CBSE Class 12 Business Studies Question Paper 2004 with Solution PDF-Set 66/2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 100**

General Instructions

(i) Answers to questions carrying **2–3** marks should not exceed **30–40** words.
(ii) Answers to questions carrying **4–5** marks should not exceed **60–80** words.
(iii) Answers to questions carrying **6** marks should not exceed **100** words.
(iv) Attempt all parts of a question together.

1. What is meant by 'marketing management' ? [2 marks]

Solution:

Concept:

- Marketing management concerns identifying and satisfying the needs of target customers through the management of marketing activities.
- The marketing concept joins customer satisfaction with the achievement of organisational objectives.

Step 1: Define marketing management Marketing management is the process of planning, organising, directing and controlling marketing activities to facilitate exchanges that satisfy customers and achieve the objectives of the business. It includes choosing target markets and getting, keeping and growing customers by creating and communicating superior customer value.

Step 2: Explain its scope The manager studies customer needs and coordinates decisions about the product, its price, promotion and distribution. For example, a firm selects a product suited to its customers and makes it available at an acceptable price. These activities must work together rather than being limited to persuading someone to buy an existing product.

Step 3: Conclusion Marketing management therefore means managing the marketing effort so that customer needs are satisfied and the organisation achieves its objectives.

Quick Tip to Solve: In a definition of marketing management, connect managing marketing activities with customer satisfaction and organisational objectives.

2. Explain, in brief, the term 'motivation' as an element of directing. [2 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to act in a desired manner to accomplish organisational goals.
- As an element of directing, it develops employees' willingness to apply their abilities to work.

Step 1: State the meaning Motivation means stimulating employees to take action towards the achievement of desired goals. It is an internal drive arising from needs and wants; a manager encourages that drive by offering suitable incentives and support. Thus, possessing the ability to work is distinct from being willing to use that ability.

Step 2: Relate motivation to directing Directing puts plans into action through people. By recognising needs, appreciating good work and providing financial or non-financial incentives, a manager encourages employees to contribute willingly. For example, recognition of an employee's achievement can increase enthusiasm and effort, helping individual needs and organisational goals to be fulfilled together.

Step 3: Conclusion Motivation, as an element of directing, stimulates employees' willingness to work and channels their effort towards organisational objectives.

Quick Tip to Solve: Use the words willingness and stimulation to distinguish motivation from merely issuing instructions to employees.

3. Differentiate between 'marketing' and 'selling' on the basis of (a) meaning and (b) emphasis. [2 marks]

Solution:

Concept:

- Marketing begins with customer needs and includes the activities required to satisfy them profitably.
- Selling focuses on transferring ownership of an existing product to the buyer for money.

Step 1: Compare the meaning The two terms differ in scope: selling is a part of marketing, whereas marketing covers the wider process from identifying needs to satisfying customers after the sale.

Step 2: Distinguish the two stated bases

Basis	Marketing	Selling
Meaning	A comprehensive process of identifying customer needs and satisfying them through suitable products and exchanges.	The process of persuading customers to purchase a product and transferring its ownership for money.
Emphasis	Customer needs and satisfaction; products are developed to suit customers.	The product and its sale; effort is directed towards converting the existing product into cash.

Step 3: Conclusion Marketing emphasises satisfying customer needs through an integrated process; selling emphasises obtaining a sale of the product already offered.

Quick Tip to Solve: For emphasis, remember: marketing starts with the customer; selling starts with the product to be sold.

4. Give two examples of the impact on business organisations of changes in social environment. [2 marks]

Solution:

Concept:

- The social environment includes values, attitudes, customs, lifestyles and social trends affecting business.
- A change in such factors can alter demand and require a business to adapt its products or methods.

Step 1: Explain the effect of health awareness **Greater health consciousness:** As people become more concerned about fitness and healthy living, demand can increase for nutritious food, low-fat products and fitness services. Food manufacturers may change their product range and product information, while businesses offering gyms or similar services gain new opportunities.

Step 2: Explain the effect of changing family lifestyles **More working women and dual-income families:** With less time available for household work and greater demand for convenience, the market for ready-to-eat food, household appliances and childcare services expands. Businesses respond by offering convenient products and services suited to these changing lifestyles.

Step 3: Conclusion Growing health consciousness and the increase in working women illustrate how social change creates new demand and influences business products and services.

Quick Tip to Solve: Give each example as a clear chain: social change, changed customer demand, and the resulting business response.

5. Explain, in brief, 'management' as a process. [2 marks]

Solution:

Concept:

- Management is a process of getting work done effectively and efficiently with and through people.
- Its interrelated functions are planning, organising, staffing, directing and controlling.

Step 1: Explain the meaning of process Management is called a process because it consists of a series of interrelated functions performed to achieve organisational objectives. A manager does not carry out one isolated activity: the manager coordinates people and resources so that desired results are achieved effectively, while resources are used efficiently.

Step 2: Show how the functions work together Planning decides objectives and the course of action; organising arranges tasks and resources; staffing places suitable people in jobs; directing guides and motivates them; and controlling compares actual performance with standards and initiates corrective action. These functions overlap and influence one another. Control, for instance, supplies information for revised planning, making management a continuous process.

Step 3: Conclusion Management is a continuous, coordinated process of planning, organising, staffing, directing and controlling resources and people to achieve objectives effectively and efficiently.

Quick Tip to Solve: When explaining management as a process, name its functions and show their connection instead of treating them as unrelated activities.

6. Explain any three sales promotion activities commonly used by marketers. [3 marks]

Solution:

Concept:

- Sales promotion comprises short-term incentives, additional to advertising and personal selling, that encourage customers or dealers to buy a product.
- A sales-promotion activity gives an immediate extra benefit, such as a lower effective price or an opportunity to try the product.

Step 1: Explain rebates **Rebate:** A marketer offers a product at a specially reduced price, usually for a limited period, to clear stock or stimulate demand. For example, a manufacturer may announce a reduction in the price of a refrigerator during a seasonal sale. The immediate saving makes purchase more attractive; the buyer receives the product at a price below the normal selling price.

Step 2: Explain product combinations **Product combination:** The seller supplies an additional product free with the main product. For example, a toothbrush may be offered free with a tube of toothpaste. The buyer obtains extra utility without paying separately for the accompanying product, which can encourage selection of the promoted brand over competing brands.

Step 3: Explain samples **Sampling:** Small quantities of a product are distributed free so that potential customers can try it before purchasing. A free sachet of a new shampoo, for instance, lets a consumer experience its use. This is especially useful when introducing a new product because trial reduces uncertainty and may turn a first-time user into a regular buyer.

Step 4: Conclusion Rebates, product combinations and free samples are three commonly used sales-promotion activities. Each provides a concrete incentive to encourage immediate trial or purchase.

Quick Tip to Solve: Name the incentive and explain its benefit to the buyer; distinguish a temporary sales incentive from ordinary advertising.

7. "Leadership is required only for less efficient subordinates." Do you agree ? Give any three reasons in support of your answer. [3 marks]

Solution:

Concept:

- Leadership is the process of influencing people so that they willingly and enthusiastically work towards organisational goals.
- The need for leadership depends on coordinating and motivating people, not merely on whether their technical efficiency is low.

Step 1: State whether the claim is correct No, I do not agree with the statement. Leadership is required for efficient as well as less efficient subordinates. Even a highly skilled employee needs a shared direction, encouragement and coordination with the rest of the organisation. Efficiency in performing a task does not by itself ensure willingness to work towards collective objectives.

Step 2: Explain direction and motivation **Common direction:** A leader communicates the goals and helps employees understand how their work contributes to them. This unites individual efforts and prevents capable employees from pursuing conflicting priorities.

Motivation and confidence: A leader inspires employees, recognises good work and builds confidence. Efficient employees also have social and psychological needs; encouragement helps them sustain enthusiasm and use their abilities fully.

Step 3: Explain cooperation and adaptation **Cooperation and change:** A leader builds team spirit, resolves differences and wins employees' support for necessary changes. Skilled workers may still disagree with one another or resist a new method. Through guidance and persuasion, leadership helps them cooperate and accept changes that benefit the organisation.

Step 4: Conclusion Leadership is needed at every level of employee efficiency: it supplies common direction, sustains motivation and secures cooperation, including during change.

Quick Tip to Solve: Reject the word "only, then give three distinct leadership benefits that also apply to capable employees.

8. Explain briefly any three features of personal selling. [3 marks]

Solution:

Concept:

- Personal selling involves oral presentation and interaction between a salesperson and one or more prospective buyers for the purpose of making a sale.
- Its defining features concern direct contact, adjustment of the presentation and immediate feedback, rather than merely the place where the sale occurs.

Step 1: Explain personal interaction **Personal interaction:** Personal selling establishes direct contact between the salesperson and the prospective customer. They exchange information about the product and the customer's needs. The salesperson can demonstrate the product and answer questions, which makes the interaction more individual and persuasive than a general message sent to a mass audience.

Step 2: Explain flexibility **Flexibility:** The salesperson can adapt the sales presentation to the needs, knowledge and reactions of each customer. For example, if a customer is concerned about running costs, the seller can emphasise economy and explain the relevant features. The message need not remain identical for every buyer, because it can change as the conversation develops.

Step 3: Explain immediate feedback **Direct feedback:** The salesperson receives an immediate response through the buyer's questions, expressions and objections. This indicates whether the customer understands or accepts the presentation. The seller can clarify doubts and modify the explanation at once, making the communication a two-way process and helping the customer reach a purchase decision.

Step 4: Conclusion Personal interaction, flexibility of presentation and immediate two-way feedback are three key features of personal selling.

Quick Tip to Solve: For each feature, show what the salesperson can do during a direct conversation that a fixed mass message cannot easily do.

9. Enumerate any three advantages and any three disadvantages of 'formal communication'. [3 marks]

Solution:

Concept:

- Formal communication follows the official channels and authority relationships prescribed by the organisation. It may move downward, upward or horizontally.
- Its advantages arise from official responsibility and orderly channels; its limitations arise when those channels become lengthy or rigid.

Step 1: Enumerate three advantages **1. Clear responsibility:** Official channels identify who sends information and who must act on it, so responsibility can be fixed.

2. Orderly coordination and control: Messages follow recognised authority relationships, helping managers issue instructions and coordinate work systematically.

3. Authenticity and record: Officially communicated information has recognised authority; where written, it also provides a record that can be referred to when checking instructions or decisions.

Step 2: Enumerate three disadvantages **1. Delay:** A message may have to pass through several levels of authority before reaching the person concerned, making communication slow.

2. Distortion or filtering: At successive levels, information may be shortened, altered or withheld. The final recipient may therefore receive an incomplete version of the original message.

3. Rigidity and lack of personal contact: Strict adherence to official channels can discourage free expression and direct interaction. Employees may hesitate to communicate suggestions or problems freely to higher authorities.

Step 3: Conclusion Formal communication offers clear responsibility, orderly coordination and official authenticity, but may suffer from delay, filtering and rigidity. These are three advantages and three disadvantages respectively.

Quick Tip to Solve: Give both lists separately: advantages concern official order and accountability, while disadvantages concern the cost of rigid, lengthy channels.

10. Explain the meaning of management principles and state how they are derived. [3 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decision-making and behaviour. They help managers decide how to organise work and deal with people to achieve organisational objectives.
- These principles are developed from observation of managerial practice and repeated experimentation. They guide action but require adaptation to the circumstances of each organisation.

Step 1: Explain the meaning of management principles **General guidelines:** Management principles are fundamental statements that guide managerial thinking, decisions and action. They indicate how a manager may handle recurring situations, such as allocating work or giving instructions. They are not rigid rules prescribing an identical response in every case: managers apply them with judgement according to the people, task and business environment involved.

Step 2: State how observation produces principles **Observation and analysis:** Managers and thinkers closely observe actual organisational activities and the behaviour of people at work. They compare experiences across situations, identify relationships between managerial action and its results, and draw general conclusions. For example, observing confusion when an employee receives conflicting instructions helps explain the principle of unity of command.

Step 3: State how experimentation tests principles **Repeated experimentation:** Tentative conclusions are tested in practical situations by changing work methods or arrangements and studying the results. Repeated trials and verification help establish useful generalisations. Thus, management principles grow out of accumulated experience, systematic observation and experimentation rather than being merely personal opinions.

Step 4: Conclusion Management principles are general guides to managerial decision-making and behaviour, derived through observation, analysis of experience and repeated experimentation in practice.

Quick Tip to Solve: Separate the answer into meaning and derivation; for derivation, name both observation and experimentation and explain how each contributes.

11. State any four regulatory functions of the Securities and Exchange Board of India (SEBI). [4 marks]

Solution:

Concept:

- The Securities and Exchange Board of India (SEBI) regulates the securities market. Its regulatory functions establish and enforce requirements for market institutions, intermediaries and specified securities transactions.
- Regulatory functions are distinguished from developmental activities, such as training, and protective activities, such as prohibiting insider trading. The answer should identify four distinct regulatory functions.

Step 1: State two functions governing market participants **1. Registration and regulation of intermediaries:** SEBI registers brokers, sub-brokers and other intermediaries operating in the securities market and regulates their functioning. Registration brings these participants within an authorised framework and subjects their business conduct to the applicable requirements.

2. Registration and regulation of collective investment schemes: SEBI registers and regulates the working of mutual funds and other collective investment schemes. It lays down requirements for their operation so that institutions pooling investors' money function within the securities-market regulatory framework.

Step 2: State two functions governing transactions and supervision **3. Regulation of substantial acquisitions and takeovers:** SEBI regulates substantial acquisition of shares and takeover of companies. It prescribes the applicable procedures and disclosure requirements when a party acquires a substantial interest in, or control over, a company.

4. Enquiries, inspections and audits: SEBI calls for information and conducts enquiries, inspections and audits of stock exchanges, intermediaries and other participants in the securities market. These supervisory measures enable it to check compliance with the regulatory requirements and examine how regulated market activities are being conducted.

Step 3: Conclusion Four regulatory functions of SEBI are registering and regulating intermediaries, registering and regulating mutual funds and other collective investment schemes, regulating substantial share acquisitions and takeovers, and conducting enquiries, inspections and audits of securities-market participants.

Quick Tip to Solve: Use four distinct regulatory headings: intermediaries, collective investment schemes, takeovers and inspections. Do not substitute training or investor education for regulation.

12. The directors of a newly established company having paid up equity share capital of Rs. 2.5 crores, desire to get its shares traded at an All India level Stock Exchange. As finance manager of the company, suggest the name of the Stock Exchange for the purpose. Give any three reasons in support of your answer. [4 marks]

Solution:

Concept:

- The Over the Counter Exchange of India (OTCEI) was established to provide small and medium companies with access to a nationwide securities market through an electronic network of dealers.
- For this historical question, the company's size and its requirement of All India trading point to OTCEI. The paid-up equity capital of Rs. 2.5 crores lies within the capital range then associated with its listing facility for small companies.

Step 1: Identify the suitable exchange The finance manager should suggest the **Over the Counter Exchange of India (OTCEI)**. The company is newly established, has paid-up equity capital of Rs. 2.5 crores, and wants its shares traded across India. OTCEI was designed to help such smaller companies obtain an organised national market for their securities.

Step 2: Explain three reasons for the recommendation

- **Suitable for smaller companies:** OTCEI provided a listing avenue for small and medium companies that could find the requirements of the larger conventional exchanges difficult to meet. Its historical paid-up capital range extended from Rs. 30 lakhs to Rs. 25 crores, so the given capital of Rs. 2.5 crores fits that range.
- **Nationwide trading network:** Its computerised network connected dealers and counters in different parts of the country. Investors could therefore trade the company's securities through a national network rather than being confined to a local trading floor, meeting the directors' All India objective.
- **Liquidity through market making:** Dealers acting as market makers offered buying and selling quotations for securities. This arrangement helped investors find a counterparty and made the shares more readily tradable, an important consideration for the shares of a newly established company.

Step 3: Conclusion OTCEI is the appropriate recommendation because it caters to smaller companies, provides nationwide electronic trading, and supports liquidity through market makers.

Quick Tip to Solve: In historical stock-exchange questions, connect a small company's capital and nationwide trading requirement with OTCEI; explain the features that meet the company's stated needs.

13. Which principle of management envisages that each group of activities having the same objectives must have one head and one plan ? Explain the principle with a suitable example. [4 marks]

Solution:

Concept:

- Fayol's principle of unity of direction requires all activities having the same objective to be organised under one head and one plan.
- Its purpose is to coordinate related activities, concentrate efforts on a common objective and prevent duplication or conflicting directions between activities.

Step 1: Identify and explain the principle The principle is **unity of direction**. The words "each group of activities having the same objectives" show that the question concerns the direction of a group of related operations. All the operations in that group should follow a single plan and be supervised by one responsible head.

- **Common objective:** Activities are grouped according to the purpose they serve, so that related work contributes to the same result.
- **One head and one plan:** A single manager directs the group according to an integrated plan, avoiding inconsistent decisions and unnecessary duplication of effort.

Step 2: Illustrate unity of direction with an example Suppose a company manufactures cars as well as motorcycles. The activities connected with the car business should be directed by one head under one plan for cars. The motorcycle business should similarly have its own head and plan because it is a separate group of activities. Within the car business, production, advertising and sales efforts must be coordinated towards its common objective rather than follow conflicting plans.

- **Coordinated effort:** The car division's production schedule and sales programme can be aligned, so that the models advertised are available when customers demand them.
- **Clear responsibility:** Its head can oversee the combined work and correct deviations from the division's plan. This promotes economy of effort and purposeful teamwork.

Unity of direction concerns one plan for a group of activities. Unity of command, by comparison, concerns an individual employee receiving orders from one superior; naming that principle would not answer the wording given here.

Step 3: Conclusion Unity of direction means one head and one plan for activities with a common objective, as illustrated by the coordinated direction of a company's car division.

Quick Tip to Solve: Link "same objective" and "one plan" with unity of direction; link an employee's "one boss" with unity of command.

14. "The concept of decentralisation is related to the concept of delegation." Explain the statement, in brief. [4 marks]

Solution:

Concept:

- Delegation is the transfer of authority from a superior to a subordinate to perform assigned duties; the superior retains ultimate accountability.
- Decentralisation is the systematic dispersal of decision-making authority to lower levels throughout the organisation. It develops from delegation practised widely and consistently.

Step 1: Explain delegation as the starting point **Authority must first be delegated:** A superior assigns responsibility, grants the authority needed to carry it out and holds the subordinate accountable for performance. This creates a superior–subordinate relationship. Without granting authority to others, lower-level managers cannot make decisions independently, so decentralisation cannot take place.

Step 2: Relate extensive delegation to decentralisation **Decentralisation extends delegation:** When authority is delegated systematically across departments and managerial levels, rather than only for a few tasks, the organisation becomes decentralised. Thus decentralisation is an extension of delegation to the lowest levels at which decisions can usefully be taken.

Distinguish their scope: Delegation concerns an individual superior's transfer of authority to a subordinate. Decentralisation concerns the organisation-wide pattern and degree of distribution of decision-making authority; it reflects top management's policy towards sharing power.

Recognise the degree of choice: Some delegation is necessary because a manager cannot personally perform every task. The extent of decentralisation is a policy choice: top management may retain major decisions while delegating routine authority, or allow lower levels wider discretion. Greater delegation therefore supports greater decentralisation, but a single act of delegation does not by itself decentralise the organisation.

Step 3: Conclusion Decentralisation rests on delegation: it is the systematic and extensive delegation of decision-making authority throughout the organisation. Delegation may exist in a relatively centralised organisation, whereas decentralisation cannot exist without delegation.

Quick Tip to Solve: Link the terms with scope: delegation is a superior–subordinate process; decentralisation is its systematic extension throughout the organisation.

15. Which method of wage payment — Time-rate or Piece-rate — would you adopt in each of the following situations ? Give reasons in support of your answer.

(i) Where rate of output is determined solely by machine and not by operation,

(ii) Where production process requires high degree of skill,

(iii) Where work flow is regular, and

(iv) Where quantity of output is more important than its quality. [4 marks]

Solution:

Concept:

- Under the time-rate system, wages depend on the time worked. It is suitable when individual output cannot fairly measure effort, or when skill and quality require careful work.
- Under the piece-rate system, wages depend on the number of units produced. It encourages greater output when work is measurable, comparable and supplied regularly.

Step 1: Choose time-rate for machine-paced and skilled work **(i) Output determined solely by the machine: Time-rate.** The worker cannot raise output merely by working harder because the machine fixes the production speed. Paying by the number of pieces would therefore link earnings to a factor outside the worker's control. Payment for time worked is fairer and lets the operator concentrate on proper operation and maintenance of the machine.

(ii) Production requiring a high degree of skill: Time-rate. Skilled work requires care, precision and concentration. A worker should have sufficient time to apply that skill without being pressed to produce more pieces simply to earn more. Time-rate payment avoids encouraging haste that could damage workmanship and recognises that the value of skilled work is not captured by the number of units alone.

Step 2: Choose piece-rate for regular work and quantity-oriented output **(iii) Regular work flow: Piece-rate.** A regular supply of materials and work allows employees to produce continuously. Their earnings can then reflect their output without being reduced by frequent interruptions beyond their control. Piece-rate payment gives a direct incentive to make good use of this steady flow and increase productivity.

(iv) Quantity more important than quality: Piece-rate. Payment for each unit makes additional production directly rewarding to the worker. Since the main objective is a larger quantity of output, this incentive is suitable. A uniform piece rate and clearly measurable units make the connection between effort, production and earnings easy to understand; basic acceptable standards should still be maintained.

Step 3: Conclusion Adopt time-rate in situations (i) and (ii), because machine speed and careful skilled work make quantity an unsuitable basis of payment. Adopt piece-rate in situations (iii) and (iv), because regular work and the priority given to quantity support an output-based incentive.

Quick Tip to Solve: Ask whether workers can fairly raise their own output: machine control or careful skill suggests time-rate; steady work and a quantity target suggest piece-rate.

16. Explain, in brief, any five factors that should be taken into consideration while determining the requirements of working capital of a business enterprise. [5 marks]

Solution:

Concept:

- Working capital finances day-to-day operations, including inventories, debtors and the cash needed to meet current obligations. Its requirement depends on how much money remains tied up in the operating cycle.
- A business must estimate its own conditions rather than apply the same working-capital amount to every enterprise. The following five factors affect the amount needed.

Step 1: Examine the nature and scale of operations **1. Nature of business:** A manufacturing concern generally requires substantial working capital because it holds raw materials, work-in-progress and finished goods before collecting sale proceeds. A service enterprise usually carries little inventory and may collect fees promptly, so its requirement is relatively lower.

2. Scale of operations: A large enterprise normally needs more working capital in absolute terms than a small enterprise. A greater volume of production and sales requires larger stocks, more wages and operating payments, and often a larger amount outstanding from customers.

Step 2: Assess the production cycle and credit arrangements **3. Length of production cycle:** A long production cycle ties up funds in materials and work-in-progress for a longer period before finished goods can be sold. It therefore increases working-capital needs. A short cycle releases funds sooner and reduces the amount that must remain invested in current assets.

4. Credit allowed to customers: Liberal credit or a long collection period increases debtors and delays cash receipts. The enterprise must still pay wages and other expenses meanwhile, so it needs more working capital. Cash sales or prompt collection reduce this requirement.

5. Credit available from suppliers: If suppliers allow a long payment period, purchases can be financed partly through trade credit, reducing the enterprise's own working-capital requirement. Where suppliers insist on immediate payment or allow very short credit, more funds must be provided by the enterprise.

Step 3: Conclusion The nature and scale of business, length of the production cycle, credit allowed to customers and credit available from suppliers are five important determinants of working-capital requirements. The estimate should cover the interval between operating payments and the recovery of cash from sales.

Quick Tip to Solve: Track when cash leaves and when it returns: longer production or customer credit raises the need, while longer supplier credit reduces the funds the business must provide.

17. "Though one of the effects of under-capitalisation is that the market value of shares goes up, yet under-capitalisation is not considered good for the company." Do you agree with the statement ? Give reasons. [5 marks]

Solution:

Concept:

- Under-capitalisation exists when a company's capital is low in relation to its earning capacity, so its rate of earnings is unusually high compared with similar companies. It does not simply mean a temporary shortage of cash.
- High earnings and dividends can raise the market value of shares. Nevertheless, the unusually high rate of return can produce adverse reactions from employees, consumers, competitors and the market.

Step 1: Agree with the statement and explain the apparent advantage Yes, I agree. An under-capitalised company earns a high return on its relatively small capital base. The prospect of high dividends attracts investors and can increase the market price of its shares. This price rise is an advantage to existing shareholders, but it does not remove the following harmful consequences for the company.

Step 2: Explain the adverse consequences **1. Labour unrest:** Employees may regard the exceptionally high earnings and dividends as evidence that they are not receiving a fair share of the company's prosperity. They may demand higher wages and bonuses; unresolved demands can lead to disputes and interruption of work.

2. Consumer dissatisfaction: Customers may believe that the company is earning excessive profits by charging unnecessarily high prices. Demands for price reductions, public criticism or a loss of goodwill can follow, affecting its relationship with the market.

3. Increased competition: An unusually high rate of profit attracts new firms to the industry and encourages existing rivals to expand. The resulting competition can reduce the company's sales, margins and future earning capacity.

4. Speculation in shares: High dividends and rising share prices can encourage speculative trading. Market quotations may become unstable or rise beyond a reasonable level, making the company's shares an object of speculation rather than steady investment.

5. Pressure for public intervention: Apparently excessive profits can attract public criticism and demands for government regulation, price controls or heavier taxation. Such pressures can restrict the company's freedom of operation and reduce the benefit of its high earnings.

Step 3: Conclusion Thus, a higher market value of shares does not make under-capitalisation desirable. The company may face labour disputes, consumer resentment, stronger competition, speculative fluctuations and pressure for government intervention, so its long-term interests can suffer despite the immediate benefit to shareholders.

Quick Tip to Solve: Explain the distinction between a high share price and a healthy capital structure; organise the harmful effects by employees, consumers, competitors, investors and government.

18. Explain, in brief, any five economic changes that have been initiated by the Government of India since 1991. [5 marks]

Solution:

Concept:

- The New Economic Policy introduced in 1991 changed the economic environment of Indian business through liberalisation, privatisation and globalisation.
- Liberalisation reduces unnecessary controls, privatisation expands the role of private enterprise, and globalisation integrates the domestic economy with the world economy.

Step 1: Explain the relaxation of domestic controls

- **Abolition of industrial licensing:** Industrial licensing was abolished for most industries, with only a small number retained under compulsory licensing. Entrepreneurs obtained greater freedom to establish units, expand production and choose the scale of operations without first obtaining the earlier range of government permissions.
- **Reduction of public-sector reservation:** The number of industries exclusively reserved for the public sector was reduced. Areas previously closed to private enterprise were opened to it, increasing opportunities for investment and competition. This represented a shift from exclusive state ownership towards a larger role for private business.
- **Removal of restrictions on large enterprises:** Restrictions under the Monopolies and Restrictive Trade Practices framework concerning the establishment and expansion of large business houses were relaxed. Such enterprises could undertake expansion, diversification and investment with fewer prior approvals, making business decisions more responsive to market conditions.

Step 2: Explain the opening of the economy

- **Liberalisation of foreign investment:** Foreign investment and foreign technological collaboration were encouraged through simpler approval procedures and greater permissible participation in several industries. This helped Indian firms obtain capital, technology and managerial expertise while exposing them to international competition.
- **Liberalisation of foreign trade:** Import licensing and quantitative restrictions were progressively reduced, and import duties were lowered. Export promotion and simpler trade procedures encouraged firms to operate beyond the domestic market. Domestic producers consequently faced stronger competition from imported goods and greater pressure to improve quality and efficiency.

Step 3: Conclusion Five major changes were the abolition of most industrial licensing, reduction of public-sector reservation, relaxation of restrictions on large enterprises, encouragement of foreign investment, and liberalisation of foreign trade. Together they gave firms greater operating freedom and increased competition.

Quick Tip to Solve: For each reform, state the control that was relaxed and explain how the change affected business freedom or competition.

19. "Administration comes first, management follows it." Explain the view. [5 marks]

Solution:

Concept:

- The traditional distinction treats administration as the determination of an organisation's objectives and broad policies, and management as the execution of those policies through organised effort.
- Under this view, deciding what is to be achieved logically precedes deciding how to achieve it. Administration supplies the framework within which management works.

Step 1: Explain why administration comes first

- **Determination of objectives:** Administration decides the fundamental purposes and long-term goals of the enterprise. Before managers can organise work or direct employees, they must know the results the organisation seeks to achieve.
- **Formulation of broad policies:** Administration lays down the broad principles, policies and overall framework that guide action. These policies identify the limits and priorities within which managerial decisions are taken. Thus the basic decision about what should be done precedes its detailed execution.
- **Overall direction:** In the traditional distinction, administration is primarily associated with the highest level of authority. It settles major questions of purpose and policy, rather than handling the day-to-day implementation of every activity.

Step 2: Explain how management follows administration

- **Translation into action:** Management converts the objectives and policies already laid down into practical plans, programmes and procedures. It determines how work is to be performed and allocates duties, resources and responsibility so that the policy can be implemented.
- **Execution and control:** Managers organise resources, appoint and guide people, coordinate their efforts and compare actual performance with planned results. For example, if administration decides to expand into a new market, management arranges the staff, distribution and other operating activities needed to carry out that decision.

The sequence is logical: implementation needs a purpose and a policy to implement. It does not mean that all administrative work ends permanently before management starts. Feedback from execution may lead to revised policies. In practice, executives at different levels perform both kinds of work, although policy determination is more prominent at higher levels and execution at lower levels.

Step 3: Conclusion The statement expresses the traditional view that administration first decides the objectives and broad policies, while management subsequently implements them. Administration provides direction; management turns that direction into coordinated action to achieve the desired results.

Quick Tip to Solve: Link the sequence to two questions: administration decides what and why; management works out how and carries it out.

20. Explain briefly the various steps involved in the process of controlling. [5 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with planned standards and taking corrective action so that organisational objectives are achieved.
- The process begins with standards derived from plans. Feedback about actual results reveals deviations and provides the basis for improving performance and future plans.

Step 1: Set performance standards **Setting performance standards:** Standards are the criteria against which actual performance will be judged. They should be clear, measurable wherever possible, realistic and related to organisational objectives. For example, a production department may be expected to produce 1,000 units of a specified quality each week. Qualitative standards, such as improved employee relations, also require suitable indicators for evaluation.

Step 2: Measure actual performance **Measurement of actual performance:** Managers collect reliable information about what has actually been achieved. Personal observation, sample checking, performance reports and accounting records may be used. Measurement must use the same basis and period as the standards; weekly output, for example, must be compared with the weekly output target. Timely measurement helps detect problems before losses accumulate.

Step 3: Compare results with standards **Comparison of actual performance with standards:** Actual results are compared with the predetermined targets to identify deviations. If actual weekly output is 900 units against a target of 1,000 units, the shortfall is 100 units. Both favourable and unfavourable deviations deserve attention because each can reveal information about the suitability of plans and operating methods.

Step 4: Analyse significant deviations **Analysis of deviations:** The manager identifies which differences are significant and investigates their causes. Critical-point control focuses on key result areas, while management by exception concentrates attention on deviations beyond acceptable limits. A production shortfall might arise from machine breakdown, inadequate materials or insufficient training; the cause must be established before choosing a remedy.

Step 5: Take corrective action **Taking corrective action:** Action is taken to remove the causes of significant deviations and bring performance back towards the standard. Depending on the diagnosis, this may involve repairing machinery, improving material supply, training employees or revising working methods. If a standard itself proves unrealistic after careful review, it may be revised. Subsequent performance is monitored to check that the action works.

Step 6: Conclusion The controlling process consists of setting standards, measuring actual performance, comparing it with standards, analysing deviations and taking corrective action. Together these steps connect planned objectives with actual results.

Quick Tip to Solve: Remember the sequence: set, measure, compare, analyse and correct. Explain comparison as finding a difference and analysis as finding its cause.

21(a). Explain, in brief, any six steps involved in the process of selection of employees. [6 marks]

Solution:

Concept:

- Selection is the process of identifying and choosing the most suitable candidate from the applicants for a job. It matches a person's qualifications and capabilities with the requirements of the position.
- Selection uses successive screening stages to gather evidence about applicants. Unsuitable candidates are eliminated so that the organisation can make an informed appointment.

Step 1: Carry out preliminary screening **Preliminary screening:** The applications received are examined against the basic requirements of the vacancy, such as educational qualifications, experience and age where relevant. Applicants who clearly do not meet the essential requirements are screened out. A brief preliminary interview may also be used to establish basic suitability. This saves the time and expense of putting unsuitable candidates through the detailed selection procedure.

Step 2: Conduct selection tests **Selection tests:** Suitable tests are administered to assess abilities and characteristics relevant to the job. An intelligence test measures learning and reasoning ability; an aptitude test indicates the potential to acquire skills; and a trade or proficiency test examines existing job skills. Personality and interest tests may provide additional information. Tests should be chosen according to the work to be performed rather than used without a job-related purpose.

Step 3: Hold an employment interview **Employment interview:** The employer and candidate have a formal conversation to assess suitability more closely. The interviewer explores qualifications, experience, communication and understanding of the job, while the applicant can learn about duties and working conditions. The interview supplements the written application and tests and allows relevant doubts to be clarified before a decision is taken.

Step 4: Check references and background **Reference and background checks:** Information supplied by the candidate is verified through referees, previous employers or other appropriate sources. The organisation may confirm previous employment, qualifications, work performance and conduct. This helps establish the accuracy of the application and provides evidence about reliability. The checks support a fair assessment instead of relying solely on the candidate's own claims.

Step 5: Make the selection decision **Selection decision:** The evidence from screening, tests, interviews and reference checks is considered together to choose the candidate best suited to the post. The decision is normally taken by the manager responsible for the employees' performance, often in consultation with the human resource department. It should reflect the requirements of the job and the applicant's suitability rather than an irrelevant personal preference.

Step 6: Arrange the medical examination **Medical examination:** Before the job offer is finalised, the selected candidate may be required to undergo a medical fitness examination appropriate to the duties. It establishes whether the candidate is medically fit to perform the work and helps avoid placing a person in conditions unsuitable for their health. The examination is a distinct stage; after the required checks are complete, the organisation proceeds to the job offer and contract of employment.

Step 7: Conclusion Six steps in employee selection are preliminary screening, selection tests, employment interview, reference and background checks, selection decision and medical examination. They progressively establish whether the applicant is suitable for the vacancy.

Quick Tip to Solve: Keep recruitment and selection separate: recruitment attracts applicants, while these selection stages assess and choose among the applicants already available.

OR

21(b). Explain briefly any six external sources of recruitment of workers. [6 marks]

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and encouraging them to apply for jobs. External recruitment seeks candidates from outside the organisation.
- Different sources suit different categories of jobs. For workers, direct recruitment, casual applicants, employment exchanges and labour contractors are particularly useful, while advertisements and recommendations widen the available pool.

Step 1: Explain sources that bring workers directly to the organisation

- **Direct recruitment:** The enterprise displays a notice at the factory gate or workplace stating the jobs available and the qualifications required. Job seekers assemble on the specified date and suitable workers are selected. This inexpensive source is commonly used for casual, unskilled or semi-skilled workers and helps meet immediate requirements.
- **Casual callers:** Many people apply for work on their own initiative even when no vacancy has been advertised. The organisation maintains a record of suitable applicants and contacts them when a vacancy arises. This ready list can save the expense and time of starting a fresh search.
- **Advertisements:** Vacancies are announced in newspapers or other suitable media, stating the nature of work, qualifications and method of application. An advertisement reaches people beyond the local factory gate and gives a large number of eligible outsiders an opportunity to apply.

Step 2: Explain sources that connect employers with outside applicants

- **Employment exchanges:** Government employment exchanges register job seekers and maintain information about their qualifications and experience. An employer notifies vacancies and receives names of suitable registered candidates. Exchanges are a useful source of operative and other workers, although the employer must still assess their suitability.
- **Recommendations of existing employees:** Present employees suggest friends or relatives who possess the required qualifications. Employees know the work and can help identify suitable applicants, making the search quicker. However, recommended persons should be assessed on merit so that personal connections do not replace proper selection.
- **Labour contractors:** Contractors maintain contact with groups of workers and supply the required labour to an enterprise, often for construction or other labour-intensive work. They can provide workers at short notice. Excessive dependence on a contractor is risky because workers may leave when the contractor leaves.

Step 3: Conclusion Six external sources are direct recruitment, casual callers, advertisements, employment exchanges, recommendations of existing employees and labour contractors. Each brings applicants from outside the organisation; recruitment creates the applicant pool, after which selection determines who is appointed.

Quick Tip to Solve: For a sources question, name each channel and explain how it supplies applicants; do not substitute selection steps such as interviews or medical tests.

22(a). **"Advertising costs are passed on to the consumers in the form of high prices" and "Some advertisements are in bad taste". Do you agree ? Give reasons in support of your answer.** [6 marks]

Solution:

Concept:

- Advertising is a paid form of impersonal presentation and promotion of goods or services by an identified sponsor. Its economic effects and the social acceptability of its message are separate issues.
- The objections that advertising raises consumer prices and that some advertisements are in bad taste require a balanced assessment: advertising incurs expenditure, but expanded sales can reduce unit costs; an objectionable message does not make every advertisement objectionable.

Step 1: Assess the objection about higher prices

- **Explain the objection:** Advertising is an expense incurred by the producer. Critics argue that it adds to the cost of distributing the product and that the producer recovers this expenditure from buyers through a higher selling price. Heavy spending on rival brands can therefore appear to burden consumers without improving the physical product.
- **Consider economies of scale:** Advertising can inform many customers, increase demand and expand the volume of sales. Larger production spreads fixed costs over more units and may permit bulk buying and more efficient production. The resulting reduction in cost per unit can offset, or even exceed, the advertising cost per unit.
- **Give a qualified judgement:** I do not agree that advertising necessarily causes higher prices. The effect depends on the advertising expense, additional sales and resulting cost savings. An unsuccessful or wasteful campaign may raise costs without compensating gains, but effective advertising can make large-scale production and competitive prices possible.

Step 2: Assess the objection about advertisements in bad taste

- **Recognise the concern:** I agree that some advertisements are in bad taste. Vulgar language, indecent pictures or a manner of presenting a product that offends social values can make an advertisement objectionable. Such methods may attract attention while disregarding the feelings of the audience.
- **Distinguish misuse from the medium:** This criticism applies to particular advertisements and their presentation, rather than to all advertising. Taste also varies among audiences. Many advertisements provide useful information about product features, availability and use without offending anyone.
- **State the appropriate response:** Advertisers should use truthful, decent and socially responsible messages, exercise self-restraint and observe applicable advertising standards. Objectionable advertisements should be corrected or withdrawn; their existence does not justify rejecting the informative and promotional role of responsible advertising.

Step 3: Conclusion The first statement is only conditionally valid: advertising adds expenditure, but greater sales and economies of scale can prevent a rise in price or allow a lower price. The second statement is valid for some advertisements whose presentation is offensive, but it is not a criticism that applies to every advertisement.

Quick Tip to Solve: Treat the two objections separately: balance advertising expense against lower unit costs, then distinguish an offensive message from advertising as a whole.

OR

22(b). Explain, in brief, the factors that are taken into consideration while taking decision on pricing the product. [6 marks]

Solution:

Concept:

- Price is the amount a buyer pays for a product. Pricing must reconcile the firm's costs and objectives with what customers value and what competing sellers offer.
- Marketing Management identifies six major influences: product cost, utility and demand, competition, government and legal regulation, pricing objectives, and the marketing methods used.

Step 1: Examine cost, customer demand and competition

- **Product cost:** The firm estimates fixed costs, variable costs and selling and distribution expenses. In the long run the price must cover the total cost and provide a reasonable return, otherwise production cannot remain viable. Cost therefore provides an important basis for the minimum sustainable price.
- **Utility and demand:** Buyers compare the satisfaction expected from a product with the price charged. Greater perceived usefulness and strong demand may permit a higher price. The firm also considers demand elasticity: where buyers readily reduce purchases after a price increase, a high price can sharply reduce sales.
- **Extent of competition:** Competitors' prices, product quality and likely reactions influence the firm's freedom to set its price. Close substitutes and intense competition restrict this freedom; a distinctive product may justify a premium if buyers value its difference.

Step 2: Consider regulation, objectives and marketing methods

- **Government and legal regulation:** The firm must observe applicable price controls and other legal requirements. For essential products, government intervention may restrict the price to protect consumers and prevent exploitation.
- **Pricing objectives:** A firm seeking rapid market penetration or market-share leadership may keep its price relatively low. A firm aiming at product-quality leadership may charge more to support superior quality. Survival, profit maximisation and other objectives thus lead to different pricing decisions.
- **Marketing methods used:** Distribution channels, advertising, personal selling, packaging, credit, delivery and after-sales services affect the price. For example, extensive promotion and a costly dealer network add expenses, while dependable service can also increase the value customers perceive.

Step 3: Conclusion A sound pricing decision considers all six factors together. The final price should cover costs over time, suit the firm's objectives and legal obligations, and remain acceptable to customers in relation to competing products.

Quick Tip to Solve: Organise the answer as cost, customers, competitors, controls, company objectives and marketing methods; explain how each influences price rather than merely listing it.

23(a). Explain the following rights of consumers :

(i) The Right to safety,

(ii) The Right to consumer education, and

(iii) The Right to be heard. [6 marks]

Solution:

Concept:

- Consumer rights protect buyers against unfair practices and enable them to obtain safe products and fair treatment in the marketplace.
- Safety concerns protection from hazards; consumer education gives buyers the knowledge needed to act intelligently; the right to be heard ensures that consumer interests and grievances receive consideration.

Step 1: Explain the right to safety **(i) The Right to safety:** A consumer has the right to be protected against the marketing of goods and services that are hazardous to life and health. Products should be safe for their intended use, and the consumer should be informed of necessary precautions. This is especially significant for electrical appliances, medicines, food products and other goods whose defects can cause injury. For example, an electrical appliance should have adequate insulation and safeguards against electric shock. Consumers should prefer products conforming to recognised quality standards, such as the ISI mark where applicable, and follow the instructions for safe use. Safety therefore concerns prevention of harm, rather than only compensation after an accident.

Step 2: Explain the right to consumer education **(ii) The Right to consumer education:** A consumer has the right to acquire the knowledge and skills required to be an informed consumer throughout life. This includes awareness of consumer rights and responsibilities, unfair trade practices, quality and standardisation marks, and the remedies available for complaints. Education enables a buyer to examine labels, compare alternatives, recognise misleading claims and insist on a bill or cash memo. For instance, knowing how to check the expiry date and maximum retail price helps a buyer avoid an expired product or overcharging. An educated consumer can make a rational choice and take appropriate action when a right is violated.

Step 3: Explain the right to be heard **(iii) The Right to be heard:** A consumer has the right to have complaints and interests heard and given due consideration at appropriate forums. A business should provide an accessible grievance mechanism so that complaints about defects, deficient service or unfair conduct can be raised and examined. Consumers may also place their interests before consumer organisations and the appropriate consumer dispute-redressal forums. Representation in bodies considering consumer welfare helps ensure that decisions take buyers' concerns into account. For example, a buyer complaining about a defective appliance should have an opportunity to present the complaint and supporting bill. This right secures a hearing; the separate right to seek redressal concerns the relief awarded after the complaint is considered.

Step 4: Conclusion These rights provide complementary protection: safety guards life and health, consumer education equips buyers to make informed decisions, and the right to be heard ensures that consumer complaints and interests receive proper attention.

Quick Tip to Solve: Link each right to its precise purpose: safety prevents harm, education builds awareness, and being heard gives complaints a voice. Add a relevant example for each.

OR

23(b). Explain any four ways and means of consumer protection followed in India. [6 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unsafe goods, unfair trade practices, misleading claims and exploitation. Protection requires both preventive action and a remedy when a consumer suffers a loss.
- The principal ways and means include self-regulation by business, business associations, consumer awareness, consumer organisations and government action. The following are four distinct ways followed in India.

Step 1: Explain voluntary action by producers and traders **Self-regulation by business:** A socially responsible business recognises that lasting success depends on serving consumers fairly. It supplies safe, good-quality products at reasonable prices, gives accurate information and avoids misleading advertisements, adulteration and other unfair practices. It can establish a consumer service centre to receive complaints, replace defective products and settle genuine grievances promptly. Such voluntary standards prevent exploitation before an outside authority has to intervene.

Step 2: Explain the role of organised business **Business associations:** Trade and industry associations, such as chambers of commerce, can frame codes of conduct for their members. These codes encourage fair dealings, proper quality standards, honest advertising and satisfactory after-sales service. Associations may persuade members to correct objectionable practices and help resolve consumer complaints. Their collective influence encourages responsible conduct across an industry rather than leaving protection to the goodwill of a single firm.

Step 3: Explain informed action by buyers **Consumer awareness:** An informed consumer is better able to resist exploitation. Buyers should know their rights and responsibilities, compare prices and quality, read labels and directions, check relevant quality marks and obtain a cash memo or bill. Awareness also enables them to question false claims and use the available complaint machinery. Education through schools, the media and public campaigns converts consumers from passive victims into alert purchasers who can demand fair treatment.

Step 4: Explain collective action by consumer bodies **Consumer organisations:** Voluntary consumer associations educate buyers about rights, responsibilities and remedies. They can test products, publish information, expose unfair practices and advise people on complaints. They also assist consumers in presenting grievances before the appropriate authorities and may take up matters affecting consumers collectively. By organising individual buyers, these bodies provide information, representation and support that an isolated consumer may find difficult to obtain.

Step 5: Conclusion Four ways of consumer protection in India are self-regulation by business, codes and action of business associations, consumer awareness, and the work of consumer organisations. Together they promote fair conduct, informed purchasing and effective representation of consumers.

Quick Tip to Solve: Separate the agency behind each method: the individual business, its trade association, the alert buyer and the organised consumer body. Explain what each actually does to protect consumers.

24(a). Explain briefly any six points which highlight the importance of planning. [6 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done, how and when it is to be done, and who is to do it. It connects the organisation's present position with the future position it wishes to achieve.
- Planning is important because it turns objectives into coordinated action and provides a basis for managerial decisions and control. Its advantages do not mean that it can remove all risk or guarantee success.

Step 1: Explain how planning directs effort and prepares for change **1. Planning provides direction:** Plans state the objectives to be achieved and the actions needed to achieve them. Employees and departments therefore know what is expected and how their work contributes to organisational goals. Their efforts are directed towards a common purpose instead of unrelated activities.

2. Planning reduces the risks of uncertainty: Managers look ahead, forecast likely changes and consider how those changes may affect operations. They can prepare suitable responses to changes in demand, competition or technology. Planning cannot eliminate uncertainty, but advance preparation reduces the surprise and disruption caused by foreseeable events.

Step 2: Explain how planning improves the use of resources and encourages ideas **3. Planning reduces overlapping and wasteful activities:** A plan coordinates the activities of different departments and employees. It clarifies responsibilities, the sequence of work and the resources required. This reduces duplication, unnecessary work and conflict between activities, helping the organisation use its time, money and materials more efficiently.

4. Planning promotes innovative ideas: Since planning requires managers to think about the future, it encourages them to consider fresh ways of achieving objectives. They can examine new products, improved methods and alternative courses of action before committing resources. Planning thus provides an opportunity to develop useful ideas into practical courses of action rather than merely repeating existing routines.

Step 3: Explain how planning supports decisions and control **5. Planning facilitates decision-making:** Managers identify available alternatives and evaluate their likely advantages, limitations and consequences in relation to objectives. They can then choose the most suitable course of action. A considered choice made in advance is more purposeful than an improvised response made without evaluating alternatives.

6. Planning establishes standards for controlling: Plans specify expected results, targets and schedules. Actual performance can be compared with these standards to identify deviations and take corrective action. Without a predetermined target, management cannot judge reliably whether performance is satisfactory. Planning therefore supplies the basis on which the controlling function operates.

Step 4: Conclusion Planning is important because it provides direction, reduces uncertainty, limits overlapping and waste, promotes innovative ideas, facilitates decisions and establishes standards for control. These benefits help managers coordinate present action with the organisation's future objectives.

Quick Tip to Solve: Link each benefit to its practical effect: objectives give direction, forecasts prepare for change, coordination saves resources, alternatives improve decisions, and targets make control possible.

OR

24(b). Explain, in brief, the meaning of 'policy' and 'rule' as types of plans and give any four points of distinction between them. [6 marks]

Solution:

Concept:

- Planning includes standing plans that guide recurring decisions. Policies and rules are both standing plans, but they allow different degrees of discretion.
- A policy supplies a general guideline for decision-making; a rule states a specific action that must or must not be taken in a particular situation.

Step 1: Explain the meaning of each plan **Policy:** A policy is a general statement that guides thinking and channels managerial decisions towards organisational objectives. It defines the broad boundaries within which a manager chooses an appropriate course of action. For example, a policy of filling vacancies from within the organisation guides recruitment decisions, while leaving scope to consider the suitability of candidates.

Rule: A rule is a specific statement prescribing what must be done or must not be done. It leaves no discretion about the prescribed conduct. For example, a rule prohibiting smoking in the workplace must be followed by everyone to whom it applies; an employee cannot choose to disregard it merely because it seems inconvenient.

Step 2: Distinguish policies from rules on four bases

Basis	Policy	Rule
Nature	A broad guideline that provides a framework for managerial decisions.	A specific prescription directing an action or prohibiting it.
Discretion	Permits judgment in choosing an action within the policy's limits.	Allows no discretion regarding compliance with the stated requirement.
Flexibility	Can be interpreted and applied to suit the circumstances within its general framework.	Is rigid in application: the prescribed conduct must be followed.
Purpose	Promotes consistency in decisions while leaving room for initiative.	Ensures uniform conduct and discipline by clearly stating what is compulsory or forbidden.

Thus, a manager applying a recruitment policy may exercise judgment about how to select suitable internal candidates, whereas a rule requiring an application before a fixed deadline prescribes a definite condition. This illustrates the difference between guidance and mandatory conduct.

Step 3: Conclusion A policy guides decisions through general boundaries, whereas a rule prescribes definite conduct. They differ in nature, discretion, flexibility and purpose; both help translate organisational plans into consistent action.

Quick Tip to Solve: Use one guiding-policy example and one compulsory-rule example, then compare both plans on the same four bases rather than listing unrelated features.

25(a). What is an 'informal organisation' ? Distinguish between 'formal organisation' and 'informal organisation' on the basis of : (i) purpose, (ii) behaviour of members, (iii) adherence to rules, and (iv) stability. [6 marks]

Solution:

Concept:

- Formal organisation is the deliberately designed structure of roles, authority and responsibility created by management to achieve organisational objectives.
- Informal organisation arises spontaneously from personal interaction, friendship and shared interests among people working within the formal organisation. It meets social and psychological needs.

Step 1: Define informal organisation An **informal organisation** is the network of personal and social relationships that develops spontaneously as people interact at work. It is neither deliberately created by management nor specified in an organisation chart. Employees form groups because of friendship, common interests, shared experiences or a sense of belonging, even when they belong to different departments or levels of authority.

For example, employees who regularly meet during lunch may form a friendship group and exchange advice. Their relationships arise from personal contact rather than the reporting relationships assigned by management. Such a group develops its own expectations and can influence the attitudes and behaviour of its members.

Step 2: Compare the two organisations on the prescribed bases

Basis	Formal organisation	Informal organisation
Purpose	Created to achieve the enterprise's stated objectives through a planned division of work.	Develops to satisfy members' social needs, such as friendship, acceptance and belonging.
Behaviour of members	Behaviour in official roles is directed by prescribed duties, authority and organisational procedures.	Behaviour is influenced by personal relationships and the norms, values and expectations of the group.
Adherence to rules	Members must follow the rules and procedures formally established by management.	There are no formally prescribed organisational rules for the group; members follow its unwritten social norms.
Stability	Relatively stable because positions and reporting relationships continue despite changes in individual employees.	Relatively less stable because relationships and group membership may change with personal interests and interactions.

The comparison concerns two relationships that can coexist among the same employees. A person may obey a supervisor through the formal structure and, at the same time, be influenced by friends through the informal network. Informal groups are therefore not without expectations: their norms are unwritten rather than officially prescribed.

Step 3: Conclusion Informal organisation is the spontaneous network of social relationships at work. Compared with the formal structure, it serves social purposes, guides behaviour through group norms, follows unwritten expectations and is relatively less stable.

Quick Tip to Solve: Keep the four bases exactly as asked. Under rules, distinguish official rules from unwritten group norms; do not say that informal groups have no norms at all.

OR

25(b). Explain, in brief, any six points which highlight the importance of decentralisation in an organisation. [6 marks]

Solution:

Concept:

- Decentralisation means the systematic dispersal of decision-making authority to lower levels of management, except for authority that can appropriately be exercised at the centre.
- It extends delegation throughout the organisation. Top management retains overall responsibility and policy direction while operating managers receive authority to act within defined limits.

Step 1: Explain the benefits for employees and future managers

- **Develops initiative among subordinates:** Lower-level managers receive freedom to decide how to perform their work within the authority given to them. They learn to rely on their own judgement and take the initiative instead of referring every difficulty to a superior. Responsibility for the results also strengthens their confidence and motivation.
- **Develops managerial talent for the future:** Making decisions gives subordinates practical experience in planning, solving problems and evaluating results. They learn from their successes and mistakes while handling responsibility. This training prepares capable managers to take up higher positions when the organisation needs them.

Step 2: Explain the benefits for decisions and senior management

- **Enables quick decision-making:** Decisions can be taken near the point of action by managers who understand local conditions. Routine matters need not travel through several levels for approval. This reduces delays and enables a prompt response to customers, operating problems and changing circumstances.
- **Relieves top management:** When lower levels deal with routine operating decisions, senior managers need not supervise every detail personally. They can concentrate on major policy decisions, long-term planning, coordination and other matters that require an organisation-wide perspective.

Step 3: Explain the benefits for expansion and control

- **Facilitates growth:** Decentralisation develops managers who can independently handle departments, branches or divisions. The enterprise can therefore expand its activities without placing every additional decision on the top managers. Local units can respond to their particular needs within the overall policies of the organisation.
- **Improves control:** Responsibility for results can be fixed on the managers of different units. Their performance can be measured against clear targets and compared with the resources and authority entrusted to them. This helps management identify deviations, establish accountability and take corrective action where necessary.

Step 4: Conclusion Decentralisation promotes initiative, develops managerial talent, speeds decisions, relieves top management, supports growth and improves control. Its benefits arise when authority is matched with responsibility and lower-level decisions remain consistent with the organisation's overall objectives.

Quick Tip to Solve: Organise the six benefits around people, decisions and the enterprise: initiative and talent; speed and relief; growth and control. Explain how dispersing authority produces each benefit.