels. Centralisation of authority means concentrations of power of decision making in a few hands. In such an organisation very little authority is delegated to managers at middle and lower levels. No organisation can be completely centralised or decentralised. They exist together and there is a need for a balance between the two. As the organisation grows in size there is a tendency to move towards decentralisation. Thus every organisation is characterised 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 on a few individuals but gets divided among various persons which helps them to take better and quick decisions.
3. **Relieves the top Executives from excess workload** - The daily managerial works all assigned to the subordinates which leaves enough time with the superiors which they can utilise in developing new strategies.
4. **Managerial Development** - It means giving authority to the subordinates up to the lower level to take decisions regarding their work. In this way the opportunity to take decisions helps in the development of the organisation.
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 & Decentralisation**

<i>Basis</i>	<i>Delegation</i>	<i>Decentralisation</i>
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 a 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 extensions of delegation to the lowest of management.
5. Purpose	To reduce the burden of the manager	To increase the role and autonomy of lower level management.

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## QUESTIONS

### 1 marks

1. How effective administration is possible through organising?
2. Name the function of management which coordinates the physical, financial and human resources and establishes productive relations among them for achievement of specific goals.
3. Name the organisation which is directed by group norms.
4. What is organisation chart?
5. What is meant by organisational structure?
6. Difficulty in inter-departmental coordination is one of the limitations of which organisation structure.
7. What is meant by Authority?
8. What is the basis of delegation of authority.
9. Why effective management is possible through delegation of authority.

### 3 marks

10. What is functional organisation structure? Write two advantages of this structure.
11. How accountability related to authority? Explain.
12. Why is it necessary to delegate authority? Give three reasons.
13. Write three characteristics of decentralisation.
14. State three steps in the process of organising.

**4/5 marks**

15. Explain briefly any four features of formal organisation.
16. The employees of Sachin Ltd. a software company, have formed a Dramatic group for their recreation, Name the type of organisation and state its three features.
17. Distinguish between Formal and Informal organisation (any four points)
18. A manager is of the view that he is not responsible for the quality of work that he has delegated to his subordinates . Do you agree?
19. Delegation of authority provides the means where by a manager multiples himself Comment.

**6 marks**

20. Explain the importance of organising as a function of management.
21. Formal organisation is considered better than informal organisation . Do you agree with this statement? Give reasons.
22. What is meant by Divisional structure of an organisation? Explain any two advantages and two limitations of it.
23. Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised.
24. Explain the meaning and process of delegation of authority.

## UNIT 6

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# STAFFING

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### Meaning

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

### Need and Importance of Staffing :-

1. **Obtaining Competent personal** : Proper staffing helps in discovering and obtaining competent personal for various jobs.
2. **Higher 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 utilisation of human resources** :- it prevents under - utilisation of personnel and high labour cost.
5. **Improves job satisfaction** : It improves job satisfaction and morale of employee.

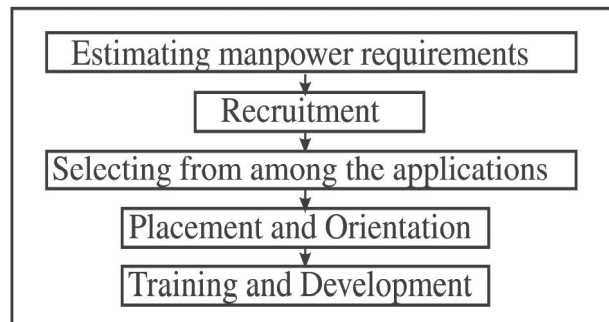
### Human Resource Management : (HRM)

The function of Human Resource Managent is to provide skill human elements to the enterprise. Therefore big enterprise create a separate department called HRD. This department work under H.R.M. Managers.

**Definition** : Human Resource managent is the recruitment selection, development, utilisation, compensation and motivation of human resources of the organisation.

**Staffing as Part of Human Resources Management** : The scope of Human Resources Management is big than staffing. It involves staffing, keeping personal record, providing expert service and other work.

### Process of staffing :



### Components of Staffing

(A) Recruitment (B) Selection (C) Training. Thus, Recruitment + Selection + Training = Staffing.

(A) **Recruitment** : Recruitment may be defined as the process of searching for prospective employee and stimulating them to apply for job in the Organisation.

### Sources of Recruitment :-

(A) Internal Source (B) External Sources

**Internal Sources of Recruitment :-** Internal sources refer to inviting candidates from within the Organisation. Following are important sources of internal recruitment.

1. **Transfer** :- It involves the shifting of an employee from one job of another, from one department to another or from one shift to another shift.
2. **Promotions** : It refers to shifting an employee to a higher position carrying higher responsibilities, prestige, facilities and pay.
3. **Lay off** : To recall the temporary worker for work is called Lay-off.

### 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 :-**

1. **Direct Recruitment :-** Under the direct Recruitment a notice is placed on the notice board of the enterprise specifying the details of the job available.
2. **Casual callers :** Many reputed business org. keep a data base of unsolicited applicants in their office. These list can be use for Recruitment.
3. **Advertisement :** - Advertisement in newspaper is generally used when a wider choice is required.
4. **Employment Exchange :** Employment exchange is regarded as a good source of Recruitment.
5. Campus recruitment and labour contractors can be used for the purpose.

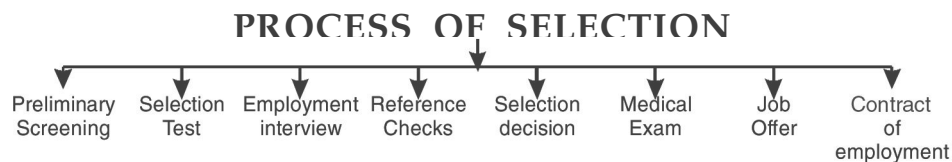
### **Merit of External Sources :-**

1. **Qualified Personnel :** By using external source of recruitment the management can attract qualified and trained people to apply for the vacant job in the org.
2. **Wider Choice :** The management has a wider choice selecting the people for employment.
3. **Fresh Talent :** It provide wider choice and brings new blood in the org.
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 employee :-** Recruitment from outside may causes 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 other process.
- (B) **Selection** : Selection is the process of choosing from among the candidates from within the org. or from the outside, the most suitable person from the current position or for the future position.



- (C) **Training** : Training is the act of increasing the knowledge and technical skills of an employee for doing a particular job efficiently.

#### **Benefits to the Organisation :-**

1. It enhances employee productivity and quality.
2. Training increases employee moral.
3. Employee got new Tech. knowledge.
4. Efficient uses of machine.

#### **Benefits to the Employee :-**

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

#### **Training Method**

- (A) **On the Job Method :-** It refers to the method that are applied to the work place, while the employee is actually working. It means learning while doing .
1. **Apprenticeship Programme Training :-** A master worker or a trainer is appointed who guides the worker regarding the skill of job.
  2. **Coaching :** In this method, the superior guides and instructs the trainee as a a coach.
  3. **Job Rotation :** In this method employee is transfer to other department or other shift.

**(B) Off the Job Method :** These methods are used away from the work place.  
It means learning before doing.

1. Class room lectures : The lecture approach is well adapted to convey specific information. The use of audio-visuals can often make a formal classroom.
2. Films : They can provide information to the employee.
3. Case study : Trainee study the cases to determine problems & analyses causes.
4. Computer modelling - Training provide to the employee by the help of computer.

**One Marks Questions :-**

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

**3 or 4 Marks Questions :-**

12. Explain any three types of selection Test.
13. Explain the meaning of selection and training.
14. Internal sources of Recruitment are better than external sources of Recruitment . Give reasons in support of your answer.
15. Write the difference between training and Development.



### **5 - 6 Marks Questions :-**

16. Explain the importance of Staffing as the reference of Management function.
17. Describe briefly the steps involved in the process of staffing.
18. What do you mean by Training? What are its objectives?
19. Explain in brief merits and limitation of external sources of recruitment.
20. The process of selection starts where the process of recruitment ends. In the light of this statement, explain the difference between recruitment and selection.
21. Explain the process of Selection.
22. Explain off the job Training Method.
23. Explain the Advantages and Limitation of Internal Sources of Recruitment.
24. A newly appointed personal manager is of the view that there is no need for training the workers. Do you agree with his views? Give reasons in support of your answer.
25. Explain Staffing as a part of Human Resources Management.

## UNIT 7

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# DIRECTION

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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 does not mean only instructions but also include supervising the employees when they are performing the job, motivating them to perform more efficiently and leading them towards the achievement of organisational goal.

### Features :

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

### Importance :

1. **Initiates Action :** It helps to initiate action by 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. **Integrate Employee s Efforts :-** All the activities of the organisation are interrelated so it is necessary to coordinate all the activities. It integrates the activities of subordinates by supervision, guidance and counselling.

3. **Means of motivation** - It motivates the subordinates to work efficiently and to contribute their maximum efforts towards the achievement of organisational goals.
4. **Facilitates change :-** Employees often resist changes due to fear of adverse effects on their employment and promotion. Directing facilitate adjustment in the organisation to cope with changes in the environment.
5. **Stability and Balance in the organisation :-** It helps to achieve balance between individual interests of employees and organisational interests.

### **Principles of Directing :-**

1. **Maximum Individual Contribution :** - Directing techniques must help every individual in the organisation to contribute his maximum potential for achievement of organisational objectives.
2. **Harmony of objectives** - The objectives of individual and organisation must be in harmony with each other. But good directing should provide harmony by convincing the employees that organisational objectives are in their own interest.
3. **Unity of Command :-** An individual or subordinate in the organisation should receive instructions from one superior only otherwise it creates confusion conflict and disorder in the organisation.
4. **Appropriateness of Direction Technique :** According to this principle the technique like motivation, supervision, communication and leadership should be appropriate - according to the attitude and need of the employees.
5. **Managerial Communication :** The two way flow of information is the most effective means of securing cooperation of the subordinates because it provides them an opportunity to express their feelings.
6. **Use of Informal organisation :-** An informal organisation exist within formal organisation structure. So managers must make use of informal structure also for getting correct and real feed back.
7. **Leadership** - A manager by becoming a good leader can make direction effective with the trust and confidence of his subordinates.
8. **Follow through :** Mere giving of an order is not sufficient managers should follow it up by reviewing continuously.

### 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 it involves face to face contact between superior and subordinates. Supervisor's position is immediately above the worker.

### Importance of Supervision / Role of a Supervisor

1. **Link between workers and management** because the supervisor explains management policies to worker and brings workers' problems to the notice of the management.
2. **Ensures issuing Instructions** : To make sure that the instructions are communicated to each and every employee.
3. **Facilities Control** : - Control means match between actual and planned output. It ensures checking on the methods in use and progress of work according to planned schedule.
4. **Maintenance of Discipline** : The strict supervision and guidance of supervisor encourages the employees and workers to be more disciplined in the activities.
5. **Feedback** - The supervisors are directly dealing with the subordinates, As a result feedback in the form of suggestions, grievances keeps coming to the management.
6. **Improved Motivation** - A supervisor with good leadership qualities can build up high morale among workers.
7. **Optimum utilisation of resources** All the activities are under the observation of supervisor so less wastages and optimum utilisation of resources is possible.

### Motivations :-

**Meaning :-** It is the process of stimulating people to act to their best ability to accomplish desired goals. It depends upon satisfying needs of people.

### Features :

1. **Psychological phenomenon** - It is personal and internal feelings which arises from the needs and wants of a person.
2. **Goal Directed Behaviour** - It includes people to behave in such a manner so that they can achieve their goal.
3. **Motivation can be either positive or Negative** - Positive motivation means inspiring people to work better and appreciating a work that is well done. Negative motivation means forcing people to work by threatening or punishing them.
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.

### Motivation Process -

It is based on human needs.

Unsatisfied Needs

Tension

Drives

Search Behaviour

Satisfied Need

### Reduction of Tension

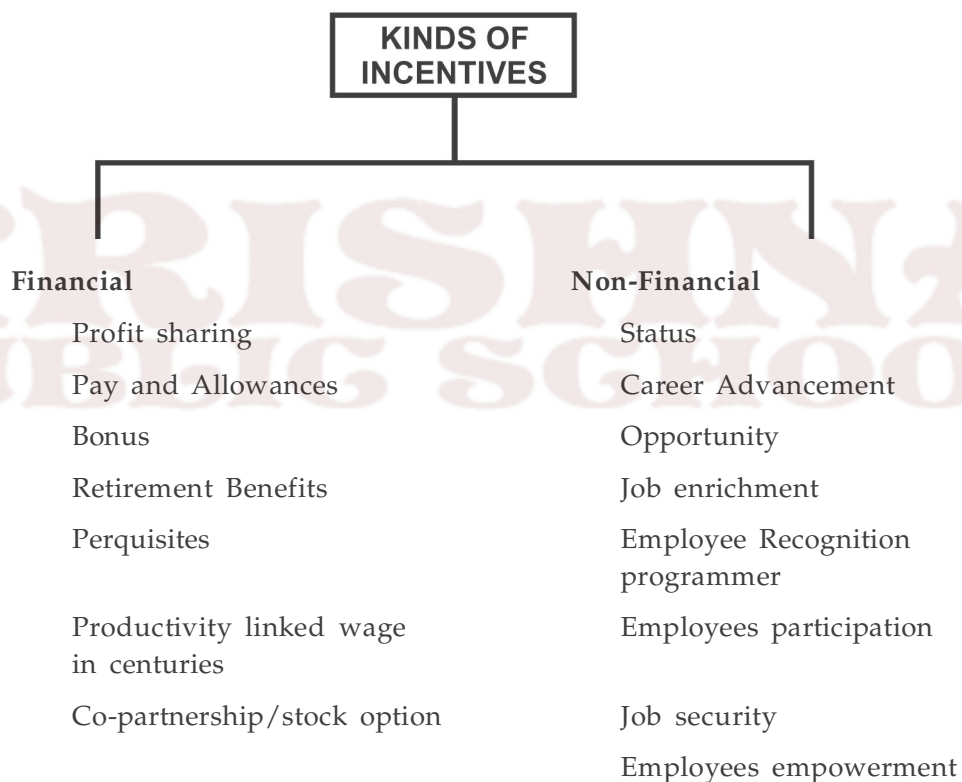
An Unsatisfied needs of an individual creates tension which stimulates his or her drives. These drives generate a search behaviour to satisfy such need. If such need is satisfied, the individual is relieved of tension.

### Importance -

1. **Achievement of Organisational Goal** : Motivation puts human resources into action by satisfying their needs through appropriate rewards. Motivated employees cooperate and contribute their maximum efforts towards the organisational goals.
2. **Higher Efficiency of Employees** - Depends upon their abilities and willingness to work hard. It bridges the gap between the ability to work and willingness to work and willingness always improves efficiency.

3. **Reduction in resistance to change :-** It helps to overcome resistance to change.
4. **Stability in workforce -** It brings confidence in employees and also improve their loyalty and commitment towards the organisation. As a result the rates of labour absenteeism and labour turnover reduce.
5. **Optimum Utilisation of Resources -** The motivated workers would handle machines and materials properly. This would ensure optimum utilisation of resources and reduction of wastage.

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



**Maslow s Need Hierarchy Theory of Motivation :-** Maslow s Theory focuses on the needs as the basis for motivation

**Example from the point  
view of Individual**

Self fulfilments

Status

Friendship

Stability of Income

Hunger

**Example from the point  
of view of organisation**

Achievement of goals

Jobtitle

Cordial relation with colleagues

Pension Plan

Basic Salary



**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.

**Features :-**

1. **Influence behaviour** : It indicates ability of an individual to influence others.
2. **Interpersonal relations** : It tries to bring change in the behaviour of others.

3. **Common goals** : It is exercised to achieve common goals of the organisation.
4. **Continuous process** : It is a continuous process.
5. **Situational** : There is no particular style of leadership it is related to particular situation.

#### **Importance :-**

1. Help in guiding and inspiring employees.
2. Creates confidence - by recognising the Quality and capabilities of individuals.
3. Handles conflicts effectively and does not allow adverse effects resulting from the conflicts.
4. Provides Training to Subordinates .
5. Secures cooperation of members of organisation
6. Inspires productivity
7. Improves job satisfaction
8. Achievement of organisational goals
9. Introducing required changes.

#### **Qualities of a Good Leader**

1. **Physical Features** - Health and endurance help a leader to work hard which inspires others also to work with same spirit.
2. **Knowledge** - A leader must be able to examine every problem in the right direction.
3. **Integrity** - He should be a model to others regarding his ethics and values.
4. **Initiative** - He should not wait for opportunities come to his way rather he should grab the opportunities.
5. **Motivation skills** - To understand the needs of people and motivate them through satisfying their needs.
6. **Communication skills** : A leader must be a good communicator.

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



### **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. **Feed back** - All those action of receiver indicating that he has received and understood message of sender.
8. **Noise** - Some obstruction or hindrance to communication like poor telephone connection, inattentive receiver.

### **Importance of Communication**

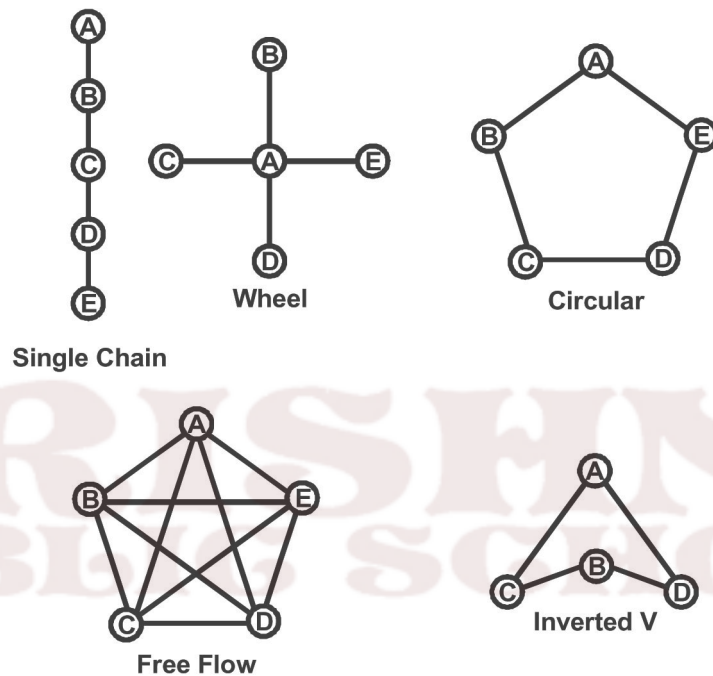
1. Facilitates Coordination - between interrelated departments and sections thus creating a unity of purpose and action.
2. Provides data necessary for decision makings - When information is effectively and efficiently communicated to management.
3. Increases Managerial Efficiency - By Conveying the goals, targets, instructions.
4. Promotes cooperation and Industrial Peace - The two way communication promotes cooperation and mutual understanding between the management and workers.
5. Establishes effective leadership - Effective communication helps to influence subordinates - while influencing leader should posses good communication skills.

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

1. **Vertical communication** - Flows vertically i.e., upwards or downwards through formal channels
  - i) **Downward Communication** - Higher to lower level like plans, policies, rules etc.

- ii) Upward Communication - Subordinate to superior like suggestions, grievances, reports etc.
2. **Horizontal / lateral Communication** - between persons holding positions at the same level of their organisation e.g., production manager may contact marketing manager about product design, quality etc.

Communication Net works of a Formal Communication.



**Informal Communication :** Communication that takes place without following the formal lines of communication is said to be informal communication. There is no fixed direction or path for the flow of information.

### Grapevine or Informal Communication Networks

1. Single Strand - Each person communicates with the other in sequence.
2. Gossip - Each person communicates with all on non-selective basis.
3. Probability - The individual communicates randomly with other individual.
4. Cluster - the individual communicates with only those people whom he trusts.

#### Difference between Formal & Informal Communication

<i>Basis</i>	<i>Formal Communication</i>	<i>Internal Communication</i>
1. Meaning	within 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 chain of command	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

#### Barriers to Effective Communication -

1. **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
  2. Symbols with different meanings.
  3. Faulty Translations.
  4. Unclear assumptions - Subject to different interpretations.
  5. Technical Targon - Technical words may not be understood by the workers.

#### Psychological Barriers -

The state of mind of both sender and receiver affect the process of communication. Psychological barriers are as follows.

1. Premature Evaluation - Judgement before listening.
2. Lack of attention.
3. Loss by transmission and Poor Retention - When oral communication passes through various levels - destroy the structure of the message.
4. Distrust - If the parties do not believe each other.

### **Organisational Barriers :-**

Factor related to organisation structure.

1. Organisational Policy
2. Rules and regulations.
3. Status.
4. Complexity in organisation structure.

### **Personal Barriers - of superiors and subordinates**

1. Fear of challenge to authority.
2. Lack of confidence of superior on his subordinates.
3. Unwillingness to communicate.
4. Lack of Proper incentives.

### **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.
6. Follow up communication.
7. Be a good listener.

## **QUESTIONS**

### **1 Mark**

1. Which function of management is known as Management-in-action ?
2. How supervision is helpful in maintaining discipline?
3. What is Economic Safety?
4. What is meant by Job Enrichment as a type of non-monetary incentives?
5. What is meant by Leadership ?
6. What is meant by Integrity ?

7. A leader does not wait for opportunities but creates them . This statement is related to which quality of a good leader?
8. What is meant by NOISE in communication process?
9. What is meant by Feedback in communication process?
10. What is meant by Grapevine ?

### **3 Marks Questions**

11. Direction is the least important function of management . Do you agree with this statement? Give any two reasons in support of your answer.
12. The post of supervisor should be abolished in the hierarchy of Managers . Do you agree? Give any three reasons in support of your answers.
13. Explain how supervision facilities control?
14. Motivation can be either positive or negative. How?
15. Motivation helps to reduce absenteeism in the organisation. Clarify.

### **4/5 Marks Questions**

16. Explain any four principles of directing.
17. State any four characteristics of motivation.
18. Clarify Job Enrichment and Job Securing as non-financial Motivators.
19. Explain the importance of leadership as the directing functions of management.
20. Explain any four factors which are likely to disrupt effective communication.

### **6 Marks Questions**

21. Supervision is an important element of directing function . Explain any four reasons in support of the above statement.
22. Explain different financial and non-financial incentives used to motivate employees of a company.
23. Effectiveness of Leadership depends on the qualities of the leader . Explain any four such qualities of a leader.
24. In an organization there are many leaders. But a good leader must be a distinguished one. Suggest any four qualities that a good leader must possess.
25. Explain the meaning and importance of communication process.

## UNIT 8

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# CONTROLLING

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### Meaning & Definition

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

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

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

### Importance of Controlling :-

1. **Controlling helps in achieving organisational goals :-** The controlling function measures progress towards the organisational goals and brings to light/indicates corrective action.
2. **Judging accuracy of standards :** A good control system enables management to verify whether the standards set are accurate or not.
3. **Making efficient use to resources -** By the process of control, a manager seeks to reduce wastage of resources.
4. **Improves employees motivations :** 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 & help 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.

6. **Ensuring order and discipline :-** Controlling creates an atmosphere of order and discipline in the organisation by keeping a close check on the activities of its employees.

### **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 employee -** Control is often resisted by employees. They see it as a restriction on their freedom.
3. **Costly affair :** Control is a costly affair as it involves a lot of expenditure time and efforts.
4. **Difficulty in setting quantitative standards :-** Control system 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 infact reinforce each other in the sense that :-

1. Planning is pre-requisite for controlling. Plans provide the standard for controlling. Thus, with out planning, controlling is blind.
2. Planning is meaningless without controlling. It is fruitful when control is exercised.
3. Effectiveness of planning can be measured with the help of controlling.
4. Planning is looking ahead & controlling is looking back.

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

Planning makes controlling effective where as controlling improves future planning.

### **Controlling Process :**

1. **Setting performance Standards :-** Standards are the criteria against which actual performance would be measured. Thus standards serve as benchmarks.

2. **Measurement of Actual performance :** Performance should be measured in an objective and reliable manner. Which include personal observation, sample checking.
3. **Comparing Actual performance with standard :** This steps involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired performance.
4. **Analysing Deviations -** The deviations from the standards are assessed and analysed to identify the causes of deviations.
5. **Taking Corrective Action :-** The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within the acceptable limits.

#### Techniques of Managerial Control

##### Traditional Control Techniques

Personal Observation  
Statistical Reports  
Break even analysis  
Budgetary Control

##### Modern Control Techniques

Return On investment  
Ratio Analysis  
Responsibility Accounting  
Management Audit  
PERT and CPM  
Management information

#### Traditional Techniques :-

Traditional techniques are those which have been used by the companies for a long time and are still being used.

#### Modern Techniques :-

Modern techniques of controlling are those which are of recent origin. These techniques provide refreshingly new thinking on the way in which various aspects of an organisation can be controlled.

**Budgetary Control :** It is a technique of management control in which all operation are planned in advance in the form of budget & actual result are compared with budgetary standard.



**Types of Budget** (i) Sales Budget, Production Budget etc.

### **Budgetary Control :**

A budget reflects the policy for the specified period. The most common types of budgets used by an organisation are sales budget, production budget, cash budget etc.

Budgetary control is a technique of managerial control in which all operation are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary action to be taken so that organisational objectives are accomplished.

Modern Techniques of Managerial Control :

(i) ROI Return an investment

$$\text{ROI} = \frac{\text{Net Income}}{\text{Sale}} \times \frac{\text{Sales}}{\text{Total Investments}}$$

(ii) Ratio Analysis : Liquidity ratios; Solvency ratios;  
Profitability ratios; Turnover ratios.

PERT : Programme evaluation & review techniques.

CPM : Critical path method

### **MIS : Management Information System**

- (i) It is computer based information system that provides support & information for effective managerial decesion making.
- (ii) It servis as an important control technique by providing data & information to the managers at the right time so that appropriate corrective action may be taken in case of deviation from standards.

### **One Mark Question :-**

1. Explain the meaning of controlling.
2. Write the first step of controlling process.
3. Mention any one features of good controlling system.
4. What are the two types of deviations.
5. Which principle of management control is based on the belief that an attempt to control everything results in controlling nothing.

### **3-4 Marks Questions**

6. Planning is looking ahead and controlling is looking back. Explain.
7. Controlling function of management is a pervasive function . Explain.
8. What is meant by Budgetary control?
9. Corrective action is essence of control . Explain.

### **5-6 Mark Questions :**

10. Explain the various steps involved in the process of control.
11. Explain the importance of controlling in an organisation.
12. What is break-even-analysis? How it is an effective technique of control.
13. Planning and controlling are mutually interrelated and inter-dependent activities. Explain.
14. What are the advantages of Budgetary Control?
15. Explain the limitations of controlling?
16. Explain any two Traditional techniques of controlling.
17. Explain any two Modern techniques of controlling.

## UNIT 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 modernise it, to expand or diversify it.

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

**The Main Objective of Financial Management** is to maximise shareholder's wealth, for which achievement of optimum capital structure and proper utilisation of funds is a must.

Every company is required to take three main **financial decisions** which are as follow:

### 1. Investment Decision :-

It relates to how the firm's funds are invested in different assets. Investment decision can be long-term or short term. A long term investment decision is called capital budgeting decisions which involve huge amounts of investments 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.

### 2. Financing Decision :-

It relates to the amount of finance to be raised from various long term sources. The main sources of funds are owner's funds i.e. equity / shareholder's funds and the borrowed funds i.e. Debts. Borrowed funds have to be repaid at a fixed time and thus some amount of financial risk (i.e. risk of default on payment) is there in debt financing. Moreover interest on

borrowed funds have to be paid regardless of whether or not a firm has made a profit. On the other hand shareholder funds involve no commitment regarding payment of returns or repayment of capital. A firm mixes both debt and equity in making financing decisions.

### **3. Dividend Decision :-**

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

### **Financial Planning :-**

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

### **Importance of Financial Planning**

1. To ensure availability of adequate funds at right time.
2. To see that the firm does not raise funds unnecessarily.

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

1. **Cash flows of the project :** The series of cash receipts and payments over the life of an investment proposal should be considered and analysed for selecting the best proposal.
2. **Rate of Return :** The expected returns from each proposal and risk involved in them should be taken into account to select the best proposal.
3. **Investment Criteria Involved :** The various investment proposals are evaluated on the basis of capital budgeting techniques. Which involve calculation regarding investment amount, interest rate, cash flows, rate of return etc.

### **Factors Affecting Financing Decision**

1. **Cost :-** The cost of raising funds from different sources are different. The cheapest source should be selected.
2. **Risk :-** The risk associated with different sources is different, More risk is associated with borrowed funds as compared to owner's fund as

interest is paid on it and it is repaid also, after a fixed period of time or on expiry of its tenure.

3. **Flotation Cost :-** The cost involved in issuing securities such as broker's commission, underwriters fees, expenses on prospectus etc is called flotation cost. Higher the flotation cost, less attractive is the source of finance.
4. **Cash flow position of the business :-** In case the cash flow position of a company is good enough then it can easily use borrowed funds.
5. **Control Considerations :** In case the existing shareholders want to retain the complete control of business then finance can be raised through borrowed funds but when they are ready for dilution of control over business, equity can be used for raising finance.
6. **State of Capital Markets : -** During boom, finance can easily be raised by issuing shares but during depression period, raising finance by means of debt is easy.

#### **Factors affecting Dividend Decision :**

1. **Earnings : -** Company 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 earning changes by small proportion or increase in earning is temporary in nature.
3. **Growth Prospects :** In case there are growth prospects for the company in the near future then it will retain its earning and thus, no or less dividend will be declared.
4. **Cash Flow Positions :** Dividends involve an outflow of cash and thus, availability of adequate cash is foremost requirement for declaration of dividends.
5. **Preference of Shareholders :** 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.

## Capital Structure

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

### Factors affecting Capital Structure.

1. **Cash flow position** : In case a company has strong cash flow position then it may raise finance by issuing debts.
2. **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 indicate that company can have more of borrowed funds.
3. **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.
4. **Flotation Cost** : The cost involved in issuing securities such as brokers commission, under writers fees, cost of prospectus etc is called flotation cost. While selecting the source of finance flotation cost should be taken into account.
5. **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.
6. **Tax Rate** : Interest on debt is allowed as a deduction, thus in case of high tax rate debts are preferred over equity but in case of low tax rate more preference is given to Equity.

In addition, cost of debt, cost of equity, flexibility, risk consideration etc are other factors affecting capital structure.

### Fixed Capital and Factors affecting Fixed Capital

Fixed capital refers to investment in long-term assets. Investment in fixed assets is for longer duration and they must be financed through long-term sources of capital. Decisions relating to fixed capital involve huge capital/funds and are not reversible without incurring heavy losses. The factors affecting the requirement of fixed capital are as follows.

1. **Nature of Business :** Manufacturing concern require huge investment in fixed assets & thus huge fixed capital is required for them but trading concern needs less fixed capital as they doesn't require to purchase plant and machinery etc.
2. **Scale of Operations :** An organisation operating on large scale require more fixed capital as compare to an organisation operating on small scale.
3. **Choice of Technique :** An organisation using capital intensive techniques require more investment in plant & machinery as compare to organisation using labour intensive techniques.
4. **Technology upgradation :** Organisations using assets which become obsolete faster require more fixed capital as compare to other organisations.
5. **Growth Prospects :** Companies having higher growth plan require more fixed capital. In order to expand production capacity more plant & machinery are required.
6. **Diversification :** In case a company go for diversification then it will require more fixed capital to invest in fixed assets like plant and machinery.

### **Working Capital and Factors affecting working capital**

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

1. **Nature of Business :** A trading organisation needs a lower amount of working capital as compared to a manufacturing organisation as trading organisation undertake no processing work.
2. **Scale of operations :** - An organisation operating on large scale will require more inventory and thus, its working requirement will be more as compared to small organisation.

3. **Business Cycle** ; In the time of boom more production will be undertaken and so more working capital will be required during that time as compared to depression.
4. **Seasonal Factors** : During peak season demand of a product will be high and thus high working capital will be required as compared to lean season.
5. **Credit allowed** : If credit is allowed by a concern to its customers than it will require more working capital but if goods are sold on cash basis than less working capital is required.
6. **Credit availed** : If a firm is able to purchase raw material on credit from its suppliers then less working capital will be required.

In addition to above growth prospects, operating efficiency, inflation, level of competition etc also affect working capital requirement.

### **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 happen 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.

### **One Mark Questions**

1. Name the concept which increases the return on equity shares with a change in the capital structure.
2. A company wants to establish a new unit in which a machinery of worth Rs. 10 lakhs is involved. Identify the type of Decision involved in financial management.
3. What is the primary aim of financial management?
4. What is financial risk?
5. Why service-industry require less working capital?

### **Three / Four Marks Questions**

1. What are capital budgeting Decisions? Explain three factors affecting capital budgeting Decisions.
2. What is meant by financial planning? Explain its objectives.
3. Explain the meaning and objectives of financial management.



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

#### **Five / Six Marks Questions**

1. Define capital structure. Explain five factors affecting it.
2. Explain six factors affecting fixed capital of a concern.
3. Give the meaning of working capital. Explain any five factors determining working capital requirements.
4. What is meant by Divident Decision? State & Explain five factors affecting the Dividend Decision.
5. Suggest working capital requirement for following manufacturing concern:
  - a) Bread
  - b) Sugar
  - c) Coolers
  - d) Motor Car
  - e) Locomotive
  - f) Furniture on Specific order.

## UNIT 10

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# FINANCIAL MARKETS

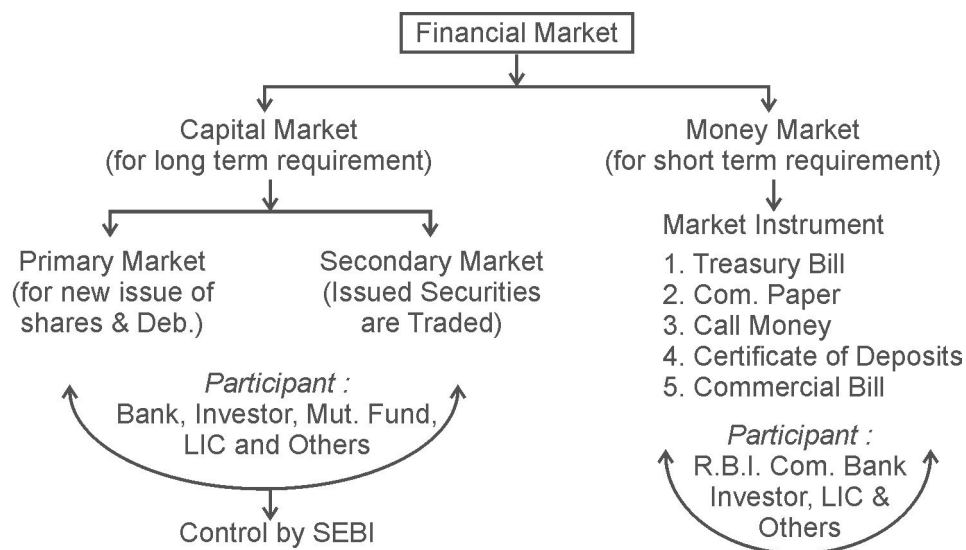
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### Introduction :

Financial Market is a market for creation and exchange of financial assets like share, bonds etc. It helps in mobilising savings and channelising them into the most productive uses. It helps to link the savers and the investors by mobilizing funds between them. The person / Institution by which allocation of funds is done is called financial intermediaries.

### Functions of Financial Market.

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



### Money Market :-

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

1. **Treasury Bills** : They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. They are issued at a price which is lower than their face value and repaid at par. They are available for a minimum amount of Rs. 25,000 and in multiples thereof. They are also known as Zero Coupon Bonds.
2. **Commercial Paper** : It is a short term unsecured promisory note issued by large and credit worthy companies to raise short term funds at lower rates of interest than market rates. They are negotiable instrument transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.
3. **Call Money** : It is short term finance repayable on demand, with a maturity period of one day to 15 days, used for interbank trasactions. 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 buyers it becomes a 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.

### **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 part.

1. Primary Market.
2. Secondary Market

### **Primary Market :**

It deals with the new securities which are issued for the first time. It is also known as the new issues 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 take place in the primary market.

### **Secondary Market :**

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

### **Methods of flotation of New Issues in the Primary Market**

1. **Offer through Prospectus** : It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.
2. **Offer for sale** : Under this method securities are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities to intermediary / broker at an agreed price and the broker resell 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 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 registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.

Difference between Capital and Money Market.

<i>Basis</i>	<i>Capital Market</i>	<i>Money Market</i>
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	Treasury Bills, trade bills, commercial paper, call money etc.
3. Investment outlay	Does not necessarily require a huge financial outlay	Entail huge sums of money as the instruments are quite expensive.
4. Duration	Deals in medium & long term securities having maturity period of over one year.	Deals in short term funds having maturity period upto one year.
5. Liquidity	Securities are less liquid as compared to money market securities.	Money market instruments are highly liquid.
6. Expected Return	High return	Low return
7. Safety	Capital Market instruments are riskier both with respect to return and repayment.	Money market instrument are generally much safer with a minimum risk of default.

#### Difference between Primary and Secondary Market

<i>Basis</i>	<i>Primary Market</i>	<i>Secondary Market</i>
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.	Price are determined by the forces of demand and supply of the securities.
3. Purchase & Sale.	Securities are sold to investors directly by the company or through intermediary.	Investors 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 & the selling of securities can take place.

#### Stock Exchange / Share Markets

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 provide 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 provide a platform by which saving get channelised into the most productive investment proposals, which leads to capital formation & economic growth.
5. **Spreading of Equity cult :** Stock exchange helps in educating public about investments in securities which leads to spreading of Equity culture.

6. **Providing scope for speculation :** Stock exchange provides scope within the provisions of law for speculation in a restricted and controlled manner.

### **Trading Procedure on a Stock Exchanges.**

1. **Selection of Broker :** In order to trade on a stock Exchange first a broker is selected who should be a member of stock exchange as they can only trade on the stock exchange.
2. **Placing the order :** After selecting a broker, the investors specify the type and number of securities they want to buy or sell.
3. **Executing the order :** The broker will buy or sell the securities as per the instructions of the investor.
4. **Settlement :** Transactions on a stock exchange may be carried out on either cash basis or a carry over basis (i.e. badla). The time period for which the transactions are carried forward is referred to as accounts which vary from a fortnight to a month. All transactions made during one account are to be settled by payment for purchases and by delivery of share certificates, which is a proof of ownership of securities by an individual.

Earlier trading on a stock exchange took place through a public outcry or auction system which is now replaced by an online screen based electronic trading system. Moreover, to eliminate the problems of theft, forgery, transfer delays etc an electronic book entry from a holding and transferring securities has been introduced, which is called process of dematerialisation of securities.

### **National Stock Exchange of India (NSE)**

NSE was set up by leading financial institutions, banks, insurance companies and other financial intermediaries in 1992 and was recognised as a stock exchange in April 1993. It has provided a nation wide screen based automated trading system with a high degree of transparency and equal access to investors irrespective of geographical location. NSE was set up with the following objectives.

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

### **NSE provides trading in following two segments :**

1. Whole sale Debt Market Segment which provide platform for a wide range of fixed income securities such as Government Securities, treasury bills, state development loans, PSU bonds etc.
2. Capital Market Segment which provide platform for equity shares, preference shares, debentures etc. as well as retail Govt. securities.

### **Over the Counter Exchange of India (OTCEI)**

OTCEI was promoted by UTI, ICICI, IDBI, IFCI, LIC, GIC, SBI Capital Markets and can Bank Financial Services. It is a place where buyers seek sellers and vice-versa and then attempt to arrange terms and conditions for purchase / sale acceptable to both the parties. It is fully computerised, transparent, single window exchange which provide quicker liquidity to securities at a fixed and fair price, liquidity for less traded securities. Following are the advantages of OTC Market.

1. It provides a trading platform to smaller and less liquid companies.
2. It is a transparent system of trading with no problem of bad or short deliveries.
3. Family concerns & closely held companies can go public through OTC.
4. Dealer can operate both in new issues & secondary market at their options.
5. It is cost effective as there is a lower cost of new issues and lower expenses of servicing the investors.

### **Difference beteen NSEI and OTCEI**

<i>Basis</i>	<i>NSEI</i>	<i>OTCEI</i>
1. Establishment	1992	1990
2. Settlement	within 15 days	within 7 days
3. Security Traded	In whole sale debt Market segment Treasury bill, PSU Bonds etc & In Capital Market segment equity shares, preference shares, debentures	Equity, debentures etc.
4. Objectives	To provide nation-wide, ringless transparent trading facility for all instruments.	To serve as an exchange for securities of small companies.



5. Size of the company	Paid up capital Rs. 3 Crore & above	Paid up capital Rs. 30 Lakh & above.
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### **Depository Services and D mat 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 and D Mat Account are very basis of this system.

### **Depository Services :**

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 a investor wants to deal in shares of any company he has to open a D Mat account. There are four players who participate in this system.

1. **The Depository :** A depository is an institution which hold the shares of an investor in electronic form. There are two depository institution in India these are NSDL and CDSL.
2. **The Depository Participant :** He opens the Account of Investor and maintains securities records.
3. **The Investor :** He is a person who wants to deal in shares whose name in recorded.
4. **The Issuing Company :** That organisation which issue the securities. This issuing company send a list of the shareholders to the depositories.

### **D Mat Accounts :**

In this process a shares certificates converted its physical form to electronic form and credited the same number of holding to D mat A/c.

### **Benefits of D Mat Account :**

1. Reduces of 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

## Depository System Parallel to Banking System

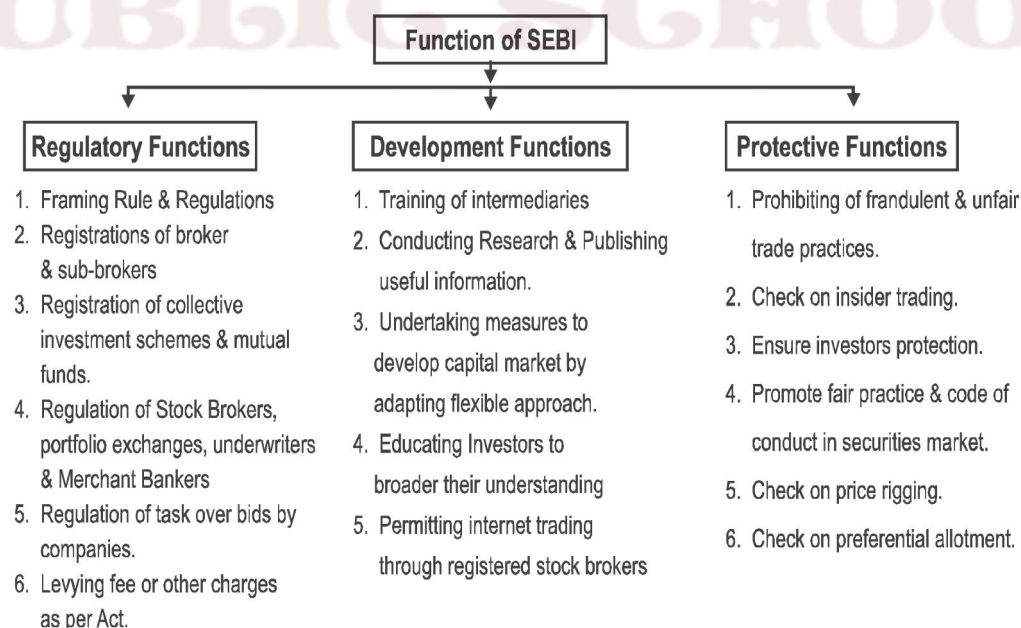
The depository system is parallel to the Banking System. A bank holds cash in account; the depository holds shares in account. The transfer of cash and shares takes place without the physical handling of cash or shares.

## Securities and Exchange Board of India (SEBI)

SEBI was established by the Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of the 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.

### 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 malpractices such as internal trading.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.



### **One Marks Questions :**

1. What is the maturity period of a commercial Paper?
2. What is a Treasury Bill?
3. AB Ltd. has sold 1 lakh equity shares of Rs. 10 each at Rs. 12 per share to an investment banker, who offered them to the public at Rs. 20 each. Identify the method of flotation.
4. State any two instruments of Capital Market.
5. Who act as the watchdog of Security Market in India?
6. Who is the Borrowers of call money?
7. What is the other name of Zero coupon Bond?
8. Who issues the treasury Bill?
9. What is the other name of Primary Market?
10. What is a Prospectus?
11. What is Dematerialization?
12. What is the minimum amount of Treasury Bill?
13. What is D Mat A/c?
14. Write one benefit of D Mat Account?

### **Three / Four Marks Questions**

1. State the various protective functions of SEBI.
2. What is money market? Explain its three instruments.
3. What is meant by commercial paper & certificate of Deposit?
4. Distinguish between NSEI and OTCEI on following basis.
  - a) Size of the company
  - b) Securities traded.
  - c) Settlement
  - d) Objective.
5. State any four regulatory functions of the SEBI.
6. Make difference between Primary and Secondary Market.

**Five/ Size marks Questions.**

1. Explain any five / six functions of stock exchange.
2. Why was SEBI set up? State its development functions.
3. Explain any five methods of floating new issues in the primary market.
4. Explain the trading procedure on a stock exchange.
5. Distinguish between capital market and money market on the following basis.
  - a) Participants
  - b) Instruments Traded.
  - c) Duration of Securities Traded.
  - d) Expected Return
  - e) Safety
  - f) Liquidity.
6. Primary Market contribute to capital formation directly Secondary Market does so indirectly Explain.
7. You are finance expert. Your father feels that there is no difference between Primary Market and Secondary Market. Where do you differ with him. How would you convince him. Give reasons in support of your answer.
8. What are the benefits of depository services and D Mat Account.
9. Explain the constituents of depository services.
10. Mohan wants to sell 50 shares of Tata Motor. Explain the trading procedure of shares.

## UNIT 11

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# MARKETING MANAGEMENT

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### Introduction :

Marketing management is an important functional area of business.

- It is the process of planning, organising, directing and controlling the activities related to marketing of goods and services to satisfy customers needs & achieve organisational goals.

### Market :

In the traditional sense, the market means a place where buyers & sellers gather to enter into transaction involving the exchange of goods & services. But in modern sense, market refers to meeting of buyers and sellers at a place, by telephone or by internet etc.

### Marketing :

Marketing is a social process whereby people exchange goods & services for money or for something of value to them. Any thing 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             | - Agra Taj Mahal , etc.          |

### Importance features of Marketing :-

1. Need and want : Satisfaction of the needs and wants of individuals and organisations.
2. Creating a market offering : Complete offer for a product or service.
3. Customer value : greatest benefit or value for the money.
4. Exchange mechanism : Exchange of products / services for money / value.

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

1. **Marketing research** : Gathering and analysing 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? Packaged ? quality level? So that customer needs are satisfied.
4. **Buying & assembling** : e.g. car. Raw material like steel, tyres, batteries, seats, steering wheels etc are bought & then assembled in the form of a complete product.
5. **Packing / Labelling** : designing the package & labelling.
6. **Branding** : Creating a distinct identity of the product from that of competitors e.g. Videocon washing machine.

### **Concepts & Philosophies of Marketing :-**

1. **Production concept** : Profits could be maximised by producing products at a large scale, thereby reducing average cost of production.  
**Drawback** : Customer don't always buy inexpensive products.
2. **Product concept** : Business goals lie in making high quality products as customer favour them.
3. **Sales Concept** : Firms must undertake aggressive selling & promotion efforts to make customers buy their products.

### **Marketing Management :**

Marketing management means management of the marketing function which are

1. Choosing a target market.
2. Creation of demand
3. Creating, developing & communicating superior value for the customers.
4. Market Shares.
5. Goodwill
6. Planning & controlling marketing activities.

## Marketing Mix :

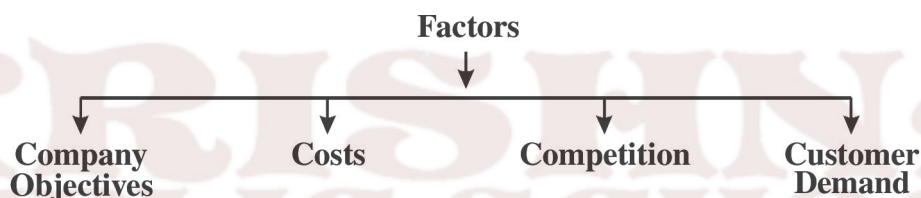
Marketing mix refers to ingredients or the tools or the variables which the markets mixes in order to interact with a particular markets.

### Elements / 4 Ps of Marketing mix

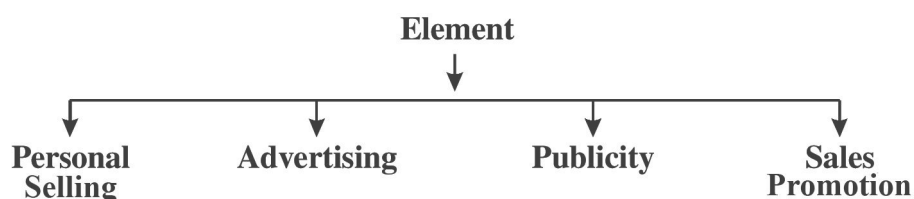
1. Product Mix : Product live e.g. Hindustan Lever Limited
  - Colgate, lifebouy etc.



2. Price Mix : Value (Money) in lieu of product / Service recieved by seller from a buyer.



3. Promotion mix : informing the customers about the products & persuading them to buy the same.



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

## Products :

Product is anything that can be offered to a market to satisfy a want or need.

1. **Consumer Product** : Purchased by the ultimate consumers for personal needs.  
e.g. Soap, toothpaste, textile etc.
2. **Industrial Products** : Used as inputs in producing other products eg. raw materials, tools etc.

## Detailed Study of 4 P s (Elements) of Marketing Mix :

PRODUCT MIX Three components are

1. i) **Branding** - giving a name / a sign / a symbol etc to a product

eg. :Pepsi - 

Nike - 

Qualities of a **good Brand Name** :

1. **Simple and short** : A brand name should be simple and short as Tata, Bata.
2. **Easily Pronounceable** : A brand name should be easily pronounceable as Lux, Dalda.
3. **Suggestive** : Brand name should be self explanatory that suggesting the inherent quality of the product as Ujjala suggest more whiteness.
4. **Distinctive** : Brand name should be so distinctive that it highlights itself in the group of other brand name such as : Tide, Perk.

## Advantages of Branding

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



### Functions of Packaging

1. **Product Identification** : Packaging help in identification of the product.
2. **Product Protection** : The main function of the packing is to provide protection to the product from dirt, insect and breakage.
3. **Convenience** : It provides convenience in carriage, stocking and in consuming.

**Product Promotion** : Packaging simplifies the work of sales promotion.

### Advantages of Packaging

1. **Rising standards of Health and Sanitations** : The people are becoming health conscious 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 researchers.
  3. **Product Differentiation** : Packing is helpful in creating product differentiation. The colour, material and size of the package makes differences in the quantity of the product.
- 3) **Labelling** - Description of the product, its contents, the manufacturers, date & time of manufacturing
- Helps in promotion / grading / identifying the product.

Function of Labelling :

1. Describe the product and specify its contents.
2. Grading of Product
3. Identification of the Product or Brand.
4. Help in promotion of Product.
5. Providing information required by law.

### PRICE MIX : -

Price, pricing strategies, Price determination.

Price - Amount of money paid by a buyer (or recieved by a seller) in consideration of the purchase of product or a services.

Pricing Strategies :- **Price skimming** - higher prices at initial stages to recover fixed costs.

**Penetration pricing** - Lower initial price to capture a large market.

### **Price determination / Factors affecting Pricing decisions**

1. **Pricing objectives** : affects price of product / service e.g. maximum profits in short term leads to high price.
2. **Product cost** : Sets lower limits of the price.
3. **Extent of competition in the market** : No competition means complete freedom in fixing its price.
4. **Utility & demand** : More demand - Move price. Sometimes Less price - more demand depends upon the utility of the product.

### **Place Mix/ Physical Distribution Mix :**

Covers all the activities required to physically move goods from manufacturers to the customers. Important activities includes.

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 of product is produced & the time it is required for consumption.

### **Channels of Distribution :**

**Direct Chennal** -       Manufacturer - Customer

**Indirect Chennal** -   Manufacturer - Retailer - customer

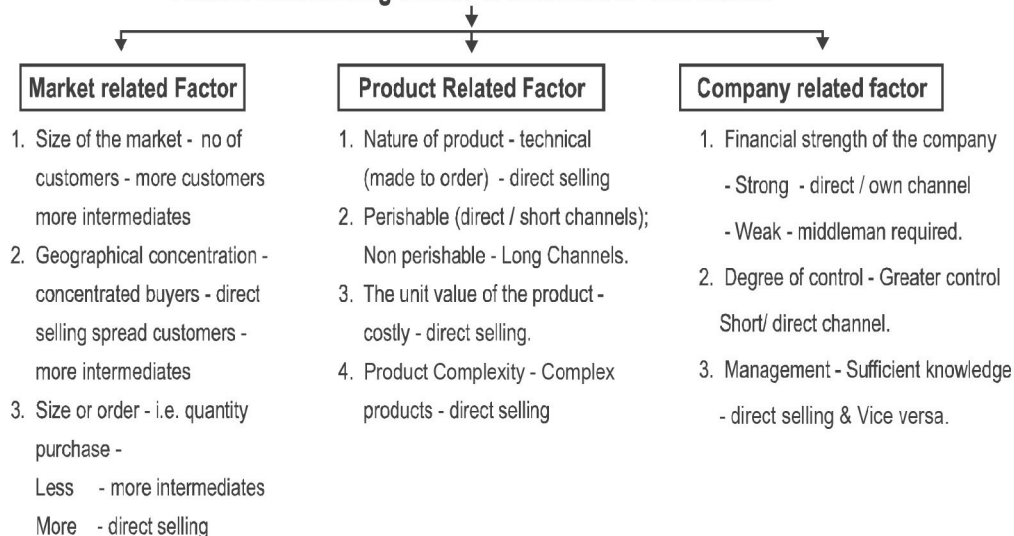
                                  Manufacturer - wholesaler - Retailer - customer

                                  Manufacturer - Agent - wholesaler - Retailer customer

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

Choice of appropriate channel of distribution is a very important marketing decision, which affects the performance of an organisation. Whether organisation will adopt direct marketing channels or long channels involving no. of intermediaries is a strategic decision.

### Factors Determining Choice of Channels of Distribution



### Promotion Mix

It refers to combination of promotional tools used by an organisation to achieve its communication objectives.

### Tools

1. **Advertising** : Most commonly used tool of promotion. It is an impersonal form of communication, which is paid by the marketers (sponsors) to promote goods or 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 Area.
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 to Advertising :**

1. Add to Cost
2. Undermines social value.
3. Confuses the buyers
4. Encourages sale of inferior product.
5. Some advertisement are in bad taste.

### **2. 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 eg. purchase an easy product & win a car. etc.
5. Full Finance @ 0%
6. Contests.

### **3. Personal Selling :**

Personal selling consists of contacting prospective buyers of product personally.

#### **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.

#### **Qualities of a good Salesman :**

1. **Physical Qualities** : Physical qualities include personality health, stamina and tolerance
2. **Mental Qualities** : These include mainly skill, mental alertness, imagination and self confidence.

3. **Social Qualities** : These include social-abilities tact, sound character, sweet nature.
4. **Vocational Qualities** : It includes mainly knowledge of product, knowledge of competitive product, training and aptitude.
4. **Publicity** : is a non-personal form of communication & against advertising it is a non-paid form of communication e.g. If a manufacturer develops a car engine runs on water instead of petrol & this news is covered by television/ radio/ newspaper, it would be termed as publicity as the manufacturer benefit from it without bearing any cost. Merit : Mass reach, more credibility Limitation : Not with in th control of firm.

### **Public Relations :**

Public relations is the deliberate planned and sustained efforts to establish and maintain mutual under standing between an organisation and its public

### **Features of Public Relation :**

1. Securing cooperation of Public
2. Satisfying different group.
3. Engaging in dialogue
4. It is ongoing activity.
5. Succesful relation with public.

### **Role of Public Relation**

1. This is economical Medium
2. Boosting sales
3. Image Building
4. Easy to attract the public

### **Tools to Establish Public Relations :**

1. Speech
2. Printed Materials
3. Public services Activities
4. Events

## QUESTION : MARKETING MANAGEMENT

### One Mark Question

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

### Three or Four mark Questions

1. Explain any three advantage of labelling to the customers.
2. Differentiate between marketing and selling on the basis of :  
(i) Meaning (ii) Scope (iii) Objectives.
3. Write any four difference between advertising and personal selling.
4. State any three advantages of sales promotion.
5. Explain any four functions of packing.
6. Advertising confuses rather than helps Do you agree? Give reasons.

### **Five or Six Marks Questions**

1. Explain the various functions of marketing management.
2. Explain four important elements of marketing mix.
3. Explain any four factors on which the choice of channels of distribution depend.
4. Advertising encourages sale of inferior products Do you agree? Give reasons.
5. Why public relations are important for an organisation.
6. Explain four qualities of a good brand.
7. Explain three methods of sales promotion.

**KRISHNA**  
**PUBLIC SCHOOL**

## UNIT 12

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### CONSUMER PROTECTION

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Protecting consumers from unfair trade practices, adopted by the producers and/or 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 View of Business**

1. **Long term business interest :** It is always in the interest of the business to keep its customer satisfied, Global competition could be won only after satisfying customers. Satisfied customers lead to repeat sales and help in increasing customer base of business.
2. **Moral Justification :** It is the moral duty of any business to take care of consumer interest & avoid any form of their exploitation & unfair trade practices like defective & unsafe products, adulteration, false & misleading advertising, hoardings black marketing etc.
3. **Business uses society's resources :** 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 owner, workers, government, customers etc. Thus, customers should be provided qualitative goods at reasonable prices.
5. **Government Intervention :** If a business engage in any form of unfair trade practices then government take action against it, which adversely affect its goodwill.

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

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.

### Rights of a Consumer

Consumer protection Act, 1986 has provided six rights to the consumer, 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 electric products)
2. **Right to be informed :** Consumer has right to have complete information about the product before buying it.
3. **Right to choose :** Consumer has a right to choose any product out of the available products as per his own decision/liking.
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 / compensation for any loss.

6. **Right to consumer education** : Consumer has right to acquire knowledge & to be well informed consumer throughout life. It make consumer aware all the time.

### **Responsibilities / Duties of a Consumer**

1. **Consumer must exercise his right** : Consumer must be aware of their rights with regard to the product or services they buy from the market.
2. **Consumer must be a cautions consumer** : While buying a product or services, a consumer should read labels carefully to learn about its every minute detail.
3. Consumer must **file a complaint** in a appropriate forum in case of any shortcoming in product / service availed.
4. Consumer must insist on **cash memo** ; i.e. a proof of purchase & required to file a complaint.
5. Consumer must be a **quality conscious** : He should ask / look for ISI mark on electric goods. FPO mark on food products, Hall mark on jewellery etc.
6. Consumer must bring the discrepancy in the **advertisement** to the notice of the sponsor.

## **THE SALIENT FEATURES AND PROVISIONS OF CONSUMER PROTECTION ACT, 1986**

### **Why was consumer protection act, 1986 enacted**

To protect & promote the interests of the consumers by providing various rights to them.

### **Under what circumstances complaints can be filed ?**

Frandulent practices of traders & manufactures.

Goods are defective

Any deficiency in the services hired.

### **Redressal agencies under the consumer Protection Act 1986.**

District forum

State Commission

National commission

**Within what period the complaint must be filed ?**

Within 3 months of purchase & if some testing of goods is required then within 5 months.

**Who can file a complaint.**

Any consumer

Any registered consumer association.

Central / State Govts.

Legal heir / representation of a deceased customer.

**Relief Available to Consumers (Remedies)**

1. To remove the defect in goods or services.
2. To replace the defective product with a 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 & not to repeat them.
6. To withdraw the hazardous goods from sale.

**Role and Functions of Consumer Organisation & NGOs.**

1. Educating the general public about consumer right by organising training programmes, seminars and workshops.
2. Publishing periodical & other publications.
3. Providing Legal assistance to consumers.
4. Producing films or cassettes on food adulteration, misuse of drugs etc.
5. Filing complaints in appropriate 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 malpractices & exploitation of consumers.
  - i) e.g. Consumer coordination council, Delhi.
  - ii) Common cause, Delhi
  - iii) Consumers Association, Kolkata.
  - iv) Mumbai Grahak Panchyat, Mumbai etc.
3. **Business Association** : The associations of trade, commerce & business like federation of Indian Chambers of commerce (FICCI) & Confederation of Indian Industries (CII) have laid down their code of conduct for their members in their dealings with the customers.

### IMPORTANT QUESTIONS :

#### 1 marks

1. What are the two aspect of consumer prolection?  
(Hint - Educating consumers & Redressal of their grievances)
2. Give one example of consumer exploitation?  
(unsafe products / Black marketing)
3. Name any two legitalations which provide protection to consumers  
(Hint : (i) CPA 1986, The Essential Commodities Act 1955)
4. Mention any two ways & means of consumer protection.  
(Hint - Consumer organisation & Govt.)
5. Which mark is issued under the Bureau of Indian Standard Act 1986 ?  
(Hint : ISI)

#### 3/4 Marks Questions

6. Explain the role of Universities & schools in counsumer protection?
7. Explain briefly the silent features of consumer protection Act 1986?

## UNIT 13

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# PROJECT WORK

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### Introduction :

A project means an activity which has a special purpose and which is performed with absolute devotion and enthusiasm

Project work assigned to the students whether individually or in groups. It has two types as

1. Visit of a Industrial unit as Bank, Stock Exchange or a mall.
2. Case study of a product as packing, branding and labelling.

### Objects of a Project

1. Providing deep knowledge to the students
2. Developing Creativity in the students
3. Developing independent thinking skill in the student.
4. To convert theoretical knowledge into practical knowledge.

### Steps in Project Work

1. Selection of topic or problem
2. Define the problem.
3. Setting objectives of the problem.
4. Preparing questionnaire.
5. Conducting enquiry
6. Collect information and Data
7. Editing the information or data
8. Analysing the Data or Information
9. Preparing the Report

**The marks will be allocated on the following head by C.B.S.E.**

- |  |         |
|--|---------|
| 1. Initiative, cooperativeness and participation | 1 Mark  |
| 2. Creativity in presentation                    | 1 Mark  |
| 3. Context, observation and research work        | 2 Marks |
| 4. Analysis of situations                        | 2 Marks |
| 5. Viva  | 4 Marks |

Total 10 marks

**Some Content of the Project :**

**1. Principles of Management :**

1. Division of work
2. Unity of Command
3. Unity of direction
4. Remuneration to employees
5. Scalar chain
6. Functional foremanship
7. Time study
8. Motion study
9. Fatigue study.

**2. Business Environment :**

1. Effect of New Industrial Policy
2. New Trade Policy

**3. Organisation :**

1. Departmentalization

**4. Staffing :**

1. On the Job Training
2. Off the Job Training

**5. Financial Management :**

1. Stock Exchange  
(A) B.S.E. (B) N.S.E.
2. Trading procedure on stock exchange.
3. Procedure of opening the following A/c, saving A/c, Trading A/c, D Mat A/c

**6. Marketing Management :**

1. Branding
2. Labelling
3. Packaging
4. Types or levels of channel of distribution
5. Methods of Sales promotion

**7. Consumer Protection :**

1. Advertisement of the ISI Mark, Hall Mark, Agmark.

## **TIPS FOR SCORING GOOD MARKS**

Cracking an examination is a skill that can be acquired. As with studying, scoring good marks too is a combination of managing one's time well and applying the right method.

Here are some guidelines that one can follow while attempting to write an exam.

- **Answer the question as it is asked.**

Read the question at least twice before answering. Be at guard for either/or questions. Also make sure to tackle all sub-sections of a question.

- **Use the marks as a guide**

The examination paper mentions the marks each question carry. Use these mark as a rough guide as to how long their answers ought to be. Do not expand an answer more than is relevant. This will save a lot of time which can be used while writing a Long-Answer question.

- **Avoid writing irrelevant points**

While writing an answer, focus on the nature of the question asked to maintain focus. Answering something that is irrelevant to the question, no matter how good a description it is, will not only waste time but also be given low marks.

- **Budget your time**

Don't dwell too much on a particular question as remaining questions may get little or no time if. Despite how much one writes, one can only score the maximum marks allocated to that question. If facing difficulty in answering a question, move on to other questions and return to the former later.

- **Check and double-check**

Always keep some time for revision while budgeting time. In the rush to complete the paper, some basic spelling mistakes or forgotten, half-attempted questions may spoil all the effort.

- Believe in yourself. Set a goal for yourself.
- Accordingly set a timetable for yourself.
- Identify a limited number of direct questions which usually come in the exams & prepare them well.
- Apply FRT (Fast reading technique) i.e. to revise more in less time.
- Presentation: Be particular about how you write the answers. It should always be in points with a heading and a brief explanation.
- Do not leave out any Questions.



- Also be careful not to spend too much time on 1 question at the cost of other questions.
- Wherever any process is asked to be explained, write all the steps involved, irrespective of the marks allotted to that question.
- Draw a flowchart/diagram in support of your answer, wherever possible.
- Answer those questions first, which you know very well.
- Underline all the sub-headings.
- Draw small cartoons /diagrams with small captions wherever fits suitable.
- Attempt 'HOTS' questions at the last.
- Utilize the QP paper reading time to plan writing strategies instead of trying to write answers in advance.
- While trying to understand 'HOTS' questions keep in mind chapter-wise allotment of marks for each chapter. Sometimes this helps to guess the chapter from which the hot question is given.
- Especially in case of Application Oriented Questions (HOTS), read Hindi medium version also, it may give you some clue. It also removes the vagueness in the English language.
- Maintain a separate small hand – book to write only sub-headings for all the concepts in the subject. It helps as a ready- reckoner.
- Read summaries given at the end of each chapter to get a comprehensive idea about the given chapter. Hots can be given from summaries also.
- Refer latest CBSE sample question papers along with previous year Board Question Papers.
- Refer 'High scoring students' answer sheets available in the CBSE web site.

## **XII BUSINESS STUDIES SYLLABUS CHANGES FOR THE BOARD EXAM 2013**

### **Refer CBSE Senior School Curriculum 2013**

<b>Unit No.</b>	<b>Topics deleted by the CBSE</b>	<b>Topics added by CBSE</b>	<b>Old marks</b>	<b>New marks</b>
1	No Change	No Change	07	05
2	No Change	No Change	07	06
3	Economic Environment in India	No Change	05	05
4	Features of planning	.Single use and standing plan	07	06
5	No Change	No Change	10	08
6	No Change	.On-the-job and off-the-job training (Induction training, Vestibule training, Apprenticeship training And Internship training)	08	06
7	✓ Role Of supervisor ✓ Qualities of good leader	.Functions of a supervisor .Leadership styles .How to overcome the barriers of effective communication	10	08
8	Techniques of controlling: Budgetary control	.Nature of controlling	06	06
9	Importance of Financial management	.NO Change	12	12
10	✓ Distinction Between Capital Market and money Market ✓ NSEI and OTCEI	.Depositary service and D'mat account	08	08
11	✓ Role of marketing ✓ Marketing and selling ✓ Nature and classification of product ✓ Function of channel of distribution ✓ Limitation of advertising ✓ importance of personal selling ✓ Merits and limitations of sales promotion ✓ publicity	.Qualities of a good salesmen .Public relations	14	14
12	NO change	NO change	06	06
13	NO change	.Project work	00	10
		Total marks	100	100

## SYLLABUS

## BUSINESS STUDIES

## CLASS XII

3 Hours

One Paper

90 Marks

## Unit wise Weightage

Units	Periods	Marks
<b>Part A : Principles and Functions of Management</b>		
1. Introduction to Management	12	5
2. Principles of Management	12	6
3. Business Environment	10	5
4. Planning	12	6
5. Organizing	16	8
6. Staffing	14	6
7. Directing	16	8
8. Controlling	14	6
	<b>104</b>	<b>50</b>
<b>Part B: Business Finance and Marketing</b>		
9. Financial Management	22	12
10. Financial Markets	20	8
11. Marketing Management	30	14
12. Consumer Protection	16	6
		<b>40</b>
		<b>90</b>

**Note:** The Question Paper will include value based question(s) to the extent of 4 marks from any of the units.

**Part A: Principles and Functions of Management****Unit I: Nature and significance of Management****(Periods 12)**

- Management - concept, objectives and importance
- Management as Science, Art and Profession.
- Levels of management
- Management functions - planning, organizing, staffing, directing and controlling.
- Coordination - concept, characteristics and importance.

## **Unit 2: Principles of Management**

**(Periods 12)**

- Principles of Management - concept, nature and significance
- Fayol's principles of management
- Taylor's Scientific Management - principles and techniques

## **Unit 3: Management and Business Environment**

**(Periods 10)**

- Business Environment - concept and importance
- Dimensions of Business Environment - Economic, Social, Technological, Political and Legal
- Impact of Government policy changes on business with special reference to liberalization, privatization and globalization in India.

## **Unit 4: Planning**

**(Periods 12)**

- Concept, importance and limitations
- Planning process
- Single use and Standing Plans - Objectives, Strategy, Policy, Procedure, Method, Rule, Budget and Programme.

## **Unit 5: Organizing**

**(Periods 16)**

- Concept and importance.
- Organizing Process.
- Structure of organization - functional and divisional.
- Formal and informal organization.
- Delegation: concept, elements and importance.
- Decentralization: concept and importance.

## **Unit 6: Staffing**

**(Periods 14)**

- Concept and importance of staffing
- Staffing as a part of Human Resource Management
- Staffing process :
  - Recruitment - sources
  - Selection - process
- Training and Development - Concept and importance. Methods of training- on the job and off the job- Induction training, vestibule training, apprenticeship training and internship training.

### **Unit 7: Directing (Periods 16)**

- Concept and importance
- Elements of Directing
  - Supervision - concept, functions of a supervisor.
  - Motivation - concept, Maslow's hierarchy of needs; Financial and non-financial incentives.
  - Leadership - concept, styles - authoritative, democratic and laissez faire.
  - Communication - concept, formal and informal communication; barriers to effective communication, how to overcome the barriers.

### **Unit 8: Controlling (Periods 14)**

- Concept, nature and importance
- Relationship between planning and controlling
- Steps in the process of control

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

### **Unit 9: Financial Management (Periods 22)**

- Concept and objectives of financial management.
- Financial decisions: investment, financing and dividend and factors affecting.
- Financial planning - concept and importance.
- Capital Structure - concept and factors affecting.
- Fixed and Working Capital - concept and factors affecting their requirements.

### **Unit 10: Financial Markets (Periods 20)**

- Financial Markets: concept and types.
- Money market and its instruments.
- Capital market and its types (primary and secondary).
- Stock Exchange - functions and trading procedure. Depository Services and D'emat Account.
- Securities and Exchange Board of India (SEBI) - objectives and functions.

### **Unit 11: Marketing Management (Periods 30)**

- Marketing - concept and functions.
- Marketing management philosophies.
- Marketing Mix - concept
  - Product - concept, branding, labeling and packaging.
  - Price - factors determining price.
  - Physical distribution- concept, channels of distribution: types, choice of

channels.

- Promotion -concept and elements; advertising- concept, role, objections against advertising, personal selling - concept and qualities of a good salesman, sales promotion - concept and techniques, public relations - concept and role.

## **Unit 12: Consumer Protection**

**(Periods 16)**

- Concept and importance of consumer protection.
- Consumer Protection Act 1986
  - Meaning of consumer and consumer protection.
  - Rights and responsibilities of consumers
  - Who can file a complaint and against whom?
  - Redressal machinery.
  - Remedies available.
- Consumer awareness - Role of consumer organizations and NGO's

## **Unit 13: Project Work**

**(Periods 16)**

KRISHNA  
PUBLIC SCHOOL

**DESIGN OF QUESTION PAPER  
BUSINESS STUDIES (054)  
CLASS-XII 2012-13**

**Time-3 Hrs.**

**Max. Marks – 90**

**The weightage to Content/Subject units**

S.No.	Content Unit	Marks
<b>Part A : Principles and Function of Management</b>		
1.	Nature and Significance of Management	5
2.	Principles of Management	6
3.	Business Environment	5
4.	Planning	6
5.	Organizing	8
6.	Staffing	6
7.	Directing	8
8.	Controlling	6
	<b>Total (A)</b>	<b>50</b>
<b>Part B : Business Finance and Marketing</b>		
9.	Financial Management	12
10.	Financial Markets	8
11.	Marketing	14
12.	Consumer Protection	6
	<b>Total (B)</b>	<b>40</b>
	<b>Grand Total (A+B)</b>	<b>90</b>

**B. Weightage to forms of Questions**

S.No.	Forms of Questions	Marks for each question	No. of question	Total Marks
1.	Very short answer type (VSA)	1	12	12
2.	Short answer type I (SAI)	3	6	18
3.	Short answer type II (SAII)	4	4	16
4.	Long answer type I (LA I)	5	4	20
5.	Long answer type II (LA II)	6	4	24
6.	Total		30	90

**C. Scheme of Options**

There will be no overall choice. However, there is an internal choice in every question of 6 marks

**D. Weightage to difficulty level of questions**

S.No	Estimated difficulty level of questions	Percentage
1.	Easy	30%
2.	Average	50%
3.	Difficult	20%

**E. Typology of Questions**

In order to assess different abilities related to the subject, the question paper is like to include questions based on higher order skills, such as open-ended question based on case-study, diagrams, and cartoons given in the text book.



**SAMPLE QUESTION PAPER**  
**BUSINESS STUDIES**  
**CLASS XII (2012-13)**  
**Blue Print**

Units	Very Short Answer (1)	Short Answer Question(3,4)	Long Answer I & II(5,6)	TOTAL
Unit-1(5)	-	-	5(1)	5(1)
Unit-2(6)	-	3(2)	-	6(2)
Unit-3(5)	-	-	5(1)	5(1)
Unit-4(6)	-	3(2)	-	6(2)
Unit-5(8)	-	4(2)	-	8(2)
Unit-6(6)	1(1)	-	5(1)	6(2)
Unit-7(8)	1(2)	-	6(1)	8(3)
Unit-8(6)	1(1)	-	5(1)	6(2)
Unit-9(12)	1(2)	4(1)	6(1)	12(4)
Unit-10(8)	1(2)	-	6(1)	8(3)
Unit-11(14)	1(2)	3(2)	6(1)	14(5)
Unit-12(6)	1(2)	4(1)	-	6(3)
	12(12)	34(10)	44(8)	90(30)
<b>There will be value based question(s) carrying four marks from any of the units.</b>				

**SAMPLE QUESTION PAPER**  
**BUSINESS STUDIES**  
**BUSINESS STUDIES**  
Class – XII (2012-13)

**Max. Marks – 90**  
**3 Hrs.**

**Time -**

**General Instructions: -**

1. Answers to questions carrying 1 mark may be from one word to one sentence.
2. Answer to questions carrying 3 marks may be from 50 to 75 words.
3. Answer to questions carrying 4-5 marks may be about 150 words
4. Answer to questions carrying 6 marks may be about 200 words.
5. Attempt all parts of a question together.

- 
- Q1. What is meant by 'Induction Training'? (1)
- Q2. Give the meaning of 'Democratic Style' of Leadership. (1)
- Q3. Rajat a Sales Manager, achieved his sales target one month in advance. This achievement was displayed on the notice board and the CEO of the Company awarded a certificate for the best performance to him. Name the incentive provided to Rajat. (1)
- Q4. Which two steps in the process of control are concerned with compelling events to confirm to the plan? (1)
- Q5. Define 'Financial Management'. (1)
- Q6. State the primary objective of financial management. (1)
- Q7. List any two characteristics of secondary market. (1)
- Q8. What is meant by financial market? (1)
- Q9. Enumerate any two qualities of a good Salesman.
- Q10. What is meant by 'Promotion Mix'? (1)
- Q11. What is meant by 'Consumer Protection'? (1)
- Q12. When can a consumer make an appeal in the Supreme Court under 'The Consumer Protection Act 1986'? (1)

Q13. State any three characteristics of principles of management. (3)

Q14. Explain the following principles of Scientific Management:-

a) Science not rule of thumb

b) Co-operation not Individualism (3)

Q15. State the steps involved in the planning process. (3)

Q16. Explain the meaning of 'Objectives' as a type of plan. (3)

Q17. State any three features of a good brand name. (3)

Q18. Explain the following two functions of Marketing :-

i) Product Designing and Development

ii) Marketing Planning (3)

Q19. The Employees of Manik Ltd. , a software company, have formed a dramatic group for their recreation. Name the type of organisation so formed and state its three features. (4)

Q20. Distinguish between Functional and Divisional organisational structure on the following basis:

i. Formation

ii. Managerial development

iii. Responsibility

iv. Suitability (4)

Q21. State any four factors which help in determining the working Capital requirements of a Company. (4)

Q22. Kayco LTD. is manufacturing detergents. They decide to launch a new range of herbal products. As they are in a hurry, they have tested products on animals only.

The necessary information is missing on the package. The management also plans to launch a new factory in a tribal area where the required products are

easily available and the labour-men, women and children are available for work at low wages in the absence of development opportunities and schools.

- a) Which values do you find disturbing in the above para?
- b) Will the decision to install a new unit in a tribal area help society? Highlight the social values involved in his decision.

(  
4  
)

- Q23. "Success of an organization largely depends upon its management" Explain any five reasons to justify the statement. (5)
- Q24. Explain with the help of one example each how do 'Political Environment' and 'Legal Environment' affect the functioning of a business enterprise. (5)
- Q25. Despite internal sources of recruitment being economical why do companies not always use this source? State any five reasons. (5)
- Q26. You are a management expert. You have been asked by a business firm to make its managers understand the importance of controlling function of management. How will you explain this to the manager? (5)
- Q27. Communication originally drafted in English has been very poorly translated in Hindi. Name the type of barrier to effective communication and explain any other five barriers of this type.

OR

Identify the function of management which refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve objectives. Explain the importance of this function of management. (6)

- Q28. You are the financial manager of a company. The Board of Directors has asked you to design the capital structure of the company. State any six factors that you would consider while doing so.

OR

Every manager has to take three major decisions while performing the finance function. State these decisions. (6)

Q29. Explain the steps in the 'Trading Procedure' of Stock Exchange

Explain any four methods of floatation of new issues in the Primary Market. (6)

Q30. Identify the method of sales-promotion in the following cases:

- (i) A mobile company offers a discount of Rs. 1000 to clear off excess inventory.
- (ii) A customer gets Rs.5 off on return of an empty wrapper while making a new purchase of the same product.
- (iii) A Company offers a pack of  $\frac{1}{2}$  kg. of sugar with the purchase of a 5 kg. bag of wheat flour
- (iv) A company offers 40% of extra shaving cream in a pack of 500 gms.
- (v) Scratch a card and get a gold coin with the purchase of a cold drink.
- (vi) Purchase goods worth Rs. 50,000 and get a holiday package worth Rs. 10,000 free.

OR

'Various tools of communication are used by the marketers to promote their products.'

Answer the following questions:

- 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.

(6)



### Marking Scheme

1. Induction Training refers to the process of introducing the selected employees to other employees and familiarizing him with the rules and policies of the organisation.

(1)

2. Democratic Style of Leadership is leadership in which, a leader consults with his subordinates on proposed actions and decisions and encourages them to participate in decision making. (1)

3. The Incentive provided to Rajat is - 'Recognition' (1)

4. (i) Comparison of actual performance with standards.

(ii) Taking corrective action. ( $\frac{1}{2} \times 2 = 1$ )

5. Financial Management is concerned with management of flow of funds and involves decisions relating to procurement of funds, investment of funds in long term and short term assets and distribution of earnings to the owners.

OR

Financial Management may be defined as planning, organising, directing and controlling the financial activities of an organisation.

(1)

6. Wealth Maximisation is the Primary Objective of Financial Management which means maximising the market value of investment in the shares of the company.

(1)

7. Characteristics of Secondary Market (any two):

(i) It is a Market for purchase and sale of existing securities

(ii) Both Buying and Selling of Securities can take place here.

(iii) It is located at specified places

(iv) The price of securities is determined by demand and supply for the securities.

( $\frac{1}{2}$   
+  $\frac{1}{2}$  = 1)

8. A financial market is a market for the creation and exchange of financial assets.  
(1)

9. Qualities of a good salesman are: (i). Physical Attributes; (ii). Social Attributes;  
(iii). Mental Attributes and (iv) Vocational Attributes. (any two)

O

R Qualities of a good salesman:

(any two)

(i). A good personality; (ii). Sound health and stamina; (iii). Presence of mind; (iv).  
Imagination; (v). Quick observation and judgement; (vi). Self Confidence; (vii).  
Initiative; (viii). Sharp memory and intelligence; (ix). Convincing conversationalist;  
(x). Honest and of sound character; (xi). Cooperative and helpful; (xii). Tactful;  
(xiii). Inborn aptitude and talent; (xiv). Ambitious; (xv) Enthusiastic; (xvi). Energetic;

(xvii). Disciplined and loyal.

( ½ +

½=1 )

10. Promotion mix refers to combination of promotion tools used by an organisation  
to

achieve its objectives.

(1)

11 .Consumer Protection refers to the act of providing adequate protection to  
consumers against the unscrupulous, exploitative and unfair trade practices of  
manufacturers and service providers.

(1)

12. An order passed by the National Commission in a matter of its original  
Jurisdiction is appealable before the Supreme Court.

(1 )

13. Characteristics of Principles of Management (any three) -

1. The Principles of Management have **universal applicability** in all types of  
organisations, business as well as non-business, small as well as large, public  
sector as well as private sector, manufacturing as well as the service sectors.



2. They are **general guidelines** to action but do not provide readymade straitjacket solutions to all managerial problems.
3. They are formed by practice, **experience**, collective wisdom of managers and **experimentation**.
4. They are **flexible** and can be modified by the manager when the situation demands.
5. They are aimed at **influencing human behaviour** to enable a better understanding of human and material resources in accomplishing organisational purposes.
6. They intend to establish **cause and effect relationship** so that they can be used in similar situations in a large number of cases.
7. The application of the principles is **contingent** or dependent upon the prevailing situation at a particular point of time. (1x3=3)

14. (i) **Science, not Rule of Thumb:**

Taylor believed that there was one best method of maximising efficiency. This method could be developed through study and analysis. The Method so developed should substitute the “Rule of Thumb” through the organisation. Scientific method involves investigation of traditional methods through work study, unifying the best practices and developing a standard method which would follow throughout the organisation. This can result in tremendous saving of time and materials. In the present context the use of internet has brought about dramatic improvement in internal efficiencies and consumer satisfaction.

(ii) **Cooperation, not Individualism**

There should be complete cooperation between employees and management instead of individualisation. It is an extension of Principle of harmony not Discord. Management should not close its ears to constructive suggestion by employees but should reward their suggestions which result in substantial reduction in costs. Workers should be a part of management and a part of all important decisions. Workers on the other hand should desist making unreasonable demands. When there is open communication system and goodwill there will be no need for trade unions. There should be almost equal division of work and responsibility between employees and management. Management should help, encourage and smooth the way for employees.

$$(1\frac{1}{2} + 1\frac{1}{2}=3)$$

15. The steps involved in the process of planning are:

- i. Defining organizational objectives for the entire organisation and each department or unit within the organisation.
- ii. Developing planning premises or assumptions about the future, which are the base material upon which plans are to be drawn.
- iii. Listing the alternative ways of reaching objectives, which may be either routine or innovative.
- iv. Evaluating the pros and cons of each alternative in the light of the objective to be achieved to choose the best alternative.
- v. Formulating derivative plans to support the main plan.
- vi. Putting the plans into action i.e., doing what is required and their follow-up to ensure that objectives are achieved. ( $\frac{1}{2}$  mark for each step =  $6 \times \frac{1}{2} = 3$ )

16. \* Objectives are the desired future position that the management would like to reach.

\* They serve as the guide for overall planning and are usually set by the top management.

\* They need to be expressed in specific terms. (3)

17. Feature of a good brand name: (Any three)

- (i) It should be short, easy to pronounce, spell, recognise and remember.
- (ii) It should suggest the product's benefits and qualities.
- (iii) It should be distinctive.
- (iv) It should be adaptable to packaging or labelling requirement.
- (v) It should be sufficiently versatile to accommodate new products which are added to the product line.
- (vi) It should be capable of being registered and protected legally.
- (vii) It should not get out of date very soon.

(3)

18.

**(i) Product Designing and Development**

The decision of the product contributes to making the product attractive to the target customers. A good design can improve performance of a product and also give it a competitive advantage in the market. For example, when we plan to buy any product say a motorbike, we not only see its features like cost, mileage etc. but also the design aspects like shape, style etc

**(ii) Marketing Planning**

One important area of work of a marketer is to develop appropriate marketing plans so that the marketing objectives of the organisation can be achieved. For example, a marketer of colour TV having 10% of the current market share aims at enhancing his market share to 20% in the next three years. He will have to develop a complete marketing plan covering various important aspects including the plan for increasing the level of production, promotion of products etc. and specify the action programmes to achieve these objectives. (1 ½ x2=3)

19. The type of organisation formed by employees of Manik Ltd. is informal organisation

**Features of Informal Organisation (any three)**

(1+1x3=4)

- (a) An informal organisation originates from within the formal organisation as a result of personal interaction among employees.
- (b) The standards of behaviour evolve from group norms rather than officially laid down rules.
- (c) Independent channels of communication without specified direction of flow of information are developed by group members.
- (d) It emerges spontaneously and is not deliberately created by the management

20. **Distinction between Functional and Divisional structures**

SNO	Basis	Functional	Divisional
1	Formation	It is based upon Functions	It is based upon product lines and is supported by functions
2	Managerial Development	Difficult, as each functional manager has to report to manager	Easier Autonomy as well as the chance to perform multiple functions help in managerial development
3	Responsibility	Difficult to fix on any one department	Easy to fix responsibility for performance
4	Suitability	Suitable for medium sized firms having a single product or small number of related products	Suitable for large firms having multiple product with distinct Characteristics.

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1  
x  
4  
=  
4

21. Factors which help in determining the working capital requirements of a company are : (Any four)

(1x4=4)

- (i) Nature of Business influences the working capital required. Eg: A trading firm requires a smaller working capital as compared to a manufacturing firm.
- (ii) An organisation operating on a higher scale of operation requires a large amount of working capital as compared to the organisation which operates on a lower scale.
- (iii) Different phases of business cycle affect the requirement of working capital by a firm. In case of boom, larger amount of working capital is required as compared to depression.
- (iv) Seasonal factors affect the level of activity and working capital requirement of a business. In peak season, larger amount of working capital is required as compared to lean season.
- (v) The duration and the length of the production cycle affect the amount of funds required for material and expenses and consequently affect the working capital requirement of a firm. Firms with longer processing cycles lead to higher working capital requirement of a business.
- (vi) Credit Allowed affects the amount of debtors and consequently the working capital requirement of a firm.
- (vii) To the extent the firm avails credit on purchases, the working capital requirement is reduced.
- (viii) Operating Efficiency of a firm may reduce the level of raw materials, finished goods and debtors resulting in lower requirement of working capital.
- (ix) Difficulty in availability of raw material and larger lead time will make the firm store larger quantity of material and larger shall be the amount of working capital required.

(or any other correct factor)

22.(A) The disturbing value in the above para are: any two

( $\frac{1}{2} \times 2 = 1$ )

- ☐ testing on animals is banned.
- ☐ no information about the products on package is violation of Right to Information.
- ☐ Yes, the decision of installing a new unit in tribal area will definitely help in the upliftment and development of tribal society (1 mark)
- ☐ The tribal labour, men and women will get equal minimum wages to

- earn their livelihood.**
  - ☐ **Child labour is banned so schools should be opened for them.**
  - ☐ **School and other supportive activities will help in community-development.**
  - ☐ **Equal opportunity to grow.**
  - ☐ **Proper utilisation of natural resources.**
- Any two (1x2=2)

23. Success of an organisation largely depends upon its management. This can be justified with the following reasons:

- i. It helps in achieving group goals.
- ii. It increases efficiency.
- iii. It creates a dynamic organisation
- iv. It helps in the development of society
- v. It helps in achieving individual goals.
- vi. It helps in optimum utilisation of resources.
- vii. It provides vision and foresight.

(or any other correct reason) (1/2 mark for reason +1/2 mark for explanation=1 mark)

(1x5=5)

24. Political Environment includes political conditions like

- ☐ Stability
- ☐ Peace
- ☐ Attitude of elected government representatives that impact the business entrepreneurs.

Example of Political Environment affecting the functioning of a business enterprise is -

Even after opening up of the Indian Economy in 1991, foreign companies found it extremely difficult to cut through the bureaucratic red tape to get permits for doing business in India, which discouraged them from investing in our country.

Legal Environment includes various

- ☐ Legislations
- ☐ Administrative orders
- ☐ Court judgement
- ☐ Decisions rendered by various agencies at every level of government (centre, state or local)

Every Management is required to obey the **law of the land**.

**Example of Legal Environment** affecting the functioning of a business enterprise is-

Advertisements for packets of cigarettes must carry the **Statutory Warning**,  
“Cigarette Smoking is Injurious to Health.”  $((1 + 1 \frac{1}{2}) + (1 + 1 \frac{1}{2}) = 5)$

25. The Companies do not always use internal Sources of recruitment despite of them being economical because of the following reasons: (any five)

- (i) It is an incomplete source as no organisation can fill all its vacancies from internal sources.
- (ii) The employees may become lethargic if they are sure of time bound promotions.
- (iii) Spirit of competition among the employees may be hampered.
- (iv) Frequent transfers of employees may often reduce the productivity of the organisation.
- (v) Complete reliance on internal recruitment involves danger of ‘inbreeding’ by stopping ‘infusion of new blood’ into the organisation.
- (vi) A new enterprise cannot use internal source of recruitment.
- (vii) There is limited choice of candidates when the vacancies are to be filled from internal source of recruitment. (or any other correct reason) (1x5=5)

26. As a management expert the importance of controlling will be explained to the managers as follows:

- (i) Accomplishing organizational goals.
- (ii) Enables managers to judge the accuracy of standards.
- (iii) Ensures efficient use of resources.
- (iv) Improving employees motivation.
- (v) Ensures order and discipline.

(1/2 mark for the heading + 1/2 mark for the explanation = 1 mark) (1x5=5)

27. Semantic Barriers (Faulty Translations). (1 mark)

Other Semantic Barriers-

- (i) Badly Expressed Messages
- (ii) Symbols with different Meanings.
- (iii) Unclarified Assumptions
- (iv) Technical Jargon
- (v) Body Language & gesture decoding

(1/2 mark for the heading +1/2 mark for the explanation=1mark) (1+1x5=6)

OR

Directing

(1 mark)

**Importance**

1. Initiates action.
2. Integrates employees efforts
3. Guides employees
4. Facilitates introduction of changes
5. Brings stability and balance

(1/2 mark for the heading +1/2 mark for the explanation=1mark) (1+1x5=6)

28. Factors affecting capital structure (any six) are:

- (i) The size of the projected cash flows must be considered before deciding the capital structure of the firm.
- (ii) Higher the Interest coverage ratio which is calculated as follows:  $\text{EBIT} / \text{Interest}$ , lower shall be the risk of the company failing to meet its interest payment obligations.
- (iii) A higher Debt service coverage ratio, in which the cash profits generated by the operations are compared with the total cash required for the service of debt and the preference share capital, the better will the ability of the firm to increase debt component in the capital structure.
- (iv) If return on investment of the company is higher, the company can choose to use trading on equity to increase its EPS, i.e., its ability to use debt is greater.
- (v) More debt can be used if cost of Debt is low.



- (vi) A higher tax rate makes debt relatively cheaper and increases its attraction as compared to equity.
- (vii) If debt is used beyond a point, cost of equity may go up sharply and share price may decrease inspite of increased EPS.
- (viii) The floatation cost may affect the choice between debt and equity and hence the capital structure
- (ix) The total risk of business depends upon both the business risk and financial risk. If a firm's business risk is lower, its capacity to use debt is higher and vice-versa.
- (x) To maintain flexibility the company must maintain some borrowing power to take care of unforeseen circumstances
- (xi) (or any other correct factor) (1x6 = 6)

OR

Three major decisions are:

- (i) Investment Decision which relates to how the firm's funds are invested in different assets in the long term and the short term.
- (ii) Financing Decision which relates to the quantum of finance to be raised from various long term sources. It determines the overall cost of capital and financial risk of the enterprise.
- (iii) Dividend Decision relates to how much of the profit earned by the company (after paying tax) is to be distributed to shareholders and how much of it should be retained in the business. (2 x 3 = 6)

## 29. Trading Procedure of a Stock Market

Depository' is an institution/organisation which holds securities

eg: shares, debentures, bonds, mutual funds etc in electronic form, in which trading is done.

DPS are agents – Stock brokers (R-Trading)

### 1. Selection of a Broker

#### TRADING PROCEDURE ON A STOCK EXCHANGE

(1x3+3=6)

The procedure for purchase and sale of securities in a stock exchange involves the following steps:

### **1. Selection of broker**

The first step is to select a broker who will buy/sell securities on behalf of the investor. This is necessary because trading of securities can only be done through SEBI registered brokers who are the members of a stock exchange. Brokers may be individual, partnership firms or corporate books. The broker charges brokerage / commission for his services.

### **2. Opening demat account**

The next step is to open a demat account. Demat (Dematerialised) account refers to an account which an Indian citizen must open with the depository participant (banks, stock, brokers) to trade in listed securities in electronic form.

The securities are held in the electronic form by a depository. At present, there are two depositories in India **NSDL** (National Securities Depository Ltd.) and **CDSL** (Central Depository Services Ltd.)

Depository interacts with the investors through depository participants. Your Depository Participant will maintain your securities account balances and intimate to you the status of your holding from time to time.

### **3. Placing the order**

The next step is to place the order with the broker. The order can be communicated to the broker either personally or through telephone, cell phone, e-mail etc. The instructions should specify the securities to be bought or sold and the price range within which the order is to be executed. Only the securities of listed companies can be traded on the stock exchange.

### **4. Executing the order**

According to the instructions of the investor, the broker buys or sells securities. The broker then issues a contract note. A copy of the contract note is sent to the client. The contract note contains the name and the price of the securities, names of the parties, brokerage charged. It is signed by the broker.

### **5. Settlement**

This is the last stage in the trading of securities done by the brokers on behalf of their clients. The mode of settlement depends upon the nature of the contract.

Equity spot market follow a T+2 rolling settlement. This means that any trade taking place on Monday, gets settled by Wednesday. All trading on stock

exchanges takes place between 9:55 am and 3:30 pm. Indian Standard Time, Monday to Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk.

OR

The methods of floating new issues in the Primary Market are : (Any 4)

**1. Offer Through Prospectus**

It is the Method of Floating new issues by inviting subscriptions from the public through issue of Prospectus. A prospectus makes a direct appeal to investors to raise capital, through advertisement in newspapers and magazines.

**2. Offer For Sale**

It is the method in which the Securities are not Issued directly to the Public but through intermediaries like Issuing Houses or Stock Brokers. A company sells securities en bloc at an agreed price to brokers who, in turn, resell them to the investing public.

**3. Private Placement**

It refers to the allotment of securities by a company to institutional investors and some selected individuals. Some companies cannot afford a public issue and choose to use private placement.

**4. Rights Issue**

It is the privilege given to existing shareholders to subscribe to new issue of shares in proportion to the number of shares they already hold. The shareholders are offered the 'right' to buy new shares in proportion to the number of shares they already possess.

**5. E-IPO**

It refers to Issuing Securities through the online system of Stock Exchanges. The company has to enter into an agreement with the stock exchange.

(1/2 mark for heading + 1 mark for explanation=1 ½ x4=6)

30. (i) Rebate  
(ii) Refund  
(iii) Product - combination  
(iv) Quantity - gift  
(v) Instant draws and assigned gift  
(vi) Lucky Draw

(1x6=6)

OR

- (a). The companies use all tools at the same time because of the nature of market, nature of product, promotion budget and objectives of promotion being different at different times.
- (b). The most commonly used non-personal tool of promotion which is paid for by the marketer is advertising. The explanation should include:

It is a paid and non-personal form having an identified sponsor to promote an idea.

(c) The tools of promotion used are

- (i) Public Relations
- (ii) Advertisements
- (iii) Personal Selling

(2x3=6)

KRISHNA  
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## **CHAPTER – I**

### **NATURE AND SIGNIFICANCE OF MANAGEMENT**

#### **Linking of Class XI syllabus:**

1. In sole proprietorship business, the owner him-self manages his business.
2. In Partnership business all partners or any one partner on behalf of other partners can manage the business.
3. In HUF 'Karta' manages the business.
4. But in a Joint Stock Company, it is managed by professionally qualified managers. So in this context, the need for management arises.

#### **CONCEPT MAPPING**

**Concept:** Management is the process of planning, organising, staffing, directing and controlling the resources efficiently and effectively for achieving the organisational goals.

**Characteristics:** (a) goal oriented process, (b) pervasive, (c) multidimensional (d) group activity, (e) continuous process, (vi) dynamic function, (vii) intangible force

**Objectives** : (a) organisational (b) social, and (c) personal objectives

**Importance:** (a) achieves group goals (b) increases efficiency (c) creates dynamic organization (d) helps achieve personal goals (e) development of society

**Management as Art:** Theoretical knowledge, personal application, based on practice, creativity

**Management as a Science** : (a) Systematic body of knowledge (b) principles based on application, (c) universal validity

**Management as a Profession:** (a) well defined body of knowledge (b). restricted entry (c) professional association (d) ethical code of conduct Management fulfills some but not all of these requirements

**Levels of management:** (a) Top Level management (b) Middle Level management (c) Supervisory or operational or lower level management

**Functions of Management:** Planning, organising, staffing, directing and controlling

**Coordination** : The process of achieving unity of action among interdependent activities and departments of an organisation. It is the essence of management as it is required in all managerial functions.

### KEY CONCEPTS IN NUTSHELL

#### 1. MEANING/CONCEPT OF MANAGEMENT:

Management is the process of getting things done with the aim of achieving goals effectively and efficiently.

- **Process:** refers to the primary function like planning, organising, staffing, directing and controlling performed by the management to get things done.
- **Effectiveness:** means completing the right task to achieve the deputed goal within the time frame.
- **Efficiency:** means completion of task using minimum resources

#### 2. DEFINITION OF MANAGEMENT:

“Management is the process of working with and through others to effectively achieve the organisational objectives by efficiently using limited resources in the changing environment.”

Kreitner

#### 3. Functions of management:



**1. Planning** - Setting objectives and targets and formulating an action plan of what is to be done, how to be done and when to do it

**2. Organising** - Assignment of duties, task, establishment of authority and responsibility relationships, allocating the resources required to perform the planned task.

**3. Staffing** - Finding and placing the right person at the right job at the right time.

**4. Directing** - Leading, influencing, motivating the staff chosen to perform the assigned task efficiently and effectively.

**5. Controlling** - Ensuring/Monitoring the activities in an organisation are performed as per the plan.

**4. Nature of Management:** As an art, As a science and As a profession.

## **5. MANAGEMENT OBJECTIVES- Organisational Objectives:**

**Survival:-** Ensure that the organisation survives and exists in the future. **Profitability:-**

Earning adequate profit in order to survive and grow **Growth:-** Growth indicates how well it exploits the potential opportunities.

### **Social Objectives:**

- Producing quality products at reasonable rates,
- generating employment opportunities,
- Community progress and development by providing schools and crèches to employees In fact most of the firms have taken upon themselves the concept of social responsibility as one of the basic element of business objectives .
- Environmental friendly method of production.

### **Personal Objectives:**

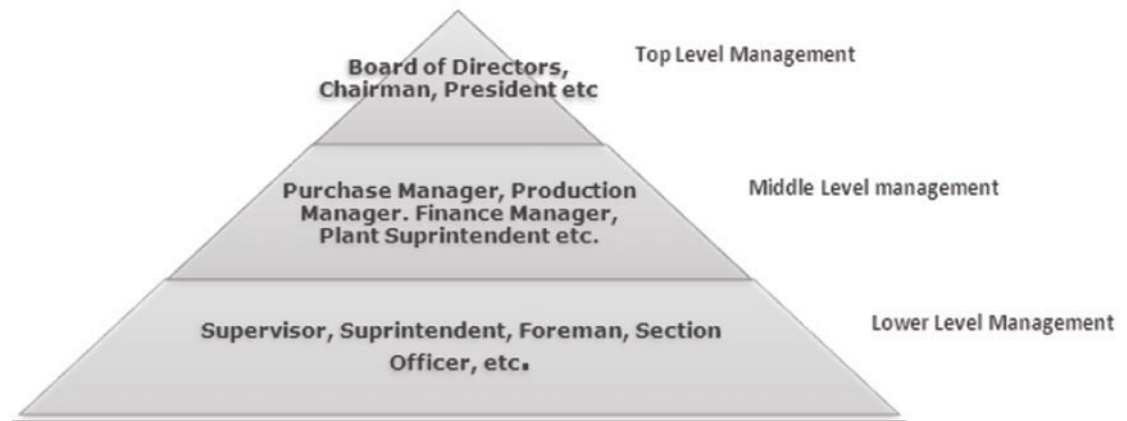
- Meeting the Financial needs like competitive salaries and perks
- Social and safety needs of the employee  
like peer recognition, self respect and  
respect for colleagues
- Higher level needs like implementation and  
monitoring of policies for personal growth  
and survival
- Reconcile personal goals with organisational objectives for harmony in the organisation.

## **6. IMPORTANCE OF MANAGEMENT**

- Aids in achievement of individual and organisational goals
- Increases efficiency
- Enhances optimum utilisation of resources

- Creates a dynamic organisation
- Promotes development of society

## 7. LEVELS OF MANAGEMENT



### Top level: - Designations and Functions

- Comprises of CEO, Board of Directors, MD, GM, VP
- Conceptualising of organisational goal, policy and strategy formulation
- Organising , Controlling and Monitoring activities and resources
- Controlling the work performance
- Approving Budgets

### Middle Level:- - Designations and Functions

- Comprises of Departmental, Sub-Departmental and Divisional heads.
- Execution of plans, policies framed by the top level management
- Preparing organisational set up & appointing employees
- Issuing instructions and motivating employees
- Ensuring interdepartmental cooperation

### Lower Level:- - Designations and Functions

- Forwarding suggestions and feedback to the top level
- Comprise of Supervisors, Foremen and inspectors
- Maintain Morale, safety and discipline amongst the work force
- Oversee the work of the workers
- Assist the management in selection, training, placement & promotion of workers



## 8. NATURE OF MANAGEMENT As an art:

- Existence of theoretical knowledge.
- Developed through Practical and creative process.
- Personalised application and skill

### As a Profession:

- Well defined body of knowledge.
- Existence of code of conduct
- Professional association (AIMA)
- Restricted entry
- Fees as remuneration for their services

### As a Science:

- Arranged, organised systematic body of knowledge
- Universal validity
- Principles arrived at after experimentation

## 9. COORDINATION Meaning.

**It is the synchronisation of various activities and efforts in an organisation** providing the required amount of quality, timing and sequence; thus ensuring the achievement of the planned goal with minimum content.

## 10. FEATURES OF COORDINATION:

- **Integrates Group Effort:** It is an orderly arrangement of group effort and not individual effort
- **Ensures unity of action:** It is a binding force between departments and ensures that all efforts are focussed towards achieving the organisational goal
- **It is a Continuous Process** never ending process as its needs are felt at all levels and steps in the organisations. It begins at the planning stage and continues till controlling
- **It remains the function and responsibility of every manager:** the top level coordinates the overall plan, middle level coordinates the efforts of the different sections and subsections and lower level management coordinates the activities of the workers

- **A Deliberate function:** It does not occur spontaneously nor is it achieved by force it is a deliberate action taken.
- **All pervasive function** it is needed in all departments and at all levels. Lack of coordination can lead to overlapping of activities.

#### 11. 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 goal with the organisational goal.
- 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 of activities. Coordination seeks to sequence and integrate all the specialists of activities into a wholesome effort.

#### 12. IMPORTANCE OF COORDINATION

- Ensures unity of action
- Erases interdepartmental conflicts
- Promotes harmonious implementation of plans
- Helps in maintaining a high degree of morale amongst employees

#### 13. COORDINATION IS THE ESSENCE OF MANAGEMENT.

Coordination is the management function of correlating and integrating the diverse goals and activities in the organisational process. It is the essence of management because:

It is needed at 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** - Ensures 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 goal

**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.

### **VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)**

1. **“Planning, Organizing, Staffing, Directing and controlling” is the sequence of functions in a process. Name it.**

Ans. Management

2. **Name that intangible force which creates productive relationships among resources of an organisation.**

Ans. Management

3. **What is the main objective of any organisation?**

Ans. Main objective of any organisation is optimum utilisation of resources

4. **Production manager tries to produce goods with minimum costs. Name the concept which is being focused by management?**

Ans. Efficiency

5. **What do you mean by effectiveness?**

Ans. It means completing the task or achieving the goals within stipulated time period.

6. **"Management is a group activity". Give reasons for statement.**

Ans. An organisation is a collection of diverse individuals with needs and purposes but they work towards fulfilling the common organisational goals.

7. **In order to be successful, an organization must change its according to the needs of the environment. Which characteristic of management is highlighted in the statement?**

Ans. Management is a dynamic function.

8. **Give one designation each of top and middle level management?**

Ans. Top - CEO, Middle - Divisional Manager

9. **Your Grand Father has retired as the director of a manufacturing company. At what level of management was he working.**

Ans. Top management.

10. **Why is management called inexact science?**

Ans. Management relates to human behaviour, whose cause and effect is not certain, that's why it is called and inexact science.

### **SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)**

1. **Explain the meaning of management. What do you mean by managers?**

Ans. Management is a process of getting things done with the aim of achieving desired common goals effectively and efficiently persons engaged in performing the functions of the management are known as managers. In other words, those managing the organisational resources for releasing its goals are known as managers.

2. **'Management is a process' Explain?**

Ans. Management includes various steps such as planning, organising, staffing, directing and controlling. This process begins with those at the top of the organization and continues in varying degrees at almost every level of the organisation. These inter-related steps help to achieve organisational goals in effective manner. That is why management is known as process of employing and organising resources to accomplish predetermined objectives.

3. **'Management is multi-dimensional'. Explain?**

Ans. Management is a complex activity and involves following three main dimensions -

#### **i) Management of works**

In each and every organisation, certain type of work is to be performed. In school, overall development of a child is to be done; in hospitals, patients are treated etc. Management converts these works into goals and devises the means to achieve them.

#### **ii) Management of People.**

Management is concerned with "getting things done through people", which is a very difficult task. All the employees have different personalities, needs backgrounds and methods of work. Thus, it becomes management's job to make them work as a group by giving common direction to their efforts.

#### **iii) Management of operations.**

In order to survive, each organisation has to provide certain goods or services. This involves production process thus, management of operations is inter linked with both the above dimensions viz., management of work and the management of people.

**4. What are the personal objectives of the management?**

Ans. Personal objectives refer to the objectives which are related to the employees of an organisation. They are as follows:

- i) Financial needs like competitive salaries, incentives and other monetary benefits.
- ii) Social needs like recognition in the organisation.
- iii) Higher level need which includes personal growth and development.

**5. Enumerate the importance of management.**

Ans. Following points are the importance of management.

- i) Management helps in achieving group goals.
- ii) Management increase efficiency
- iii) Management creates a dynamic organisation.
- iv) Management helps in achieving personal objectives.
- v) Management helps in development of society.

**6. What do you mean by level of management?**

Ans. Levels of management means the hierarchy of organisation representing the relationships among managers and subordinates on the basis of their relative authority, status and responsibility. There are three levels in the hierarchy of an organisation viz. (i) Top management (ii) Middle management and (iii) Supervisory or operational management.

**7. Define co-ordination. Enumerate the features of co-ordination?**

Ans. Coordination is an orderly arrangement of group efforts to maintain harmony among individuals' efforts towards the accomplishment of common goals of an organisation.

**Features of co-ordination**

- i) It integrates group efforts.
- ii) It unifies the action.
- iii) It is a continuous process.
- iv) It is an all pervasive function
- v) It is the responsibility of all managers.
- vi) It is a deliberate function.

### **LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)**

**1. Explain any five features of management?**

Ans. Following are the features of management:

**(i) Management is a group activity**

Management consists of a number of persons who work as a group. Their efforts are directed towards the common goals. Members initiate, communicate, coordinate and join their hands for the achievement of organisational objectives.

**(ii) Management is a goal-oriented process**

Management aims at common goals through a process of series of continuous functions viz planning, organizing, directing, staffing and controlling. These composite functions of management are separately performed by all managers all the time simultaneously to realize organizational goals

**(iii) Management is all pervasive**

Whether it is a commercial organisation or non commercial organisation, big or small all require management to handle their operations effectively and efficiently.

**(iv) Management is a continuous process**

Management is a continuous process consisting of a series of functions viz., planning, organising, directing and controlling. All the managers perform these functions regularly.

**(v) Management is a dynamic function**

The environment in which a business exists keeps on changing. Thus in order to be successful, management must change its goals, plans and politics according to the needs of its environment.

**2. Explain the organisational objectives of management.**

Ans. The organisational objectives of management refer to the main objectives required to fulfill the economic goals of the business organisation. The main objective of management is to utilize the human and material resources in such a manner that it should give maximum advantage to the organization. Every management group strives to accomplish these objectives for its organisation. These objectives of every organisation are survival, profit and growth.

**(a) Survival:** The basic objective of every business is to survive for a longer period in the market. The management must ensure survival of the

organisation by earning enough revenue to cover its costs.

**(b) Profit:** Only survival is not sufficient for business. Profit earning is essential for meeting the expenses and for the successful operation of the bus. Thus management must ensure earning of sufficient profit.

**(c) Growth:** The next important objective of the management is to ensure future growth and development of the business.

### **3. Explain the 'social objectives' of management.**

Ans. Each organisation is a part of society and thus it has certain social obligations to fulfill.

Some of them are as follows:

- (i) To supply quality goods and services
- (ii) Providing basic amenities to the employees like schools and creches for their children, medical facilities etc.
- (iii) To generate employment opportunities especially for the backward classes.
- (iv) To provide environment friendly methods of production.
- (v) To provide financial support to society by donating for noble causes.
- (vi) To organize educational, health and vocational training programmes.
- (vii) To participate in social service projects of Government and Non – Governmental Organisations (NGOs).

### **4. Do you mean by 'Personal Objectives' of management? Enumerate personal objectives of management.**

Ans. Personal Objectives refer to the objectives which are related to the individual needs of the employees of an organisation. All organisations are made up of people with different values, experiences and objectives. People join an organisation to satisfy their different needs. These are as follows:

- i) Financial needs like competitive salaries, incentives and other monetary benefits.
- ii) Social needs like recognition in the organisation.
- iii) Higher level need which includes personal growth and development.

### **5. Explain five functions of top-management.**

Ans. Top management performs the following functions.

**i) Develops long-term objectives:** Top-level managers develop the long - term objectives like expansion of business, manpower planning etc.

**ii) Framing of policies:** They lay down guidelines for departmental head i.e., policies relating to production, marketing, personnel, finance public relation



etc.

**iii) Organizing :** Top management organizes the business into various sections and departments to achieve the desired organisational objectives.

**iv) Key appointments:** Top-level authorities appoint the departmental heads and some other key persons to develop the organisational structure for profitable growth of the enterprises.

**v) Controlling:** Top-level managers periodically review the work of executives at different levels to ensure that their performance is as per predetermined plans.

### **QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

- 1. Give any one social objective of management. - 1 Mark**

Ans. Either one of the following:

- i) Desired quality of products at reasonable price.
- ii) Using environment friendly methods of production
- iii) Generation of employment opportunities.

- 2. Name any two designations given to first line managers. - 1 Mark**

Ans. Foremen and supervisors.

- 3. Which force binds all other functions of management? - 1 Mark**

Ans. Coordination

- 4. What do you mean by Management Hierarchy? - 1 Mark**

Ans. The chain of authority - responsibility relationships from top to bottom is called as management hierarchy.

- 5. How is management all pervasive? - 3 or 4 Mark**

Ans. Activities involved in management are applicable to every type of organisation whether economic, social or economic, social or political. For example, a cricket team needs to be managed as much as a club or a hospital. The activities of managers in India are similar to their activities in say U.K. or USA. Thus it can be said that management is all pervasive.

- 6. 'Management provides judgement and vision'. Explain? - 3 or 4 Mark**

Ans. Management keeps adjusting to the complex and ever-changing external environment. It helps in decision making. As it visualizes the future and the right course of action for same, sound decisions become possible. Thus, its foresight provides judgment and vision.



**7. Why is management considered as a discipline? - 3 or 4 Mark**

Ans. Discipline refers to a subject, the study of which can be organized and taught. Management is considered as a discipline because it is being continuously researched and studied. Also, it emphasis on knowledge, diversification, theory and practice, just like any other discipline.

**8. Mr. Kunal 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? - 3 or 4 Mark**

Ans. He is working as a middle level manager.

His functions are as follows.

- i) Deciding various sources from which required funds can be raised.
- ii) Negotiating with banks, brokers, under-writers etc. for raising finance.

**9. 'Coordination is a continuous activity'. Explain? - 3 or 4 Mark**

Ans. Coordination is a continuous activity carried out by all managers at all times. It starts at the planning stage and continues with the other functions of management. It is a never-ending process. It integrates all the activities and ensures the orderly arrangement of individual and group efforts to ensure unity of action in the realization of common objectives.

**10. What is mean by Co-ordination? Explain how does coordination 'integrates group efforts' and 'ensures unity of action'. (cbse 2012)**

Ans: Meaning of Coordination and Explanation of relevant features.

**11. Identify the nature of management when it is practiced as personal application of existing knowledge to achieve desired results. (cbse 2012)**

Ans: Management as an art.

## CHAPTER - 2

### PRINCIPLES OF MANAGEMENT

#### CONCEPT MAPPING

**Concept** : Principles of management are general guidelines which can be used under certain situations.

**Nature** : (a) universal applicability (b) formed by practice (c) flexible (d) mainly behavioural (e) cause and effect relationships (f) general guidelines contingent

**Importance:** (a) useful insights into reality (b) optimum utilisation of resources (c) scientific decisions (d) meeting changing environment (e) management training and research (f) fulfilling social responsibility

**Principles of Scientific Management** : (a) science not rule of thumb (b) harmony not discord (c) cooperation not individualism (d) maximum not restricted output (e) development of each person to greatest efficiency.

**Techniques of Scientific Management:** (a) functional foremanship (b) differential piece rate system (c) work study - time study, motion study, fatigue study, method study (d) standardisation and simplification of work.

**Fayol's Principles** : (a) division of work (b) authority and responsibility (c) discipline (d) unity of command (e) unity of direction (f) subordination of individual interest to common interest (g) remuneration (h) centralisation and decentralisation (i) scalar chain (j) order (k) equity (l) stability of tenure (m) initiative (n) esprit de corps

**Taylor vs. Fayol** : Their contributions are complementary in nature despite several differences.

#### KEY CONCEPTS IN A NUTSHELL:

1. **MEANING:** - **The principles** are broad statement of fundamental truth which provide guide lines for management decision and action. These guidelines are derived through experimentation and observation

## 2. NATURE OF PRINCIPLES OF MANAGEMENT

1. **Universal application** - can be applied to all kind of organisations, irrespective of their size and nature.
2. **General guidelines** - the formulated guidelines to action which need to be adjusted and used as per the demands of the situation.
3. **Formed by practice and experimentation** - derived through experimentation and Observation.
4. **Flexible** - principles are not rigid like science but are modified according to the business environment needs.
5. **Behavioural** - the principles aim to influence the unpredictable, complex and dynamic human behaviour.
6. **Cause and effect relation** - they aid in predicting the outcome of management actions.
7. **Contingent** - the management principles are dependent upon the prevailing Conditions/situations at that particular time hence amended accordingly.

## 3. SIGNIFICANCE/ IMPORTANCE OF MANAGEMENT PRINCIPLES

- i. **Provides managers with useful insights into reality** - through improved knowledge, ability, understanding and improved guidance to the managers.
- ii. **Optimum utilisation of resources** - and effective administration through coordinated use of physical, financial and human resources.
- iii. **Scientific decision** - they lend to be more realistic, thoughtful, justifiable and free from personal bias.
- iv. **Meet the changing environmental requirements** - by providing effective and dynamic leadership in implementing changes.
- v. **Fulfils social responsibility** - guides the manager in fulfilling the social responsibility.
- vi. **Management training, education and research** - the principles help in increasing knowledge which is used as the basis for management training and research.

## 4. FAYOL'S PRINCIPLES OF MANAGEMENT

1. **Division of labour** - work could be divided into small specialised task and performed by a trained specialist
2. **Authority and responsibility** - there must be a right balance between authority (right to give orders) and responsibility (obligation to perform the assigned task).

3. **Discipline** - obedience to organisation rules and employment agreement.
4. **Unity of command** - receive orders from one boss.
5. **Unity of Direction** - all the units of the organisation should aim and move towards achieving the organisational goal.
6. **Subordination of individual interest to general interest** - the organisation interest to be prioritised over individual interest.
7. **Remuneration** - pay should be fair and satisfying to both employee and the organisation.
8. **Centralisation and decentralisation** - there should be a proper balance between centralisation (concentration of decision making powers with top management) and decentralisation (dispersal of decision making power among more than one person).
9. **Scalar chain** - orders or communication should pass from top to bottom and follow the official line of command.
10. **Orders** - A place for everything/ everyone and every one in its place
11. **Equality** - kindness, empathy and justice in the behaviour of manager towards workers.
12. **Tenure stability** - frequent displacement of employee from their position should be avoided. They should be given sufficient time to show their results
13. **Initiative** - Employees to be encouraged to develop and carry out their improvement plans
14. **Espirit de corps** - need for team work, spirit and harmony.

## 5. 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.

### 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 effort between the management and workers in achieving the organisation's goals 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 capability and potential; and train them as per the job requirement.

### **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 foremen in the related process of function of production.
- Stress on separating planning function from executive function.

##### **b) Standardisation and simplification of work**

- Process of setting standards for 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 charts, operations research etc.

##### **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 movement.

- Eliminate the unproductive movements and equipments.

#### e) Time study

- It is the technique used to determine the standard time taken by the workman with reasonable skill and ability 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 outputs is produced and lower when the standard is not met

#### TAYLOR V/S FAYOL

Basis	Henry Fayol	F.W Taylor
1. Basis of formation	Personal Experience	Observations and
2. Focus	Improvement in the overall administration	Concentrates 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	Scientist and known as father of scientific management	Practitioner and known as the father of General management
6. Human element	More importance attached to increasing the production than to the human element	More importance given to human element; e.g. principle of equity, stability of tenure

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.

### **VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)**

**1. How are management principles derived?**

Ans. Management principles are derived through observation and analysis of events.

**2. Give any one difference between Principle and Technique.**

Ans. Principles are guidelines to take decision whereas techniques are methods to take action.

**3. What is meant by 'Universality of management principles'?**

Or

**Why is it said that management principles are universal?**

Ans. This it means that they are applicable to all kinds of organizations.

**4. The principles of management aren't rigid and can be modified when the situation demands. Which nature of principles is being discussed here?**

Ans. Flexibility.

**5. Define scientific management.**

Ans. Application of a scientific approach to managerial decision making.

**6. List any two principle of 'Scientific Management' formulated by Taylor for managing an organization scientifically.**

Ans. (i) Science, not Rule of Thumb. (ii) Harmony, not Discord.

**7. Factory owners or managers relied on personal judgment in attending to the problems they confronted in the course of managing their work. Which principle of Taylor is it referring to ?**

Ans. 'Rule of thumb'

**8. What do you mean by Mental Revolution?**

Ans. Mental Revolution means revolutionary change in the attitude of both



workers and managers from competition to cooperation.

- 9. Principle of cooperation, not individualism, is an extension of which principle given by Fayol?**

Ans. Principle of Harmony, not discord.

- 10. What is the aim of Method study?**

Ans. Aim is to find one best method of doing the job.

- 11. What is the aim of doing motion study?**

Ans. The aim of this study is to eliminate unnecessary movements so as to ensure timely completion of work.

- 12. What is the purpose of time study?**

Ans. To estimate/ determine a fair day's work.

- 13. Name the techniques of Taylor which is the strongest motivator for a worker to reach standard performance.**

Ans. Differential Piece Wage system.

- 14. The directors of XYZ limited, an organisation manufacturing computers, want to double the sales and have given the responsibility to the sales manager. The sales manager has no authority either to increase sales expense or appoint new salesmen. Hence, he could not achieve this target. Identify the principle violated in this situation.**

Ans. Principle of Authority and Responsibility.

- 15. A company manufacturing motorcycles and cars should have separate divisions for both, headed by separate divisional managers, separate plans and resources. Identify the principle with the help of this example.**

Ans. Unity of Direction.

### **SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)**

- 1. What do you mean by management principles?**

Ans. Principles are statements of fundamental truths about some phenomena and serve as a guide for thoughts and actions. They establish cause and effect relationship.

Management Principles are the fundamental statements of truth that provide guidelines to the managers for decision making and actions. These enable the managers to manage the enterprises in "3E way" viz 'economically', 'effectively' and 'efficiently'. These act as guide for managers and sharpen their skills and competence.



For example, principle of division of labour increases the efficiency of workers which ultimately leads to economy and effectiveness in the organization.

**2. How are management principles derived?**

**Or**

**"Management principles are evolutionary." Explain.**

**Or**

**"Derivation of management principles may be said to be a matter of science." Explain.**

Ans. Management principles are not made in heavens; they have emerged gradually, through an evolutionary process of combining deep observations and experimental studies.

**(i) Observation method**

Under this method, practical events are observed and analyzed by managerial researchers to derive management principles.

For example, it was observed that by dividing the work into different units, efficiency of employees improved. As a result, it led to formulation of principle of 'division of labour'.

**(ii) Experimental method**

Under this method, experiments are conducted so that management principles can be derived and their validity can be tested. For example, two units, one unit involving one superior and one subordinate and other unit involving two superiors and one subordinate, were taken. It was found that unit having one superior and one subordinate performed better. As a result, it led to formation of principle of "unity of command."

From the above it can be concluded that observations and experiments result in the formulation of management principles which therefore are evolutionary. Hence, derivation of management principles can be said to be a matter of Science. It is worth mentioning here that even though derivation of management principles is a matter of science, their application remains a matter of art. The success of managers depends upon how skillfully they put these principles into practice.

**3. Give three points reflecting the nature of management principles.**

Ans. Management principles are

(any three):

(i) Universal in application.

(ii) General guidelines.

- (iii) Flexible and can be applied differently under different conditions.
- (iv) Formed by practice and experimentation.
- (v) Establish cause and effect relationships.

**4. "Principles of management achieve results economically." Explain?**

Ans. Management principles help in setting realistic objectives for the business because the objectives are set with the participation of employees. Hence, the employees work to their full potential and their commitment level increases because objectives of organisation become their own objectives.

For example, the principle of maximum output rather than restricted one ensures more output. More output lowers cost per unit and hence profit per unit increases.

**5. Define scientific management and name any three of its principles.**

Ans. According to Taylor, "Scientific management means knowing exactly what you want your men to do and seeing that they do it in the best and cheapest way".

Three principles of scientific management are as follows: (i) Science, not rule of thumb

(ii) Harmony, not discord.

(iii) Cooperation, not individualism.

**6. Explain the objectives of standardization.**

Ans. Standardisation is done for the following reasons:

- (i) To ensure that a given product range has fixed types, sizes, characteristics etc.
- (ii) To bring about interchangeability, for manufactured parts, output, developments etc. among various branches.
- (iii) To set uniform standards of performance for men, machines etc.

**7. Which technique of Taylor suggests that each worker should be supervised by specialists? Give the designations of any four specialists suggested by him.**

Ans. The technique of functional foremanship suggests that each worker should be supervised by specialists. These specialists' designations are follow.

- (i) Instruction Card Clerk
- (ii) Route Clerk

(iii) Time and Cost Clerk

(iv) Disciplinarian

**8. 'Discipline is double-edged tool' Comment.**

Ans. Discipline is a double-edged tool. It is expected to strike a balance between enforcing the discipline on one hand and motivating employees on the other. Personnel entrusted with enforcing it are expected to be competent and capable of achieving this balance. Employees must honor the commitment made by them and management must meet its promises to increase wages declaration of bonus etc. To achieve proper discipline, skilled superiors at all levels, clear and fair agreements and judicious application of penalties etc. are required.

**9. Explain the principle of unity of direction.**

Ans. This principle suggests that in an organization there should be one head and one plan for a group of activities having the same objective. This helps in bringing unity of action and coordination in an organization. If a company is manufacturing two different products then it should have two separate divisions or departments for both the products. Each division or department should have their separate in-charge, plans and execution resources etc.

**10. An organization follows the principles of management. What are the adverse effects of each of the following principles of management on the organization?**

**(i) Unity of Command**

**(ii) Order**

**(iii) Stability of tenure of personnel**

Ans. Adverse effects of said principles are:

**(i) Unity of Command:** If this principle is followed, work gets delayed which results in wastage of time and cost.

**(ii) Order:** It creates boredom among the employees due to rigidity provided by this principle.

**(iii) Stability of personnel:** If employees are not rotated on different jobs frequently, they can specialize only in a small part of the whole process of production and thus can never become versatile.

**11. Explain how principles of management**

**(cbse 2012)**

i) Help the managers in taking scientific decisions

ii) Provide the managers with useful insights into real world situations

Ans. Explanation of relevant sub-headings from significance of principles of management.

### **LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)**

**1. Explain the nature of management principles.**

Ans. Nature of management principles can be described as follows:

**(i) Universal Applicability:** The principles of management are applicable to all types of organisations irrespective of their size and nature.

**(ii) General Guidelines:** They are only guidelines for action and don't provide direct or readymade solution for a managerial problem.

**(iii) Formed by practice and experimentation:** The principles of management have been developed through experimentation as well as experience and wisdom of managers.

**(iv) Flexible:** They are flexible i.e. they can be modified by the managers according to a given situation.

**(v) Mainly behavioural:** They are mainly behavioural in nature since they are devised to influence human behaviour.

**(vi) Cause and effect relationship:** The principles of management establish relationship between cause and effect. They guide us as to what would be the effect if a particular principle were to be applied in a given situation.

**(vii) Contingent:** The use of principles of management is contingent or dependent upon the prevailing conditions.

**2) Explain the importance of management principles.**

Ans. The importance of management principles can be understood by considering the following points:

**(i) Provide useful insight to manage:** Principles of management help in increasing managerial efficiency by adding to their knowledge and ability to understand the various situations more objectively.

**(ii) Optimum Utilization of Resources and effective administration:** Management principles help in organizing various activities in such a way that results in elimination of unwanted activities and consequent wastage. Management principles help in managing organizations effectively.

For example, Unity of Command helps to avoid confusion and conflicts. Unity of Direction ensures unity of actions to facilitate coordination.

**(iii) Scientific decisions:** They help the managers in taking the decisions based on the objective assessment of a situation. Thus decisions taken are

logical and free from any bias and prejudice

**(iv) Meeting changing environment requirements:** Though the principles are only guidelines for action yet they can be modified according to the need of changing situations. Thus principles of management help in meeting changing requirements of the environment.

**(v) Fulfilling social responsibilities:** Principles of management have been devised in such a way that they help in fulfilling social responsibilities.

**(vi) Management training, education and research:** Principles of management are the fulcrum of management theory so that they are used as a basis for management training, education and research.

**3. Taylor's principles of scientific management and Fayol's principles of management are mutually complementary." Do you agree with this view? Give any four reasons in support of your answer.**

Ans. Yes, Taylor's principles of scientific management and Fayol's principles of management are mutually complementary because of the following reasons:

Basis	Taylor	Fayol
1. Personality	Taylor was a scientist	Fayol was a practitioner
2. Perspective	Taylor's principles & techniques are based on bottom upward approach	Fayol's principles are based on top downward approach
3. Scope and Applicability	Taylor's principles & techniques are relevant mainly with respect to production activities	Fayol's principles have wider relevance in all functional areas
4. Focus	Taylor's' principles & techniques are focused on workers' efficiency and production.	Fayol's principles are focused on improving overall management efficiency.
5.Modifications	Taylor's techniques are more specific in nature and should be applied without any modification and only in specific conditions	Fayol's principles are more general in nature & can be applied in most of the organizations with some modifications.
6. Expression	Taylor expressed his thoughts and views under the theory of scientific management	Fayol expressed his ideas as the general theory of management

### QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS

1. **'Principles of Management are different from those used in pure science'. Write any one difference. - 1 Mark**

Ans.	Basis of Difference	Principle of Management	Principles of Science
	1. Nature	They are flexible	They are rigid.

2. **Which principle does functional foremanship violate? - 1 Mark**

Ans. Unity of command

3. **Give any one effect of principle of division of work? - 1Mark**

Ans. Specialization, speed, accuracy.

4. **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? - 1 Mark**

Ans. Unity of Command.

5. **"Workers should be encouraged to develop and carry out their plans for development." Identify the principle of management formulated by Fayol. - 1 Mark**

Ans. Principle of Initiative

6. **State any three reasons as to why proper understanding of management principles is necessary. - 3 or 4 Mark**

Ans. Proper understanding of management principles is necessary because of the following reasons (any three):

- (a) They provide managers with useful insight into reality.
- (b) They help in optimal utilization of resources and effective administration.
- (c) They help in meeting environment requirements.
- (d) They are used as basis for management training, education and research.

7. **How do management principles ensure optimum utilization of resources and effective administration? - 3 or 4 Mark**

Ans. In every organization, resources such as men, machine, material and money play a vital role. Management principles are designed in such a way that maximum benefits from these resources can be achieved with minimum resource wastage. Along with this, the principles of

management also help in establishing effective administration by limiting the boundary of managerial discretion that their decisions may be free from personal biases.

For example, while deciding the annual budget for different departments, a manager is required to follow the principle of contribution to organisational objectives and not personal preferences.

**8. Explain briefly the technique of fatigue study? - 3 or 4 marks**

Ans. Fatigue study determines the amount and frequency of rest intervals in completing a task. Workers cannot work at a stretch. After putting in work for a certain periods of time, they feel tired which affects their performance. If they are allowed rest intervals, they will regain their stamina and will resume their work with greater efficiency.

**9. Give positive effects of the principle of 'discipline'. - 3 or 4 marks.**

Ans. Positive effects of the principle of 'discipline' are as under:

- i) Improves efficiency of the employees.
- ii) Systematic work in the organisation.
- iii) Ensuring that penalties are imposed judiciously.

**10. Explain the Principle of centralization and decentralization. -3or 4 marks.**

Ans. Centralization means concentration of authority in the hands of few people at the top, whereas decentralization means appropriate distribution of power at every level of management. According to Fayol, company must be properly balanced i.e. it should neither be completely centralized nor decentralized. There must be some element of both depending upon the profile of the organization. The panchayat system in our country is a very good example of decentralization at the national level.

**11. Ms. Ritu and Mr. Mohit are Data Entry Operators in a company having same educational qualifications.**

**Ritu is getting Rs. 5,000 per month and Mohit Rs. 6,000 per month as salary for the same working hours.**

**Which principle of management is violated in the case? Name and explain the principle.**

Ans. The principle of 'equity' is violated in this case. According to this principle, employees should be given kind, fair and just treatment and there should not be any discrimination based on caste, creed, colour, sex etc. Apparently, Ritu is getting less in view of being a female which is against this principle.



**12. Explain the technique 'Functional Foremanship'. - 5 or 6 Marks**

Ans. Functional foremanship is the extension of the principle of specialization. This technique emphasises on the separation of planning from execution. To facilitate it, Taylor suggested setting up of "planning in charge" and "production in charge".

**FUNCTIONAL FOREMANSHIP**

**Planning Incharge:** The main function of "planning in charge" is to plan all aspects of a job to be performed. It consists of four positions:

**(i) Route clerk:** He determines the sequence to perform various mechanical and manual operations.

**(ii) Instruction card clerk:** He issues instructions to the workers to be followed by them.

**(iii) Time and cost clerk:** He is concerned with the framing of time schedule on the basis of determined route. Also, he keeps the record of the cost of operations.

**(iv) Disciplinarian:** He is concerned with the coordination in each job from planning to successful execution. He enforces rules and regulations and maintains discipline.

**Production Incharge:** It consists of following four specialists who are concerned with the execution of plans.

**(i) Speed Boss:** He checks whether work is progressing as per schedule. He ensures timely and accurate completion of jobs.

**(ii) Gang Boss:** He arranges machines, materials, tools, and equipments properly so that workers can proceed with their work.

**(iii) Repair Boss:** He ensures that all machines, tools, equipments are in perfect working order.

**Inspector:** He ensures that the work is done as per the standards of quality set by planning department.

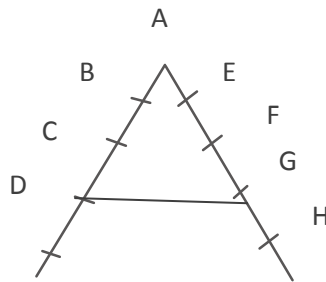
**13. Name and explain that principle of Fayol which suggests that communication from top to bottom should follow the official lines of command. - 5 or 6 Marks**

**Or**

**Explain the 'Principle of Scalar Chain' with an example.**



Ans. In an organization, the formal lines of authority, from highest to lowest level of all superiors and subordinates, are known as scalar chain. The principle of scalar chain suggests that there should be a clear line of authority from top to bottom, linking superiors and subordinates at all levels. The scalar chain serves as a chain of command as well as communication. In normal circumstances, the formal communication is required to be made by following this chain.



### Scalar Chain and Gang Plank

**Example:** The above figure shows the scalar chain linking managers at lower levels with the top management. If D has to communicate with G, The message should ordinarily move up through C and B to A, and then down from A to E, F and G.

Above mentioned chain has following disadvantages:

- (i) It causes delay in reaching communication to the required level.
  - (iii) Creates the possibility of distortion of information flow as various levels are involved.
- To avoid delays and to remove hurdles in the exchange of information, concept of Gang Plank has been suggested by Fayol, shown by the dotted line joining D and G.

**CHAPTER - 3**  
**BUSINESS ENVIRONMENT**  
**CONCEPT MAPPING**

**Meaning** : The totality of all individuals, institutions and other forces that are outside a business enterprise but that may affect its functioning and performance.

**Nature** : (a) totality of external forces (b) specific and general forces  
(c) Inter-relatedness (d) dynamic (e) uncertainty (f) complexity  
(g) Relativity

**Importance** : (a) first mover advantage (b) early warning signal (c) tapping useful resources (d) coping with rapid change (e) planning and policy formulation (f) improving performance

**Dimensions** : (a) economic (b) social (c) technological (d) political (e) legal

**Liberalisation** : Liberating industry from licensing and other regulations.

**Privatisation** : transferring ownership and management of public enterprises to private sector

**Globalisation** : integrating different economies into a world economy by removing barriers to free flow of goods, services, capital, labour, etc. from one country to another.

**Impact of Policy Changes**: (a) increasing competition (b) more demanding customers (c) rapidly changing technology (d) necessity for change (e) need to develop human resources (f) market orientation (g) loss of budgetary support to public sector.

**KEY CONCEPTS IN NUTSHELL**

**1. MEANING:**

It is the sum total of all individuals or institutions comprising of consumers, competitors, suppliers government, courts, media and also the forces like economic, social, political, legal and technological that are outside the ambit and control of business enterprise but that which can affect its performance.

**2. FEATURES OF BUSINESS ENVIRONMENT:**

- i. **Constitutes totally of external forces** - it comprises of the sum total of all forces that are external to the business firm which it must deal with.
- ii. **Specific and general forces** - the forces present outside can be divided

into two parts Specific- these forces affect the firms of an industry separately

e.g. Customers, suppliers, competitive firms etc.

General - these forces affect all the firms of an industry equally e.g. Social, political.

- iii. **Inter- related** - the different factors are co-related  
e.g. Change in the import- export policy is a political change that gives rise to economic change as well
- iv. **Uncertainty** - business environment are susceptible to rapid changes, no one can predict with certainty the changes in the factors.  
e.g. change in technology and fashion.
- v. **Dynamic** - business environment keeps on changing.
- vi. **Complex** - it is difficult to know the extent of impact of the changes that the factors can bring in.
- vii. **Relative** - business environment is a relative concept as it differs from country to country, region to region.

### 3. IMPORTANCE OF BUSINESS ENVIRONMENT:

- i. **Identify the opportunities and getting the first mover advantage** - by being aware of the changes in business environment, enterprises can identify opportunity and strategize ways to capitalise on them.
- ii. **Identify threats and early warning signals** - environment scanning helps in detecting possible threats in future.
- iii. **Basis for planning and policy for formulation** - identification of threats and opportunity serves as basis for deciding the future course of action.
- iv. **Tapping useful resources** - the resources are required to carry on a successful business enterprise. These have to be procured from the business environment.
- v. **Helps in coping with rapid changes** - turbulent markets, less brand loyalty, divisions and sub-divisions (fragmentation) of markets, more demanding customers, rapid changes in technology and intense global competition combined with complex business environment calls for a flexible planning to cope with the changes.
- vi. **Improvement in organisation performance** - continuous and constant monitoring and adapting suitable business practices result in improved business performance.

### 4. DIMENSIONS OF BUSINESS ENVIRONMENT:

The various dimensions of business environment in terms of general environment are:



### **Economic Environment :**

Refers to all those forces that have economic impact on the business activity

Components of economic environment are GDP, Inflation rate, Interest rate, Rupee value, Stock exchange index, Tax rate

**Political Environment:** includes political conditions such as political leadership, political stability, practices of the ruling party and the nature of the government in power and their level of interference

Components of political environment are Constitution of the country, Political ideology of the ruling party, nature and extent of government interference, international relations.

**Legal Environment:** refers to the framework of laws and various legislations within which the business activities take place

Components of Legal Environment are Government legislations, court judgements, Decisions of various commissions.

**Social Environment:** represents the customs and traditions, values, culture, social trends, beliefs, norms and ethics of a society in which business enterprises operate.

Components of Social Environment are customs traditions, social expectations, lifestyles, values, literacy level

**Technological Environment:** refers to the influence of the changes in the technology on the business environment.

**Components of Technological Environment:** new methods and techniques of business operations, Scientific improvements and innovations,

As a part of economic reforms the Government of India announced New Industrial Policy in July 1991 which emphasised on three major elements which were:

- **Liberalisation** - from the clutches of licensing policy. Therefore, removal of entry and growth restrictions on the private sector enterprises.
- **Globalisation** - encouragement of foreign private participation in industrial development. This step mainly intended at integrating the national economy with the world economy through the removal of barriers on international trade and capital movements.
- **Privatisation** - drastic reduction in the role of public sector. Further it aimed at transfer of ownership ,management and control of the public sector enterprise to the private sector.

The new industrial policy aimed at creating a more competent environment in the economy so as to strengthen the process of industrialisation. Its features are as follows

- Delicensing of all projects except six industries
- Decreased role of public sector to merely 4 industries
- Disinvestment: selling of a part or whole of the shares of the public sector undertaking
- Liberalisation of Foreign capital
- Setting up of Foreign Investment board (FIPB)
- Liberal policy for technical collaborations

## 7. IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY:

- Increase in competition
- Demanding customers
- Technical change and increased investment in R and D
- Necessity of change
- Development of human resource
- Market orientation
- Loss of budgetary support to the public sector.

**VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)**

**1. What is Business Environment?**

Ans. Forces affecting the performance of an organisation but outside its control are called as Business Environment.

**2. How have customers benefited by increased competition after liberalisation and globalisation?**

Ans. While purchasing they get a better quality and wider choice of goods and services.

**3. How can the firms cope up with changing technological environment?**

Ans. They have to develop new ways.

**4. What do you mean by Globalisation?**

Ans. When the various economies of the world integrate, it is known as Globalisation.

**5. Which policy of Indian Government has moved India towards globalisation?**

Ans. The Industrial Policy of 1991.

**6. What do you mean by disinvestment?**

Ans. When the private sector takes over public sector, it is called disinvestment.

**7. Give one measure taken by Indian Government to introduce liberalisation.**

Ans. Abolishing licensing requirements.

**8. What do you mean by first mover advantage?**

Ans. Early identification of opportunities.

**9. What are Values?**

Ans. Concepts held by a society in high esteem are values.

**10. Which of the sector was given importance after independence?**

Ans. Public sector.

**11. What was the responsibility given to private sector after independence?**

Ans. Developing consumer goods industry was the responsibility given to private sector.

**12. What do you mean by Liberalisation?**

Ans. It means reduction in government controls and restrictions

**13. Which two factors are included in Technological Environment?**

Ans. Scientific Improvement and Innovations.

**14. What is meant by opportunities?**

Ans. It refers to the positive external trends that help an enterprise to improve its performance.

**15. What do you mean by Innovation?**

Ans. Producing goods and services by new methods is called as Innovation.

**16. Name the economic reforms introduced to free Indian business from unnecessary controls and restrictions.**

Ans. Liberalisation.

#### **SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)**

**1. Define Business Environment. State two important concerns of business environment.**

Ans. The sum total of all external factors which are outside the control of business enterprises is termed as Business Environment. Factors may be social, political, economic etc.

**2. Explain the specific and general forces of business environment ?**

Ans. Business environment comprises of both specific and general forces. Specific forces refer to those forces that are having direct effect on the day to day working of the business viz. customers, competitors, investors etc. General forces refer to social, political, legal and other forces which are having an indirect effect on the operations of a business.

**3. Enumerate the benefits of understanding business environment.**

Ans. The benefits of understanding business environment are:

- (i) Enabling the identification of opportunities and getting the first mover advantage.
- (ii) Helping in the identification of threats and early
- (iii) Tapping useful resources.



- (iv) Coping with the rapid changes.
- (v) Assisting in planning and policy.
- (vi) Improvement in performance.

**4. What are the main dimensions of business environment ? What does environment consist of?**

Ans. The main dimensions of business environment are

(i) Economic, (ii) Social, (iii) Technological, (iv) Political, (v) Legal  
Economic environment consists of the factors having economic dimensions such as fiscal policy, monetary policy, industrial policy etc.

**5. Explain the role of political environment in shaping the business.?**

Ans. Business functions within the framework of political environment. Generally, government's policies change with the change of guard in power. Business is required to understand and follow such changes and also respect the orders that judiciary gives from time to time.

For example, after globalization, Government of India allowed many companies to enter the Indian market for giving boost to the different industries like food processing industry etc. That paved the way for entry of multinationals in India on a large scale.

**6. Explain the concept of technological environment.**

Ans. It includes new approaches, new procedures, and new equipments to transform inputs into outputs. It facilitates an organization's efficiency and effectiveness so that it can try to remain at par with the best in the world. Technological changes provide opportunities for some enterprises and become threats for some others.

For example, digital watches killed the business prospects of traditional watches; TV has adversely affected radio & cinema industry; mobile phones have taken over the market from landline phones.

**7. What do you understand by legal environment? Give two examples which protect consumers' interests.**

Ans. Legal environment consists of rules and regulations, framed by the Parliament, under which business must operate. To exist and grow, business is required to follow all the rules and regulations that constitute this environment.

Two examples protecting consumers' interests:

- (i) Advertisement of alcoholic beverages is prohibited.
- (ii) Packets of cigarettes should mention the statutory warning 'Cigarette



smoking is Injurious to health'.

**8. List the various changes initiated by the Government of India since 1991.**

Ans. Various changes initiated by the Government of India since 1991 are as follows:

- (i) New industrial policy
- (ii) New trade policy
- (iii) Fiscal reforms
- (iv) Monetary policy
- (v) Capital market reforms
- (vi) Phasing out of Subsidies and Price controls

**9. List some important factors that influence the working of a business enterprises?**

Ans. Following are the important factors that influence the working of a business enterprise:- (i) Changes in economic policies. (ii) Political uncertainty in the country. (iii) Increase in the rate of competition. (iv) Changes in fashion.

**LONG ANSWER TYPE QUESTIONS ( 5 OR 6 MARKS)**

**1. What do you mean by business environment? Explain the key components of business environment.**

Ans. Business environment is the sum total of all external factors that influence the functioning of a business enterprise.

The components of general environment are:

**(i) Economic environment:**

Economic environment consists of factors having economic dimensions such as fiscal policy, monetary policy, industrial policy etc.

**Impact:** Banking sector reforms have led to attractive deposit avenues and easier credit policy. Likewise reforms in leasing & financial institutions are also catalyzing company's economic growth.

**(ii) Social environment:** It discriminates characteristics of the society in which an enterprise exists. It consists of literary rates, educational levels, customs and demographic distribution etc.

**Impact :** Equal pay for equal work for both male and female workers, reservation of jobs for minorities etc.

**(iii) Political environment**

It consists of the political forces responsible for the management of public affairs

and their influence on business.

**Impact :** Government allowed Pepsi to enter Indian market again for giving boost to the food processing industry.

**(iv) Technological environment**

It comprises of the various processes, techniques, approaches etc. by which an organization transforms inputs into output.

**Impact :** Digital watches have pushed out traditional watches.

**(v) Legal Environment :** It characterises various governmental rules, regulations and legislations etc. that all members of business community must follow.

**Impact :** Removal of control on foreign exchange and liberalization of foreign direct investments.

**2. What do you understand by economic environment? List the main aspects of economic environment.**

Ans. Economic environment consists of factors likes inflation rates, interest rates, consumer's incomes, economic policies, market conditions etc. which affect the performance of a business firm.

Following are the main aspects of economic environment:

- (i) The role of public and private sector in the existing structure of the economy.
- (ii) The rate of increase in GNP and per capita income both at current and constant prices.
- (iii) Quantum of exports and imports of different products.
- (iv) Increase in transportation and communication facilities.
- (v) Trends in agricultural and industrial productions.
- (vi) Amount of savings and investments.

**3. Social environment of business is important for a business enterprise". Explain ?**

Ans. A business is a part of the society in which it operates. The buying and consumption habits of the people, their languages, customs, preferences, tastes etc. are the factors that influence the business. Businessmen should be alert enough to visualize the factors that directly or indirectly affect their organization. Cooperation between business and society will see business boom and will help growth of professional managers. The failure of any business organization in adapting to changes in the social environment will lead to dissatisfaction amongst its customers and rejection of its products. This shift of demand can even endanger the very survival of a business.

For example, equal pay for male and female workers, demand for reservation in jobs for minorities and women etc.

**4. Enumerate negative impacts of liberalization and globalisation.**

Ans. The negative impacts of liberalization and globalization are as follows;

- (i) Threats from Multinational Companies (MNCs).
- (ii) Corporate vulnerability.
- (iii) Increased competition.
- (iv) Fast changing technology.
- (vi) High obsolescence of material resources.
- (vii) High labour turnover.
- (vii) Threat to indigenous culture and values.

**5. Enumerate any ten Positive impacts of liberalization and globalization.**

Ans. The positive impacts of liberalization and globalization are as follow:

- (i) Opportunities for new entrepreneurs.
- (ii) Latest technology becoming available.
- (iii) Opening up of foreign markets.
- (iv) Easy imports of capital goods.
- (v) Direct investment by Indian companies abroad.
- (vi) Changed attitude of labor unions,
- (viii) Easy inflow of foreign capital.
- (ix) Freedom to expand and diversify.
- (x) Restructuring of industries.
- (x) Widening of product choices for consumers.

**6. Explain any five negative impacts of liberalization and globalization.**

Ans. Following are the negative effects of liberalization and globalization.

**(i) Threats from multinational companies (MNCs)**

With the arrival of multinationals it is becoming difficult for small and medium business units to even survive. The massive entry and consolidation to multinationals in the Indian markets is a challenge that has already forced some business enterprises to take the exit route.

**(ii) Destabilization of protected environment**

With easier entry of multi-national companies, Indian business environment is fast losing its protective shield. The new entrepreneurial freedom is creating problems for the existing players. Even manufacturers of

Maruti car could not retain their market share and had to remodel their products and announce heavily price reductions from time to time.

**(iii) Decline in public sector**

Public sector is losing markets and their capacity utilization has declined, hampering thereby pace of country's technological and economic growth.

**(iv) Sellers' market turned into buyers' market**

With the entry of foreign goods and services, shortage of goods, which is boon for the sellers, has now turned into surplus. Resultantly, sales/margin to many sellers have come down substantially. Buyers are now free to buy any product of their choice at a price they can afford.

**(v) Fall in the value of rupee**

Indian rupee has been devaluing against DOLLAR, EURO and many other foreign currencies. This phenomenon has forced even some established exporters to encash their stake partly/fully.

**QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

**1. Why is business environment uncertain? - 1 Mark**

Ans. Future happenings are very difficult to predict.

**2. What is meant by Market Orientation? - 1 Mark**

Ans. The firms produce goods after analysing the market needs.

**3. How can environment awareness help managers? - 1 Mark**

Ans. Various threats are identified in time.

**4. How can political stability be beneficial to the economy? - 1 Mark**

Ans. Confidence among the business people is built up to invest and take up new ventures.

**5. What was the immediate cause of economic reforms in 1991? - 1 Mark**

Ans: High Government deficit.

**6. What is meant by threats?- 1 Mark**

Ans. It refers to those environmental trends which hinder the performance of an enterprise

**7. Give one of the most important objectives of Indian development programmes at the time of independence.- 1 Mark**

Ans. Rapid Economic Growth

**8. 'Environment provides both constraints and opportunities.' Comment.**

Ans. Business environment provides both constraints and opportunities. Some of the constraints are economic conditions, customs, government regulations, availability of natural resources etc. In spite of many initiatives, FDI is not picking up in India due to political and bureaucratic hurdles.

On the other hand, environment also offers various opportunities which include changing needs of customers, technological advances etc. For example, the growing demand for A.C. has attracted many new players, domestic (Godrej, Kirloskar) as well as multinationals (LG Electronics) to this industry.

**3 or 4 Marks**

**9. Business environment or Environmental Scanning helps in the identification of threats and early warning signals." Explain?-3or4 Marks**

Ans. Environmental scanning helps an enterprise to recognize qualitative information in advance, which can be used to prepare it for facing likely challenges. For example, if any new multinational company is entering the Indian market, the manager of an Indian firm dealing with same product, as that of the multinational company, should take it as a warning signal. He should take measures like improving the quality of his product, heavy advertisement etc. to face the challenge.

**10. What is meant by liberalization? List the impact of changes in government policy On business and industry. - 3 or 4 Marks**

Ans. Indian economy has gradually become more liberal and global since 1991. Liberalization refers to the removal of various outdated rules, regulations etc. and providing more helpful norms for the business to grow, particularly in the fields of exports and imports.

Some of the impacts of changes in government policy on business and industry are as under:

- (i) Increasing competition.
- (ii) More demanding Customers
- (iii) Rapidly changing technological environment
- (iv) Necessity for change.
- (v) Need for developing human resource.
- (vi) Market orientation.
- (vii) Loss of budgetary support to the public sector.

**11. Explain the meaning of the term Privatisation? List any two reforms made under Privatisation. - 3 or 4 Marks**

Ans. Privatisation refers to reducing the role of public sector and increasing the role of private sector for rapid development of the nation.

**Two reforms made under Privatisation:**

(i) Loss making or sick public sector enterprises were either closed or handed over to Board of Industrial and Financial Reconstruction.

(ii) Disinvestment of public sector enterprises.

**12. Enumerate the various ways in which managers respond to changes in business environment. - 3 or 4 Marks**

Ans. Following are the ways in which managers respond to changes in business environment:

(i) Strategic alliances, mergers and acquisitions of businesses.

(ii) Diversification.

(iii) Collaboration with multinationals.

(iv) Brand building.

(v) Restructuring of business activities.

(vi) Capital restructures.

(vii) Customer focus.

(viii) Latest technology.

(ix) Compensation levels and incentive schemes.

**13. Mention four examples of acquisitions and mergers.- 3 or 4 Marks**

Ans. Four examples of mergers and acquisitions are:

(i) SRF buy Ceat's Rayon Tyre Cord.

(ii) Parle's take-over by Coke.

(iii) Godrej has bought over Goodnight.

(iv) Hutch by Vodafone.

**14. Explain the changes initiated by the Government of India since 1991. - 5 or 6 Marks**

Ans. Following changes have been observed since 1991:

**(i) New Industrial Policy:**

- Government has begun disinvesting in public sector undertakings.
- There are new schemes to attract Foreign Direct Investment (FDI).
- There is prompt clearance of foreign investment proposals.
- Tax concessions are given to units in Special Economic Zones (SEZs).
- There is broadband facility in telecom sector.
- Abolition of industrial registration schemes.

**(ii) New Trade Policy:**

- There is liberalization of import policy.
- Deemed exporters are entitled to special import licenses.
- There are greater concessions to Export Oriented Units (EOU) and units in Export Promotion Zones (EPZ).
- Credit is now less expensive and many imports are duty free.
- Simplification of procedures related to export promotion.
- Removal of export quotas & reduction in import duties.

**(iii) Fiscal Reforms**

- Measures have been taken to bring down fiscal deficit.
- Tax reforms have been initiated to increase revenue and tax compliance.
- Reduction in direct and indirect taxes.
- Decrease in subsidies.

**(iv) Monetary Reforms**

- Phased reduction of statutory liquidity ratio (SLR).
- Private sector banks allowed to set up new branches.
- Banks have now been allowed to access capital market for raising capital.
- Permission for disinvestment (up to 49% of total equity).

**(v) Capital Market Reforms**

- Ceiling on rate of interest on debentures and bonds abolished. FIIs can access capital markets.



- Private sector can set up mutual funds.
- Bonus issues have been made more liberal.
- Security and Exchange Board of India (SEBI) has been made a statutory body

**15. 'Explain 'fiscal reforms' and 'monetary reforms' as per economic change initiated by Government of India since 1991. - 5 or 6 Marks**

Ans. **(i) Fiscal Reforms**

- Measures have been taken to bring down fiscal deficit.
- Tax reforms have been initiated to increase revenue and tax compliance
- Reduction in direct and indirect taxes.
- Decrease in subsidies.

**(ii) Monetary Reforms**

- Phased reduction of statutory liquidity ratio (SLR).
- Private sector banks allowed to set up new branches.
- Banks have now been allowed to access capital market for raising capital.
- Permission for disinvestment (up to 49% of total equity).

**16. Explain any five ways in which managers have responded to changes in business environment. - 5 or 6 Marks**

Ans. Following are the ways in which managers have responded to changes in businessmen environment:

**i) Strategic alliance, mergers and consolidation of businesses**

To achieve the objectives of market dominance, market entry, product ranges etc., the Indian business enterprises are also indulging in mergers, acquisitions, amalgamations and takeovers. Initiative for same has naturally come from managers of such enterprises.

**ii) Diversification spree:** Managers are leading diversification of their companies into various fields.

For example, Reliance is now also in the business of communications, retail chains etc. Likewise, they are bold enough to diversify into other nations too if need be.

**iii) Consolidation of multinationals:** Many multinational companies have entered India through new joint ventures. For example, General Motors' entry through a joint venture with Hindustan Motors.



**iv) Brand Building:** Companies are becoming more aggressive towards brand building. Their managers are spending huge amounts on same. Focus is on securing prime positions for their brands, through creative media-mix, in the minds of consumers.

**v) Labour :** Managers are changing their behaviour towards labour. Labour is also benefitted through higher wages and other facilities like training to upgrade their skills and job enrichment.

**KRISHNA**  
**PUBLIC SCHOOL**

## **CHAPTER - 4**

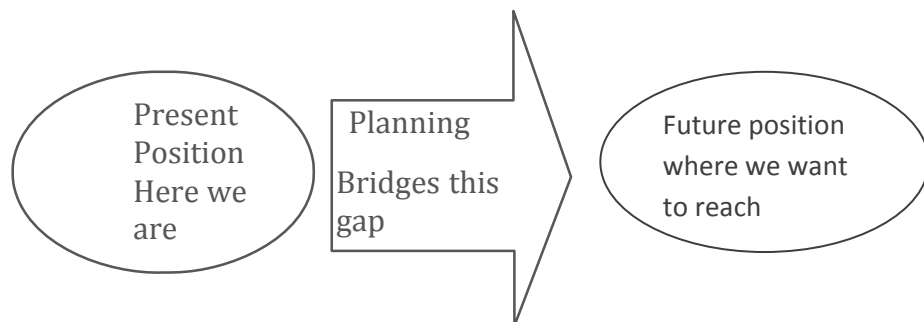
### **PLANNING**

#### **CONCEPT MAPPING**

- Concept : Deciding in advance what to do and how to do it. It involves setting objectives and developing an appropriate course of action to achieve these objectives.
- Importance : (a) provides direction (b) reduces risks of uncertainty (c) reduces overlapping and wasteful activities (d) promotes innovation (e) facilitates decision making (f) provides standards for controlling
- Limitations : (a) rigidity (b) reduces creativity (c) huge costs (d) time consuming (e) does not guarantee success (f) may not work in dynamic environment
- Process : (a) setting objectives (b) developing premises (c) identifying alternatives (d) evaluating alternatives (e) selecting an alternative (f) implement the plan (g) follow up action
- Types : (a) objectives (b) strategy (c) policy (d) procedure (e) method (f) rule (g) programme (h) budget

#### **KEY CONCEPTS IN NUTSHELL**

**Meaning -** It is the process of setting objectives and targets for a given time period and formulating an action plan to achieve them effectively and efficiently. It concerns itself with both ends and means that is what is to be done and how it is to be done.



### **Definition -**

“Planning seeks to bridge the gap between where we are and where we want to go. Planning is a trap to capture the future.

### **Importance of planning.**

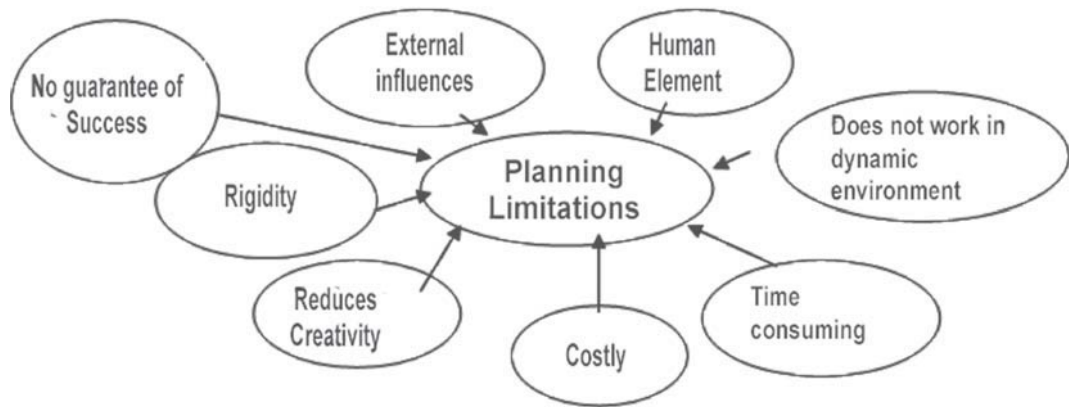
- i) **Provides direction-** By stating in advance the future course of action of what is to be done and how it is to be done. By stating in advance it facilitates unity of direction.
- ii) **Reduces the risk of uncertainty-** By predicting future events and preparing the organization to anticipate the future and face unexpected events.
- iii) **Facilitates decision making-** planning helps the manager to look into the future and make a sound judgment or choice from among the various alternatives.
- iv) **Reduces overlapping and wasteful activities-**Through elimination and minimization of useless and redundant activities facilitating clarity.
- v) **Promotes innovative ideas-** Through better new methods, ideas and procedures to reach the objectives and goals of the enterprise. It induces the management to predict the changes in the environment and accordingly plan the strategies for the same .
- vi. **Establishes standard for controlling-** “control is blind without planning”. It helps provide standard against which the actual performance are compared and evaluated to estimate the deviations.

### **Limitations of planning:**

- i. **Planning does not work in a dynamic environment** - Planning also has to work amidst the influence of external environment which can render even the most effective plan inoperative.
- ii. **Planning is a time consuming process** as it requires collection of information, its analysis and interpretation. It becomes a difficult exercise in times of unexpected emergencies.
- iii. **It involves huge cost in its formulation.** As a lot of money needs to be expended in the collection, analysis and interpretation of data
- iv. **It creates rigidity in the mode of functioning.** As the employees are required to function as per the dictates of the predetermined policy.
- v. **It does not guarantee success,** as a wrong or a misconceived plan or a well drawn plan when not implemented can lead to failure.
- vi. **It reduces creativity as the middle level managers** and the other decision makers have to only follow and are not allowed to deviate from the plans.
- vii. **The human element can give way to** errors or mistakes through wrong

assumptions.

**viii. It is prone to external influences** which can reduce its impact like natural calamity, technology changes, policy changes, competition.



### Steps in planning process

- i. Setting up objectives:** The process begins with identifying and setting up of objectives.  
It determines where to reach. The organizational objectives arrived at should be measurable, understandable, clear and attainable.
- ii. Developing planning premises** - Premises involve making assumptions relating to future conditions. It provides relevant facts and information relating to future conditions. Hence sound estimates or forecast need to be made.
- iii. Identifying alternative course of action :** The planner now arrives at the various alternatives for performance of a task and evaluate the probable consequence of each option.
- iv. Evaluating the alternative course** - The positive and negative impact of each option in light of cost, risk and benefits is worked out.
- v. Selecting the best alternative** - This is actually the stage of decision making where the most suitable course of action is selected .The selected alternative is obviously the one which is most feasible, profitable and has least negative impact.
- vi. Implementing the plan :** The plan is transformed into action by activating the other managerial function involving organizing various resources and securing cooperation and participation of other members of the organization.
- vii. Follow up plan :** This final culminating step involves reviewing the existing plan for its relevance and effectiveness.



### Types of plans:

**(A)** Standing or Repeatedly used Plans: As their name indicates that these plans are formulated once and they are repeatedly used. These plans continuously guide the managers. That is why it is said that a standing plan is a standing guide to recurring problems. These plans include :

1. Objectives
2. Strategies
3. Policies
4. Procedures
5. Methods and
6. Rules

**(B)** Single -use or Special or Adhoc Plans: These plans are connected with some special problem. These plans end the moment the problems are solved. After having been used once there is no importance of these plans and in future, whenever they are needed they are re-created. These plans include

1. Budget and
2. Programme.

### **Differences between Standing and Single-use Plans**

Basis	Standing Plans	Single-use Plans
1. Period	These plans are formulated for a long period	These plans are for a short period and are repeatedly formulated in case of need.
2. Object	These plans are formulated to bring uniformity in decisions	These plans are designed to run successfully some particular

		activities
3.Types	They are of six types i. Objectives ii. Strategies iii. Policies iv. Procedures v. Methods and vi. Rules	They are of two types i. Budgets and ii. Programmes
4.Scope	They guide the managers in particular matters like price policy and sales policy	These plans guide in matters of daily routine.
5. Basis	They are based on the main objectives of the organisation	They are based on the standing plans of the organisation.

1) **Objectives** - Are the ends which the management seeks to achieve by its operation.

- Represent the end point of management.
- Set by top management.
- Defines the future state of affairs.
- Guides the overall business planning.
- Can be expressed in specific terms. They can be measured .

2) **Strategy** - Provides broad shape of organization's business, refers to the future decisions defining the organization's directions and scope in the long run.

- It involves a comprehensive plan which covers the determination of long term objectives, adoption of a particular course of action and allocation of resources.

3) **Policies** - are general statements which guide thinking in decision making.

- They are based on objectives.
- They guide managerial action and decisions.
- They exist at all levels and departments of the organization.

4) **Procedures** - Are a chronological sequence of routine steps on how to carry an activity.

They detail the exact manner in which the work is to be performed.

- It is meant for the insiders to follow.
- Policies and procedures are interlinked.

5) **Rules** - Are specific statements that inform what is to be done.

- Reflects managerial decision.
- Simplest plan.
- They are to be enforced rigidly.

6) **Methods** - Are standardized ways or manners in which a task has to be performed considering the objectives.

- Selection of a proper method saves time, money and effort.

7) **Programmes** - Detailed statements which are combination of goals, policies,

procedures, rules tasks, human and physical resources required and the budget to implement any course of action.. All these plans together form a programme.

**8) Budget** - Is a statement of expected results expressed in numerical terms for a definite period of time in the future.

- It quantifies future facts and figures.
- Serves as a standard for measuring actual performance.
- It is prepared for various groups of activities.

### **VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)**

**1. What is planning?**

Ans. Planning is deciding in advance as to what needs to be done in future.

**2. Which function of management bridges the gap between where we are and where we want to go to?**

Ans. Planning.

**3. Name the primary function of management.**

Ans. Planning.

**4. One of the functions of Management is considered as base' for all other functions.**

**Name that function.**

Ans. Planning

**5. What all qualities are required for doing planning?**

Ans. Intelligence, Imagination, Foresight, Sound Judgment.

**6. Name the feature of planning which says planning is a forward looking function?**

Ans. Planning is futuristic.

**7. How does planning create rigidity?**

Ans. Planning creates rigidity by putting adverse effect on initiative taken by the managers.

**8. What is the basis for creating future course of action?**

Ans. Forecasts.

**9. Give one limitation of planning function.**

Ans. Planning does not guarantee success.

**10. Which is the most crucial step in planning process?**

Ans. Setting objectives.

**11. Define 'Objective'?**



Ans. Objectives are desired future position that the management would like to reach.

**12. Define 'Strategy'.**

Ans. A strategy refers to future decision action, defining the organisation's direction and scope in the long run.

**13. Define 'Policy'.**

Ans. Policy is a general statement which guides decision making in a given set of situations

**14. Define 'Rules'.**

Ans. Rules are specific guidelines for behavior and action.

**15. Give anyone example of 'budget'.**

Ans. Cash budget.

**SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARK)**

**1. What do you mean by planning?**

Ans. Planning is deciding in advance about work to be done in future. It is that function of management which lays down the objectives and various actions to be taken for the achievement of those objectives.

According to Koontz and O'Donnel "Planning is an intellectual process, the conscious determination of courses of action, the basing of decision on purpose, facts and considered estimated".

**2. What do you mean by a plan?**

Ans. A plan is a formulation of certain steps and actions which are essential for achieving certain specific results. Plans can be classified on the basis of what they focus to achieve and the methods adopted viz. objectives, strategy, policy etc.

For example, if the planned output for a week is 1,000 units and actual output is 580 units only, the planners have to critically review their plans and modify: them, if need be, so as to achieve the planned output.

**3. Enumerate six points of importance of planning.**

Ans. Importance of planning is as under:

- (i) It provides direction for action.
- (ii) It reduces the risk of uncertainty
- (iii) It facilitates decision making.
- (iv) It establishes standards for controlling.
- (v) It promotes innovative ideas.
- (vi) It reduces overlapping and wasteful activities.

**5. How is planning a pervasive function of management?**

Ans. Planning is not the function of top management or any particular department only. It is required at all the levels of management and in all departments of an organisation.



However the scope and nature of planning is different at different levels and in different departments. For example the top management lays down the plans for the organisation as a whole. Middle level management has to make plans for each department and the plans regarding the daily operations of an organisation are laid down by operational management.

**6. How is planning forward looking?**

**OR**

**'Planning is futuristic' explain?**

Ans. Planning is always for the future and never for the past. It involves peeping in to future, analyzing and preparing plans accordingly. Thus, planning is futuristic as it helps in meeting likely future events effectively and efficiently to best advantage of the organisation.

For example, on the basis of sales forecasts, annual plans for production and sales are drawn.

**7. Planning involves decision making". Explain.**

Ans. Planning is essentially a process of making choice from among various alternatives. There will be no need for planning, if there is only one course of action, because there will be no choice. Hence need for planning depends on the availability of alternatives. A manager, after examining and evaluating the various alternatives, chooses the most appropriate one.

**8. 'Planning reduces creativity'. How?**

Ans. Usually in an organisation, planning function is performed by the top management and the rest of the members are required to implement these plans. As a result, middle management and other members are neither allowed to deviate from plans nor are they granted authority to act on their own. Hence most of the initiative and creativity in them gets reduced.

**9. 'Planning does not guarantee success'. Comment.**

Ans. An organisation is successful only when the plans are effectively drawn and implemented.

A plan must be converted into action otherwise it becomes meaningless. Generally, it is seen that managers are in the habit of depending on previously tried and tested successful plans. But this practice sometimes does not work and may actually lead to failure instead of success.

**10. Enumerate the steps involved in the planning process.**

Ans. Steps of planning are as follows:

- (i) Setting up of objectives
- (ii) Developing premises.
- (iii) Identifying alternative courses of action.
- (iv) Evaluating alternative courses
- (v) Selecting an alternative.

(vi) Implementation of plan.

(vii) Follow up

**11. What do you mean by objectives?**

Ans. Objective can be defined as a position where the management wants to reach in the future. These are the ends which an organisation wants to achieve through its operations. They are measurable in quantitative terms.

For example, one objective of an organisation may be to increase sales by 20% and return on investment by 10% in the forthcoming year.

**12. Explain the meaning of policies.**

Ans. A policy can be defined as a general statement that provides guidelines for constructive thinking. They act as a guide to managerial actions and decisions in implementing the strategy. A well defined policy helps in solving the complex problems easily.

For example, an organisation may have a credit policy, pricing policy etc. on the basis of which objectives are decided and decisions are made.

**13. What is meant by procedures?**

Ans. Procedures are routine steps framed to carry out activities. These are plans that determine the order of any work performance. Procedures are generally meant for insiders and define the chronological sequence of doing any work for attaining predetermined objectives.

**14. What do you mean by methods?**

Ans. Methods are standard ways of doing planned jobs for attaining the objectives. They are more detailed than procedures. Methods are helpful in simplification, standardization and systematization of work. For doing different jobs, different methods can be adopted.

For example, for imparting training to employees at different levels, different methods of training can be used viz for higher level lectures or seminars and for supervisory level on the job training can be used.

**15. What do you mean by rules?**

Ans. Rules can be defined as statements that tell us what is to be done and what is not to be done. Deviations from rules are not permitted unless a policy decision is taken. They enforce rigidity and there is fine or penalty if they are not followed.

For example, prohibition on sale of tobacco within certain radius of an educational institution is a rule to be followed by all.

**16. What do you mean by programmes?**

Ans. Programmes are a solid combination of goals, policies, procedures, rules, tasks, assignments, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action. Programmes interlink the objectives, policies and procedures. They work out even the minutest detail within

broad policy framework of the organisation.

**17. What is meant by budget?**

Ans. Budget is a plan in numerical terms which quantifies desired facts and figures. It is a statement of expected results expressed in quantitative terms. For example, a sales budget helps in forecasting the sales of a particular product in different areas during a particular month. Similarly, a budget may be prepared to show the number of workers required in factory at the time of packing the products.

**LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)**

**1. Defining 'organizational objectives' is the first step in the process of planning. Explain, in brief, the other steps of this process.**

**Or**

**Explain the steps involved in the process of planning.**

Ans. It has been rightly said that defining organizational objectives is the first step in the process of planning. Other steps in the process of planning are as follows:

**(i) Establish planning premises**

This step involves the establishment of planning premises in which plans are, expected to operate. Planning premises are assumptions relating to future conditions and events which are likely to have an effect on achievement of goals

**(ii) Identifying alternative courses of action**

Under this step, various possible alternatives for reaching objectives should be identified by managers.

**(iii) Evaluating Alternative Courses**

This step involves deep evaluation of various alternative courses of action in light of the various objectives to be achieved. The positive and negative aspect of each alternative is evaluated.

**(iv) Selecting an alternative**

This step involves the selection of the most optimum and realistic plan with least negative results.

**(v) Implement the plan**

Under this step the best selected plan is put in to action.

**(vi) Follow up**

Under this step, it is monitored whether the plans are being implemented and whether the activities are being performed according to the schedule.

**2. Differentiate between procedures and rules.**

Ans.

**DIFFERENCE BETWEEN PROCEDURES AND RULES**

Basis	Procedures	Rules
1. Meaning	Procedure is a guide for action in a given situation.	Rule is a code of conduct governing or restricting flexibility or discretion
2. Nature	Procedures are specified in chronological order.	Rules do not place activities in chronological order
3. Purpose	The purpose of procedure is to facilitate and simplify the operation and eliminate duplication.	The purpose of rule is to maintain discipline in an organisation.
4. Scope	The scope of procedures is wide because it has its own rules and regulations.	A rule has no procedure.

### **QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

**1. How does planning reduce the risk of uncertainty? - 1 Mark**

Ans. Planning reduces the risk of uncertainty by visualizing/assessing future events and providing remedies/ courses of action for such kinds of events to the extent possible.

**2. A company wants to increase sales; the alternatives may be reducing prices, changing packaging, improving packaging, etc. Which step of planning process relates with the above example? - 1 Mark**

Ans. Identifying alternative courses of action.

**3. Write any one difference between policies and procedures. - 1 Mark**

Ans. Procedures consist of series of steps whereas policies are guidelines for decision making.

**4. A company needs a detailed plan for its new project? 'Construction of a Shopping Mall'. What type of plan is it? - 1 Mark**

Ans. Programme

**5. Give any one difference between Policy and Rule. - 1 Mark**

Ans. Policy is flexible whereas rule is rigid.

**6. "These are general statements that guide thinking and channelise energies towards a particular direction and help in solving routine problems". Identify the type of plan. - 1M**

Ans. Policy

**7. 'Planning promotes innovative ideas'. Explain? - 3 or 4 Marks**

Ans. Planning is considered to be the most challenging function of the management as it guides all future actions and facilitates growth and prosperity of the business.

organisation. Planning encourages managers to think creatively generate innovative ideas; improve methods for Work execution etc. Dealing with uncertainties of future, planning is the most challenging function, which provides basis for growth and Prosperity of the business enterprise

**8. 'Planning focuses on achieving objectives'. Explain. - 3 or 4 Marks**

Ans. Planning is a goal oriented process which helps in defining objectives, and preparation of necessary action plans to achieve goals. Thus, planning is focused on clarifying what is to be done and how is that to be done. The planning holds no purpose if it does not focus on achievement of preset organizational or corporate objectives.

**9. 'Planning is the basic function on of management'. Comment. - 3or4 Marks**

Ans. Every management starts with planning. All other functions like organizing, staffing, directing and controlling are based on planning. It precedes the execution of all other managerial functions and allows mangers to organized, staff, direct and control the activities in a better way so as to achieve organizational goals. All the activities are created in such a way that plans are easily carried out. This is also referred to as primacy of planning.

**10. Why is planning considered as a mental exercise? - 3 or 4 Marks**

Ans. Planning is an intellectual activity requiring application of the mind, imagination and sound judgment. It is a thinking function rather than a doing function as it determines the actions to be taken. Moreover, planning requires logical and systematic thinking based on the analysis of facts and figures.

**11. Give an example each of any three limitations of planning which are beyond the control of an organization. - 3 or 4 Marks**

Ans. Limitations of planning on which the organization does not have a significant control are as follows:

S.No.	Limitations	Examples
1.	Planning may not work in dynamic environment.	Frequent changes in the political or economic environment may upset in the financial plans.
2	Planning leads to rigidity	Following a pre-decided plan when circumstances have changed.
3.	Planning involves huge costs	Incidental expenses such as expenses on boardroom meetings and discussions with professional experts involve huge cost.

**12. How can (i) Political climate and (ii) Policies of competitors obstruct planning? -3or4 Marks**

Ans. **(i) Obstruction in planning due to political climate**

When the government regulates the business practices or introduces new trade policies, the plans of business enterprises may get upset. Also political instability affects business plans.

For example, change in the taxation policy.

**(ii) Obstruction in planning due to policies of competitors**

The policies of competitors may lead to change in business policies.

For example, discounting policies of the competitors may lead to change in pricing policy of a business enterprise.

**13. What do you mean by planning premises? - 3 or 4 Marks**

Ans. Planning premises are assumptions relating to future conditions and events which are likely to have an effect on achievement of goals. These are the bases upon which the entire structure of planning is built. Every plan is drawn with certain assumptions. To make planning effective, it is necessary that the premises should be based on accurate forecasts, existing plans or any past information about policies etc.

For example, demand for a product, cost of raw materials, interest rates, state of technology, intensity of competition, government policies etc.

**14. 'Though planning is an important tool of management, yet it is not a remedy for all types of problems', Do you agree with this statement? Give any five reasons in support of your answer. - 5 or 6 Marks**

**Or**

**Explain the limitations of planning.**

**Or**

**Why do plans fail in spite of the best efforts of management?**

Ans. Limitations of Planning:

**(i) Planning creates rigidity**

In an organisation, a well defined plan is drawn to achieve some specified goals within a specified period of time. These plans lay down the future course of action and it is not possible for the managers to change them. Hence, it is not in the organisational interest to follow a particular plan when circumstances have changed.

**(ii) Planning does not work in a dynamic environment**

The various forces of business environment like social, economic, political, technological and legal keep on changing and the organisations have to adapt themselves to these changes. Thus, it becomes very difficult to forecast when there is change in government policies, natural calamity, political instability in the country etc.

**(iii) Planning reduces creativity**



Usually in an organisation planning function is performed by the top management and the rest of the members are required to implement these plans. As a result, middle management and other members are neither allowed to deviate from plans nor granted authority to act on their own. Hence most of the initiative and creativity in them gets reduced.

**iv) Planning involves huge cost**

Huge cost is involved in the formation of plans. This cost is in terms of money and time. For example, a lot of time is involved in scientific calculations to certain facts and figures and to check the accuracy of facts while formulating a plan. Likewise, a lot of money is spent on boardroom meetings, discussions with experts and preliminary investigations to find out the effectiveness of the plans. Moreover sometimes the cost incurred in formulating plans is higher than the benefits received from these plans.

**v) Planning is a time consuming process**

Sometimes top level management consumes a lot of time in formulating the plans as a result of which very less time is left with them to implement these plans.

**vi) Planning does not guarantee success**

An organisation is successful only when the plans are effectively drawn and implemented. Managers are in the habit of depending on previously tried and tested successful plans, but this practice sometimes does not work and may lead to failure instead of success.

**15. Distinguish between Policies and Rules.**

**- 5 or 6 Marks**

**Ans.**

**DIFFERENCE BETWEEN PROCEDURES AND RULES**

<b>Basis</b>	<b>Procedures</b>	<b>Rules</b>
1. Meaning  flexibility or	A policy is a guide for thinking.	A rule is a specific statement, which restricts the discretion
2. Nature	Policy lays down the broad areas of action in an organisation.	Rule lays down any specific sequence of actions in an organisation
3. Objective	Policy is framed to achieve objectives of the organisation.	Rules are used to maintain discipline and command in any organisation.

4. Manager's Discretion	Policy provides some scope for the manager's discretion in his course of action	Rules provide no scope for manager's discretion and they are binding for all.
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## **CHAPTER -5**

### **ORGANISING**

#### **Concept Mapping:-**

1. Concept and importance.
2. Organizing Process.
3. Structure of organization – functional and divisional
4. Formal and informal organization.
5. Delegation: concept, elements and importance.
6. Decentralization: concept and importance.

#### **KEY CONCEPT IN NUTSHELL**

Organizing is the process of defining and grouping, activities and establishing authority relationships among them.

Process: the process of organizing consists of the following steps:

- (a).Identification and division of work
- (b).Departmentalization
- (c).Assignment of Duties
- (d).Establishing reporting relationships.

**Importance:** Organising is considered important because it leads to division of work, clarity in reporting relationships, optimum utilization of resources, growth, better administration and greater creativity.

**Organisational structure** is the framework within which managerial and operating tasks are performed. It can be functional or divisional.

**Span of management** is the number of subordinates under a superior.

**Functional structure** groups activities on the basis of functions. The advantages of such a structure are specialization, better control, managerial efficiency and ease in training employees. The disadvantages are functional empires, conflict of interest, inflexibility and restriction in managerial development.

**Divisional structure** groups activities on the basis of Product. The advantages are integration, product specialization greater accountability, flexibility, better coordination and more initiative .The disadvantages are departmental conflicts, costly process, ignoring of organizational interests, and increase in requirements of general managers.

**Formal organization** is designed by the management to achieve organizational goals. Its advantages are fixation of responsibility, clarity of roles, unity of command and effective

accomplishment of goals. Its disadvantages are procedural delays, inadequate recognition of creativity, limited in scope.

**Informal organization** arises out of interaction among people at work. Its advantages are speed, fulfillment of social needs, fills inadequacies of formal structure. Its disadvantages are disruptive force, resistance to change and priority to group interests.

**Delegation** is the transfer of authority from superior to subordinate. It has three elements: Authority, Responsibility and Accountability. Importance of delegation is that it helps in effective management, employee development, motivation, growth and coordination.

**Decentralization** is delegation of authority throughout the organization. Importance of decentralization is that it helps in development of managerial talent, quick decision making burden on top management, development of initiative, growth and better control.

### KEY CONCEPTS QUESTIONS WITH ANSWERS

**1).Name the organization which is deliberately created?** 1M

A: Formal Organisation

**2).Enumerate the steps in the process of organizing?** 3M

A: 1) Identification and division of work 2) Grouping Jobs and Departmentalisation  
3) Assignment of duties 4) Establishing authority relationship

**3).Organizing helps in optimum utilization of resources. Which type of resources does it refer?** 1M

A: All material, financial and human resources.

**4).Give any one importance of organizing?** 1M

A: Development of personnel.

**5).Divisional structure is more suitable for the firms having several products and each product has distinct features. Do you agree?** 1M

A: Yes, I do agree.

**6).Distinguish between functional structure and divisional structure.** 4M

Basis	Functional Structure	Divisional Structure.
Formation	It is based on functions	It is based on product lines
Specialisation	Functional Specialisation	Product Specialisation
Responsibility	Difficult to fix on a departments	Easy to fix responsibility

Cost	Economical	Costly
Co ordination	Difficult for multi product company	Easy, because all functions related to a particular product are integrated in one department.
Managerial Development	Difficult, as each functional manager has to report to the top management	Easier, autonomy as well as the chance to perform multiple functions helps in managerial development.

**7).What are the advantages and disadvantages of divisional structure?**

**5/6 M**

**A): Advantages:**

- 1).All activities associated with one product. It can be easily integrated.
- 2).Decision making is faster.
- 3).Performance can be easily assessed remedial action can be taken
- 4). It facilitates expansion and growth as new divisions can be added.

**Disadvantages:**

- 1).This gives rise to duplication of effort among its divisions.
- 2).Manages in each department focus on their own product without thinking the rest of the organization.
- 3).There may not be full utilization of different equipments
- 4).Conflict may arise among different division.

**8) Name the type of organization in which:**

**1M**

- a. Friendly relationship exists among the members.
- b. Official relationship exists among the members.

A: a) Informal Organisation b) Formal Organisation.

**9).Distinguish between formal and informal organizations on the basis of**

**5/6M**

**a) Formation b. Purpose c. structure d. Behavior of members e. stability and f. adherence to rules.**

.Ans:

Basis	Functional Structure	Divisional Structure.
Formation	Deliberately Planned	Emerges Spontaneously among people
Purpose	To achieve organizational	To satisfy social and cultural

	goals	needs
Structure	Well defined structure	Does not have a clear-cut structure
Behavior of members	Standards of behavior	Mutual consent among members
Stability	It is stable	Neither stable nor predictable.
Adherence to rules	Violation of rules may lead to penalties	No such punishment.

**10). Which term denotes “The number of subordinates that can be effectively managed by a superior?”** **1M**

Ans: -Span of control.

**11) What are the elements of delegation of authority?** **1M**

Ans: Responsibility, Authority, Accountability.

**12) Distinguish between authority and responsibility on the basis of:** **3M**

**a. Direction of flow                      b. Delegation                      c. Origin**

<b>Basis</b>	<b>Authority</b>	<b>Responsibility</b>
Direction of flow	Authority flows downwards	Responsibility flows upwards
Delegation	Authority can be delegated	Responsibility is absolute and cannot be delegated.
Origin	Arises from law	Arises from authority.

**13) “A manager is of the view that he is not responsible for the quality of work that he has delegated to his subordinate”. Do you agree with his view points? Justify your answer by giving arguments.** **4M**

A: No I do not agree with managers view point.

**The reasons are as follows:**

- i) Principle of delegation by results expected.
- ii) Principle of parity of authority and responsibility
- iii) Principle of absolute responsibility.
- iv) Authority level principle

**14) Scope of decentralization of authority is wider than delegation. Why?** **1M**

A: Decentralization implies extension of delegation to the lowest level of management.

**15) Distinguish between ‘delegation’ and ‘decentralisation’ of authority on the basis of**

**i) purpose    ii) parties involved and    iii) withdrawal of authority.**

Ans:

<b>Basis</b>	<b>Delegation</b>	<b>Decentralisation</b>
Purpose	It means getting things done through subordinates	To prepare the organization for handling major expansion of its activities
Parties involved	It is confined with manager and his immediate subordinate	It indicates relationship between top management and various other departments
Withdrawal of authority	The delegated authority can be withdrawn by the delegator	Withdrawal of authority is difficult

**QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

**1. Name of the function of management which co-ordinates the physical, financial and human resources and establishes productive relations among them for achievement of specific goals. 1M**

A: Organising

**2. Name and explain the two steps in the process of organizing which come after 'Identification and division of work' and 'Departmentalization'. 3M**

A: Identification and division of work: Dividing the total work into jobs is necessary because the entire work cannot be done by individual (ii) Departmentalisation: In this step combine or group similar jobs into larger units called departments.

**3. Organising leads to a systematic allocation of jobs amongst the workforce. Which importance of organizing is stated here? 1 M**

A: Benefits of specialisation .

**4. Organising clarifies lines of communication and specifies who is to report to whom. Mention the importance of organizing indicated here. 1 M**

A: Clarity in working relationships.

**5. Aman Ltd. Is manufacturing toys and has production, sales, Purchase and Finance Departments. Which type of organization structure would you suggest to them? State any three advantages of this organization structure. 3M**

A: I would suggest functional structure for Aman Limited.

Advantages of this structure:

i. Supervision is facilitated.

ii. Coordination within the department is easier.

**6. Hindustan Ltd. , is manufacturing computers, soaps and textiles. Which type of organizational structure would suit the requirements of such organization? State any three advantages of this organization structure. 4 M**

A: Divisional structure would suit the requirements of Hindustan limited.

Advantages:

i. All activities associated with one product can be easily integrated.

ii. Decision making is faster and effective.

iii. Performance of individual product can be easily assessed.

**7. It is a network of personal and social relations not established or required by the formal organization but arising spontaneously as people associate with one another.**

**Name this organization and give its three advantages. 4M**

A: Informal organization:

**Advantages:**

1. It brings feeling of belongingness.

2. Informal organization satisfies social and cultural needs.

3. It provides useful channel of communication.

**8. It merely means the granting of authority to subordinates to operate within prescribed limits. Mention the concept referred here. 1M**

A: Delegation of Authority

**9. Delegation provides a ready workforce to take up leading positions in new ventures.**

**Which importance of delegation is stated here?**

A: Facilitation of growth 1M

**10. "Authority can be delegated but accountability cannot." Explain the statement. 3M**

A: According to the principle of absolute responsibility, authority can be delegated but responsibility cannot be delegated by a manager. The manager remains responsible to his own superior for the task which he may assign to his subordinates. Every superior is responsible for the acts of his subordinates to whom he delegates authority for any work.

**11. The Marketing Manager of an organization has been asked to achieve a target sales of 100 generators per day. He delegates the task to 10 sales managers working under him. Two of them could not achieve their respective targets. Is the marketing manager responsible? Briefly explain the relevant principle in support of your answer. 4 M**

A: Yes, Marketing manager is responsible for the non-achievement of the target sales to his superior.

The principle related to this statement is absolute responsibility. It states that authority can be delegated but responsibility cannot be delegated by manager. The manager remains responsible and accountable to his own superior for the task which he may have assigned to his subordinate.

**12. It refers to the systematic delegation of authority from top management to the lower level managers. Mention it. 1M**

A: Decentralization of authority.

**13. If we delegate the authority we multiply it by two, If we decentralize it, we multiply it by money. 3M**

A: Scope of delegation of authority is limited. It is clear that if we delegate the authority we multiply it by 2 that is delegator and his subordinate to whom authority is delegated. Scope of decentralization of authority is wider than delegation. It involves many people from top level to bottom lower level of authority.

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## **CHAPTER -6**

### **STAFFING**

**6 Marks**

#### **CONCEPT MAPPING:**

- 1. Concept and importance of staffing.**
- 2. Staffing as a part of Human Resource Management.**
- 3. Staffing process:**
  - a. Recruitment – sources**
  - b. Selection – process**
- 4. Training and development – concept and importance.**
- 5. Methods of training – on the job and off the job – induction training, vestibule training, apprenticeship training and internship training.**

#### **KEY CONCEPT IN NUTSHELL**

#### **MEANING OF STAFFING:**

Staffing has been described as the managerial function of filling and keeping filled, the positions in an organization structure. Staffing is identifying the requirement of workforce followed by recruitment, selection, placement, promotion, appraisal and development of personnel, to fill the roles designed into the organization structure.

#### **NEED AND IMPORTANCE OF STAFFING:**

In any organization, there is a need for people to perform work. The staffing function of management fulfills this requirement and finds the right people for the right job. The staffing function has assumed greater importance these days because of rapid advancement of technology, increasing size of organization and complicated behavior of human beings. The ability of an organization to achieve its goals depends upon the quality of its human resources.

#### **Staffing as a part of human resource management:**

Staffing is a function which all managers need to perform. It is a separate and specialized function and there are many aspects of human relations to be considered.

It is the responsibility of all managers to directly deal and select people to work for the organization. When the manager performs the staffing function his role is slightly limited. In small organizations managers may perform all duties related to employees salaries, welfare and working conditions.

But as organizations grow and number of persons employed increases, a separate department called the human resource department is formed which has specialists in the field to manage people. Human resource management includes many specialized activities and duties which the human resource personnel must perform.



## **RECRUITMENT:**

- Recruitment refers to the process of finding possible candidates for a job or function. It has been defined as 'the process of searching for prospective employees and stimulating them to apply for jobs in an organisation.'

## **Process of Recruitment :**

- ▶ The various activities involved with the process of recruitment includes
  - (a) identification of the different sources of labour supply,
  - (b) assessment of their validity,
  - (c) choosing the most suitable source or sources, and
  - (d) inviting applications from the prospective candidates, for the vacancies

## **SOURCES OF RECRUITMENT:**

- 1) Internal Sources
- 2) External Sources

## **INTERNAL SOURCES:**

- **Transfers:** It involves shifting of an employee from one job to another, one department to another or from one shift to another, without a substantive change in the responsibilities and status of the employee
- **Promotions:** Promotion leads to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay. Promotion is a vertical shifting of employees

## **MERITS OF INTERNAL SOURCES:**

- ▶ Employees are motivated to improve their performance
- ▶ Simplifies the process of selection and placement
- ▶ Transfer is a tool of training the employees to prepare them for higher jobs.
- ▶ Shifting workforce from the surplus departments to those where there is shortage of staff
- ▶ Cheaper as compared to getting candidates from external sources.

## **Limitations of Internal Sources:**

- ▶ When vacancies are filled through internal promotions, the scope for induction of fresh talent is reduced.
- ▶ Employees may become lethargic if they are sure of time bound promotions
- ▶ Enterprise cannot use internal sources of recruitment.

- ▶ Spirit of competition among the employees may be hampered.

Frequent transfers of employees may often reduce the productivity of the organisation

### **External Sources:**

- ▶ **Direct Recruitment:** The direct recruitment, a notice is placed on the notice board. of the enterprise specifying the details of the jobs available. Job seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot recruitment.
- ▶ **Casual Callers:** organisations keep a database of unsolicited applicants in their offices. Such jobseekers can be a valuable source of manpower. A list of such jobseekers can be prepared and can be screened to fill the vacancies as they arise.
- ▶ **Advertisement:** The advantage of advertising vacancies is that more information about the organisation and job can be given in the advertisement. Advertisement gives the management a wider range of candidates from which to choose. disadvantage is that it may bring in a flood of response, and many times, from quite unsuitable candidates.

**Employment Exchange:** Employment exchanges run by the Government are regarded as a good source of recruitment for unskilled and skilled operative jobs. Disadvantage of it is that it may be uptodate and many of the candidates referred by them may not be found suitable.

### **▶ Placement Agencies and Management Consultants:**

These provide a nationwide service. These agencies compile biodata of a large number of candidates and recommend suitable names to their clients. Such agencies charge fee for their services and they are useful.

**Campus Recruitment:** organisations maintain a close liaison with the universities, vocational schools and management institutes to recruit qualified personnel for various jobs.

**Recommendations of Employees:** Applicants introduced by present employees, or their friends and relatives may prove to be a good source of recruitment. Such applicants are likely to be good employees because their background is sufficiently known

- ▶ **Labour Contractors:** Workers are recruited through labour contractors who are themselves employees of the organisation. The disadvantages of this system are that if the contractor himself decides to leave the organisation, all the workers employed through him will follow suit.
- ▶ **Advertising on Television:** generally advertised through television and newspaper The detailed requirements of the job and the qualities required to do it are publicised along with the profile of the organisation where vacancy exists.

- ▶ **Web Publishing:** There are certain websites specifically designed and dedicated for the purpose of providing information about both job seekers and job opening.

#### **Merits of External Source:**

- ▶ Qualified Personnel
- ▶ Wider Choice
- ▶ Fresh Talent
- ▶ Competitive Spirit

#### **Limitations of External Sources:**

- ▶ Dissatisfaction among existing staff
- ▶ Lengthy process
- ▶ Costly process

#### **Selection:**

- ▶ Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job. Towards this purpose, the candidates are required to take a series of employment tests and interviews.

#### **Process of Selection:**

- ▶ **Preliminary Screening:** Preliminary screening helps the manager eliminate unqualified or unfit job seekers based on the information supplied in the application forms.
- ▶ **Selection Tests:** An employment test is a mechanism (either a paper and pencil test or an exercise) that attempts to measure certain characteristics of individuals. These characteristics range from aptitudes, such as manual dexterity, to intelligence to personalities.
- ▶ **Important Tests Used for Selection of Employees**
  - ▶ Intelligence Tests
  - ▶ Aptitude Test
  - ▶ Personality Tests
  - ▶ Trade Test
  - ▶ Interest Test
- ▶ **Employment Interview:** The role of the interviewer is to seek information and that of the interviewee is to provide the same. Though, in present times, the interviewee also seeks information from interviewer.

- ▶ **Reference and Background Checks:** Many employers request names, addresses, and telephone numbers of references for the purpose of verifying information and, gaining additional information on an applicant.
- ▶ **Selection Decision:** The final decision has to be made from among the candidates who pass the tests, interviews and reference checks.
- ▶ **Medical Examination:** After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test. fit candidates are give the job.
- ▶ **Job Offer:** job offer is made through a letter of appointment/confirm his acceptance. Such a letter generally contains a date by which the appointee must report on duty.

Basic information that should be included in a written contract of employment will vary according to the level of the job, but the following checklists sets out the typical headings: Job Title, Duties, Responsibilities, Date when continuous employment starts and the basis for calculating service, rates of pay, allowances, hours of work, leave rules, sickness, grievance procedure, disciplinary procedure, work rules, termination of employment.

### **Training And Development:**

Training and Development is an attempt to improve the current or future employee performance by increasing an employee's ability to perform through learning, usually by changing the employee's attitude or increasing his or her skills and knowledge.

### **Importance of Training and Development :**

- ▶ The rapid changes taking place during the last quarter century in our highly sophisticated and complex society have created increased pressures for organisations to readapt the products and services produced, the manner in which products and services are produced and offered, the types of jobs required and the types of skills necessary to complete these jobs.

### **Benefits to the organisation:**

- ▶ wastage of efforts and money is minimised.
- ▶ leading to higher profits.
- ▶ increases employee morale and reduces absenteeism and employee turnover.
- ▶ It helps in obtaining effective response to fast changing environment.

### **Benefits to the Employee:**

- ▶ Improved skills and knowledge
- ▶ Increased performance and help in earning more money.
- ▶ Training makes the employee more efficient.
- ▶ Training increases the satisfaction and morale of employees.

### **Training, Development and Education:**

- ▶ **Training:** is any process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased. It is a process of learning new skills and application of knowledge. It attempts to improve their performance on the current job or prepare them for any intended job.
- ▶ **Education:** is the process of increasing the knowledge and understanding of employees. It is the understanding and interpretation of knowledge. It does not provide definite answers, but rather develops a logical and rational mind that can determine relationships among pertinent variables and thereby understand a phenomenon

**Development:** refers to the learning opportunities designed to help employees grow. It covers not only those activities which improve job performance but also those which bring about growth of the personality, help individuals in the progress towards maturity and actualization of their potential capacities so that they become not only good employees but better men and women

### **KEY CONCEPTS QUESTIONS WITH ANSWERS**

**1) “Staffing makes for higher performance by putting right person on the right job”. Is this statement true or false? 1M**

A) True

**2) “There is no need of human resource planning as so many people are available in the market these days.” Do you agree with this statement? Give reasons. 3M**

A) No, I don't agree with this statement. There is a great need of man power planning due to the following reasons. :

1. Organisation needs man power planning: To meet the demands of changing job requirements due to change of technology.
2. Man power requires forecasting: Provides a basis of recruitment, transfer and training employees.

**3) Human resource management is a part of staffing. Do you agree? 1 M**

A) No.

**4) “The present day human resource management is a broader concept.” Explain 4 M**

A) The present day human resource management includes the following activities:

- a. Helps the organization to achieve its goals
- b. Employees the skills and knowledge of employees efficiently and effectively.
- C. Enhance job satisfaction.
- d. Maintain high morale and good human relations within the organization.

**5) why is induction is not required in the internal source of recruitment. 1M**

A) Because employees are already well familiar with the organization.

**6) State the meaning of placement as a staffing function. 1M**

A) Placement: Once the job offer has been accepted by the selected candidate he placed on this new job. Proper placement of an employee reduces absenteeism

Placement therefore refers to placing the right person on the right job.

**7) Describe briefly the steps involved in the process of staffing. 5/6M**

A) Man power Planning: The organization estimate the total man power requirement by considering all the departments of the organization.

Recruitment: The second step after man power planning is recruitment and selection. Recruitment aims at attracting job applicants preposition in the organization.

Selection: Selection consists of making choice among applicants.

Placement and Orientation: It refers to placing the right person on the right job.

Induction: it is concerned with the process of introduction of a new employee to the organization.

Training and development: It is more accurately considered as a process of skill formation and behavioral change.

Performance appraisal

Promotion and career planning

Compensation

**8) Name two websites which are commonly visited both by the prospective employees and the organizations searching for suitable people. 1M**

A) [www.naukari.com](http://www.naukari.com); [www.jobstreet.com](http://www.jobstreet.com)

**9) 'Internal sources of recruitment are better than external sources of recruitment.' Do you agree with this statement? Give any two reasons in support of your answer. 3M**

A) Yes, I agree with this statement.

Advantages: 1. It will assist in developing high moral of employees.

2. The candidates already working in the organization can be evaluated more economically as the expenditure is relatively less.

**10) Name the concept which relates to the following:**

a) Searching of prospective candidates.

b) Streamlining the attributes of a person required for doing a job.

A)      a. Recruitment                                      b. Selection.

**11) List the different types of tests used in selection process.**

A)      i. Intelligence test      ii. Aptitude test      iii. Personality test.      iv. Trade test  
v. Interest test

**12) What is meant by 'Selection'? Explain any five steps involved in the process of selection of employees. 6M**

A) Selection is the process of carefully screening the candidates who offer themselves for appointment so as to choose the most appropriate person for the job.

Steps : 1. The preliminary screening : A brief screening interview is conducted as the first step in the selection process.

2. Selection test: Each candidate appears for employment test.

3. Employment Interview: Interview is a phase of testing on the basis of face to face interaction between the interviewer and the applicant.

4. Reference and background checking: Gather more information about the candidates from indirect personal sources.

5. Selection decision: After candidates process the tests and interview final decision for selection is made after considering the view of concerned manager.

6. Medical Test: The selection process is not complete without the medical test.

7. Job offer: Letter of appointment mentioning the date by which a candidate has to report on duty is handed over to the appointee.

8. Contract of employment: It includes various details such as pay, allowances, work rules etc.



**13) Training and Development are one and the same thing. Do you agree?**

A) No they are different

**14) Distinguish between training and development.**

**4M**

A)

Training	Development
It is used to add skills abilities of the workers	Development involves improving the capacities and capability of the managerial personnel.
The term training is generally used to impart specific skills among operative workers	It is associated with the over all growth of the executives.
it is to enable the employee to do the job better	It is to enable the overall growth of the employee
It is a job oriented process	It is a carrier oriented process.

**15) State the benefits of employee's training. 4M**

**A) Benefits to the organization**

a) Economic operations: Trained personal will make economic and efficient use of resources.

b) Increases productivity; It improves the quality and quantity of the production

**Benefits to the employees:**

a) Acquisition of new skills: A trained employee acquires new skills.

b) Higher Earnings: Trained employees can perform better and there by earn more.

**16) What do you meant by 'on the job training'? Explain any three methods of 'off the job' training. 5/6M**

A) On the job training: Learning by doing by the subordinates under the supervision of superiors at the actual work place.

B) Methods: i. Apprenticeship Programme: It is designed for higher levels of skills.

It ensures on the job training and is explained with classroom instruction in a particular subject.



- ii. Coaching: At lower levels the coaching may simply consist of trainee observing his supervisor so as to develop the basic skills necessary for operating machine.
- iii. Internship training: Technical institutes and business organizations jointly impart training to their members.
- iv. Job rotation: It is a method of training which serves the purpose of employees' development through provision of diversified training.

### **QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

**1. It is described as the managerial function of filling and keeping filled the positions in the organization structure. Which function of management is referred here? 1M**

A: Staffing

**2. It is recruitment, selection, development, utilization, compensation and motivation of human resources of the organization. Give the name of the concept mentioned here. 1M**

A: Human Resource Management.

**3. It implies introducing the selected employee to other employees and familiarizing him with the rules and policies of the organization. Name it. 1M**

A: Orientation.

**4. What is the next step after selection? 1M**

A: Placement and Orientation.

**5. It seeks to attract suitable applicants to apply for available jobs. Give the term. 1M**

A: Recruitment.

**6. These are run by the Government as a source of recruitment for unskilled and skilled operative jobs. What is being referred here? 1M**

A: Employment exchanges.

**7. Which type of personnel is recruited by management consultancy firms?**

A: Management consultancy firms help the organization to recruit technical, professional and managerial personnel.

**8. Hamish is working as a supervisor in a company. Due to his hard work he is promoted to the post of Production Manager. Now the post of supervisor is vacant and no one can be transferred or promoted to this post. Name the source of recruitment**

**the company will use to fill up this post. State any three advantages of using this source of recruitment.** 4M

A: The Company will use external source of recruitment.

Advantages: i. Fresh talent ii. Wider choice iii. Qualified personnel

**9.It is the process of identifying and choosing the best person out of a number of prospective candidates for a job. Name it.** 1 M

A: Selection.

**10. Name the test which is used as a measure of individual's potential for learning new skills.**

A: Aptitude test. 1 M

**11. Which step in the process of selection helps the manager eliminate unqualified or unfit job seekers based on the information supplied in the application forms?** 1M

A: Preliminary Screening

**12. what is formal, in-depth conversation conducted to evaluate the applicant's suitability for job called.** 1M

A: Employment interview.

**13. Why is selection considered as negative process?** 1M

A: Because it is a process in which a person is selected and the others are rejected.

**14. It is a test used for selection of employees to measure individual's potential for learning new skills. Mention its name and explain two other tests also.** 1 M

A: Aptitude.

Other Tests: a) Personality Test: These tests are used judge the psychological makeup of a person.

b) Interest Test: These tests identify individual likes and dislikes in relation to work.

**15.It is the process of increasing the knowledge and skills of an employee for doing a particular job. Which process is referred to here?** 1M

A: Training

**16.Which of type of training is a joint programme of training in which educational institutions and business firms cooperate?** 1M

A: Internship training

**17. Trainee is put under the guidance of a master worker to acquire a higher level of skill, for example to become plumber, electrician, etc. Which method of training is referred here?** 1M

A: Apprenticeship programme

**Questions based on Values:**

1. While selecting employees, an organization is not giving any priority to disabled candidates, weaker sections in the society and even women. Identify the values missing in the company's selection process and also suggest a remedy.

Ans. i. Social objectives are not followed.

ii. Gender biased.

iii. Inclusive employment policy is violated

iv. Company's selection policy is not good.

Company should give equal opportunity to all the prospective candidates.

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# CHAPTER -7

## DIRECTING

### CONCEPT MAPPING:

- Concept and importance
- Elements of Directing
  - Supervision-concept, functions of a supervisor.
  - Motivation-concept, Maslow's hierarchy of need: Financial and non-financial incentives.
  - Leadership-concept, styles-authoritative, democratic and laissez faire.
  - Communication- concept, formal and informal communication; barriers to effective communication, how to overcome the barriers.

### Key Concepts in Nutshell

- **Meaning of Directing:** It refers to instructing, guiding, communicating and inspiring people in the organisation .
- **Importance of Directing:** (1). It initiates action. (2).It integrates employees' efforts. (3)It is the means of motivation. (4)It facilitates implementing changes. (5)It creates balance in the organization.
- **Elements of Directing:** (1)Supervision (2)Communication (3)Leadership (4)Motivation
- **Concept of Supervision:** Supervision refers to monitoring the progress of work of one's subordinates and guiding them properly.
- **Functions of a Supervisor:**(1)Facilitates control (2)Optimum utilization of resources(3)Maintenance of discipline (4)Feedback (5)Improves communication (6)Improves motivation
- **Motivation- Motivation** process of stimulating people to accomplish desired goals. It depends up on satisfying the needs of people.
- **Maslow's Hierarchy of Needs:** - According to Maslow, man does every work to satisfy his need. A man has various needs and their order can be determined. The needs of a human being serve as a motivation for him. On the basis of priority human needs can be divided into five parts (i) Physiological needs, (ii) Safety needs, (iii).Affiliation or social needs, (iv) Esteem needs and (v) Self-actualization needs.

- **Financial or Monetary Incentives:** Financial incentives are those incentives which are evaluated in terms of money. These are helpful to satisfy Physiological and Safety Needs. It includes the following (i) Pay and allowances, (ii) Productivity-linked wage Incentives, (iii) Bonus, (iv) Profit sharing, (v) Co-partnership (iv) Suggestions, (vi) Retirement benefits, (vii) Perquisites.
- **Non-financial or Non-monetary Incentives:** Non-financial incentives are not directly related with money. These incentives help in the satisfaction of top hierarchy needs like social, esteem and self-actualization. It includes the following (i).Status (ii) Organizational climate (iii) Career advancement opportunity (iv) Job enrichment (v) Employee recognition programmes (vi) Job security (vii) Employee participation (viii) Employee empowerment.
- **Meaning of Leadership :** It refers to influence others in a manner to do what the leaders wants them to do.

### **Leadership Styles:**

#### **I. Autocratic Leadership Style:-**

- (a).Meaning: It refers to that leadership style in which the leader tends to run the show all by him-self.
- (b).Characteristics: (i) Centralized Authority, (ii) Single –man Decision, (iii) Wrong Belief Regarding Employee, (iv) Only Downward Communications.
- (c). Advantages: (i) Quick and Clear Decisions, (ii) Satisfactory Work, (iii) Necessary for Less Educated Employees.
- (d).Disadvantages: (i) Lack of Motivation, (ii) Agitation by Employees, (iii) Possibility of Partiality.

#### **II. Democratic Leadership Style :-**

- (a). Meaning: It refers to that leadership style in which the leader consult with his sub ordinates before making any final decisions.
- (b).Characteristics: -(i)Cooperative Relations,(ii)Belief in Employees, (iii) Open Communication.
- (c ).Advantages : (i) High Morale, (ii)Creations of More Efficiency and Productivity, (iii) Availability of Sufficient Time for Constructive Work.
- (d).Disadvantages: (i) Requirement of Educated Subordinates, (ii) Delay in Decisions, (iii)Lack of Responsibility in Managers.

### III. **Laissez-faire or Free-rein Leadership Style:** -

(a). Meaning : It refers to that leadership style in which the leader gives his subordinates complete freedom to make decisions.

(b) Characteristics (i) Full faith in subordinates, (ii) Independent Decision-making system, (iii) Decentralisation of Authority (iv) Self-Directed Supervisory and Controlled.

(c). Advantages. (i) Development of Self-confidence in Subordinates, (ii) High-level Motivation, (iii) Helpful in Development and Extension of the Enterprise.

(d). Disadvantages. (i). Difficulty in Cooperation, (ii) Lack of Importance of Managerial Post, (iii) Suitable only for Highly Educated Employees.

**Communication:** Communication refers to the process of exchange of ideas between or among persons and creates understanding. Communication process involves the elements of source, encoding, channel, receiver, decoding and feedback.

**Formal Communications** refers to all official communications in the form of orders, memos, appeal, notes, circular, agenda, minutes etc.

**Informal Communications** are usually in the form of rumours, whispers etc. They are unofficial, spontaneous, unrecorded, spread very fast and usually distorted.

**Barriers** may exist for effective communications. Some of these barriers include semantic barriers, organizational barriers, language barriers, transmission barriers, psychological barriers and personal barriers.

**Manager** should take appropriate measures to overcome these barriers and promote effective communication in the organization such as

#### **Improving communication effectiveness:**

- i. Clarify the ideas before communication
- ii. Communicate according to the needs of receiver.
- iii. Consult others before communicating
- iv. Be aware of language
- v. Convey things of help and value to listeners
- vi. Ensure proper feedback
- vii. Communicate for present as well as future
- viii. Follow up communications and
- ix. Be a good listener.

### **KEY CONCEPT QUESTIONS WITH ANSWERS**

**Q1) What is meant by Directing? Explain the importance of directing?**

**6M**

Ans: Directing is telling people what to do and seeing that they do it to the best of their ability. It includes making assignment, explaining procedures, seeing their mistakes are corrected, providing on the job instructions and issuing orders.

**Importance of Directing: -**

1. It initiates action
- 2 It integrates employees' efforts
3. It is the means of motivation
4. It facilitates implementing changes.
5. It creates balance in the organization

**Q2) Mention the elements of directing?**

**1M**

Ans: 1) supervision 2) motivation 3) leadership 4) communication

**Q3) Explain how directing is a pervasive function of management**

**1M**

Ans: Directing is a pervasive function as every manager from top executive to superior performs it.

**Q4). 'Directing is the least important function of management.' Do you agree with this statement? Give any two reasons in support of your answer.**

**4 M**

A: No, I don't agree with this statement.

Importance of direction: Direction may be regarded as the heart of the management process.

It is explained under the following parts:

- a).Initiates action: All organizational activities are initiated through direction.
- b).Integrates employees' efforts: At all levels of management the subordinates under the managers.

Managers integrate the work of subordinates.

- c).Means of motivation : Directing helps in motivating employees towards organizational goals

**Q5). "The post of supervisor should be abolished in the hierarchy of managers". Do you agree? Give any three reasons in support of your answer.**

**6M**

A).No, I don't agree, because a supervisor performs the following functions to achieve organization goals.

Functions of the supervisor:

- a).Planning the work. The supervisor has to determine work schedule for every job.
- b).Issuing orders: Supervisor issues orders to the workers for achieving coordination in his work.
- c).Providing guidance and leadership: The supervisor leads the workers of his department.
- d).Explains the policies and programmes of the organization to his subordinates and provide guidance

e). Make necessary arrangement for supply of materials and ensure they are efficiently utilized.

f). Deviations from the target if any are to be rectified at the earliest.

g). To help the personnel departments in recruitment and selection of workers.

**Q6). What is meant by 'Esteem needs' and 'Self-actualization needs' in relation to motivation of the employees?**

**4M**

A: i. Esteem Needs: these needs are needs for self esteem and need for other esteem. For Example: Self-respect, self-confidence etc.

ii. Self-actualization Needs: This is the needs to be what one is capable of becoming and includes needs for optimal development.

**Q7). It is through motivation that managers can inspire their subordinates to give their best to the organisation'. In the light of this statement, explain, in brief, the importance of motivation.**

**5/6M**

A: Importance of motivation:

i. Motivation sets in motion the action of people: Motivation builds the will to work among employees and puts them into action.

ii. Motivation includes the efficiency of work performance: Performance of employees dependence not only on individual abilities but also on his willingness.

iii. Motivation ensures achievement of organizational goals: If employees are not motivated, no purpose can be served by planning organizing and staffing.

iv. Motivation creates friendly relationships: Motivation creates friendly and supportive relationships between employer and employees.

v. Motivation leads to stability in the employees: Motivation helps in reducing absenteeism and turnover.

vi. Motivation helps to change negative / indifferent attitudes of an employee

**Q8). "All managers are leaders, but all leaders are not managers." Do you agree with this statement? Give any three reasons in support of your answer.**

**3/4 M**

A: Yes, I agree with this statement.

Difference between leadership and management :

Basis	Leadership	Management
Origin	Leadership originates out of individual influence	Management originates out of official power and rights.



Formal Rights	A leader has no formal rights	A manager has certain formal rights
Follower & subordinates	A leader has followers	A manager has subordinates

**Q9) Explain the various leadership styles?**

**6M**

Ans):Autocratic leadership style: This style is also known as leader centered style. The leader keeps all the authority and employees have to perform the work exactly as per his order. He does not decentralizes his authority. The responsibility of the success or the failure of the management remains with the manager.

Democratic leadership: This style is also known as group centered leadership style.

Managerial decisions are not taken by the manager in consultation with employees. This leadership style is based on decentralization. Managers respect the suggestions made by his subordinates.

Laissez-faire leadership style: this style as leadership is also known as free brain leadership or individual centered style. The manger takes little interest in managerial functions and the subordinates are left on their own. Manager explain over all objectives; help sub-ordinates in determining their own objectives. They provide resources. They also advise the employees.

**Q10) Mention the characteristics of autocratic leadership style.**

**3M**

Ans).1.Centralized authority 2.Single man decisions 3.Wrong belief regarding employees 4.Only downward communication.

**Q11). Explain three advantages and three disadvantages of autocratic leadership style.**

Ans).Advantages: 1.quick and clear decisions 2.Satisfactory work 3.Necessary for less educated employees

Disadvantages: 1.lack of motivation 2.Agitation by employees 3.Possibilities of partiality. **6M**

**Q12). Explain three advantages and three disadvantages of democratic leadership. 6M**

- 1) Ans: Advantages:1.Democratic leadership style advantages,2.Morale,3.Creation of more efficiency and productivbity,4.Availability of sufficient time for constructive work
- 2) Disadvantages:1.Requirement of educated subordinates 2.Delay in decisions 3.Lack of responsibility and managers

**Q13). Mention features of democratic leadership style? 3M**

Ans: 1) co operative relations 2).Relief in employees 3).Open communication

**Q14). Mention the characteristics of laissez-faire leadership style 3M**

Ans: Full faith in sub-ordinates 1).Independent decision making system 2).Decentralization of authority

3).Self directed

**Q15). Mention three advantages and three disadvantages of laissez-faire 6M**

Ans: -1.Development of self confidence in subordinates, 2.High level motivation, 3.Help in development of extension and enterprise

Disadvantages: 1.Difficulty in co operation, 2.Lack of importance of managerial post, 3.Suitable only for highly educated employees

**Q16). "Managerial functions cannot be carried out without an efficient system of communication." Do you agree? Give any three reasons in support of your answer.4M**

A: Yes, I agree with this statement.

Communication is important because of the following reasons.

- i. Communication facilitates planning in a number of ways
- ii. Communication helps management in arriving at vital decisions
- iii. Communication is necessary in creating unity of action of action

**Q17). Mention one barrier to effective communication. 1M**

A: Poor listening skills of people.

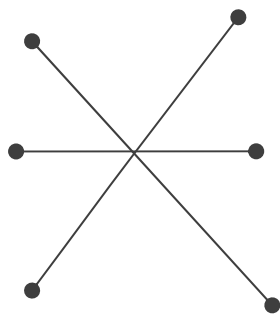
**Q18). Give any one measure to improve communication. 1M**

A: Communicate according to the needs of receiver.

**Q19). What do you mean by grapevine? Explain two types of grapevine along with diagram.**

A: Grapevine: The network or pathway of informal communication is known as grape point communication.

Two types of grapevine communication



Gossip



Single Strand

**Q20). Explain any three measures to overcome the barriers to improve communications effectiveness.**

- Ana: 1. Clarify the areas before communication: Before communicating to employees a manager should make an analysis of the subject matter.
2. Consult others before communication: A manager should encourage participation of subordinates which will ensure their support and cooperation.
3. Communicate according to the needs of receiver: The manager should make adjustments according to the needs of the receiver.

### QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS

**1). It is concerned with instructing, guiding and inspiring people in the organization to achieve its objectives. Name it. 1 M**

A: Directing

**2) Every manager from top executive to superior performs the function of directing. Which characteristic of directing is referred here? 1M**

A) Directing takes place every level of management.

**3) It means overseeing the subordinates at work. Which element of directing is referred to? 1M**

A: Supervision.

**4) Supervisor acts as a link between workers and management. How? 1M**

A: Supervisor conveys management ideas to the workers on one hand and workers problems to the management on the other.

**5) It refers to the way in which urges, drives, desires, aspirations, strivings or needs direct control and explain the behavior of human beings. Which element of directing is indicated here? 1M**

A: Motivation.

**6) Motivation can be either positive or negative. Give two examples of negative motivation. 1M**

A) a) Stopping increments b) Treating

**7).Which need in the hierarchy theory of motivation refers to affection, acceptance and friendship? 1M**

A: Belonging needs

**8) It is an incentive offered over and above the wages/salary to the employees. Name the type of financial incentive referred here. 1M**

A) Bonus

**9) Name the incentive which refers to 'give more autonomy and powers to subordinates' and how are people affected by this incentives? 1M**

A) Employee Empowerment : Due to this incentive people start feeling that their jobs are important and they contribute positively to use their skills and talent in the job performance.

**10) It is defined as a process of influencing other people to work willingly for group objectives. Mention this element of directing. 1 M**

A) Leadership

**11) It is process by which people create and share information with one another in order to reach common understanding. Which element of directing is referred here? 1M**

A) Communication.

**12) Which element in communication process relates to the process of converting encoded symbols of the sender? 1M**

A) Decoding

**13) In which kind of communication network, a subordinate is allowed to communicate with his immediate superior as well as his superior's superior? 1M**

A) Inverted V.

**14) Amit and Mikki are working in the same organization but different departments. One day at lunch time Mikki informed Amit that due to computerization many people are going to be retrenched soon from the organization. 4M**

A) It is an example of informal communication.

**Limitations of informal communication:**

Messages tend to be distorted.

It often carries rumors.

It is unsystematic.

**15) There are some barriers in communication which are concerned with the state of mind of both the sender and the receiver. State any three such barriers. 3/ 4 M**

A) It refers to physiological barriers: i. premature evaluation ii. Loss by transmission and poor retention. iii .Lack of attention.

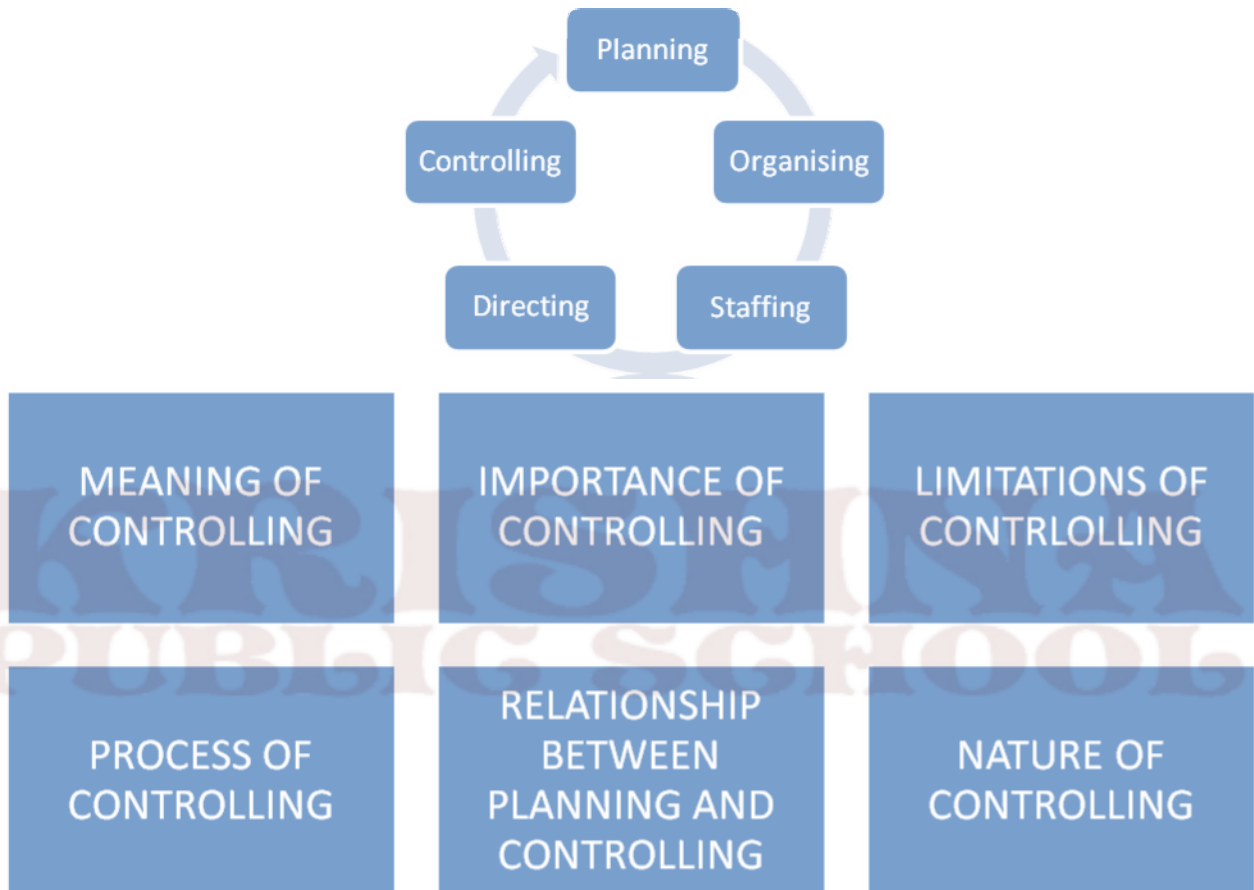
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## CHAPTER – 8

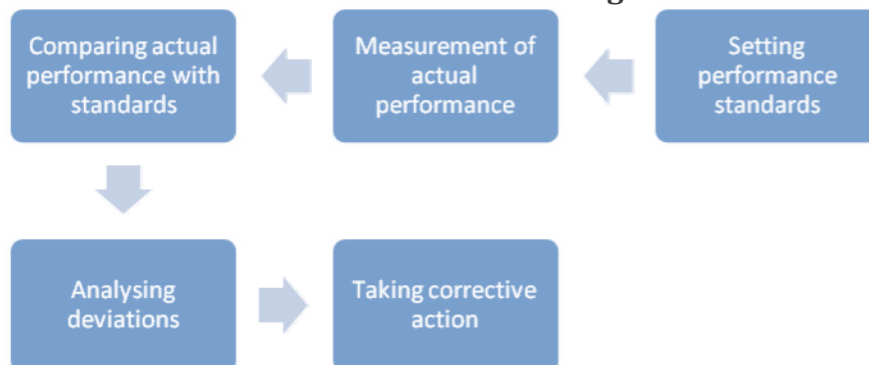
### CONTROLLING

**CONTROLLING 6 MARKS**

**CONCEPT MAPPING:**



#### **Process of Controlling**



## Key Concepts in nutshell:

**1. Meaning of controlling:** Comparing actual performance with standards and finding deviations if any and taking corrective action.

**Actual Performance = Standards = No deviation**

### Features/Nature of Controlling:

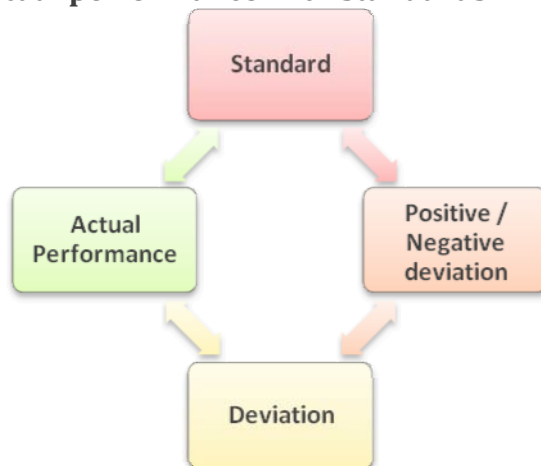
- Controlling is pervasive
- Controlling is a primary function
- Controlling is a continuous process
- Controlling is a goal oriented function.

## 2. Process of Controlling:

**1. Setting performance standards:** Standards are the Criteria against which actual performance would be measured. Standards serve as bench marks. They can be set in both quantitative as well as qualitative.

**2. Measurement of actual performance:** Performance should be measured in an objective and reliable manner.

**3. Comparing actual performance with standards:**



**4. Analyzing deviations:** Major deviation or minor deviation and analyzing the causes of deviation.

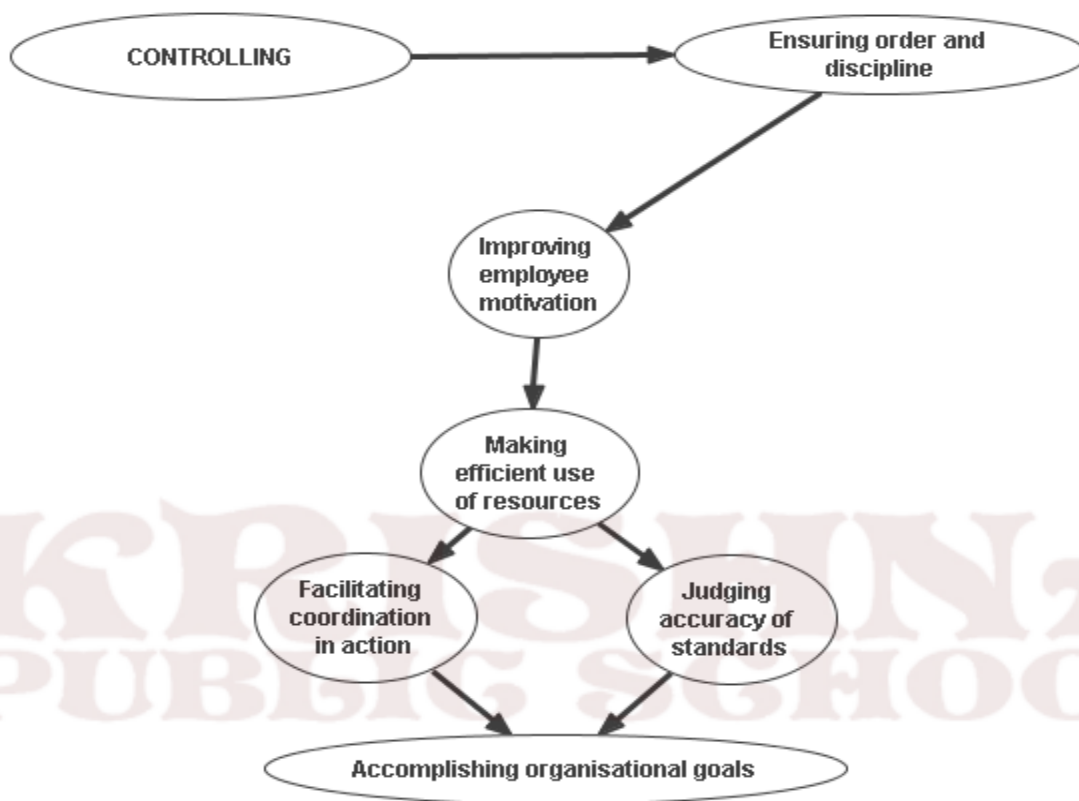
**a) Critical point control:** Focus only on Key Result Areas (KRAs).

**b) Management by Exception:** Concentrate only on major deviations only.

**5. Taking corrective action:** When deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

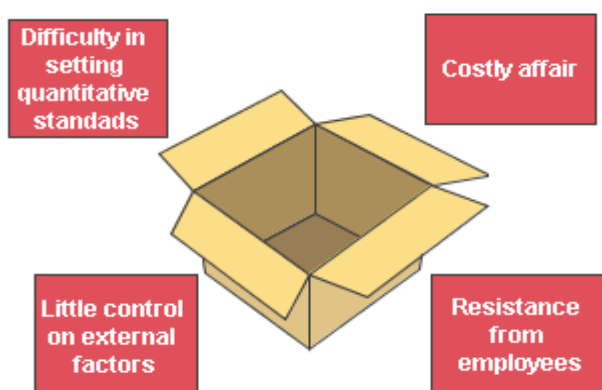
Conclusion: In case the deviation cannot be corrected through managerial action, the standards may have to be revised.

### IMPORTANCE OF CONTROLLING



Controlling ensures order and discipline by fixing standards in advance which leads to improved employee motivation, it also facilitates efficient use of resources, judging the accuracy of standards, facilitates coordination in action which will result into accomplishment of organizational goals.

### **LIMITATIONS OF CONTROLLING:**





**1. Difficulty in setting quantitative standards:** It is difficult to set standards for all types of activities this makes measurement of performance and their comparison with standards a difficult task.

**2. Little control on external factors:** Business environment is ever changing. The firm has no control on external factors such as government policies, technological changes, competition etc.

**3. Resistance from employees:** Employees oppose controlling measures taken by any organisation.

**4. Costly affair:** It is a costly affair as it involves a lot of expenditure, time and effort. Especially small organizations cannot afford.

#### **RELATIONSHIP BETWEEN PLANNING AND CONTROLLING:**



- Planning and controlling are inseparable twins of management. Planning initiates the process of management and controlling completes the process. Plans are the basis of control and without control the best laid plans may go astray.
- Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning.
- Planning is prescriptive and controlling is evaluative
- It is often said that planning is looking ahead while controlling is looking back. However, the statement is only partially correct. Plans are prepared for future and involve looking ahead. On the contrary, controlling is like a postmortem of past activities to find out deviations from the standards. In that sense controlling is a backward looking function. However, it should be understood that planning is guided by past experiences and the corrective action initiated by control function.

**Questions (with some hints wherever necessary)**

**Important questions are shown with \* mark and the Most important questions are shown with \*\* mark**

**\*1. Give the meaning of Controlling. 1M**

**2. Define Controlling. 1M**

Ans: It is a process of taking steps to bring actual results and desired results closer together.

**3.. Which function of management ensures that actual activities confirm to planned activities? 1M**

Ans: Controlling

**4.. Name the function of management which reviews the operations in a business unit. 1M**

Ans: Controlling

**5.. Why it is said that planning is meaningless without controlling? 1M**

Ans. In the absence of controlling, actual performance will not be measured and compared. So, how far plans are implemented cannot be known.

**6.. Why it is said that controlling is blind without planning? 1M**

Ans. Without laid standards actual performance cannot be compared.

**\*\*7. Explain the limitations of Controlling. 3M**

**\*\*8. Planning is looking ahead whereas controlling is looking back. Discuss. 3M**

**9. Explain how controlling helps in 'achieving better co-ordination' and 'better planning'. 3M**

**Hint: Refer Importance of Controlling.**

**10. Controlling is a pervasive function. Explain 3M**

Ans: It is a pervasive function, it is required every level and in any type of organisation.

**11. Does control help in 'judging the accuracy of standards' and 'improving motivation of the employees'? Explain 3M**

**Hint: Refer importance of Controlling**

**\*\*12. Explain the difference between Planning and Controlling. 3M**

**Hint: Refer Relationship between Planning and Controlling**

**13. 'Planning and Controlling are mutually interrelated and interdependent activities' How? 3M**

**Hint: Relationship**

**14. "Controlling is forward looking" Explain 3M**

**15.. Controlling is looking back. Explain 3M**

**\*16. "If you try to controlling everything you may end up by controlling nothing" Discuss 3M**

**Hint: Management by exception.**

**\*17. "Controlling is not a panacea for every problem in the organisation" Discuss 3M**

**Hint: Limitations of controlling.**

**\*18.. What is Critical Point Control? 3M**

Ans: It is neither economical nor easy to keep a check on each and every activity in an organisation. Controlling should focus on key result areas (KRAs) only which are critical to the success of the organisation.

**19. "Planning is the first function and control is the last function of managerial process" Discuss 3M**

**20. Control moves from downward to upward whereas planning moves from top to bottom. Discuss 3M**

**21.. Controlling is a continuous activity in an organisation. 3M**

**\*22.. What are the factors to be kept in mind while setting standards? 3M**

Ans:

- i) Standards should be in measurable terms
- ii) Standards should be flexible to change
- iii) They may be in qualitative or quantitative
- iv) They should be stated in clear terms without any ambiguity

**\*\*23. "Measurement of a company's performance may involve calculation of certain ratios like gross profit ration, net profit ratio, return on investment ration etc." Identify the function of management involved in the given statement and explain the relevant step. 3M**

**Hint: Controlling, Step: Measurement of actual performance.**

**24. How does controlling help in 'achieving objectives' and 'improving employee morale'?** **3M**

Hint: Refer importance of Controlling

**25. Controlling is an indispensable function of management. Do you agree? Give four reasons in support of your answer.** **5M**

Hint: Importance of Controlling

**26. If planning is done carefully and accordingly other functions of management are going in the right direction, then there is need of the controlling function of management. Do you agree with the statement? Give reasons in support of your answer.** **5M**

Hint: Importance of Controlling

**\*\*27. "There is close and reciprocal relationship between Planning and Controlling" Explain this statement through an example.** **5M**

**28. There are two managers of a company Rahul and Rohit. Rahul is saying that 'Planning is looking ahead whereas controlling is looking back'. On the other hand, according to Rohit planning is looking back whereas as controlling is looking ahead. Who is correct and why?** **5M**

Hint: Both are correct.

**29. Control is considered important for many reasons. Explain any five such reasons.** **5M**

**\*\*30. "A production in charge was given a standard toy train. He was asked to produce similar other toy trains. What control process would he have followed?"** **5M**

Hint: Process of Controlling.

**\*\*31. "An ideal control technique is one that checks every bit of performance" Comment.** **5M**

Hint: Management by exception.

**\*\*32. Suggest the corrective actions to be taken for the following causes of deviation.**

i) Defective material

ii) Defective machinery

iii) Obsolete machinery

iv) Defective Process

v) Defective physical conditions of work **5M**

Ans:

- i) Change the quality specification for the material used.
- ii) Repair the existing machine or replace the machine if it cannot be repaired.
- iii) Undertake technological up gradation of machinery
- iv) Modify the existing process
- v) Improve the physical conditions of work

**\*\*33. Explain the process of controlling. 6M**

**\*\*34. Explain the importance of controlling. 5M**

**\*\*35. Explain the relationship between Planning and Controlling. 5M**

**36. Explain briefly the various steps involved in the process of controlling. 6M**

**37. "Comparing the actual performance with laid standard, finding out deviations and taking corrective action is an important process of a function of management" Name and explain the process of that function. 6M**

**Hint: Process of Controlling**

**\*\*38. "Control does not require any process" Comment 6M**

**Hint: This statement is wrong. Controlling has a process which contains five steps in a given serial order.**

**39. "Controlling is a systematic process involving a series of steps" Explain 6M**

**\*40. Explain the importance of managerial function which provides direction to work effort in conformity with the plans. 6M**

**Hint: Importance of Controlling**

**\*\*41. "In the absence of of a managerial function, planning goes unchecked "Name the function and explain its importance. 6M**

Ans.

(i) **Accomplishing organizational goals:** The controlling function measures progress towards the organizational goals and brings to light the deviations, if any, and indicates corrective action.

(ii) **Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate and objective.

(iii) **Making efficient use of resources:** By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms.

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

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

(vi) **Facilitating coordination in action:** Controlling provides direction to all activities and efforts for achieving organizational goals.

**\*\*43. Planning without controlling is blind and vice-versa. Discuss.**

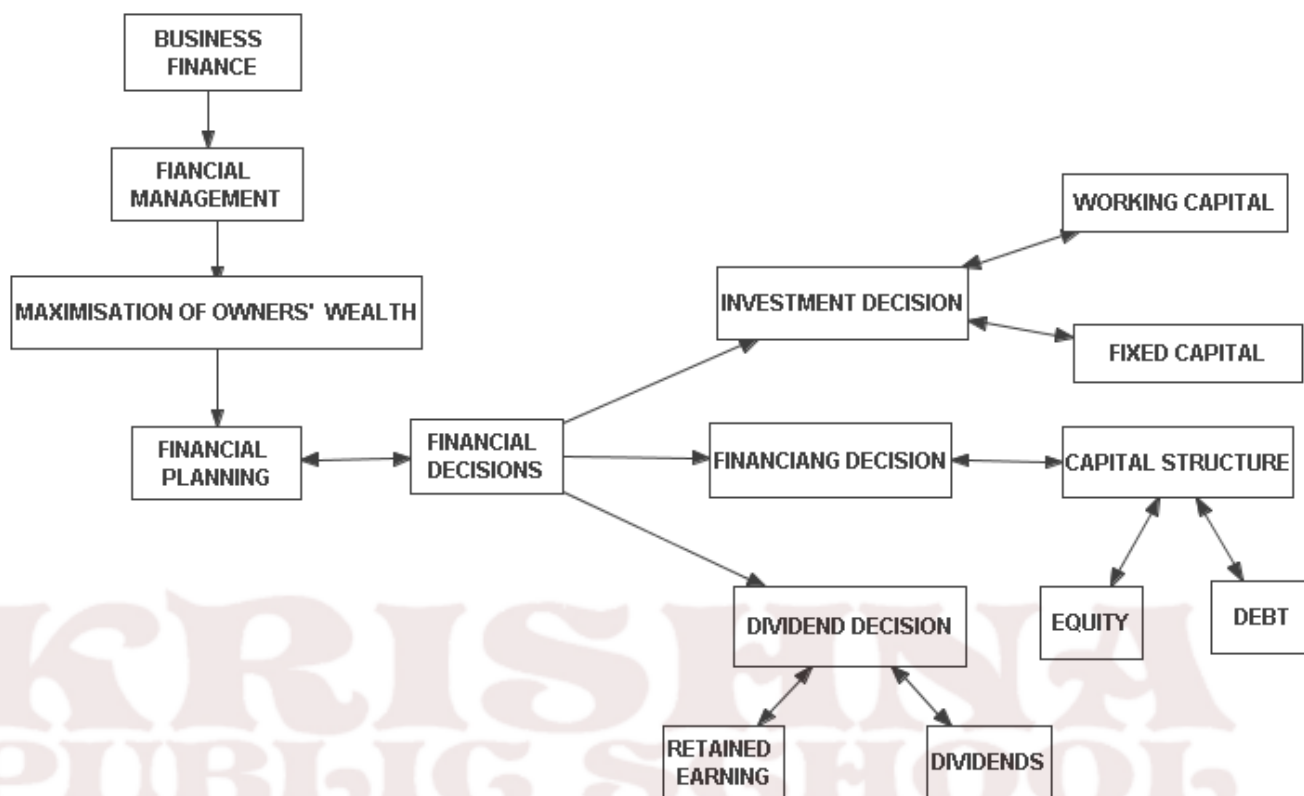
**5M**

Ans. Planning and controlling are inseparable twins of management. A system of control presupposes the existence of certain standards. These standards of performance which serve as the basis of controlling are provided by planning. Once a plan becomes operational, controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans. Planning without controlling is meaningless. Similarly, controlling is blind without planning. If the standards are not set in advance, managers have nothing to control. When there is no plan, there is no basis of controlling. Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning. Without planning there is no predetermined understanding of the desired performance.

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## FINANCIAL MANAGEMENT 12 MARKS

### CONCEPT MAPPING:



### Key Concepts in nutshell:

**Meaning of Business Finance:** Money required for carrying out business activities is called business finance.

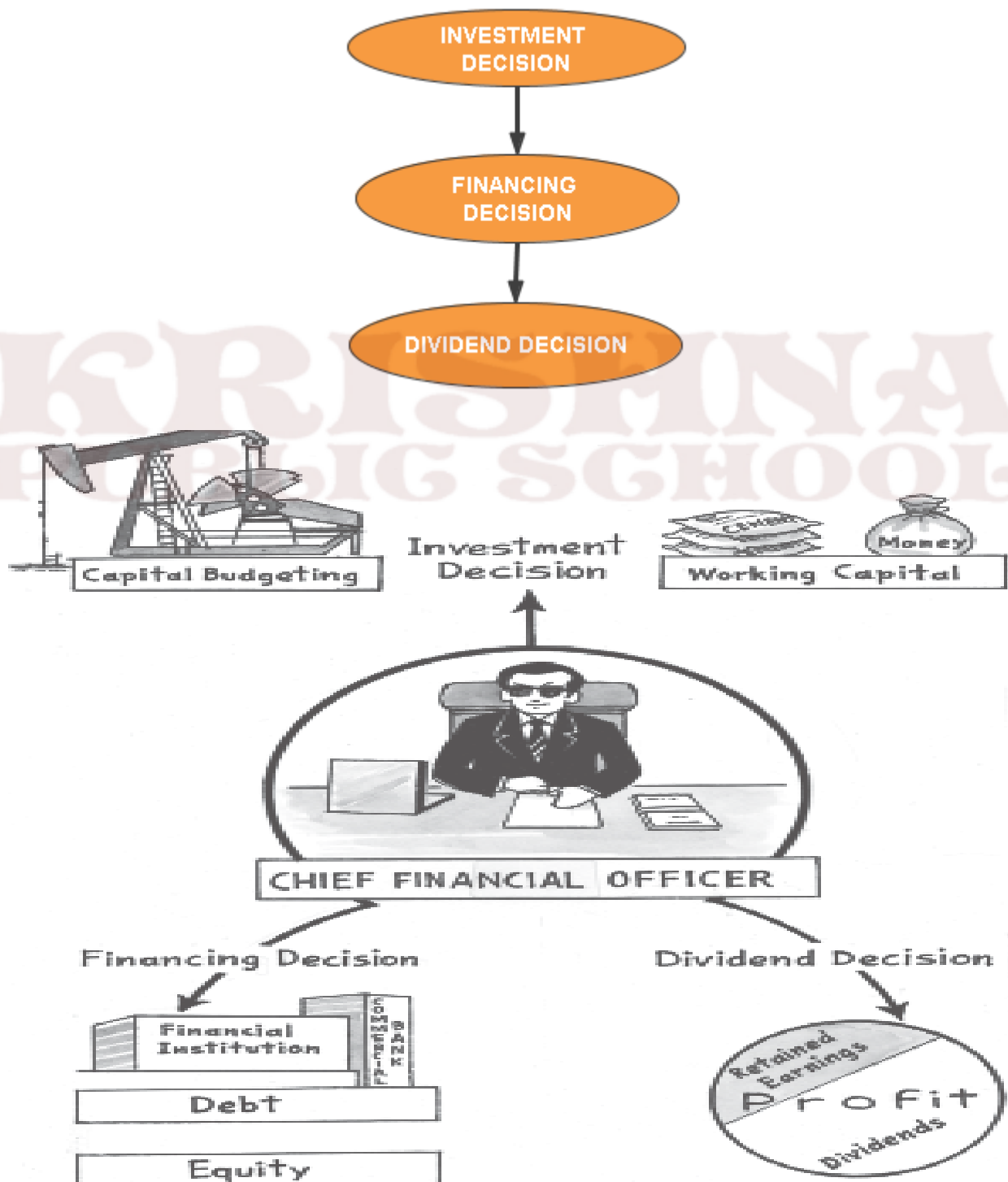
**Financial Management:** It is concerned with optimal procurement as well as usage of finance.

**Role of Financial Management:** It cannot be over-emphasized, since it has a direct bearing on the financial health of a business. The financial statements such as Profit and Loss A/C and B/S reflect a firm's financial position and its financial health.

- i) The size as well as the composition of fixed assets of the business
- ii) The quantum of current assets as well as its break-up into cash, inventories and receivables.
- iii) The amount of long-term and short-term financing to be used.
- iv) Break- up of long-term financing into debt, equity etc.
- v) All items in the profit and loss account e.g., interest, expenses, depreciation etc.

**Objectives of Financial Management:** Maximisation of owners' wealth is sole objective of financial management. It means maximization of the market value of equity shares. Market price of equity share increases if the benefits from a decision exceed the cost involved.

### FINANCIAL DECISIONS





**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 also called a Capital Budgeting decision.

**Factors affecting Capital Budgeting Decision/Investment Decision:**

- 1. Cash flows of the project:** If anticipated cash flows are more than the cost involved then such projects are considered.
- 2. The rate of return:** The investment proposal which ensures highest rate of return is finally selected.
- 3. The investment criteria involved:** Through capital budgeting techniques, investment proposals are selected.

**Financing Decision:** - It refers to the quantum of finance to be raised from various sources of long-term of finance. It involves identification of various available sources. The main sources of funds for a firm are shareholders funds and borrowed funds. Shareholders funds refer to equity capital and retained earnings. Borrowed funds refer to finance raised as debentures or other forms of debt.

**Factors Affecting Financing Decision:-**

- a) Cost:** The cost of raising funds through different sources is different. A prudent financial manager would normally opt for a source which is the cheapest.
- (b) Risk:** The risk associated with different sources is different.
- (c) Floatation Costs:** Higher the floatation cost, less attractive the source.
- (d) Cash Flow Position of the Business:** A stronger cash flow position may make debt financing more viable than funding through equity.
- (e) Level of Fixed Operating Costs:** If a business has high level of fixed operating costs (e.g., building rent, Insurance premium, Salaries etc.), It must opt for lower fixed financing costs. Hence, lower debt financing is better. Similarly, if fixed operating cost is less, more
- f) Control Considerations:** Issues of more equity may lead to dilution of management's control over the business. Debt financing has no such implication. Companies afraid of a takeover bid may consequently prefer debt to equity.
- g) State of Capital Markets:** Health of the capital market may also affect the choice of source of fund. During the period when stock market is rising, more people are ready to invest in equity. However, depressed capital market may make issue of equity shares difficult for any company.

**DIVIDEND DECISION:-** The decision involved here is how much of the profit earned by company (after paying tax) is to be distributed to the shareholders and how much of it should be retained in the business for meeting the investment requirements.

**FACTORS AFFECTING DIVIDEND DECISION:-**

**a) Earnings:** Dividends are paid out of current and past earning. Therefore, earnings is a major determinant of the decision about dividend.

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

**c) Stability of Dividends:** It has been found that the companies generally follow a policy of stabilising dividend per share.

**(d) Growth Opportunities:** Companies having good growth opportunities retain more money out of their earnings so as to finance the required investment.

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

**(f) Shareholder Preference:** While declaring dividends, managements usually keep in mind the preferences of the shareholders in this regard.

**(g) Taxation Policy:** The choice between payment of dividends and retaining the earnings is, to some extent, affected by difference in the tax treatment of dividends and capital gains.

**(h) Stock Market Reaction:** Investors, in general, view an increase in dividend as a good news and stock prices react positively to it. Similarly, a decrease in dividend may have a negative impact on the share prices in the stock market.

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

**(j) Legal Constraints:** Certain provisions of the Company's Act place restrictions on payouts as dividend. Such provisions must be adhered to while declaring the dividends.

**(k) Contractual Constraints:** While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future.

## **FINANCIAL PLANNING**

Financial Planning is essentially preparation of financial blueprint of an organisation's future operations. The objective of financial planning is to ensure that enough funds are available at right time.

### **OBJECTIVES**

**(a) To ensure availability of funds whenever these are required:** This includes a proper estimation of the funds required for different purposes such as for the purchase of long-term assets or to meet day-to-day expenses of business etc.

**(b) To see that the firm does not raise resources unnecessarily:** Excess funding is almost as bad as inadequate funding.

### **IMPORTANCE OF FINANCIAL PLANNING**

(i) It tries to forecast what may happen in future under different business situations. By doing so, it helps the firms to face the eventual situation in a better way. In other words, it makes the firm better prepared to face the future.

(ii) It helps in avoiding business shocks and surprises and helps the company in preparing for the future.

(iii) It helps in co-ordinating various business functions e.g., sales and production functions, by providing clear policies and procedures.

(iv) Detailed plans of action prepared under financial planning reduce waste, duplication of efforts, and gaps in planning.

(v) It tries to link the present with the future.

(vi) It provides a link between investment and financing decisions on a continuous basis.

(vii) By spelling out detailed objectives for various business segments, it makes the evaluation of actual performance easier.

**CAPITAL STRUCTURE:** Capital structure refers to the mix between owners and borrowed funds.

### **FACTORS AFFECTING THE CHOICE OF CAPITAL STRUCTURE**

**1. Cash Flow Position:** Size of projected cash flows must be considered before issuing debt.

**2. Interest Coverage Ratio (ICR):** The interest coverage ratio refers to the number of times earnings before interest and taxes of a company covers the interest obligation.

**3. Debt Service Coverage Ratio (DSCR):** Debt Service Coverage Ratio takes care of the deficiencies referred to in the Interest Coverage Ratio (ICR).

**4. Return on Investment (RoI):** If the RoI of the company is higher, it can choose to use trading on equity to increase its EPS, i.e., its ability to use debt is greater.

**5. Cost of debt:** A firm's ability to borrow at a lower rate increases its capacity to employ higher debt. Thus, more debt can be used if debt can be raised at a lower rate.

**6. Tax Rate:** Since interest is a deductible expense, cost of debt is affected by the tax rate.

**7. Cost of Equity:** Stock owners expect a rate of return from the equity which is commensurate with the risk they are assuming. When a company increases debt, the financial risk faced by the equity holders, increases.

**8. Floatation Costs:** Process of raising resources also involves some cost. Public issue of shares and debentures requires considerable expenditure. Getting a loan from a financial institution may not cost so much.

**9. Risk Consideration:** As discussed earlier, use of debt increases the financial risk of a business.

**10. Flexibility:** If a firm uses its debt potential to the full, it loses flexibility to issue further debt.

**11. Control:** Debt normally does not cause a dilution of control.

**12. Regulatory Framework:** Every company operates within a regulatory framework provided by the law e.g., public issue of shares and debentures has to be made under SEBI guidelines.

**13. Stock market conditions:** If the stock markets are bullish, equity shares are more easily sold even at a higher price. However, during a bearish phase, a company may find raising of equity capital more difficult and it may opt for debt.

**14. Capital Structure of other companies:** A useful guideline in the capital structure planning is the debt-equity ratios of other companies in the same industry. There are usually some industry norms which may help.

### **MANAGEMENT OF FIXED CAPITAL**

Fixed capital refers to investment in long-term assets. Management of fixed capital involves around allocation of firm's capital to different projects or assets with long-term implications for the business. These decisions are called investment decisions or capital budgeting decisions and affect the growth, profitability and risk of the business in the long run. These long-term assets last for more than one year.

## **IMPORTANCE OF CAPITAL BUDGETING DECISIONS**

**(i) Long-term growth and effects:** These decisions have bearing on the long-term growth. The funds invested in long-term assets are likely to yield returns in the future.

**(ii) Large amount of funds involved:** These decisions result in a substantial portion of capital funds being blocked in long-term projects

**(iii) Risk involved:** Fixed capital involves investment of huge amounts. It affects the returns of the firm as a whole in the long-term. Therefore, investment decisions involving fixed capital influence the overall business risk complexion of the firm.

**(iv) Irreversible decisions :** These decisions once taken, are not reversible without incurring heavy losses.

## **FACTORS AFFECTING THE REQUIREMENT OF FIXED CAPITAL**

**1. Nature of Business:** The type of business has a bearing upon the fixed capital requirements. For example, a trading concern needs lower investment in fixed assets compared with a manufacturing organisation.

**2. Scale of Operations:** A larger organisation operating at a higher scale needs bigger plant, more space etc. and therefore, requires higher investment in fixed assets when compared with the small organisation.

**3. Choice of Technique:** Some organisations are capital intensive whereas others are labour intensive. A capital-intensive organisation requires higher investment in plant and machinery as it relies less on manual labour.

**4. Technology Up gradation:** In certain industries, assets become obsolete sooner. Consequently, their replacements become due faster. Higher investment in fixed assets may, therefore, be required in such cases.

**5. Growth Prospects:** Higher growth of an organisation generally requires higher investment in fixed assets.

**6 .Diversification:** A firm may choose to diversify its operations for various reasons, With diversification, fixed capital requirements increases.

**7. Financing Alternatives:** A developed financial market may provide leasing facilities as an alternative to outright purchase. Availability of leasing facilities, thus, may reduce the funds required to be invested in fixed assets, thereby reducing the fixed capital requirements. Such a strategy is specially suitable in high risk lines of business.

**8. Level of Collaboration:** At times, certain business organisations share each other's facilities. For example, a bank may use another's ATM or some of them may jointly establish a particular facility. Such collaboration reduces the level of investment in fixed assets for each one of the participating organisations.

## **WORKING CAPITAL REQUIREMENTS**

Net working capital may be defined as the excess of current assets over current liabilities.

### **FACTORS AFFECTING WORKING CAPITAL REQUIREMENTS**

**1. Nature of Business:** Trading Organisations – Less working capital

Manufacturing Organisations – more working capital

**2. Scale of Operations:** Large scale organizations – more working capital

Small scale organizations – less working capital

**3. Business Cycle:** Boom period - more working capital

Depression period - less working capital

**4. Seasonal factors:** Peak season – more working capital

Lean season – less working capital

**5. Production cycle:** Longer production cycle – more working capital

Shorter production cycle – less working capital

**6. Credit allowed:** Conservative/strict credit policy – less working capital

Liberal credit policy – more working capital

**7. Credit availed:** If credit is available easily from suppliers - less working capital

If credit is not available easily from suppliers – more working capital

**8. Operating efficiency:** If current assets are managed efficiently – less working capital

If current assets are not managed efficiently – more working capital

**9. Availability of Raw Material:** Easy and timely availability of raw material – less working capital

Difficulty and lengthy time period are involved in getting raw materials – more working capital

**10. Growth Prospects:** If there is possibility of growth potential - more working capital

If there is no possibility of growth – less working capital

**11. Level of Competition:** If there is stiff and cut-throat competition – more working capital

Less competition and monopoly like situation – less working capital

**12. Inflation :** During inflation – more working capital

During recession – less working capital



### **FINANCIAL LEVERAGE/CAPITAL GEARING/ TRADING ON EQUITY**

It is an assumption that by using fixed charge bearing securities in the capital structure of a company, return to the equity shareholders can be increased. But this is possible only when the rate of return of the company is higher than the rate interest which a company pays on its debt capital.

For example a company has Rs.10 crores capital. Option 1 the company uses only equity capital Option 2 the company uses 50% equity and 50% debt capital in its capital structure. Rate of interest on debt is 15%. Rate of Income-tax is 30% . Profit before interest and tax is Rs.2 crores.

Particulars	Option 1	Option 2
Profit before interest and taxes (PBIT)	2,00,00,000	2,00,00,000
Less: Interest on debt	-----	15,00,000
Profit after tax	2,00,00,000	1,85,00,000
Less: Income – tax @30%	60,00,000	55,50,000
Profit after tax and interest	1,40,00,000	1,29,50,000
No. of equity shares ( FV Rs.10 each)	20,00,000	10,00,000
Return to shareholders(EPS)	Rs. 7	Rs.12.95

#### **Questions (with some hints wherever necessary)**

**Important questions are shown with \* mark and the Most important questions are shown with \*\* mark**

**\*1. Name the cheapest source of finance to a company. 1M**

Ans. Debt capital

**2. Name the decision to acquire a new and modern plant to upgrade an old one. 1M**

Ans. Investment decision

**\*\*3. What is meant by Capital Structure? 1M**

**\*\*4. Enumerate three important decisions taken in financial management. 1M**

**5. What is the link between operating cycle and working capital? 1M**

**\*\*6. Canara Bank wants to open a new branch of his bank? What is this decision called? 1M**

Ans. Investment decision

**\*7. What is the cost of raising funds called? 1M**

Ans. Floatation cost

<b>8. Why investors want dividend?</b>	<b>1M</b>
<b>9. Define business finance.</b>	<b>1M</b>
<b>10. How the EPS is computed?</b>	<b>1M</b>
Ans. Earnings available for equity shareholders/No. of equity shares	
<b>11. How the Interest Coverage Ratio is computed?</b>	<b>1M</b>
Ans. EBIT/Interest	
<b>12. How the Return on Investment is computed?</b>	<b>1M</b>
Ans. EBIT/Capital Employed X 100	
<b>*13. Which is the most costly capital for a company?</b>	<b>1M</b>
Ans. Equity share capital	
<b>14. Name the concept which increases the return on equity shares with a change in the capital structure of a company.</b>	<b>1M</b>
Ans. Trading on Equity	
<b>**15. State why the working capital needs for a 'Service-industry' are different from that of a Manufacturing industry.</b>	<b>1M</b>
Ans. Service industries need less working capital because they do not require any inventory. They do not have any manufacturing process.	
<b>**16. Name any two essential ingredients of sound working capital management.</b>	<b>1M</b>
Ans. Inventory, debtors	
<b>**17. 'Cost of debt' is lower than the 'cost of equity share capital' Give reasons why even then a company cannot work only with the debt.</b>	<b>1M</b>
Ans. A company cannot exist without equity share capital	
<b>*18. What is meant by Gross working capital?</b>	<b>1M</b>
Ans. Total investment on current assets (Current liabilities should not be deducted)	
<b>19. Name that portion of current assets which is financed by fixed liabilities.</b>	<b>1M</b>
Ans. Net working capital	
<b>20. Why is working capital needed? Give any one reason.</b>	<b>1M</b>
Ans. It is required to meet day to day expenses.	
<b>21. Discuss two objectives of financial planning.</b>	<b>3M</b>
<b>22. What is financial risk? Why does it arise?</b>	<b>3M</b>
<b>23. Define current assets and give four examples.</b>	<b>3M</b>



**24. Financial management is based on three broad financial decisions. What are these?** 3M

**\*\*25. What is the main objective of financial management?** 3M

**26. Discuss about working capital affecting both liquidity as well as profitability of a business.** 3M

Hint: The working capital should neither be more or less than required. Both these situations are harmful. It is considered as a necessary evil.

**27. How does cost of capital affect the capital structure of a company?** 3M

**\*28. "Sound Financial Management is the key to the prosperity of business: Explain** 3M

Hint: Role of financial management

**\*29. Explain the factors affecting the investing decision of a company.** 3M

**30. State the two important objectives of financial planning.** 3M

Hint: i) To ensure timely availability of finance ii) To ensure proper balance of finance.

**31. Explain the meaning of Fixed Capital. Explain any two factors that determine the fixed capital of a company.** 3M

**32. What is the role of 'Leasing' in determining the requirement of fixed capital?** 3M

**33. 'Fixed capital decisions involve more risk' How?** 3M

**34. How 'scale of operations' affect the requirement of fixed capital?** 3M

**35. Length of production cycle affects the working capital requirements of an organisation. Explain** 3M

**36. How are 'Growth Prospects' related with the requirement of working capital?** 3M

**37. How does 'Risk consideration' affect the capital structure decision?** 3M

**38. How 'Capital Structure of other companies' affects the capital structure decision?** 3M

**39. What do you mean by Financial Leverage?** 3M

Hint: Trading on equity

**40. Explain the 'Earnings Before Interest and Taxes' - EBIT** 3M

**41. "Share Capital is better than debt capital" In the favour of this statement explain one factor which affects the capital structure.** 3M

Hint: Cash flow position or other relevant point which favours equity capital

**42. When debt capital is cheaper than the equity capital, why don't companies go for debt capital alone?** 3M

Hint: A public company cannot be incorporated without equity share capital

**43. How the control of existing shareholders affects? How this situation can be avoided?** 3M

Hint: This situation can be avoided by raising debt capital rather than equity capital

**44. "Tax benefit is available only in case of payment of interest and not on the payment of preference dividend "Why** **3M**

Hint: Interest on debt only tax deductible expense but not preference dividend.

**45. 'Capital structure decision is essentially optimization of risk-return relationship' Comment** **4M**

**46. A Capital budgeting decision is capable of changing the financial fortune of a business. Do you agree? Why or Why not?** **4M**

**47. What is the importance of capital budgeting decisions?** **4M**

**\*\*48. To avoid the problems of shortage and surplus of funds what is required in financial management? Name the concept and explain its any three points of importance.** **4M**

Hint: Financial Planning.

**49. Explain briefly any four points of the role of financial management.** **4M**

**50. To tackle the uncertainty in respect of availability and timings of funds what is required? Name the concept involved and explain its three points of importance.** **4M**

Hint: Financial planning

**\*\*51. Name the process which helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise. Explain its three points of importance.** **4M**

Hint: Financial Planning

**52. Explain by giving any four reasons, why capital budgeting decisions are important.** **4M**

**53. What is the meaning of Financial Planning? Why is it important? Give any two reasons.** **4M**

**\*\*54. Explain the factors affecting the dividend decision.** **5M**

**\*\*55. Explain the term 'Trading on Equity'. Why, When and How it can be used by a business organisation?** **5M**

**56. "A sound financial plan is the key to success of sound financial management of the company" Discuss** **5M**

Hint: Importance of Financial Planning.

**\*57. How can the return on equity be increased by using debt in the capital structure? Illustrate with a suitable example.** **5M**

Hint: Trading on equity.

**58. "Financial planning does not serve any useful purpose" Comment** **5M**

Hint: No, Explain the importance

**\*\*59. A businessman who wants to start a manufacturing concern approaches you to suggest him whether the following manufacturing concerns would require large or small working capital:**

**i) Bread ii) Sugar iii) Furniture manufacturing against specific order iv) Coolers v) Motor Car** **5M**

Hint: i) Bread – less ii) Sugar – More iii) Furniture manufacturing against specific order – less iv) Coolers – More v) Motor Car - More.

**60. What is meant by financial management? Explain any three decisions involved in it.** **5M**

**\*\*61. Explain the meaning of fixed capital. Briefly explain any four factors that determine the fixed capital of a company.** **5M**

**62. Explain any five factors which affect the dividend policy of a company.** **5M**

**63. “Financial Planning does not serve any useful purpose” Comment** **5M**

**64. How are shareholders likely to gain with a loan component in the capital employed? Briefly explain** **5M**

Hint: Trading on equity

**\*\*65. “Determining the overall cost of capital and the financial risk of the enterprise depends upon various factors.” Explain any five such factors.** **5M**

Hint: Factors affecting capital structure

**\*\*66. You are a Finance Manager of a newly established company. The Directors have asked you to determine the amount of Fixed Capital requirement for the company. Explain any four factors that you will consider while determining the fixed capital requirement for the company.** **6M**

**\*\*67. What is working capital? How is it calculated? Discuss five important determinants of working capital requirements.** **6M**

**\*\*68. Explain any six factors which affect the capital structure of a company.** **6M**

**\*\*69. What is fixed capital management? Explain any five factors determining the amount of fixed capital.** **6M**

**70. What is meant by financial management? Explain its role.** **6M**

**\*\*71. Explain any six factors affecting the financing decision of a company.** **6M**

**72. Explain any six factors affecting the dividend decision of a company.** **6M**

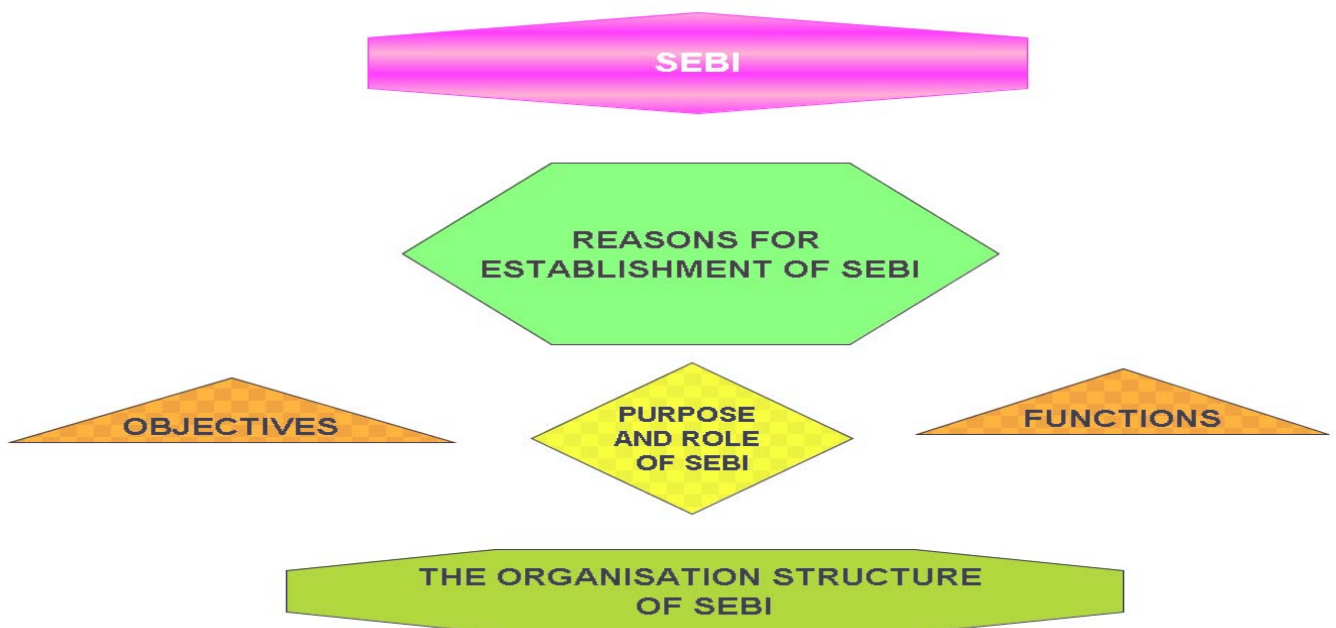
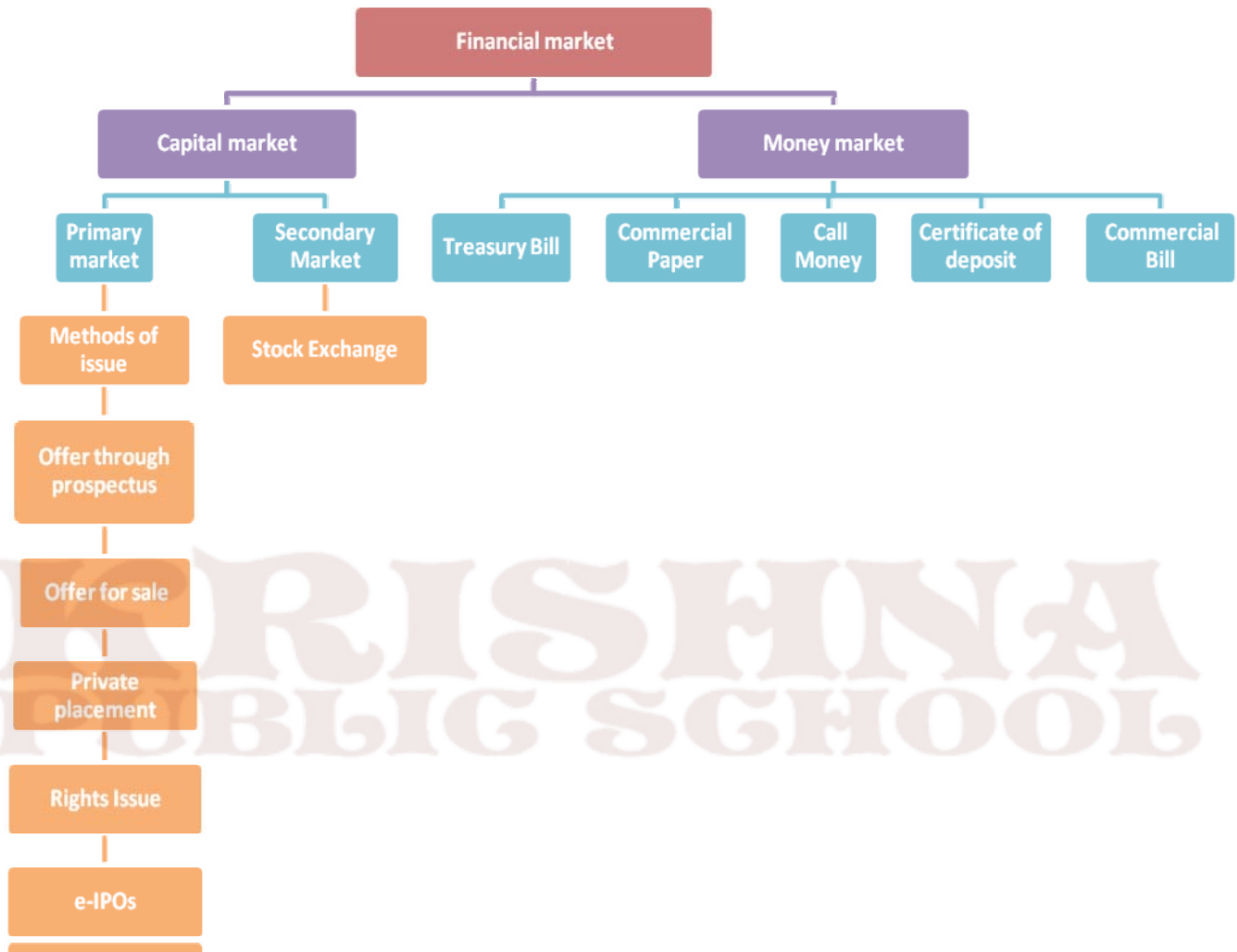
**73. What do you mean by financial planning? Discuss the importance of financial planning in financial management.** **6M**

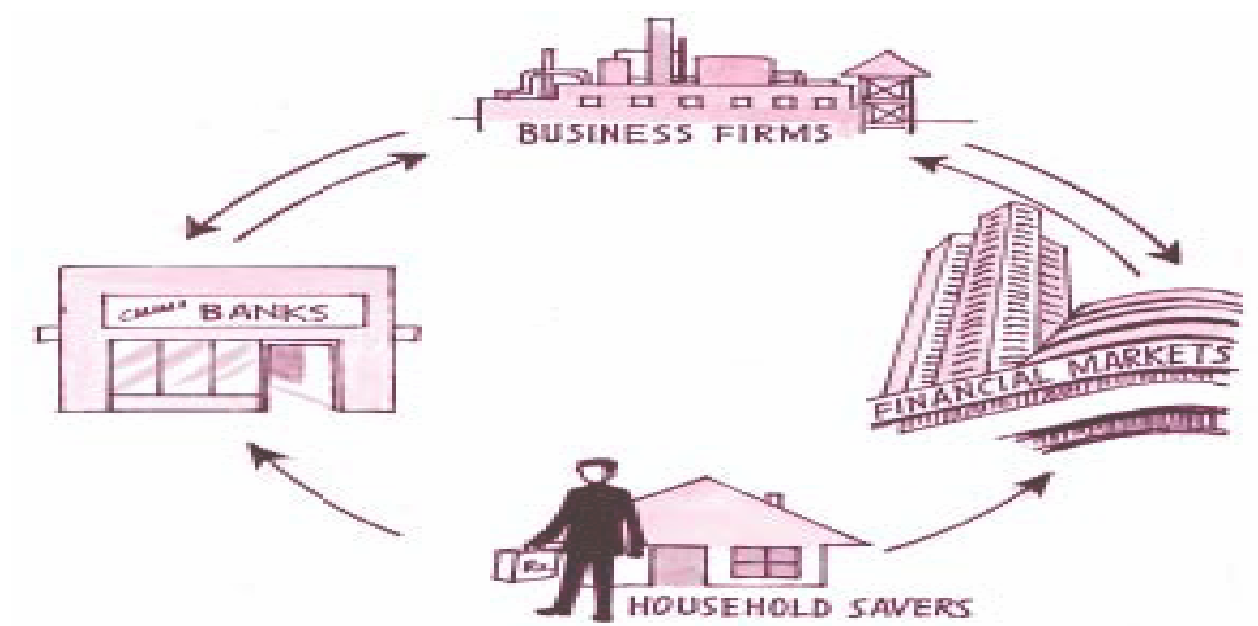
**74. The Board of Directors has asked you to design the capital structure of the company. Explain any six factors that you would consider while doing so.** **6M**

**75. “Determination of capital structure of a company is influenced by a number of factors” Explain any four such factors** **6M**

**CHAPTER 10**  
**FINANCIAL MARKETS**  
**8Marks**

CONCEPT MAPPING:





### Key Concepts in nutshell:

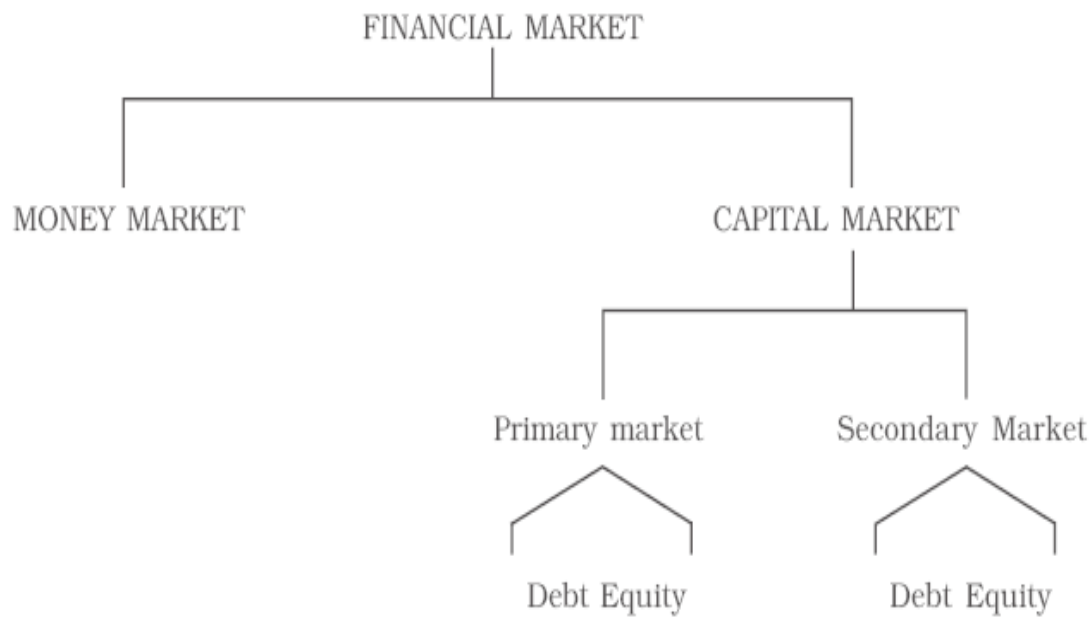
#### CONCEPT OF FINANCIAL MARKET:

It refers to the market which creates and exchanges financial assets.

#### FUNCTIONS OF FINANCIAL MARKET

- 1. Mobilization of savings and channeling them into the most productive uses:** A financial market facilitates the transfer of savings from savers to investors (industries)
- 2. Facilitates price discovery:** In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.
- 3. Provide liquidity to financial assets:** Financial markets facilitate easy purchase and sale of financial assets. In doing so they provide liquidity to financial assets, so that they can be easily converted into cash whenever required.
- 4. Reduce the cost of transactions:** Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money.

## Classification of Financial Markets



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### Instruments:

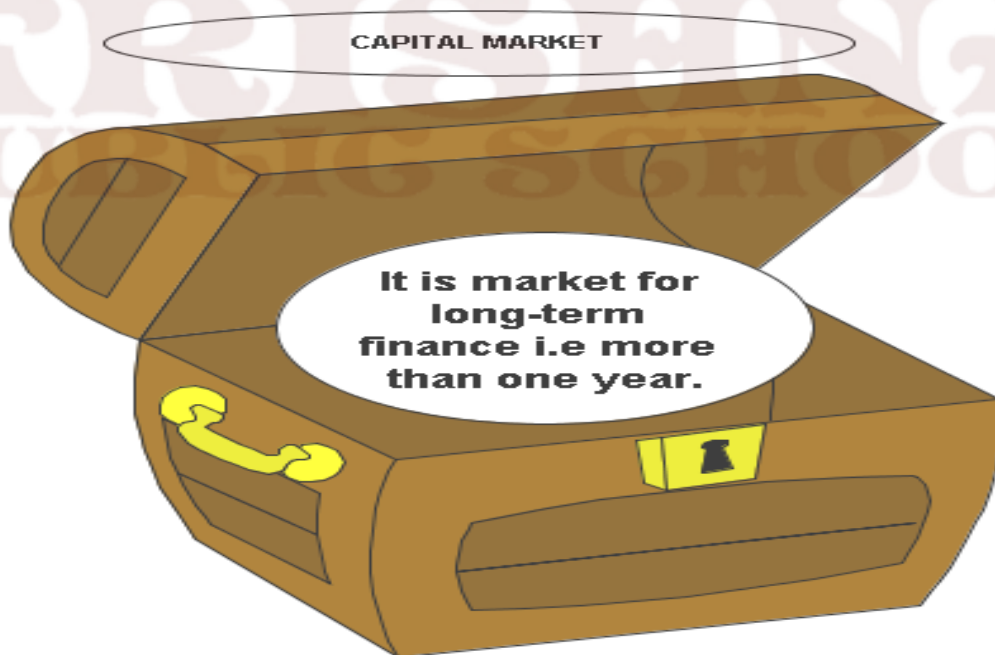
**1. Treasury Bill (T-bills):** It is basically an instrument of short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds.

**2. Commercial Paper:** It is a short-term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. It is issued by large and creditworthy companies to raise short-term funds at lower rates of interest than market rates. It usually has a maturity period of 15 days to one year.

**3. Call Money:** It is a short-term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. It is a method by which banks borrow from each other to be able to maintain the cash reserve ratio.

**4. Certificate of Deposit (CD):** It is an unsecured, negotiable short-term instrument in bearer form, issued by commercial banks and development financial institutions. It can be issued to individuals, corporations and companies.

**5. Commercial Bill (Trade Bill):** It is a short-term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms. The bill can be discounted with a bank if the seller (drawer) needs funds before the bill maturity.



#### **TYPES OF CAPITAL MARKET:**

**Primary Market:** It is also known as the new issues market. It deals with new securities being issued for the first time. A company can raise capital through the primary market in the form of equity shares, preference shares, debentures, loans and deposits.



**Secondary Market:** It is also known as stock market or stock exchange or second-hand market. It is a market for the purchase and sale of existing securities.

#### **Difference between Primary Market and Secondary Market**

Primary Market	Secondary Market
<b>1. It is the market for new securities.</b> <b>2. Securities are exchanged between company and the investors.</b> <b>3. It promotes capital formation directly.</b> <b>4. Only buying of securities takes place. Securities cannot be sold here.</b> <b>5. There is no fixed geographical location.</b> <b>6. Prices are determined and decided by the management of the company.</b> <b>7. Securities are issued to investors for the first time.</b>	<b>1. It is the market for existing securities.</b> <b>2. Securities are exchanged between investors.</b> <b>3. It promotes capital formation indirectly.</b> <b>4. Both buying and selling of securities can take place in the stock exchange / stock market.</b> <b>5. There is a specified location.</b> <b>6. Prices are determined by demand and supply for the security in the stock exchange.</b> <b>7. Securities may be bought and sold many times but not the first time.</b>

#### **Methods of Floatation:**

**Following are the methods of raising capital from the primary market :**

- **1. Public issue through prospectus:** under this method the company wanting to raise capital issues a prospectus to inform and attract the investing public. It invites prospective investors to apply for the securities.
- **2. Offer for sale:** under this method the sale of securities takes place in two steps. In the first step the company sells the entire lot of shares to the intermediary firms of stock brokers at an agreed price. In the second step, the intermediary resells these shares to investors at a higher price.
- **3. Private placement:** In private placement the entire lot of new securities is purchased by an intermediary at a fixed price and sold not to the public but to selected clients at a higher price.
- **4. Rights issue (for existing companies):** This is the offer of new shares (additional shares) by an existing company to the existing shareholders. The shareholder may either accept the offer for himself or assign to another. A rights issue to the existing shareholders is a mandatory requirement.



- **5. e-IPOs:** A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an Initial Public Offer (IPO). The issuer company should also appoint a registrar to the issue having electronic connectivity with the exchange.

### **STOCK EXCHANGE**



- **Meaning and definition of Stock exchange:** The stock exchange is a market in which existing securities are bought and sold.
- The securities contract (regulation) act, 1956 defines “a stock exchange as an association, organization, body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling of business in buying, selling and dealing in securities”.

### **Functions of stock exchange**

- 1. Providing Liquidity and Marketability to Existing Securities:** It gives investors the chance to disinvest and re-invest. This provides both liquidity and easy marketability to already existing securities in the market.
- 2. Pricing of Securities:** Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined.
- 3. Safety of Transactions:** The membership of a stock exchange is well regulated and its dealings are well defined according to the existing legal frame work. This ensures that the investing public gets a safe and fair deal on the market.
- 4. Contributes to Economic Growth:** A stock exchange is a market in which existing securities are re-sold or traded. Through this process of disinvestment and re-investment

savings get channelized into their most productive investment avenues. This leads to capital formation and economic growth.

**5. Spreading of Equity Cult:** The exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

**6. Providing Scope for Speculation:** The stock exchange provides sufficient scope within in the provisions of law for speculative activity in a restricted and controlled manner.

### **TRADING PROCEDURE:-**

The procedure for purchase and sale of securities in a stock exchange involves the following steps:

#### **4. Selection of broker**

The first step is to select a broker who will buy/sell securities on behalf of the investor. This is necessary because trading of securities can only be done through SEBI registered brokers who are the members of a stock exchange. Brokers may be individual, partnership firms or corporate books. The broker charges brokerage / commission for his services.

#### **5. Opening demat account**

The next step is to open a demat account. Demat (Dematerialised) account refers to an account which an Indian citizen must open with the depository participant (banks, stock, brokers) to trade in listed securities in electronic form.

The securities are held in the electronic form by a depository. At present, there are two depositories in India **NSDL** (National Securities Depository Ltd.) and **CDSL** (Central Depository Services Ltd.)

Depository interacts with the investors through depository participants. Your Depository Participant will maintain your securities account balances and intimate to you the status of your holding from time to time.

#### **6. Placing the order**

The next step is to place the order with the broker. The order can be communicated to the broker either personally or through telephone, cell phone, e-mail etc.

The instructions should specify the securities to be bought or sold and the price range within which the order is to be executed. Only the securities of listed companies can be traded on the stock exchange.

#### **6. Executing the order**

According to the instructions of the investor, the broker buys or sells securities.

The broker then issues a contract note. A copy of the contract note is sent to the client.

The contract note contains the name and the price of the securities, names of the parties, brokerage charged. It is signed by the broker.

## 7. Settlement

This is the last stage in the trading of securities done by the brokers on behalf of their clients. The mode of settlement depends upon the nature of the contract.

Equity spot market follows a T+2 rolling settlement. This means that any trade taking place on Monday gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm. Indian Standard Time, Monday to Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk.

### DEPOSITORY SERVICES :-

It refers to that service through which the transfer of ownership in shares takes place by means of book entry without the physical movement of shares.

#### **PARTICIPANTS OF DEPOSITORY SERVICES:**

- i. **DEPOSITORY:-** A Depository is an institution which holds the shares of an investor in electronic form. At present, there are two depository institutions in India :
  1. NSDL – National Securities Depository Limited.
  2. CDSL – Central Depository Services Limited.
- ii. **DEPOSITORY PARTICIPANT:** A Depository Participant (DP) is an agent of the depository. He functions as a mediator between the issuing company and the investors through the depository.. He opens the accounts and maintains the securities account balance of the investors and conveys them the status of their holding from time to time.. As per SEBI guidelines, banks, stock brokers etc can become depository participants.
- iii. **INVESTOR:** He is a person who wants to deal in shares and whose name is recorded with a Depository.
- iv. **ISSUING COMPANY:** It is that organization which issues the securities. The issuing company sends a list of the shareholders to the depositories.

**D'MAT/Demat ACCOUNT:**

Dematerialization (popularly known as D'Mat) is the process of converting a share certificate from its physical form to electronic form and credit the same number of holdings to the D'Mat A/c which the investor opens with a depository participant.

D'Mat Account refers to that account which is opened by the investors with depository participant to facilitate trading in shares.

**BENEFITS OF DEPOSITORY SERVICES and D'MAT ACCOUNT:**

- i) Exemption of stamp duty for dealing in shares in the electronic form.
- ii) Elimination of problems associated with transfer of shares in physical form.
- iii) Increased liquidity through speedy settlement.
- iv) Reduction in paper work.
- v) Attracts foreign investors and promoting foreign investments





- **SEBI'S CHAIRMAN MR. U. K. SINHA**

- It was set up in 1988 to regulate the functions of the securities markets with a view to promoting their orderly and healthy development, to provide adequate protection to investors and thus to create an environment to facilitate mobilization of adequate resources through the securities market.
- 1st May, 1992 SEBI was granted legal status. It is a body corporate having a separate legal existence and perpetual succession

#### **OBJECTIVES OF SEBI**

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

#### **FUNCTIONS OF SEBI**

##### **Protective Functions:**

(i) SEBI prohibits fraudulent and unfair trade practices in the securities market such as

(a) Price Rigging – Making manipulations with the sole objective of inflating or depressing the market price of securities.

(b) Misleading statements: SEBI prohibits misleading statements which are likely to induce the sale or purchase of securities.

(ii) SEBI Prohibits insider trading. An insider is a person connected with the company who is reasonably expected to have access to price sensitive information in respect of securities of a company which is not available to public at large. Directors, promoters etc., are considered as insiders when they make use of privileged information to make individual profits by buying or selling of the securities of the company is called insider trading.

(iii) SEBI undertakes steps to educate investors through seminars, camps, T.V, News papers etc.,

(iv) SEBI promotes fair practices and code of conduct in securities market such as

a) Companies cannot roll over the debenture holders, funds unilaterally and cannot change terms - term.

b) SEBI is empowered to investigate cases of insider trading and has provisions for fine and imprisonment.

c) SEBI has stopped the practice of making preferential allotment of shares at lower prices than market price.

(v) SEBI issues timely guidelines clarifications to investors during stock market up's and downs.

### **Development Function:**

i. SEBI promotes training of intermediaries of the securities market such as brokers, sub – brokers etc.,

ii. SEBI has permitted internet trading in a limited way through registered stock brokers.

iii. In order to reduce the cost of issue, SEBI has made under – writing optional.

iv. SEBI has accepted the system of using the stock exchanges to market IPO's

v. All intermediaries including collecting banks have to register with SEBI

vi. Registration of foreign Institutional investors (FIIs) allowed for the development and growth of Indian markets.

vii. PSU bonds brought under SEBI's purview

viii. Private mutual funds are allowed for the benefit of small investors.

ix. Debenture trustees to be registered by SEBI etc.

### **Regulatory Functions:**

i. SEBI registers and regulates the working of mutual funds.



- ii. SEBI regulates takeover of companies
- iii. SEBI conducts inquires and audit of the stock exchange.
- iv. SEBI registers and regulates the working of stock – brokers, Sub – Brokers, Brokers to an issue, and Registrars to an issue, share transfer agents and such other intermediaries in the stock market.
- v. SEBI regulates the business in stock exchanges and securities market.
- vi. SEBI has notified rules and regulations and a code of conduct to regulate the intermediaries in the securities market such as underwriters, merchants, brokers etc.,
- vii. Levying fee or other charges for carrying out the purposes of the Act.

**Questions (with some hints wherever necessary)**

**Important questions are shown with \* mark and the Most important questions are shown with \*\* mark**

- |  |            |
|--|------------|
| <b>*1. What is a Treasury Bill?</b>  | <b>1M</b>  |
| <b>*2. What is financial market?</b>   | <b>1M</b>  |
| <b>3. Define Capital Market.</b>   | <b>1M</b>  |
| <b>4. What is meant by Commercial Paper?</b>   | <b>1M</b>  |
| <b>5. List out the instrument of capital market.</b>                                 | <b>1M</b>  |
| <b>6. Define stock exchange.</b>   | <b>1M</b>  |
| <b>7. What is call money?</b>  | <b>1M</b>  |
| <b>8. What is primary market?</b>  | <b>1M</b>  |
| <b>9. What do you mean by Secondary Market?</b>                                      | <b>1M</b>  |
| <b>10. Define money market.</b>  | <b>1 M</b> |
| <b>11. What is D' Mat Account?</b>   | <b>1 M</b> |
| <b>12. Name the form of shares in which they are stored under Depository system?</b> | <b>1 M</b> |
| Hint : Electronic Form   |            |
| <b>13. Write the name of any one Indian Depository System .</b>                      | <b>1 M</b> |
| <b>14. What is meant by 'Rights issue of shares'?</b>                                | <b>3M</b>  |
| <b>15. Differentiate between CP and CD</b>   | <b>3M</b>  |
| <b>16. "Stock market imparts liquidity to investment" – Comment</b>                  | <b>3M</b>  |
| <b>17. What are the components of financial markets?</b>                             | <b>3M</b>  |
| <b>18. What is the difference between CD and FD?</b>                                 | <b>3M</b>  |
| <b>19. What are T-bills?</b>   | <b>3M</b>  |

20. Explain the segments of Capital market. 3M  
 Hint: Primary Market and Secondary Market
21. What is pre-emptive right/rights issue? 3M
22. "Money market instruments are more liquid than capital market instrument"  
 Comment 3M
23. What are developmental functions of SEBI? 3M
24. What are protective functions of SEBI? 3M
25. Name any six regional stock exchanges. 3M
26. Nature of capital market can be well explained with the help of its features. State any three such features of capital market. 3M
- \*27. What are the objectives of SEBI? 3M
- 28 . Explain the scope of capital market. 4M  
 Hint :i) Uses of funds ii) Suppliers of funds iii) Capital market instruments iv) Financial intermediaries.
- \*\*28.. Distinguish between primary market and secondary market. 4M
- \*\*29 what are the functions of financial markets? 4M
30. What is meant by Primary Market? Briefly explain the concept of 'Rights issue for existing companies'. 4M
31. Define stock exchange. Explain any two features of stock exchange. 4M
- \*32. Distinguish between Capital Market and Money Market on the basis of i) Expected Return ii) Safety iii) Instruments iv) Liquidity 4M
33. What is meant by 'Primary Market'? Explain any two methods of floating new issued in the Primary Market. 4M
34. "To promote orderly and healthy growth of securities market and protection of investors, Securities and Exchange Board of India was set up" With reference to this statement explain the objective of Securities and Exchange Board of India. 4M
35. What is meant by 'Financial Market' Explain any two functions of Financial Market? 4M
- \*\*36. Distinguish between Capital Market and Money Market. 5M
- \*\*37. What are the functions of stock exchange? 5M
- \*\*38. Explain the various money market instruments. 5M
- 39.. Explain the procedure of trading on a stock exchange. 5M  
 Hint: i) Selection of broker ii) Placing the order iii) Executing the order iv) Settlement



**\*40. "SEBI is the regulatory authority of the securities market". Do you agree? Give any four reasons in support of your answer. 5M**

**Hint: Regulatory Functions of SEBI**

**41. "Primary market helps for capital formation where as secondary market provides liquidity". Discuss 5M**

**\*42. "SEBI is the watch dog of the securities market" Comment 5M**

**Hint: Yes, Regulatory Functions of SEBI**

**\*43. "In today's commercial world, the stock exchange performs many vital functions" Do you agree? Give any four reasons in support of your answer. 5M**

**\*44. State any five methods of floating new issues in the primary market. 5M**

**45. "Financial market plays an important role in the allocation of scarce resources in an economy by performing many important functions" Explain any four such functions. 5M**

**\*46. Explain the Functions of SEBI. 6M**

**\*47. What is IPO? Explain various method of making it. 6M**

**48. Explain the Organisational Structure of SEBI and objectives of its committees. 6M**

**49. Name the mechanism through which transactions are completed in the depository service . 1 M**

**Hint: Book entry**

**50. What is depository Service? Explain the participants of this services. 6M**

**51. What do you understand by D' Mat Account? Explain the benefits of it. 6M**

### **THE ORGANISATIONAL STRUCTURE OF SEBI**

**i) SEBI is working as a corporate sector**

**ii) Its activities are divided into five departments. Each department is headed by an executive director.**

**iii) The head office of SEBI is at Mumbai and it has branch offices at Kolkata, Chennai and Delhi**

**iv) SEBI has formed two advisory committees to deal with primary and secondary markets.**

**v) These committees consist of market players, investors associations and eminent persons.**

**Objectives of the two Committees are:**

**i) To advise SEBI to regulate intermediaries**

**ii) To advise on issues related to development of primary market in India.**

**iii) To advise SEBI on disclosure requirements of companies**

iv) To advise for changes in the legal framework for simplification and transparency in the primary market.

v) To advise the board on matters relating to regulation and development of secondary market in India.

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**CHAPTER – 11**  
**MARKETING MANAGEMENT**  
**14 Marks**

**LINKING CLASS XI SYLLABUS:**

**Business ↗ Trade ↗ Aids to trade ↗ Marketing/Advertising.**

**CONCEPT MAPPING:**

1. Market, Consumer, Seller / Marketer – meaning
2. Marketing – Meaning, Features
3. Marketing Management Philosophies
4. Marketing Functions
5. Marketing Mix – product, price, place and promotion
6. Advertising – meaning, features, merits and limitations..
7. Objections to advertising
8. Sales promotion– meaning and variety of Tools / methods used.
9. Personal selling –Concept and qualities of a good salesman
10. Public Relations – concept and role.

**KEY CONCEPTS IN NUTSHELL**

**MARKET** :It refers to a place where the buyers and sellers meet each other for sale and purchase of the commodity.

**CUSTOMER** :Customers refers to the people or organization that seek satisfaction of their needs and wants.

**SELLER OR MARKETEEER** :The sellers or marketers offer a variety of entities to customers.

**MARKETING** :Marketing makes goods and services more useful to the society by creating place, time and possession utilities.

**FEATURES OF MARKETING :**

- a. Needs and wants
- b. Creating a market offering
- c. Customer value

- d. Exchange mechanism

**DIFFERENCE BETWEEN SELLING CONCEPT AND MARKETING CONCEPT :**

Points	Selling Concept	Marketing Concept
Starting point	Factors	Market
Main Focus	Attracting consumers	Consumer satisfaction
Means	Advertising, personal selling and sales promotion	Various marketing activities
Ends	Profit through maximum sales	Profit through consumer satisfaction

**MARKETING MANAGEMENT:** It deals with planning, organizing and controlling the activities related to the marketing of goods and services to satisfy the consumer's wants.

**NATURE :**

1. It is goal diverted
2. It determines the appropriate marketing mix if the firm.
3. It is a functional area of management
4. It is a specialized job
5. It is the marketing concept in action

**OBJECTIVES :**

- a. Creation of demand
- b. Market share
- c. Goodwill
- d. Profitable sales volume through customer satisfaction
- e. To determine marketing mix that will satisfy the needs of the customers
- f. To generate adequate profits for the growth of the business

**MARKETING FUNCTIONS:**

1. Marketing research
2. Marketing planning
3. Product planning development
4. Buying and assembling
5. Packaging and labeling
6. Branding
7. Customer support services
8. Storage and warehousing
9. Transportation
10. Promotion and selling
11. Standardisation and grading
12. Pricing
13. Fixing
14. Risk taking

**MARKETING MIX, ELEMENTS :**

1. Product Mix
2. Price Mix
3. Place Mix
4. Promotion Mix

**MEANING OF MARKETING MIX:**

It refers to the combination of four basic elements, product, price, promotion and the place known as the four P's of marketing.

**PRODUCT:** Total number of products and items that a particular seller offers to the market is called market mix.

- a. Branding
- b. Trade mark
- c. Packaging
- d. Labelling

**PRICE MIX:** It is the worth of a product or service in monetary terms :

Factors considered before fixing price are

- a) Company objectives

- b) Cost
- c) Competition
- d) Customer demand

**PLACE MIX :** It refers to a set of decisions that need to be taken in order to make the product available to the consumers for purchase and consumption.

Channels of distribution.

Physical distribution

Cost and service trade off in Logistics

**PROMOTION MIX:** It is concerned with activities that are undertaken to communicate with both customers and participate in the channel of distribution such that sales goals are realized.

#### **ACTIVITIES INVOLVED IN PHYSICAL DISTRIBUTION OF GOODS**

- a. Transportation
- b. Inventory
- c. Warehousing
- d. Order processing

#### **FACTORS TO BE KEPT IN MIND BEFORE PRICING**

- a. Cost of production
- b. Demand for product
- c. Price if competitive firms
- d. Purchasing power if customers
- e. Government regulations
- f. Objective

#### **CHARACTERISTICS OF GOOD BRAND NAME :**

- 1. Simple and short
- 2. Easily pronounceable
- 3. Suggestive
- 4. Distinctive

#### **VARIOUS LEVELS OF CHANNELS OF DISTRIBUTION**

- 1. Direct channel / Zero level channel

## 2. Indirect channels

- a. One level channel – Manufacturer to Retailer
- b. Two level channel – Manufacturer to Wholesaler to Retailer
- c. Three level channel – Manufacturer to Agent – Wholesaler – Retailer - Consumer

### **FUNCTIONS OF PACKAGING:**

- a) Protection
- b) Identification
- c) Convenience

### **FUNCTIONS OF LABELLING:**

- a) Identification
- b) Classification
- c) Promotion

### **ADVANTAGES OF BRANDING:**

- a) Brand name helps in advertising in easier way
- b) Brand name establishes the permanent identify of the product.
- c) Brand name promotes repurchasing.
- d) Competition becomes easier with the help of brand loyalty.

**ADVERTISING:** It is defined as any paid form of non-personal presentation or promotion of ideas, goods or services by an identified sponsor.

**Merits:**

- 1) Mass reach
- 2) Enhancing customer satisfaction
- 3) Expressiveness
- 4) Economical

**Limitations:**

- 1) Less forceful
- 2) Lack of feed back
- 3) Inflexibility
- 4) Low effectiveness

**Features:** a) Paid form

- b) Impersonal presentation
- c) Speedy and mass communication
- d) Identified sponsor

### **OBJECTIONS TO ADVERTISEMENT**

- a) Adds to Costs: Advertising costs are passed on to the consumers in the form of high prices.
- b) Some Advertisements are in bad taste.
- c) Undermines social values.
- d) Confuses the buyers.
- e) Encourages the sale of inferior goods.

**PERSONAL SELLING:** It involves face-to-face interaction between the seller and the prospective buyer.

- Features:**
- 1) Personal interaction
  - 2) Two way communication
  - 3) Better response
  - 4) Relationship

### **QUALITIES OF A GOOD SALES MAN:**

- i) Physical Qualities – personality, stamina, health, tolerance
- ii) Mental Qualities – mental alertness, sharp memory, initiative, imagination and self confidence.
- iii) Social Qualities – Socialbility, tact, sound character, sweet nature.
- iv) Vocational qualities – Knowledge of product, knowledge of competitive products, training and aptitude.

**Sales promotion:** It refers to short term use of incentives or other promotion activities that seek to stimulate interest.

- a) Rebates
- b) Refunds
- c) Discounts
- d) Quantity deals
- e) Contents
- f) Packaged premium



- g) Container premium
- h) Premium Gifts
- i) Sampling
- j) Free in mail premiums

### **PUBLIC RELATIONS**

**Meaning:** Public relations are the deliberate, planned and sustained effort to establish and maintain understanding between an organization and its public.

#### **ROLE OF PUBLIC RELATIONS:**

- i) More credible.
- ii) Economical Medium
- iii) Image building.
- iv) Boosts the sales of the organization.

#### **VARIOUS PUBLIC RELATION TOOLS TO SHAPE THE PUBLIC IMAGE IF THE ORGANISATION**

- a) News
- b) Speeches
- c) Events
- d) Written Materials
- e) Public service activities

### **QUESTIONS (WITH SOME HINTS WHEREVER NECESSARY)**

1. Define market in modern marketing sense. 1M
2. Give an example of services which can be marketed. 1M

**Hint: Market Offer**

3. Define marketing management in present context. 1M
4. "They don't sell what they can make, but they make what they can sell ". Name the marketing philosophy to which this statement is related. 1M
5. Which concept of marketing suggests that the organization should earn profit through consumer satisfaction and social welfare? 1M
6. Give one function of marketing. 1M
7. Give few examples of direct channel (zero level) 1M
8. What do you mean by product? 1M
9. Mention one advantage of branding to consumers. 1M
10. What is meant by trade mark? 1M
11. Give one function of package. 1M
12. State the features of advertising( any one) 1M
13. Mention one objection to advertising. 1M

**Hint: Undermines social values.**

14. Define sales promotion. 1M
15. Explain the various method of sales promotion. 3/4M
16. What is meant by product concept of marketing? 3/4M
17. Explain the features of marketing. 3/4M
18. 'Product is a bundle of utilities' Do you agree? Comment 3/4M

**Hint: It includes physical objects, services, ideas, place, experiences, properties, events, information's, persons which can be offered to the potential buyers for their use.**

19. Outline the objectives of marketing management. 3/4M
20. Enlist the advantages of packaging of products. 3/4M
21. Explain the term personal selling and explain the qualities of a good salesman.. 5/6M
22. Advertising and personal selling both are communication tools used by the marketers to promote their products. Yet, they differ in their approach. Differentiate between the two by giving any six differences. 5/6M

**Hints: Any five differences.**

**23. Expenditure on advertising is a social waste. Do you agree? Discuss. 5/6M**

**Hint: Partially true, write objections to advertising**

**24. Explain the importance of advertising for manufacturers, consumers and the society. 5/6M**

**25. Explain the factors determining choice of channels of distribution of any product. 5/6M**

**26. Discuss the various elements of marketing –mix. 5/6M**

**27. Briefly explain the functions of marketing. 5/6M**

**28. What do you mean by marketing management? Explain its objectives. 5/6M**

**29. How personal selling is important to businessmen, customers and the society. 5/6M**

**30. What are the merits and limitations of sales promotion? 5/6M**

**31. What is Public Relations? Explain its role. 6 M**

### **QUESTIONS BASED ON VALUES:**

While marketing certain brand of cool-drinks, a MNC is following dual standards in Europe and Asian Countries. Identify the values missing.

Ans.

- i. All customers should be treated equally.
- ii. Customers' health should be given top priority rather than earning profits.
- iii. Human values are missing .



## **CHAPTER - 12**

### **CONSUMER PROTECTION      6 Marks**

#### **Class XI Syllabus Linkage:**

**Manufacturer?Wholesaler?Retailer?Consumer?Protection**

#### **CONCEPT MAPPING:**

- Concept and Importance of consumer protection

- Consumer Protection Act 1986
  - Meaning of consumer and consumer protection.
  - Rights and Responsibilities of consumers.
  - Who can file a complaint and against whom?
  - Redressal machinery.
  - Remedies available
- Consumer awareness - Role of consumer organization and NGO's

### **KEY CONCEPTS IN NUTSHELL**

**Meaning:** Consumer protection refers to protecting the consumer against anti-consumer trade practices by the producers or sellers.

#### **IMPORTANCE OF CONSUMER PROTECTION:**

1. Business is a means of human welfare
2. Growth with social justice
3. Single vs Multiple objectives
4. Stake holders of society / moral justification.
5. Power centre / social responsibility
6. Self interest
7. Ethical obligations
8. Public support
9. Consumer is the purpose of the business long-term interest of business

#### **CONSUMER RIGHTS:**

1. Right to safety
2. Right to be informed
3. Right to choose
4. Right to be heard
5. Right to seek Redressal

## 6. Right to Consumer Education

### **CONSUMER PROTECTION ACT 1986:**

a) Under this Act, remedies available to consumers are as follows :

1. Removal of Defects
2. Replacement of Goods
3. Refund of Price
4. Award of compensation
5. Removal of Deficiency in service
6. Discontinuous of unfair / Restrictive Trade practice

### **CONSUMER RESPONSIBILITIES**

1. Consumer must exercise his rights: They must be aware of their rights while buying.
2. Consumers should buy only standard goods like ISI/AGMARK goods only.
3. Filing complaint for the redressal of genuine grievances.
4. Consumer must be quality conscious / should not compromise on quality.
5. Consumers should learn the risks associated with products and services.
6. Do not forget to get receipt and Guarantee / Warranty Card.
7. Consumers should read labels carefully.
8. Consumers should be honest in their dealings. They should buy only legal goods.
9. Consumers should respect environment. Avoid waste, littering and contributing to pollution.
10. Consumers should form consumer societies.

### **Ways and Means of Consumer protection**

- a) **Self regulation by business:** Every firm insists to have a strong consumer base which means that more and still move people should buy their products. This is possible only when the consumers are fully satisfied with the products of the firm.

- b) **Business Associations:** Business associations prepare a code of conduct for businessmen.
- c) **Consumer Awareness :** Consumer should protect himself
- d) **Consumer organizations:** these organizations can force business firms to avoid malpractices and exploitation of consumers.
- e) **Government:** Interests of the consumers are protected by the government by enacting various legislations. Consumer protection Act 1986 is an important legislation by the government to provide protection to the affected consumer.

#### **Various remedies available to the consumers for redressing their grievances under the consumer protection Act 1986.**

- a) **District forum:** According to consumer protection Act state government can set up one or more district forum in each district.
    - 1) District forum hears disputes involving a sum upto Rs. 20 Lacs.
    - 2) It can file appeal against it with the state commission within 30 days.
  - b) **State commission:**
  - c) 1) State commission redresses grievances involving a sum exceeds Rs. 20 lacs and upto Rs. 1 crore.
    - 2) It can file an appeal before the national commission within 30 days.
  - d) **National commission :**
  - e) 1) It is appointed by the Central Government
    - 2) It has the jurisdiction to hear complaints involving a sum exceeding Rs. 1 crore.
- 3) It can file an appeal with the Supreme Court within 30 days

#### **ROLE of Consumer Organisations and Non-Government Organisations (NGO's)**

1. Education Consumers
2. Collecting data on different products and Testing them
3. Filing suit on belief if consumers
4. Helping Educational institutions
5. Promoting network of consumer association.

6. Extending support to Government

**NGOs :** Non-Government Organisations are those organizations which aim at promoting the welfare of the people with non-profit concept. They are taking up various aspects of consumer exploitation.

- a) Consumer co-coordinating councils
- b) Role of the press
- c) Role of Universities / Schools

**Legal protection to consumers:**

- a) The Consumer Protection Act 1986
- b) The Contract Act 1982
- c) The Sale of Goods Act 1930
- d) The Essential Commodities Act 1955
- e) The Agricultural produce (Grading and Marketing) Act 1937
- f) The Prevention of Food Adulteration Act 1954
- g) The Standards of Weights and Measures Act 1976
- h) The Trade Marks Act 1999
- i) The Competition Act 2002
- j) The Bureau of Indian Standards Act 1986.

**Questions (with hints wherever necessary)**

- 1. Mention the act which provides protection to consumers. 1M**
- 2. The scope of consumer protection act is very wide. How? 1M**
- 3. Mention one reason behind importance of consumer protection from consumer point of view. 1M**
- 4. What does consumer protection act 1986 aims at? 1M**



5. Consumers might be exploited by unscrupulous, exploitative and unfair trade practices. Give few examples of such practices adopted by sellers. 1M
6. Who is a consumer under consumer protection act? 3M
7. Explain three aspects of consumer protection. 3M
8. Give any three points showing the importance of consumer protection from consumers' point of view. 3 M
9. Give the meaning of Right to Safety. 3M
10. What are the responsibilities of consumers? 3M
11. Explain the rights of consumers. 5M
12. What are the remedies available to consumers under the consumer protection act, 1986? 5M
13. Explain briefly any five ways and means of consumer protection followed in India. 5M
14. Explain in brief any five responsibilities of consumers to safeguard their interests. 5M

### VALUE BASED QUESTION

1. Ananya is a pure vegetarian. She went to a snacks bar and asked for "Veg. French Fries". Later on, she found that it had some non-vegetarian content. Neither the advertisement, nor packing of the product showed that it may have non-vegetarian content. Identify the values missing here in this context.

Ans. The manufacturer is not honest. So the value missing here is "Honesty".

The right to information is violated.

**2. A pharmaceutical company is marketing its medicines in India which were banned in some other countries due to their side effects. The company did not mention this information anywhere. Identify the values missing.**

Ans.     I) Right to information is violated

          ii) Consumer protection is ignored.

          iii) The company is not following uniform practices in all the countries.

          iv) India should have stringent laws to punish such companies.

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## Nature and Purpose of Business

1. **Sheela is a teacher of Mathematics in a school. Also, she helps her son to do Mathematics. She takes private tuition to 22 students in her house. How are these activities different?**

When Sheela helps her son to do mathematics, it is out of love and affection. It is not for income and so it is a non economic activity. When she goes to school, it is employment because she earns a salary for her service. When she takes private tuition, she gets a fee and therefore, she is in profession.

2. **Rahim, your brother intends to start a cement company. But he is unaware of the possible risks that he may face in his new venture. As a student of commerce, how will you advise him?**

Important risks that Rahim has to face are the following:

**Natural causes** - Rain, famine, earthquake

**Human causes** - Theft, strike, riots

**Economic causes** - Changes in demand for cement, change in price of cement, trade depression

**Political causes** - Change in Government policies, taxation

**Managerial causes** - Mismanagement of resources, poor planning

3. **Midhun was working as an attendant in a skin clinic. After having enough experience, he started his own clinic for skin diseases. He puts a name plate "Dr. Midhun, Skin specialist" in front of his clinic. State the essential features of a medical profession that are lacking here?**

Midhun cannot start a clinic legally in his own name because he does not possess M.B.B.S. degree approved by the Medical Council of India.

The essential features of medical profession mentioned below are lacking here:

- i) A profession requires specialised knowledge, training and skill.
- ii) The membership of the professional body is a must

for practising a profession.

- iii) The members belonging to a particular profession must abide by the rules and regulations enforced by the professional body.

## Forms of Business Organisation

1. **Hindustan gas agency is a family run business organisation based at Palakkad. The senior member of the family Mr. Haridas is running the business, assisted by his 3 grand sons- Arun, Aneesh and Biju. On 28th November, 2005 Biju dies in an accident. The deceased member's wife stakes claim for a membership in the family business. Mr. Haridas rejects her claim.**

a) **The case given, pertains to a particular form of business. Here, who is performing the role of Karta?**

b) **Do you agree with the decision of Mr. Haridas? Why?**

- a) Mr. Haridas is the Karta of this business.
  - b) Yes, Mr. Haridas's decision is correct because only male members are entitled to run the business activities in an HUF. Thus, the property is successively owned by a son, grandson and great grandson.
2. **Arun, Nisha and Lekshmi entered into an agreement for starting a supermarket- 'Mythri'. The other terms and conditions of the business were mentioned in their deed.**

While having an official meetings of the partners, Nisha and Lekshmi suggested that the firm should be registered. But Arun contented that, it is not essential to register Mythri. The other two partners disagreed with Arun and maintained that it is essential because they don't want to bear the consequences.

**As an expert in this topic,**

a) **Whom do you favour? Specify your reasons in support of your judgement.**

(b) **In your opinion, is there any consequences, if**

**Mythri is not registered? Explain.**

a) It is not essential to register a partnership firm. In that sense we can favour Arun. It is always better to register the firm, even though not compulsory.

**b) Consequences of non registration**

The following are the consequences of non-registration of partnership.

- (i) An unregistered firm cannot legally enforce a claim against any third party for the recovery of claims.
- (ii) An unregistered firm cannot sue against its partners.
- (iii) A partner of an unregistered firm cannot enforce his claims against outsiders or against his co-partners or the firm.
- (iv) A third party is at full liberty to file a suit against any unregistered firm or against any partner thereof for recovery of debts.

## Private, Public and Global Enterprises

1. In the light of Union Government's decision to sell majority of its shares in Indian Airlines through public offer, can you say, which policy of the government, in this case the shares are sold? Explain.

**Ans:** The policy is called disinvestment policy.

Outright sale of government shares in public sector undertaking is called disinvestment. Government holding in such units is thereby reduced and private participation enhanced. Sale of shares in Indian Petro Chemicals Ltd., and Maruthi Udyog Ltd. are examples of disinvestment. The five member Disinvestment Commission was set up on August 7, 1996. Its major tasks have been spelled out as follows:

- (i) To prepare long term disinvestment programme.
  - (ii) To determine extent of disinvestment in each PSU.
  - (iii) To decide on instrument, pricing and time.
  - (iv) To supervise sales process.
  - (v) To monitor disinvestment process
2. Which among the following is formed by a special Act of the Parliament? Give two examples of such organizations.
- a) Departmental organization.

b) Government company

c) Statutory corporation

d) Foreign company

**Ans:** Statutory Corporation

**Examples:**

a) Industrial Finance Corporation of India (IFCI)

b) Oil and Natural Gas Commission (ONGC)

3. What are the important features of Basic and Key industries operated as public sector enterprises?

a) Public sector enterprises have the responsibility to start basic and key industries.

**Features:**

(i) They require very heavy capital

(ii) They have long gestation period

(iii) Lower margin of profit

## Business Services

1. We have heard of the terms insurance and assurance. Are they same? Explain.

The term insurance and assurance is used synonymously. But there exists some difference between them. The term assurance is applied to contracts, where the risk insured against is certain to happen, but the time of its happening is uncertain. For example, death of a person. Thus, life insurance is generally termed as life assurance.

The term insurance is applied to contracts where the loss due to risk is not certain to happen. In this, the insured is indemnified against a probable risk that is uncertain. For example, accident, theft, illhealth etc. This category is termed as insurance.

2. Mr. Dino is running a textile shop. He insured the shop for Rs. 1,00,000 against natural calamities. After this, the shop was completely destroyed by fire due to electric short circuit. He claimed for compensation. But the insurance company refused to admit the claim on the ground that the shop was insured against natural calamities.
- a) Can you justify the decision of insurance company?
- b) Which principle of insurance is applicable

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here?

The decision of insurance company is justifiable.

Here, the principle of *causa proxima* is applicable.

**Principle of *causa proxima*:** This principle lays down that an insured can recover from the insurer for the loss of subject matter only if it is caused by the risk insured against. When there is only one cause for a loss the claim can be settled easily. When there are two or more causes for a loss then the principle of *causa proxima* is applicable. According to this, only the proximate or the nearest cause will be considered when there are several causes for the loss. The insurer is liable only if the insured risk is the proximate or nearest cause of loss.

3. **Mr. Anand, your friend has started a new business. He decided to open a bank account with SBI. He had only a vague idea about the type of accounts available to the business people. So he seeks your help to choose the most favourable account for him. How will you advise him?**

The most favourable account for Mr. Anand is current account. Its reason is that there is no restriction on the frequency and volume of deposits or withdrawals of money in this type of account.

Other Privileges: (a) overdraft facility, and (b) Other facilities like collection of cheques, transfer of money and rendering agency and general utility services.

The most important advantage of this account is that money can be deposited and withdrawn at any time.

## Emerging Modes of Business

1. **“Outsourcing is helpful to the businessmen, producers, manufacturers and consumers for better standard of living.” In the light of this statement explain the nature and need of outsourcing.**

**Meaning of outsourcing :** Business activities are fast changing in this dynamic world. Since the last decade, a new concept has evolved in the service

sector called Business Process Outsourcing.

Outsourcing consists of getting a business task accomplished through an outside agency. For example transportation of raw materials into the factory may be entrusted to a transport company. In business process outsourcing, companies hire out on contract those tasks, which are performed on a regular basis. The idea behind outsourcing services is to restrict the business house to concentrate to its main work through front office and leave the rest work with the back office which is eager to offer its specialist services at economical rates.

### Nature of Outsourcing

The nature of outsourcing can be as follows:-

#### 1) **Getting work done through outsiders:**

Outsourcing is the process of getting work from specialist individuals outside the business. For example, an individual hires mechanic for repairing his television set rather than repair himself.

**2) Quality job:-** Through using outsourcing sources people get good quality. For example, a specialised faculty of a particular subject can teach the same subject better than general faculty.

#### 3) **Improvement in the quantity of products:-**

Outsourcing helps to improve the quantity of products with their quality. A specialised courier agency or a transport company serves business better than its own drivers of trucks/vehicles.

**4) Expansion of business:-** Outsourcing process links growing business to a range of state-of the art services and resources. By using outsourcing resources any business can expand as per its need.

**5) Better standard of living:-** Outsourcing provides best services to the people. In modern world every individual wants to avail of maximum opportunity of his precious time. That's why, he wants to use specialists for his different needs, which provides better standard of living.

### Need of Outsourcing

The principal needs of outsourcing are classified as follows:-

**1) Enhancement of Business:-** Every businessman



wants more and more profits and personal development. For that he should try to become distinguished from others by providing standard and specialised quality of product.

**2) Satisfaction of more wants:-** People's wants are unlimited. There is no end of wants and population growth. Therefore, it is the responsibility of every producer and manufacturer that he should try to satisfy human wants to a greater extent by producing more through outsourcing services.

**3) Obtaining better quality of product:-** Standard of living of people is improving day by day. Every individual wants to use standard quality of goods and services. For this purpose they use outsourcing resources, so that standard quality of goods could be produced.

**2. Suppose a businessman wants to introduce E-commerce, what advice can you give with regard to the resources required for it?**

Resources required for implementation of E - Commerce

E-commerce is an online electronic technology connected through internet to assist and enhance a variety of business processes, functions and systems. It runs with the help of computer and internet systems which provide best services of sales and purchases online and near real time. The following resources are required for the successful implementation of e-commerce.

**(i) Adequate computer hardware:** The business enterprise must procure computers which have necessary speed, memory and nodes sufficient to handle the expected volume of business.

**(ii) Technically qualified and responsive work force:** The business enterprise must have well trained work force which is capable of working with computer networks and internet with ease. They must also be trained to handle the sales inquiries, processing the orders and ensuring prompt delivery. There should be proper co-ordination among receipt of order, payment and delivery of goods so that mistakes relating to sending goods not ordered or despatching goods

to wrong destinations may be minimised even if not eliminated completely.

**(iii) System receiving payments:** The business enterprise need to have a full-proof system of receiving payment for the goods sold. Sufficient information should be made available so that customers are able to calculate the accurate amount to be paid. There should also be provision for refund of excess amount collected. Arrangements should be made with banks and credit card agencies for receipts and payments electronically.

**(iv) Well-designed website:** The firm must develop a comprehensive website to communicate effectively with the customers and business partners. The information contained in it should be detailed and hyperlinked with pictures, graphics and other relevant data. Since this is a specialised job it is to be entrusted with experienced and professionally qualified people. Sufficient resources are needed to engage their service.

**(v) Effective telecommunication system:** The existence of an effective telecommunication system is a prerequisite for the successful implementation of an e-commerce program. Proper reach of telephone lines, optic fibre cables and internet technology capable of handling the traffic on the internet are essential. If telephone lines are getting frequently disconnected or if it is difficult to access the internet without making huge investments e-commerce can not be successful. Unless prompt internet facility becomes available to the common man at low prices, it may remain confined only to the rich or the upper-middle income groups. The problem is referred to as problem of digital divide. To make it popular with the low or middle income groups, digital divide must be bridged and for this purpose, efforts must be made as a matter of national policy to reduce the cost of hardware as well as price of using internet.

**3. How to address the problem of unemployment in Kerala through BPO?**

The main problem faced by people in Kerala is unemployment. Majority of people here are well edu-

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cated. Business Process Outsourcing is a great relief to them. They can do this work by sitting at home. The only pre-requisite is to get a computer with internet connection. They can search the people who wish to outsource their work and can undertake the assigned job. Thus, they can earn reasonable amounts using their skill and knowledge. In this regard, BPO can be considered as a remedy to unemployment in Kerala.

## Social Responsibilities of Business and Business Ethics

1. **“Social responsibility and business ethics are the two sides of the same coin”. Substantiate your views.**

Business ethics and social responsibility are closely interrelated. Being ethical in business would mean doing right things according to the standards prescribed and the prevailing expectations. It is doing justice to all concerned and protecting the business value system. When a business is ethical, it naturally meets its social responsibilities. It has to justifiably discharge its obligations towards employees, consumers, government and local authorities and other societal groups. Social responsibility and business ethics are, thus two sides of the same coin.

2. **“Social environment influences the working of firms”. Examine this statement.**

The demand for goods and services depends upon people's education, customs and other social factors. Now women are increasingly educated and employed. As a result, the demand of household equipments like refrigerators, electrical gadgets etc. has increased a great deal. Growth of education increased the production of books and stationery items. The attitudes of people in respect of food and clothing resulted in increase of food processing and garment industries.

3. **Technology is advancing day - by - day. Whether these changes have any impact on business activities? Explain.**

Technological changes are taking place so fast that increasingly large number of new products are being introduced in the market. Communication systems are advanced due to technological development. As a result, consumers in wider markets can also be informed about new products through mass media. This affected modern industries manufacturing electronic equipments, engineering goods, machineries etc.

## Formation of a Company

- 1.A group of 10 persons intends to start a new private limited company and submits application to the Registrar of Companies along with the necessary documents. But the application was rejected on the ground that the proposed name of company “Mahatma Gandhi Corporation Pvt Ltd” is not acceptable. Can the decision of the Registrar be justified? If so, on what ground?

Decision of Register is right. It is specifically stated in the name clause of the memorandum that the proposed name of the company should not suggest any connection with or association or patronage of a national hero.

Here, the proposed name of the company is ‘Mahatma Gandhi Corporation Pvt Ltd.’ Mahatma Gandhi is a national hero and hence a company in his name cannot be registered.

2. **We know that, formation of a public company involves preparation and filing of several documents; such as Memorandum, Articles etc. Suppose, a public company wishes to alter the object clause of its memorandum. How is it possible for the company?**

A company may change its object clause by passing a special resolution and with the prior approval of the Company Law Board. The Company Law Board may grant permission to alter the object clause on satisfying the following conditions.

- a) The objections, if any, of the Registrar have been obtained.
- b) Sufficient notice has been given to every creditor and other persons whose interest may be affected by the proposed alteration, and
- c) With respect to every creditor either his consent

has been obtained or his debt has been discharged. A copy of the resolution should be filed with the Registrar within 30 days of passing the resolution.

**3. “Memorandum of Association is the charter or magna carta of the company.” Elucidate this statement.**

The memorandum of Association is the most important document which a company has to file with the Registrar for obtaining incorporation.

It defines the powers and prescribes the limits within which the company is required to operate. It determines the relationship with the outside world viz. shareholders, creditors and all those who have dealing with the company. Thus it can be regarded as the charter or magna carta of the company.

## Sources of Business Finance

**1. Sunrise Associates is a company suffering from huge losses. But for this company, there is scope for prosperity in the near future. To carry on its activities properly, it needs additional finance. Which source the company can make use of, equity or debentures? Why?**

The company can depend on ‘debentures’ for additional financing because debentures have the following features and advantages:-

- (i) Debentures represent borrowed capital.
- (ii) Interest on debentures is payable at a fixed rate.
- (iii) Interest on debentures is an obligation to the company and is payable whether there are profits or not.
- (iv) Debenture holders are creditors of the company.
- (v) Debenture holders have no voting rights.
- (vi) Debentures may involve a charge on the assets of the company.
- (vii) Debentures are repayable after a specified period or at the time of winding up of the company.

**Advantages**

Issue of debentures are advantageous to a company for the following reasons:

- (i) Debentures carry no voting rights. Thus, a company can raise funds without losing control over the management of the company.
- (ii) Interest on debentures is payable at a fixed rate. The remaining profits after payment of debenture interest belongs to shareholders. When the earnings of the company increase, the rate of equity dividend can be increased.
- (iii) Debenture interest is an expense to the company. So the company is liable to pay tax only on the balance amount after deducting debenture interest.
- (iv) A company can opt for redemption of debentures when it does not require the funds any more.
- (v) A company can raise enough funds through debentures relatively at a low cost.

**2. Ushus Limited is a successful company in its field of operation. The company decides not to distribute dividend during this year; instead, decides to set apart a fixed percentage of its current year profit for various expansion activities. What will we call this activity? Make this concept clear explaining its merits and demerits.**

This activity is known as ploughing back of profits.

**Merits**

Retained earnings has the following merits.

- 1. Being an internal source, it is more dependable than external source.
- 2. It is a cost-free source of finance.
- 3. It increases financial strength and earning capacity of the business.
- 4. No fixed commitment to pay dividend.
- 5. No security is required.

**Demerits**

- 1. Accumulation of reserves often attract competition in the market.
- 2. With increased earnings, shareholders expect a higher rate of dividend to be paid.
- 3. The ploughing back of profit leads the management to manipulate the value of shares.
- 4. Growth of companies through internal financing may



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attract government restrictions as it leads to concentration of economic power.

3. **Mr. Cheriyan, a pensioner wishes to invest a huge sum in a company. He expects a steady return and security of investment without taking any risk of loss.**

a) Name the type of investment he should go for?

b) Explain its features.

He can opt for preference shares.

### Features

- ◆ Preference shareholders have the right to claim dividend, according to the terms of issue of shares.
- ◆ Preference shareholders have also the preferential right of claiming repayment of the capital.
- ◆ Preference shares carry limited rights over the management of the company.

- Wool, Silk, Synthetic Fibre and Textiles

- Jute, Hemp and Mesta Textiles

Other Services

2. **Governments both at the central and the state level has been actively participating in promoting self employment opportunities in rural area. Name the forms of support offered to small industries by the government.**

- Institutional support in respect of credit facilities
- Provision of developed sites for construction of sheds
- Provision of training facilities
- Supply of machinery on hire purchase terms
- Assistance for domestic and export marketing
- Technical and financial assistance for technological up-gradation
- Special incentives for setting up of enterprises in backward areas

## Small Business

1. **Village and small industries together provide the largest employment opportunities in India. Name the major industry groups in the small scale sector.**

- Food products
- Chemical and Chemical Products
- Basic Metal Industries
- Metal Products
- Electrical Machinery and Parts
- Rubber and Plastic products
- Machinery and Parts except Electrical Goods
- Hosiery and Garments- Wool Products
- Non-metallic Mineral Products
- Paper Products and Printing
- Transport Equipment and Parts
- Leather and Leather Products
- Miscellaneous Manufacturing Industries
- Beverages, Tobacco and Tobacco Products
- Repair Services
- Cotton Textiles

## Internal Trade

1. **Ms. Suchitra is a retailer of stationery items. She reminds the tremendous service often provided by the wholesalers because she thinks, without them, she can't imagine to go ahead with her business. Give your comments regarding her opinion.**

### Services of wholesalers

The wholesalers provide various services to both manufacturers and retailers.

### Services to Manufacturers

1. **Bulk buying:-** The wholesaler buys goods in large quantities from the producers and distribute them in smaller quantities to retailers. Hence the producer is relieved from the botheration of supplying the goods in small quantities to numerous retailers.
2. **Economies of scale:** A wholesaler buys goods in large quantities and helps the producer to carry on large scale production. Large scale production reduces the cost per unit of the product.
3. **Market information:** On account of his close association with the retailers, the wholesaler gets many market information such as changes in fashion, in-

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roduction of new products, consumer preferences etc.

4. **Warehousing:** The wholesaler lifts almost the entire products immediately on production and keeps them in his warehouses till they are sold out to retailers.
5. **Specialisation:** The wholesaler, generally specialises in a particular line of products. Hence he knows exactly from whom he should make his purchases to get the best quality at the most favourable prices. Retailers can also benefit from such specialisation when they buy goods from wholesalers.
6. **Price stability:** Wholesalers maintain price stability by regulating the supply of goods. They also help retailers to take advantage of favourable price fluctuations.

### Services to Retailers

1. **Sources of supply:** Retailers are required to maintain stock of a large variety of goods, wholesalers help them in this regard by providing different varieties of goods in small quantities as and when required.
2. **Warehousing:** The wholesalers store goods in large quantities and supply them in small lots to retailers. So retailers are not required to maintain warehouses for storage of goods.
3. **Financing:** Wholesalers provide both direct and indirect financial assistance to retailers. So retailers can carry on their business with smaller amount of capital.
4. **Assumption of risk:** Wholesalers assume the risks of price fluctuations and damage of goods. Some wholesalers take back the unsold stock of retailers. They also bear the risk of bad debts arising out of credit sales.
5. **Regular supplies:** Wholesalers are always well stocked with a variety of goods. Therefore, the retailers are assured of regular and prompt supply of their requirements.
6. **Publicity:** Wholesalers advertise their products regularly. Retailers have an increased sales from this publicity.

7. **Information about new products:** Wholesalers are in constant touch with producers. So they get information about new products and new varieties of existing products. This information is passed from the wholesalers to the retailers.

### 2. “Both retail trade and wholesale trade are the two essential forms of Inland Trade”. Comment.

Trade which takes place within a country is called internal trade. Goods can be freely bought and sold within the national boundaries of a country.

Internal trade can be classified into two categories viz., wholesale trade and retail trade. Wholesale trade is concerned with the buying and selling of goods for resale or business use. Retail trade is concerned with the buying and selling of goods and services to the ultimate consumers who use the product.

### 3. “The longer the channel of distribution, the higher will be the price”. Comment.

The longer the channel, the greater will be the price of the article, as it may include the middlemen's profit. Hence, it is better to eliminate the unnecessary middlemen and establish direct contact with the consumers.

## International Business -I

### 1. India benefits from international business. Do you agree with this statement. Substantiate your answer.

Yes, I agree with this statement.

#### Benefits from International Business.

- (i) **Low cost:** Comparative cost theory indicates that the countries which have the advantage of raw material, human resources, natural and climatic conditions in producing particular goods can produce the products at low cost and also of high quality. This will help customers in various countries buy more products with the same amount of money. In turn, it can also enhance the living standards of the people through enhanced purchasing power.
- (ii) **Better and varied products:** International business enhances consumption level, and economic welfare of the people of the trading countries. For example,

## HOTS (Higher Order Thinking skills)

the people of China are now enjoying a variety of products of various countries than before as China has been actively involved in international business.

**(iii) Wider Market:** International business widens the market and increases the market size. Therefore, the companies need not depend on the demand for the product in a single country or customer's tastes and preference of a single country. This is true in the case of most of the MNCs like Toyota, Honda, Xerox and Coca-Cola.

**(iv) Overcoming Recession:** The stages of business cycles vary from country to country. Therefore, MNCs shift from the country experiencing a recession, to the country experiencing 'boom' conditions. Thus international business firms can escape from the recessionary conditions.

**(v) Reduced Risks:** Both commercial and political risks are reduced for the companies engaged in international business due to spread in different countries.

**(vi) Large scale Economies:** Because they have wider and larger markets multinational companies produce larger quantities. Invariably, it provides the benefit of large scale economies like reduced cost of production, availability of expertise, quality etc.

**2. A global company is different from a transnational company. Do you agree with this statement. Substantiate your answer.**

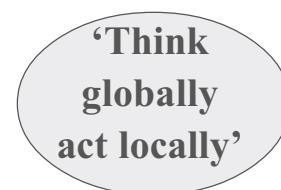
**Global company:** A global company is a company which has either a global marketing strategy or a global sourcing strategy. These companies will either produce all goods in the home country and market them globally. In some other cases global companies will use outsourcing for production and market them in the home country. Production may be done in many other countries but the entire products will be sold in the home market.

**Transnational Company:** A transnational company produces, markets, invests and operates across the world. It is an integrated global enterprise which links global resources with global markets. These companies recognise similarities and differences and adopts a world view. This is the company that thinks globally and act locally. The orientation is geocentric and

marketing strategy is, by and large, standardised. It may take certain adaptations, but this is only to add value to its offer.

However, several people use the terms "global company" and "transnational company" as synonyms. They say that many of the characteristics of both types of companies are common. It is Warren J. Keegan who identifies a global company in stage four and transnational company in stage five.

**3. Based on this poster analyse the impact of international business on our local markets.**



**international business on our local markets.**

The export marketing efforts include creation of demand for products, product development, pricing, packages, dis-

tribution channels etc.

International marketing expanded to international business. The multinational companies, which were producing the products in their home countries and marketing them in various foreign countries, started locating their plants and other manufacturing facilities in foreign countries during 1980s. Later, the firms adopted product sharing where different stages of manufacturing of a product are carried out in several countries. In this context the technical development and designing may be done in one country, the various components may be manufactured in different countries, the assembling may be done in some other country, and the product may be marketed globally. For example, most of the parts and components of IBM computers sold under the label "made in USA" are manufactured abroad. In this sense what is manufactured as an American car or German car is not purely American or German but really transnational. Further finance, technology, capital goods and human resources may be sourced internationally and the corporate organisation may be international or global/transnational in nature.

# QUESTION BANK OF VALUE BASED QUESTION

## BUSINESS STUDIES

### CLASS – XII

M.M.-04

#### **Unit -1 Nature and significance of Management**

Q.1 A Cloth manufacturer distributes its defective product at free of cost (after getting them repaired from Nari Niketan at lower cost) to orphanage. Which values are being attested in this solution?

Q.2 An organization has production, purchase, marketing, finance and human resource departments. All of them working together to achieve organizational goals. From your point of view which value which value is reflected here?

Q.3 A manufacturer of fridge has used new technology in place of using harmful gases, which do not cause air pollution. Which value being followed here?

Q.4 A production manager has directed his employees to put/throw different types of wastes like papers, plastics & chemicals in the respective earmarked dustbins. By this which value he want to inculcate among his employees?

Q.5 An industrial unit, working in a backward area opens schools for education at nominal cost for the children of its employees and local people. By this act which value is promoted here?

Q.6 A factory established in a residential locality, uses machines creating heavy noise while running. Factory Manager always ready to provide financial help to local people. Due to noise pollution student can't study properly and residence can't sleep/work properly. The owners also know it. Which values are affected here?

Q.7 A famous doctor charges high for consultation from his patients and refuses to treat the poor patients without consultation charges. He also pays attention to the medical representatives and agents of Pharma co. he takes gifts and commission also. In your view, is it professional behavior of doctor? Does he follow the code of conduct of doctor?

#### **Unit –II Principles of Management**

Q.8 In an organization Ashok and Sheela are working at the same posts but being male employee Ashok has more rights than Sheela. Which value is violated here?

Q.9 A firm has taken the decision to employ more male employees than female employees because they can work overtime in case of excess work. Which values are being affected here?

Q.10 An organization proposes the use of CFL's and LED's which consumes less electricity than normal bulbs for its lighting arrangements. Which value is attained by the organization?

Q.11 An organization has done plantation around its factory premises and only after purifying the wastes, it throws it into the drains. Which values are being followed by the organization?

Q.12 An entrepreneur wants to start his business in backward area because govt. gives many incentives & rebates in taxes. Which results in low cost and he will be able to see the product at low prices. There he will be able to get large area by deforestation. Which values are being affected here?

### **Unit –III Management and Business Environment**

Q.13 In recent times the Govt. has increased the prices of diesel and LPG. Which value is being overlooked here?

Q.14 After the change in Government Policies, foreign companies like coca-cola has prohibited to work in India. These steps of the government have boosted which values?

### **Unit-IV Planning**

Q.15 Which quality of employee is restricted by the act of planning?

Q.16 Removal of mobile towers from residential area is being planned by the government to promote which value?

Q.17 Government is planning to construct a ware house in remote area to store necessary goods. So as to make them available even at the time of bad weather regularly. Which values are being considered here to be achieved by the government?

Q.18 In order to reduce the cost, an organization is planning the following:

- a) To reduce the charities to the social and religious institution.
- b) To arrange skilled workers from outside inspite of semi-skilled local employees.
- c) To increase the working hours.
- d) To increase the rate of remuneration.

Which value will be affected by the decisions?



Q.19 Tobacco manufacturer is planning to sell its products outside the School & colleges. Which values are violated here from your point of view?

Q.20 In an organization executive director takes all the decision himself. He does give order only to the subordinates. Which value is overlooked here?

### **Unit –V Organising**

Q.21 An electronic company manufacturing TV and Refrigerator wants to bring two new products Washing Machines and AC's in the market. For each product separate division are to be set up. Incharge of working machine division and AC's division will be female and disabled person respectively. Which values have been considered here?

Q.22 In an organization top level management has not distributed work among the subordinate according to their abilities and skill but has been distributed on the basis of caste and religions. Which values are neglected here?

Q.23 A manager has kept all right of decision making with himself. Each and every employee has to come to him for orders again and again. Which values are being violated here?

Q.24 In an organization formal organization is followed strictly where the employees have to work as per the directions only. The employees are performing under pressure. In your view, what changes are required in this company?

### **Unit –VI Staffing**

Q.25 A personnel manager while selecting new employees appoints only those persons who fulfills his personal requirement directly or indirectly. Which values are violated here?

Q.26 In an organization the female employees are getting promotion late as compared to male employees. Which value is missing here?

Q.27 An employee has been terminated due to a small mistake without hearing him, while the other one was not terminated on the same mistake. Which value has been neglected here?

Q.28 An automobile Company runs a factory in a backward area. It has opened a training center to train the people. Which value has been kept in mind here?

Q.29 An organization places an advertisement for employment mentioning some terms there in. those terms are not followed during selection of employee. Which values are ignored here?

Q.30 A production manager pays less than the minimum wages and gets their signatures on minimum wages. Which values are not being followed by him?

## **Unit –VII Directing**

Q.31 A Supervisor hears the suggestions and also implements the good suggestions while taking decision for the employees? Which value has been given importance here?

Q.32 In an organization the good environment, refreshment Corner and entertainment rooms have been made for all employees. Which values have been considered here?

Q.33 In an organization the employees are being paid fair wages/ remuneration and productivity based bonus. Which values are highlighted here?

Q.34 A liquor manufacturing firm provides liquors to its employees at cheaper rates to motivate them. Which values are deficient in this plan?

Q.35 In an organization, informal communication is stressed instead of formal communication which results in non reaching of proper communication to proper person in proper time. It results in either non completion or delay in work. Which values have been violated her?

Q.36 A leader solves the problems relating to work and the personal problems also of the followers. Which value he is following here?

## **Unit –VIII Controlling**

Q.37 In controlling process, standards were set according to the efficiency of the average employee. Which value has been kept in mind while setting the standards?

Q.38 On coming to know the negative deviations, fines are imposed on errorssing employees. Which value is being violated her?

Q.39 In company employees achieved quantitative standard but could not attain qualitative standards. Which values have been ignored here?

Q.40 A manager observes that an old employee is not doing the required work. Manager scolds him rudely without asking him the reasons. In your view how the manager would have behaved and which values he should have kept in his mind?

Q.41 A supervisor observes that during working hours some employees were busy in gossiping instead of working. In spite of instructions they did not start working .when the matter was brought to the notice of management the union threatened to go on strike. In your view was the behavior of employee and the union was justified?

## **Unit –IX Financial Management**

Q.42 In a company profits are heavy and in future less scope of expansion exists. Company has decided to pay a very less dividends. Here which value and whose interest have been affected?

Q.43 A company wants to show higher profit and for this:

- a) Depreciation was charged at lower rates.
- b) Goodwill, Patents, Trademarks and other intangible assets were shown at higher value.

Explain the value which is affected here?

Q.44 A wholesaler of onion comes to know that due to less production the prices of onion will increase heavily. He store the onion and during rising prices. Earn heavy profits by selling the stored onion. From the earned profits he provides some money for social activities also. In this situation which values he affects here.

### **Unit –X Financial Market**

Q.45 A public Ltd. Co. achieved the minimum subscriptions by (private placement). Whose interest has been ignored here?

Q.46 A fast food manufacturing foreign company plans to open chain of cheap fast food centers near the schools in Delhi. According to you what will be the results of this plan?

Q.47 A Company does window dressing in its financial statement to attract investors and creditors. Is it correct in your opinion? Which values are affected here?

### **Unit –XI Marketing Management**

Q.48 A tea producer uses such packets/things for packing tea, which can be used even after consuming the tea inside for other purposes. In this which values are being affected by him?

Q.49 A cosmetics manufacturing co. claims in advertisement that its face cream improves the face complexion. On using it was found incorrect. Here which values are being ignored?

Q.50 A commercial unit uses rocks, trees, electric poles, historical movements and walls to advertise its products. This advertising policy shows which faults of the company?

Q.51 A soft drink manufacturing co. uses dangerous stunts in the advertisements claiming that its drinks make the user fearless and stronger. In your view what could be the bad effects of this? How it can be stopped?

Q.52 One manufacturer of electronic product produces such products which need special care while using it. But the co. has not given the instructions to consumers. If you are the manager of that co. what steps you would take?

Q.53 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 to 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

## **Unit -XII Consumer Protection**

Q.54 Mr. X is a sweet maker (Halwai), who collects milk from village to village and prepares sweet on Deepawali, due to increased demands, he purchased khoya from other shopkeeper which was adulterated, because it was not possible to meet the demand from collected milk. For meeting the demand quickly he has not maintained cleanliness while preparation of sweets. He kept two children for packing the sweet and one female at cash counter. Which social values he is affecting and how?

Q.55 A company engaged in selling spice, claims about purity in its advertisement but in laboratories after examination, the spices were found adulterated. Which values are being violated here?

Q.56 A Pharmacy Co. doesn't provide information for the expiry date on the packet of his drug. This manufacture violates which value?

Q.57 A manufacture of food products uses bad quality material for packing the product resulting in spoiling goods before reaching the consumers. Which value is being ignored here?

Q.58 A toy manufacturing co. uses low quality plastics and harmful colors which affects the health of the children. Which value is being ignored here?

Q.59 Mohan purchased a press for Rs.1000/-. On using it he found it defective. The seller did not respond to the complaint. In your view what should be done by seller as well as Mohan?

Q.60 A patient didn't read carefully the instructions on the pack of the drug. On using it his health deteriorated further instead of improvement. If you are in his place then what you would do?

## ANSWER OF VALUE BASED QUESTIONS

### BUSINESS STUDIES

#### CLASS – XII

#### **Nature & Importance of Management**

Ans1 i) Fulfilment of social responsibility

ii) Help to needy class of society

iii) Employment to members of Nari Niketan

iv) Full utilization of defective product after improvement

Ans2 Co-Operation, Co ordination, do work with the help of each other.

Ans3 i) Environment Protection

ii) To fulfill social responsibility

Ans4 i) Management of waste material

ii) Environment Protection

iii) To fulfill social responsibility

iv) Awareness in employees

v) hygienic working environment

Ans5 i) Helpful in increasing literacy rate

ii) Development of society

iii) Increase in Employment opportunities in backward areas.

Ans6 i) Noise Pollution

ii) Bad effect on the health of employees

iii) Bad effect on the studies and health of children

iv) Development of society with financial help.

Ans7 i) Disobey of professional code of conduct

ii) Not fulfilling social responsibilities

iii) To take care of poor patients also.

## **Unit – 2 Principles of Management**

Ans8 Gender biasness

Ans9 i) Gender biasness

ii) Conservatism

iii) Effect of male dominating society

iv) Inequality of rights for same work

Ans10. i) Save Electricity

ii) Reduction in Cost

iii) Protection of environment

Ans11 i) Safety from Water and Air Pollution.

ii) Protection of Environment

iii) Fulfilling the Social responsibility

Ans12 i) Deprivation of environment from deforestation

ii) Availability of goods at low cost

iii) Development of backward areas

iv) Employment opportunities increase in backward area

Ans13 i) Fall in Standard of living

ii) Increase in Domestic Expenditure

iii) Increase in the cost of agricultural products

Ans14 i) Encouragement to country made products

ii) Development of market for domestic products

iii) Development of National Values

Ans15 i) Decrease in the efficiency of Initiaviveness

ii) Restriction on creativity

Ans16 i) Environment protection

ii) Safety of birds

iii) Safety of Health of Society

Ans17 i) Stability in prices

ii) Regular Supply of Goods

iii) Fulfilling social responsibility

iv) Control on hoarding & Black- Marketing

Ans18 i) Reduction in social responsibilities due to non cooperation in social work.

ii) Increase in production due to efficient employees

iii) Deterioration in Health of employees due to prolonged working hours.

iv) Reduction in employment opportunities for local persons

v) Increase in salary will increase social respect/standard of living

Ans19. i) Bad effect on students health.

ii) Deprivation of Morality.

iii) Instigation of social evil.

Ans20. i) Lack of Feeling of ownness in an organization.

ii) Lack of Manager's faith in his employees.

iii) Wastage of time.

Ans21. i) Women Empowerment.

- ii) Promotion of equality.
- iii) Making handicapped people independent.
- iv) Increase of job opportunity with production.

Ans22. i) Ignorance of democratic values.

- ii) Promotion of castism.
- iii) Violation of secularism.
- iv) Narrow mindedness.
- v) Non- Consideration of abilities.

Ans23. i) Wastage of time and resources.

- ii) Frustration in employees.

Ans24. i) Fearful environment will decrease production.

- ii) Increased feeling of insecurity.
- iii) Pressure will create stress among employees.
- iv) Delay in work.

Ans25. i) Promotion to nepotism.

- ii) Instigation to corruption.
- iii) Selection of inefficient employees.
- iv) Dissatisfaction in efficient members.

Ans26. i) Not obeying the right of equality.

ii) Less importance to women employees.

Ans27. i) Biasness

ii) Biased Behaviour.

iii) Misuse of rights.

iv) Insecurity and groupism in employees.

Ans28. i) Development of Backward areas.

ii) Helpful in availing trained employees.

iii) Increase in productivity and boosting the morale of employees.

iv) Increase in employment opportunities.

Ans29. i) Violating the rules and conditions.

ii) False advertisement.

Ans30. i) Disobeying the law by not giving minimum wages.

ii) To take signature on minimum wages is fraud.

iii) Exploitation of workers.

### **Unit- VII Directing**

Ans31. i) Development of the feeling of the cooperation.

ii) Development of the feeling of ownership towards organization.

iii) Development of Initiative power.

iv) Cordial atmosphere.

Ans32. i) Good Working Conditions.

ii) Improvement in efficiency and health.

iii) Helpful in decreasing the tension of employees.

Ans33. i) Increase in morale.

ii) Increase in productivity.

iii) Improvement in life standard of employees.

Ans34. i) Increase in Social evils.

ii) Encouragement of drinking habits.

iii) Improper way of motivation.

Ans35. i) Encouragement to rumors.

ii) Difficulty in fixing the responsibility.

iii) Not possible to obtain objective at time.

Ans36 i) Development of Democratic values

ii) Coordination esprit

iii) Efficient and effective leadership

iv) Mental revolution



Ans37 i) Increase in the morale of the employees

ii) Improving the quality of production

Ans38 i) Fear and frustration/disappointment amongst employees.

ii) Increase in the employee/labour turnover rate

Ans39 i) Production of inferior quality goods.

ii) Exploitation of consumers.

Ans40 i) To show respect to elderly employees

ii) Should not use ugly language/bad words.

iii) Without enquiring, scolding is bad/not to be done.

Ans41 i) wastage of time.

ii) Union not to make unnecessary pressure of officials

iii) Threatening to strike on small matters is unhealthy practice

### **Financial Management**

Ans42 Not getting fair returns by investors in shares/ share holders

Ans43 i) Tendency of providing incomplete information by the company

ii) Not abiding the rules

iii) Intention of increasing the market value of share by false informations.3

Ans44 i) Promoting hoarding and black marketing of goods

ii) By Participating in social works he still fulfills his social objectives.

### **Financial Markets**

Ans45 Ignoring the interests of Mass Investor/Small Investors

Ans46 i) Bad effect on the health of students

ii) Increase in the tendency of using fast food among students

iii) Profit to the foreign company

Ans47 i) To cheat the investors/ lenders by providing them false information fraudulent activities

ii) Possibility of over capitalization

iii) Dissatisfaction amongst the employees

### **Marketing Management**

Ans48 i) optimum utilization of resources

ii) Environment protection

iii) Increasing the cost by using boxes/containers.

Ans49 i) Confusing the consumers by misleading advertisements

ii) toying with the health of public

Ans50 i) Harming the environment

ii) Damaging the natural beauty

iii) Damaging the historical monuments

iv) Providing information to the people

Ans51 i) Endangering the life on imitation by children

ii) Unfair advertising practices

Ans52 i) Providing information for using the products

ii) Consumer awareness/educating the consumers

Ans53 i) Not in the interest of society, unnecessary increase in cost.

ii) Increasing extravagancy

iii) Increasing sales volume

iv) Achieving the objectives of the business.

### **Consumer Protection**

Ans54 i) Use of adulterated khoya will spoil the health of consumer.

ii) Child labour is a crime.

iii) Spreading diseases due to non consideration of cleanliness

iv) By employing females equal opportunities to females

Ans55 i) Harmful for health

ii) Adulteration is violation of law

iii) False information to consumers.

Ans56 i) Endangering the lives

ii) Violation of law

iii) False information to consumers

Ans57 i) Deterioration of quality of products.

ii) Reduction in quantity of the products

iii) Bad effects on health of consumers

Ans58 i) Bad effects on the health of children

ii) Polluting the environment

iii) Violation of rules/regulations

Ans59 i) The sellers should get the iron of Mohan repaired.

ii) Rights of Mohan should not be violated

iii) Mohan should file complaint to the company against the seller.

iv) If not heard than Mohan should move to consumer court.

Ans60 i) To read the instructions and Information carefully.

ii) To consult the chemist / doctor.

**KRISHNA**  
**PUBLIC SCHOOL**

# **NEW TERMS INTRODUCED IN BUSINESS STUDIES**

## **CLASS XII**

### **UNIT-4: PLANNING**

#### **Sub Topic: Single Use and Standing Plans**

#### **PLAN**

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

#### **SINGLE USE PLAN**

A **Single use plan** in a business refers to plan developed for a one-time project or event that has one specific objective. It applies to activities that do not recur or repeat. It is specifically designed to achieve a particular goal.. Such Plan is developed to meet the needs of a unique situation. The length of a single-use plan differs greatly depending on the project in question, as a single event plan may only last one day while a single project may last weeks or months.

**For example**, an outline for an advertising campaign. After the campaign runs its course, the short term plan will lose its relevance except as a guide for creating future plans.

#### **STANDING PLANS**

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

### DIFFERENCE BETWEEN SINGLE USE AND STANDING PLANS

<b>BASIS OF DIFFERENCE</b>	<b>SINGLE USE PLANS</b>	<b>STANDING PLANS</b>
<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 organizational 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 modifications or updations.
<b>5. Example</b>	Budget for Annual General Meeting of shareholders.	Recruitment and selection procedure for a particular post in the company.

### Questions:-

1. What do you understand by single use plans? (1 Mark)
2. What do you understand by standing plans? (1 Mark)
3. XYZ Limited follows a standard procedure for recruiting Production Manager for its company. Which type of plan is it? Justify your answer. (1+2= 3 Marks)
4. ABC Limited prepares budget for its Annual General Meeting for Financial Year 2011-12. What kind of plan is it? Justify your answer. (1+2= 3 Marks)
5. Explain the objectives of single use plans and Standing plans with suitable examples. (4 Marks)
6. Differentiate between Single use plans and Standing plans? (4 Marks)

## UNIT-6: STAFFING

### Sub Topic: Induction Training

**Induction training** is a type of training given to help a new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business. The duration of such type of training may be from a few hours to a few days.

The induction provides really 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.).

### Questions:-

1. Define Induction training? (1 Mark)
2. What is the main objective of Induction training? (1 Mark)
3. How does Induction training help in reducing cost and saves time? (3 Marks)
4. Write a short note on Induction training? (3 Marks)



## UNIT 7: DIRECTING

### **Sub Topic: Styles of Leadership**

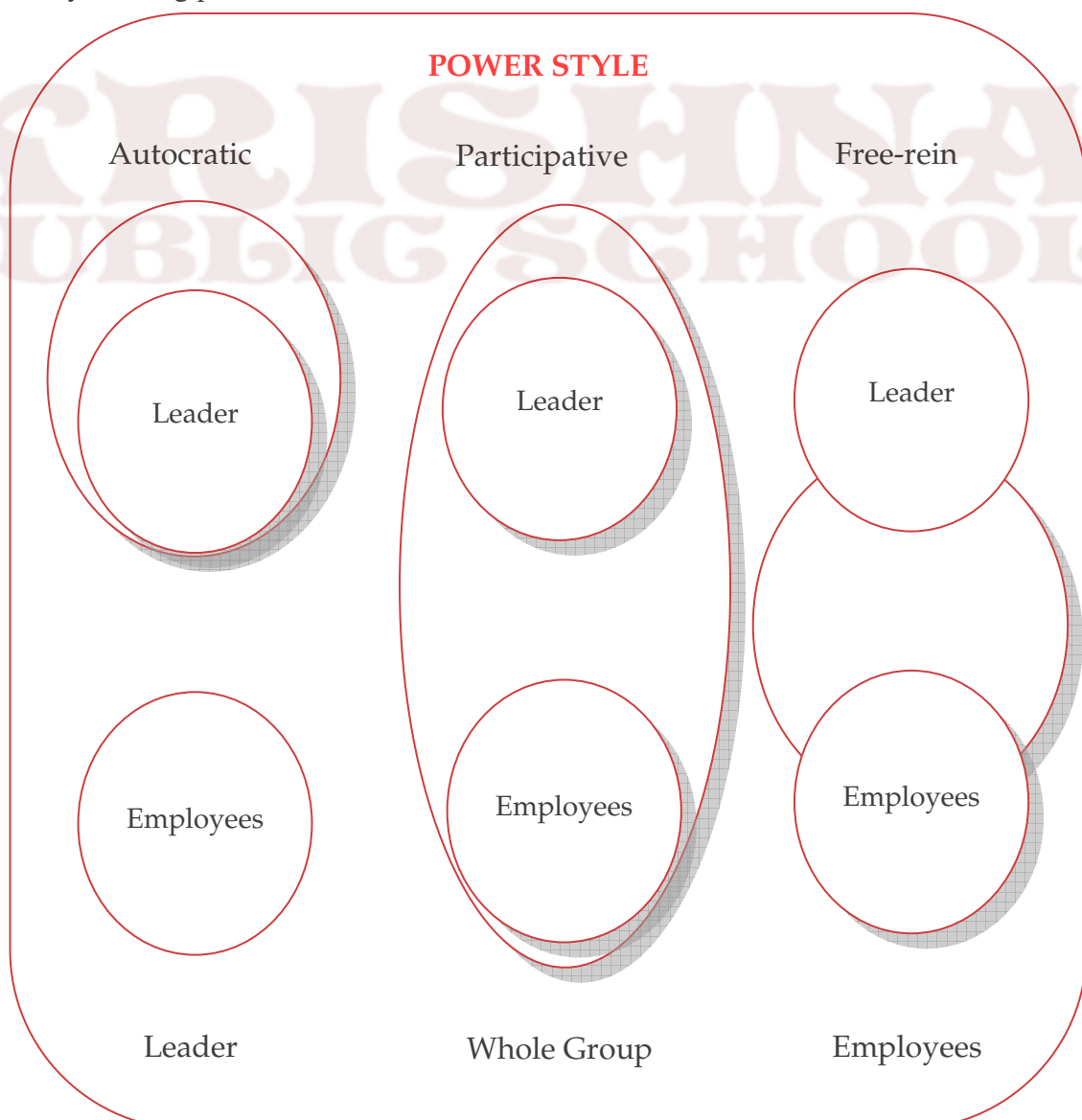
**Leadership styles** refer to a leader's behaviour. Behavioural pattern which the leader reflects in his role as a leader is often described as the style of leadership.

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

**Different types of leadership style are:**

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

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



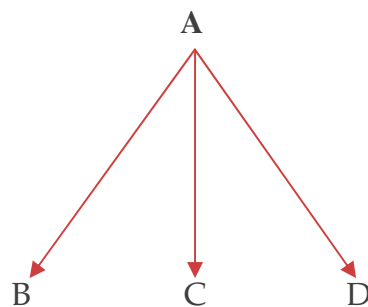
## 1. Autocratic or Authoritarian Leader

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 as shown in the diagram. He does not give the subordinates any freedom to influence his decision.

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



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

### When should authoritarian leadership be applied?

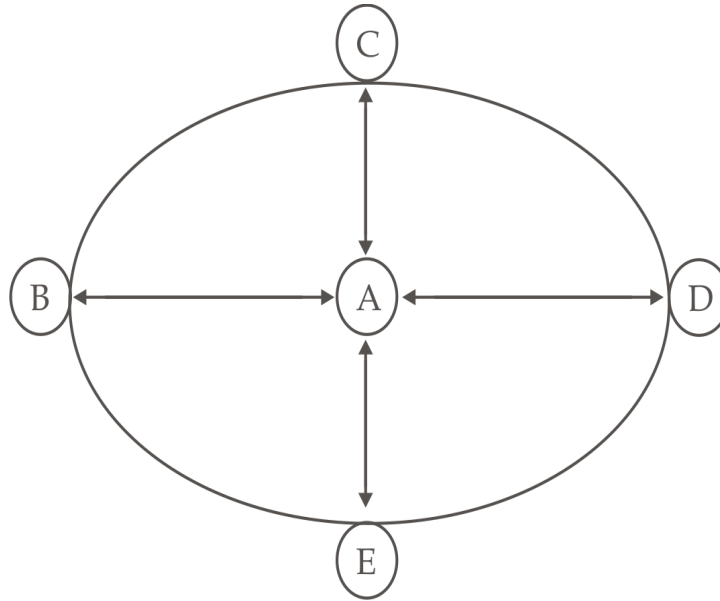
- It is best applied to situations where there is little time for group decision-making
- or where the leader is the most knowledgeable member of the group.

## 2. Democratic or Participative Leader

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

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

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



*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

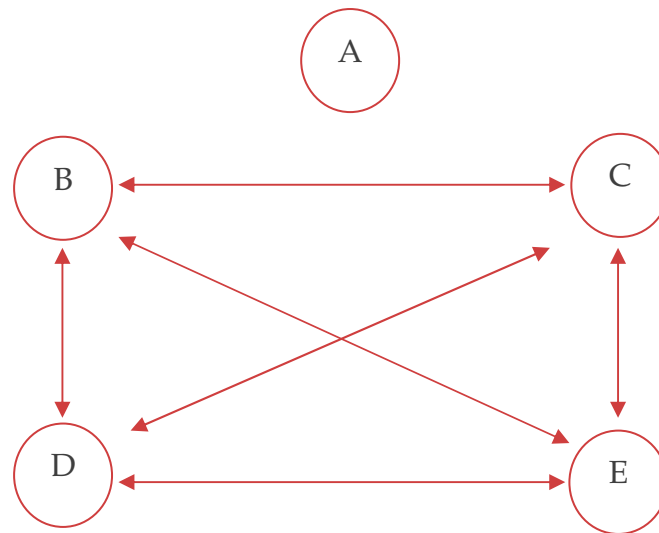
**This style should NOT be used when:**

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

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

A free rein leader gives complete **freedom to the subordinates**. Such a **leader avoids use of power**. He depends largely upon the group to establish its own goals and work out its own problems. Group members work themselves as per their own choice and competence. The leader exists as a contact man with the outsiders to bring information and the **resources 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 and faire means to do.



*A is the leader*

*Leadership is 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 unavailability of a leader.
- The leader cannot or will not provide regular feedback to their followers.

**Example Mr. Ulhas, CEO of I Create India, distributes the work for the month. He delegates the work to his staff Ms. Ranju, Ms. Anjana, Ms. Geeta and Mr. Dinesh as per his discretion. (Mr. Ulhas is behaving as an autocratic leader)**

**Mr. Ulhas has realized that due to absence of Ms. Geeta, the work will not get over as scheduled. He discusses with his staff members to meet the dead line. Everybody decided to do over time and planned to stay back accordingly. (Mr. Ulhas is behaving as a democratic leader)**

**Mr. Ulhas wants to give a party to all staff members for timely completion of the task. Mr. Ulhas asks the other members of staff to fix the venue and the menu for the occasion. (Mr. Ulhas is behaving as a free rein leader)**

**Most appropriate style of leadership for a leader/manager depends upon:**

- ❖ the demands of the situation
- ❖ the requirements of the people involved
- ❖ the challenges facing the organization

**Questions:**

**1. Give the meaning of ‘Democratic Style’ of leadership. (1 mark)**

**2. Define ‘autocratic style’ of leadership? (1 mark)**

**3. What is ‘laissez faire style’ of leadership? (1 mark)**

**4. Mr. A, a supervisor in a manufacturing unit humiliates a worker in front of other workers. Which value is he lacking? (1 mark)**

**[Hint: Respect for others’ dignity]**

**5. Ms. Hayden is a very experienced and highly qualified manager. All her subordinates respect her because she does not force her opinions on others and listens to their suggestions as well as problems before taking decisions. What values do think she has? (1 Mark)**

**[Hint: Humanity, respect and concern for others]**

**6. Mr. Ramesh , Manager (Operations) sets the targets for all his subordinates without discussing it with them. He firmly tells them that if the task is not completed than strict action will be taken against them. Which form of leadership is he following? Explain the situation where this form of leadership is useful. (3 marks)**

**[Hint: Autocratic Leadership Style]**

**7. Explain, with the help of suitable examples , why leaders vary their leadership style in different circumstances? (4 marks)**

**8. Mr. Sharan, Manager(HR) is really appreciative of fresh ideas given by his subordinates. He frames policies only after consulting them. Which style of leadership is he following? Can this style be followed at all times? Explain. (4 Marks)**

**[Hint: Democratic Leadership Style]**

**9. Mr. R. Ranjan, Manager(Operations) does not define clear goals to his subordinates and is not regularly abreast with their work as all the employees are skilled and experienced in their job. Which is the style of leadership being followed by him? Is he right in doing so? Justify. (4 marks)**

**[Hint: Laissez Faire Leadership Style]**

**10. Ms. Shabana, Manager( Research & Devt.) in a well known electronics company, gives complete freedom to her subordinates who are developing latest technology products in their field. She avoids the use of power. She depends largely upon the group to establish its own goals and work out its own problems. Which style of leadership is she following? Do you think she is right? When can this form of leadership be followed? (5 marks)**

**[Hint: Laissez Faire Leadership Style]**

11. Explain the three leadership styles (autocratic, democratic and laissez-faire) and in what situations are they most effective. (6 marks)

12. Mr. A, B and C are discussing the 3 different leadership styles. Mr. A advocates that autocratic style of leadership is the best in an organization while Mr. B thinks that democratic style of leadership provides better results in the performance of employees. Mr. C emphasizes on laissez faire style of leadership. What according to you is the best style of leadership and why? (6 marks)

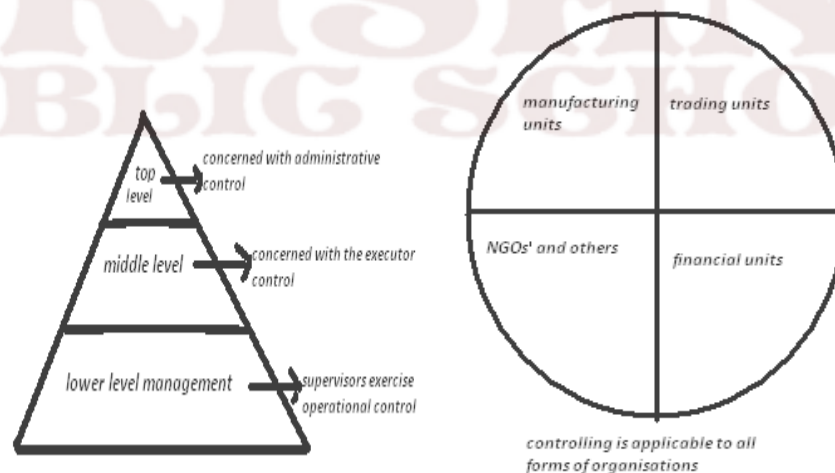
## UNIT 8: CONTROLLING

### Sub Topic: Nature of Controlling

#### 1. Controlling is a goal oriented function.

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

#### 2. Controlling is an all pervasive function.



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

### **3. Controlling is a continuous function**

Control is not a one time activity. Rather, it is a dynamic process that involves constant analysis of actual and planned performance. The resultant deviations, if any, are corrected as per the need of the situation. For example if a firm X Ltd., a ready made garment manufacturing unit sets a target of manufacturing 10,000 premium shirts in a month and is only able to manufacture 8,000 shirts than the controlling mechanism will help in finding the deviation and causes associated with it. This process will carry on every month for the organization in this case.

### **4. Controlling is both a backward looking as well as forward looking function.**

Effective control is not possible without analyzing our past mistakes so from this point of view we can call it backward looking. But the business environment is ever changing and controlling helps bring in changes in the organization in a conducive manner. So we cannot ignore the forward looking aspect of it as well.

**5. Controlling is a dynamic process-** Since controlling requires taking reviewable methods, changes have to be made wherever possible.

### **6. Controlling is a positive process**

George Terry says, the function of controlling is positive – it is to make things happen, i.e. to achieve the goal within stated constraints, or by means of the planned activities. Controlling should never be viewed as being negative in character – as a hurdle in getting objectives won. Controlling is a managerial necessity and a help, not an impediment or a hindrance.

### **Questions:**

- 1. Which feature of controlling does it refer to when it is said that controlling is exercised at all levels of management? (1 mark)**
- 2. Why is controlling called an all pervasive function? Explain. (3 Marks)**
- 3. Why is controlling called a positive process? (3 marks)**
- 4. How is controlling both forward looking as well as backward looking? (3 marks)**
- 6. Explain the characteristics of controlling. (4 marks)**
- 7. There are two managers Mr. X and Mr. Y. They both have different point of views. Mr. X says that “controlling is backward looking” while Mr. Y contradicts by saying that “controlling is forward looking”. Who do you think is right? Give reason. (3 marks)**
- 8. ABC Ltd. is engaged in manufacturing ready made garments. The target production is 500 shirts per day. The company has been successfully attaining this target until last three months. The actual production has been varying between 400-450 shirts. Which management function is needed to rectify the situation? Write any two features associated with it. (3 marks)**

## **UNIT 10: FINANCIAL MARKETS**

### **Sub Topic: Depository Services and Demat Account**

#### **Depository services**

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

#### **Services provided by Depository**

- Dematerialisation (usually known as demat) is converting physical certificates to electronic form
- Rematerialisation, known as remat, is reverse of demat, i.e. getting physical certificates from the electronic securities
- Transfer of securities, change of beneficial ownership
- Settlement of trades done on exchange connected to the Depository

#### **Demat Account**

**Demat account** is the abbreviation of 'Dematerialized Account'. Demat (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.

#### **Benefits of Depository Services and Demat Account**

- Sale and Purchase of shares and stocks of any company on any stock exchange.
- Saves time
- No paperwork.
- 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.



### Questions:

1. What do you mean by 'Depository'? (1 Mark)
2. What is the full form of CDSL? (1 Mark)
3. What is the full form of NSDL? (1 Mark)
4. What is the full form of DEMAT? (1 Mark)
5. Where is a DEMAT account used? (1 Mark)
6. Shabnam wants to invest her savings in share market. What is the most important requirement for this? (1 Mark)
7. Juliee wants to get her share certificates in electronic form. What is the name of service provided by Depository? (1 Mark)
8. What are the services provided by a Depository? (3 Marks)
9. What are the benefits of opening a DEMAT account? (3 Marks)
10. Harjeet wants to invest money in share market. As a Financial advisor what will you suggest him to do and why? (3 Marks)  
(Hint: Open a Demat account, explain benefits)

## UNIT 11: MARKETING MANAGEMENT

### Sub Topic: Qualities of a good salesman

1. **Physical qualities:** As goes the saying ““First impression is the last impression”, a good salesman can instantly connect with the customer if he is good looking and smart.
2. **Psychological qualities:** He should be friendly and patient. He should be able to talk in terms of the customer's interest and must create pleasant atmosphere to achieve favorable attention and interest on the part of the prospective buyer.
3. **Technical quality:** 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 and selling the product becomes easy.
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.

### Questions:

1. Rajat, a sales man in a ready- made garments show room made false claims about a coat in the kids segment about no need to get it dry cleaned in order to sell it to a customer. The customer bought it but after washing it, the coat got shrunk. What value was lacking in respect of Rajat? (1 mark)

[Hint: Honesty]

2. Aftab is scared of facing people. Can he become a good salesman? What qualities are required to become a good salesman? Write any three. (3 marks)

3. What are the qualities of a good salesman? (4 marks)

4. What is the most important requirement for personal selling? What skills are needed to perform it effectively? (5 marks)

[Hint: To have a good salesman]

## UNIT 11: MARKETING MANAGEMENT

### Sub Topic: Public Relations

#### Public Relations: Concept

The concept of Public Relations involves a variety of programmes to promote and protect a company's image or its products. It means to strengthen relations with various stake holders like customers, shareholders, employees, suppliers, investors etc. It is done through – news, speeches by corporate leaders, organizing events like sports events, concerts, seminars etc.

'Public Association Relations' defined public relations as " The art and social science of analyzing trends, predicting their consequences, counseling organizational leaders and implementing planned programme of action which will serve both the organization and the public interest."

**“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 organisation.

It is written in the form of a story with an attractive heading so that the media quickly grasps and circulates the message through newspapers/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 USP, etc. Eg: brochure given to new employees to give them a gist of the organization.

**4. Newsletters:** It is a printed publication produced at regular intervals focusing on a particular set of people. The content of a newsletter is presented in a writing style that is less formal and letter-like. For example, a newsletter published by a college consists of information about activities conducted during a particular period, special achievements by students or teachers, etc.

**5.Events and Press support:** Special events are acts of news development. The ingredients are time, place, people, activities, drama, showmanship; one special event may have many subsidiary events, such as luncheons, banquets, contests, speeches, and many others as part of the build up.

**6.Conferences and Seminars:** Conferences and seminars are conducted for making people aware about the organization. For example travel companies generally call prospective clients and offer travel packages. The members are contacted through telephones and asked to attend seminar.

**7.Websites:** A website acts as a window for the outside world to know an organization. So it is designed not just to serve as a resource for members, also to present a positive message to nonmembers 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 favorably 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 of products facing adverse publicity.** For example, soft drink majors- Pepsi, Coco-cola was subjected to a controversy that there were pesticides found in the samples collected from different areas. In this situation, the companies attracted severe criticism from various sectors like consumers, investors, government etc. This called for public relations exercise so that damage control could be done.
- (v) It acts as a **supplement to advertising** in promoting (new and existing) products.

### **Questions:**

1. What does the term 'public relations' mean? (1 mark)
2. Give any 2 examples of 'public relation' tools used by a major soft drink company. (1 mark)
3. What is the role of 'public relations' in an organization? (1 mark)
4. A new movie "XYZ" is to be released in the month of December. Which department is going to look into the techniques of promoting the movie? What tools will they employ for the same? Explain any three. (4 marks)

5. A mobile company is launching a new high tech mobile phone in the market. What will be the role of public relations department in this case. What tools can it use to promote it? (5 marks)

## **UNIT 12: CONSUMER PROTECTION**

### **Sub Topic: Against whom a complaint can be filed?**

Consumer Protection Act, 1986 is applicable to all types of undertakings, whether big or small, private or public, or in co-operative sector, manufacturer or a trader, wholesaler or retailer, supplying goods or providing services.

Thus, **a complaint can be filed against:**

#### **I. 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.

### Questions:

1. Against whom can a complaint be filed by a consumer? (1 Mark)
2. What does a 'defect in goods' mean? (1 Mark)
3. What does a 'deficiency in services' mean? (1 Mark)
4. If a dealer responds positively to a consumer's complaint, which value of the dealer is depicted? (1 Mark) (Hint: Honesty, commitment)
5. Joseph had got a confirmed ticket on 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? (3 Marks)
6. Kabir bought a piece of cloth for getting a pant stitched from a dealer for Rs.1000/- with proper receipt. His tailor detected manufacturing defect in the pant piece. The shopkeeper refused to change or compensate. What relief can Kabir seek in this regard? (3 Marks)
7. Mamta bought a branded computer for Rs. 30,000/- from an authorized dealer with proper receipt. There was a warranty of one year on the computer. When she used the computer at home, she detected that CD drive was not functioning properly due to technical reasons ? What remedy can she seek from the company? (3 Marks)

KRISHNA  
PUBLIC SCHOOL