CBSE Class 12 Business Studies Question Paper 2005 with Solution PDF-Set 66/1/3

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 the product concept of marketing ? [2 marks]

Solution:

Concept:

- The product concept is a marketing philosophy that gives primary attention to the quality, performance and features of the product.
- It assumes that buyers prefer products offering superior quality and useful features, so product excellence is the main means of attracting them.

Step 1: Explain the underlying belief Under the product concept, a firm believes that customers will favour the best-quality product available. Buyers are expected to compare the performance, durability and features of competing products and prefer the superior offering.

Step 2: State the managerial focus Management therefore concentrates on making high-quality products and improving them continuously. Its main effort goes into product design, technical performance and additional features. For example, a manufacturer following this approach would seek to improve the reliability and performance of its appliance. This emphasis can become narrow if improvements are pursued without checking customers' actual needs.

Step 3: Conclusion The product concept of marketing holds that consumers favour superior-quality, high-performance products; consequently, the firm focuses on producing and continuously improving such products.

Quick Tip to Solve: Link the product concept with quality and continuous product improvement; customer-need satisfaction is the central focus of the marketing concept.

2. How does marketing help a firm to build goodwill in the market ? [2 marks]

Solution:

Concept:

- Marketing identifies customer needs and helps the firm offer goods and services that satisfy them.
- Goodwill is the favourable reputation and trust a firm builds through customers' satisfactory experiences.

Step 1: Relate marketing to satisfaction Marketing starts with understanding what customers need. The firm uses this information to provide an appropriate product of dependable quality at a suitable price, make it available conveniently and communicate its benefits honestly. Customers are satisfied when the value received meets the expectations created.

Step 2: Explain how satisfaction builds reputation Consistent satisfaction, supported by courteous service and prompt handling of complaints, creates confidence in the firm. Satisfied buyers are more likely to buy again and recommend its products to others. Such favourable experiences and word-of-mouth improve the firm's image and establish goodwill in the market.

Step 3: Conclusion Marketing builds goodwill by understanding and satisfying customers' needs consistently, thereby earning their trust, repeat patronage and favourable recommendations.

Quick Tip to Solve: Use the chain: understanding needs leads to satisfaction, which creates trust and favourable word-of-mouth, building goodwill.

3. What is meant by 'economic environment' of business ? [2 marks]

Solution:

Concept:

- The economic environment comprises external economic conditions and forces that influence business decisions and performance.
- It includes the economic system, economic policies and indicators such as income, interest rates, inflation and growth.

Step 1: Define the environment The economic environment of business means the totality of economic factors outside a business enterprise that affect its operations. These factors influence the purchasing power of customers, demand for goods and services, the availability of finance and the cost of carrying on business.

Step 2: Identify its main components It includes the nature of the economic system, the level and distribution of income, the stage of economic development and government economic policies. Changes in interest rates, inflation, money supply and employment are also relevant. For example, higher interest rates can make borrowing more expensive and reduce demand for goods commonly purchased on credit.

Step 3: Conclusion The economic environment is the set of external economic conditions, policies and forces within which a business operates and which affect its demand, costs and financial decisions.

Quick Tip to Solve: For an economic-environment definition, mention external economic forces and give examples such as income, inflation and interest rates.

4. Enumerate any two points of importance of directing as a function of management. [2 marks]

Solution:

Concept:

- Directing means instructing, guiding, motivating and leading people so that organisational objectives are achieved.
- Its importance lies in converting plans into action and bringing individual efforts towards a common purpose.

Step 1: State how directing initiates action **Initiates action:** Directing sets organisational work in motion. After plans are prepared, duties assigned and employees appointed, managers give instructions and guidance so that people actually begin performing their assigned tasks. Thus, directing turns decisions and arrangements into purposeful activity.

Step 2: State how directing integrates efforts **Integrates employees' efforts:** Directing guides employees to work together towards organisational objectives. Through supervision, communication and leadership, managers help people understand how their individual tasks contribute to the common goal. This reduces conflicting efforts and supports coordinated performance.

Step 3: Conclusion Two points of importance are that directing initiates action and integrates employees' efforts towards organisational objectives.

Quick Tip to Solve: For an enumeration, name two distinct benefits clearly; use initiation of action and integration of efforts as separate points.

5. State any two functions of middle-level management. [2 marks]

Solution:

Concept:

- Middle-level management connects top management with supervisory or operational management.
- It translates broad organisational policies into departmental action and guides lower-level managers in implementing them.

Step 1: State the policy-implementation function **Interpret and implement top-management policies:** Middle-level managers explain the policies and plans formulated by top management to their departments. They prepare suitable departmental plans and organise activities so that broad organisational decisions can be carried out in practice.

Step 2: State the guidance and coordination function **Assign duties and guide lower-level managers:** They allocate responsibilities to supervisory managers, explain the required results and provide instructions and support for carrying out departmental work. They also coordinate the activities within their departments so that employees' efforts contribute to the objectives set by top management.

Step 3: Conclusion Two functions of middle-level management are interpreting and implementing top-management policies and assigning duties to, and guiding, lower-level managers.

Quick Tip to Solve: Remember middle management as the link: it translates policies from above into departmental work and guides the supervisors below.

6. State any three features of personal selling. [3 marks]

Solution:

Concept:

- Personal selling is the oral presentation of a product or service in a conversation with prospective buyers, with the purpose of making a sale.
- It is a personal method of promotion: the salesperson can identify the buyer's needs and adapt the explanation to that individual.

Step 1: Identify the personal contact **Personal interaction:** Personal selling involves direct contact between the salesperson and the prospective buyer. They can discuss the product, its uses and the buyer's requirements. The seller can demonstrate the product and clarify doubts instead of sending the same impersonal message to every buyer.

Step 2: State its flexibility and feedback **Flexibility:** The salesperson can change the sales presentation to suit the buyer's needs, knowledge and reactions. For example, more detail can be given about the feature that concerns a particular customer.

Immediate feedback: The salesperson can observe the buyer's expressions and listen to questions or objections immediately. This two-way communication allows misunderstandings to be removed and the sales appeal to be improved during the conversation.

Step 3: Conclusion Three features of personal selling are personal interaction, flexibility of the sales presentation and immediate feedback from the prospective buyer.

Quick Tip to Solve: Remember personal selling through contact, adaptation and feedback; explain each feature in terms of what the salesperson and buyer can do.

7. "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 marks]

Solution:

Concept:

- Leadership is the process of influencing people to work willingly towards the achievement of objectives. It can arise through a formal position or through personal influence.
- Management is the wider process of getting organisational work done through planning, organising, staffing, directing and controlling. Leadership is an essential part of directing.

Step 1: Explain why managers perform a leadership role Yes, the statement is correct in the functional sense that a manager is expected to lead while carrying out managerial responsibilities.

Leadership is a part of management: Managers direct and motivate their subordinates so that organisational plans are implemented. Merely allocating duties is insufficient; they must influence people to cooperate and work towards common goals. Thus every manager has a leadership role.

Step 2: Explain why leadership does not require managerial office **Different sources of influence:** A manager occupies an appointed position with formal authority. A leader may influence people through knowledge, personality, confidence or trust, even without holding such a position. An informal group may therefore have a leader who is not its manager.

Different scope of responsibility: A manager performs all the managerial functions and is accountable for organisational results. A leader may only guide or inspire followers and need not plan, organise, staff or control an enterprise. Leadership alone therefore does not make a person a manager.

Step 3: Conclusion I agree: managers must exercise leadership to secure willing cooperation, but a person can lead through informal influence without holding managerial authority or performing all managerial functions.

Quick Tip to Solve: Use three bases: leadership as a managerial function, formal versus personal influence, and the wider responsibilities of a manager.

8. Enumerate any three market related factors that should be kept in view while taking decision on the choice of channels of distribution of any product. [3 marks]

Solution:

Concept:

- A channel of distribution is the route through which a product moves from its producer to its final user, either directly or with intermediaries.
- Market-related factors concern the buyers: their number, geographical concentration and buying quantities affect how economically and conveniently they can be served.

Step 1: Consider the number and location of buyers **Number of buyers:** When there are only a few buyers, the producer can normally contact them directly or use a short channel. When buyers are numerous, intermediaries help reach and serve them without maintaining a large direct selling network.

Geographical concentration: A market concentrated in a small area can be served economically through direct or short channels. Buyers scattered across distant areas usually require wholesalers, retailers or other intermediaries that can provide local availability.

Step 2: Consider the size of customers' orders **Size of order or quantity purchased:** Buyers placing large orders can generally be served directly because the value and quantity of each transaction justify direct contact and delivery. When individual buyers purchase small quantities, retail intermediaries are useful: they buy in larger lots and divide the goods into convenient quantities for final consumers. These are market factors, rather than characteristics of the product or the producer.

Step 3: Conclusion Three market-related factors are the number of buyers, their geographical concentration and the size of their orders. Few, concentrated buyers placing large orders favour a short channel; scattered small buyers generally require intermediaries.

Quick Tip to Solve: For market factors, think about the customers: how many they are, where they live and how much each buys.

9. How does motivation improve the efficiency of workers in an organisation ? Give any three points [3 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to take action to accomplish desired goals. It links the satisfaction of individual needs with organisational objectives.
- Efficiency improves when employees apply their abilities willingly, avoid wasteful behaviour and cooperate in completing organisational work.

Step 1: Explain improvements in effort and attitude **Better utilisation of ability:** An employee may possess knowledge and skill but may not apply them fully without willingness to work. Motivation creates that willingness, encourages greater effort and helps bridge the gap between the ability to perform and actual performance. The same resources can therefore yield better output.

Positive attitude towards work: Appropriate incentives, recognition and opportunities for achievement encourage employees to take interest in their duties. Instead of treating work as a burden, they accept responsibility and work with commitment, improving the quality and timeliness of their performance.

Step 2: Explain regular and cooperative working **Reduction in absenteeism and employee turnover:** When work satisfies employees' needs and they feel valued, they are more willing to attend regularly and remain with the organisation. This reduces interruptions, replacement and training costs, and the loss of experienced workers. Continuity of work and the retention of skilled employees help the organisation obtain more efficient performance from its workforce.

Step 3: Conclusion Motivation improves workers' efficiency by securing fuller use of their abilities, developing a positive attitude towards duties and reducing absenteeism and labour turnover.

Quick Tip to Solve: Link every point to performance: more willing effort, better work attitudes, or fewer disruptions and replacement costs.

10. An organisation follow the principles of management. What are the positive effects of each of the following principles of management on the organisation ?

(i) Unity of direction,

(ii) Esprit de crops, and

(iii) Subordination of individual interests to general interests. [3 marks]

Solution:

Concept:

- Fayol's principles guide managerial action so that employees' efforts support the organisation's objectives.
- Unity of direction coordinates activities with the same objective; esprit de corps develops team spirit; subordination of individual interests gives priority to the common organisational interest.

Step 1: Explain the effect of unity of direction **(i) Unity of direction:** Activities having the same objective are placed under one head and one plan. Consequently, the efforts of different employees and departments move towards a common goal. This brings coordination, prevents unnecessary duplication of work and avoids conflicting courses of action. Resources are used more efficiently because related activities are directed together rather than pursued through unrelated plans.

Step 2: Explain the effect of esprit de corps **(ii) Esprit de corps:** Management promotes team spirit, mutual trust and a feeling of belonging among employees. Employees cooperate and support one another instead of working as rival individuals. This strengthens unity and morale, reduces avoidable friction and helps the organisation achieve its objectives through collective effort. A manager's emphasis on "we" encourages employees to identify with their team.

Step 3: Explain the effect of priority to general interests **(iii) Subordination of individual interests to general interests:** When an employee's or a group's interest conflicts with the organisation's interest, the organisational interest receives priority. Decisions therefore serve the common purpose rather than personal advantage. This prevents personal preferences from obstructing work, aligns

individual effort with organisational goals and promotes the welfare of the organisation as a whole.

Step 4: Conclusion Unity of direction produces coordinated effort, esprit de corps creates teamwork and high morale, and subordination of individual interests ensures that the common organisational objective takes priority over personal gain.

Quick Tip to Solve: Link each principle to its distinct result: one plan gives coordination, team spirit gives cooperation, and priority to the common interest gives goal alignment.

11. Distinguish between Capital market and Money market on the basis of

(i) Liquidity,

(ii) Expected return,

(iii) Duration, and

(iv) Instruments traded. [4 marks]

Solution:

Concept:

- The money market deals in short-term funds and financial instruments with a maturity of up to one year. The capital market supplies medium-term and long-term finance, including ownership capital.
- Liquidity is the ease of converting an investment into cash without substantial loss. Expected return is the income or capital gain an investor anticipates, rather than a guaranteed payment.

Step 1: Compare the markets on the four specified bases

Basis	Capital market	Money market
(i) Liquidity	Securities are generally less liquid than money-market instruments. Saleability depends on trading conditions and the particular security.	Instruments are generally highly liquid because of their short maturity and arrangements for discounting or resale.
(ii) Expected return	Expected returns are generally higher, reflecting longer commitment of funds and greater investment risk.	Expected returns are generally lower because funds are committed for a short period and the instruments usually carry lower risk.
(iii) Duration	Deals in medium-term and long-term funds, ordinarily for periods exceeding one year; equity has no fixed maturity.	Deals in short-term funds, with maturity up to one year.
(iv) Instruments traded	Equity shares, preference shares, debentures and bonds.	Treasury bills, commercial paper, call money, certificates of deposit and commercial bills.

Step 2: Relate the differences to the purpose of each market The money market meets temporary cash requirements and provides an outlet for short-term surplus funds. Its instruments mature quickly, which supports liquidity and normally limits the expected return. The capital market channels savings into longer-term financing requirements such as expansion and fixed assets. Investors may receive dividends, interest or capital appreciation, but prices and returns can fluctuate. Thus, a listed share

can be saleable on a stock exchange while still being less reliably convertible into cash without loss than a highly liquid money-market instrument.

Step 3: Conclusion Capital-market investments generally offer higher expected returns over longer periods and include shares and debentures. Money-market instruments generally provide greater liquidity, lower expected returns and maturity up to one year.

Quick Tip to Solve: Start with maturity: up to one year identifies the money market. Then connect its short duration with high liquidity, relatively low return and instruments such as Treasury bills.

12. "Securities and Exchange .Board of India (SEBI) is the watchdog of the securities market." Do you agree ? Give four reasons in support of your answer. [4 marks]

Solution:

Concept:

- SEBI is the statutory regulator of the securities market. Its objectives are to protect investors, regulate market participants and promote the orderly development of the market.
- A watchdog supervises conduct and acts against wrongdoing. SEBI performs this role through protective and regulatory functions which help investors deal in securities with confidence.

Step 1: State agreement and explain protection against malpractices Yes, I agree that SEBI is the watchdog of the securities market. The following four reasons support this description:

- **Checks fraudulent and unfair trade practices:** SEBI prohibits practices such as price rigging and misleading dealings in securities. By checking artificial changes in prices and other manipulative conduct, it helps ensure that investors are not induced to trade on a false picture of the market.
- **Prohibits insider trading:** SEBI checks trading by persons who use unpublished price-sensitive information for personal gain. Such trading gives insiders an unfair advantage over other investors; its prohibition supports fairness and investor protection.

Step 2: Explain supervision of market institutions and intermediaries

- **Regulates stock exchanges:** SEBI regulates the business of stock exchanges and other securities markets. It can inspect and inquire into their operations, helping ensure orderly trading and compliance with prescribed rules rather than leaving exchanges entirely unsupervised.
- **Regulates intermediaries:** SEBI registers and regulates brokers, merchant bankers and other intermediaries connected with the securities market. By prescribing standards of conduct and supervising their activities, it promotes accountable services and reduces opportunities for intermediaries to exploit investors.

Step 3: Conclusion SEBI acts as a watchdog because it checks unfair practices and insider trading while regulating exchanges and intermediaries. These functions protect investors and promote a fair, orderly securities market.

Quick Tip to Solve: Link each reason to supervision or protection: unfair practices, insider trading, exchanges and intermediaries give four distinct watchdog functions.

13. Define the term 'Functional Structure' of an organisation and enumerate any three merits of this form of organizational structure. [4 marks]

Solution:

Concept:

- Organising groups activities and assigns authority and responsibility. In a functional structure the basis of grouping is the specialised function performed, such as production, finance, marketing or personnel.
- Functional departments bring together people doing similar work. This promotes specialisation and allows resources and supervision to be organised around the requirements of that function.

Step 1: Define functional structure A **functional structure** is an organisational structure in which activities of a similar nature are grouped together into separate functional departments. Thus, production activities are grouped in the production department, financial activities in the finance department, and selling activities in the marketing department. Each department is headed by a specialist responsible for its function. The basis is the work performed, rather than a separate department for every product.

Step 2: Enumerate three merits

- **Functional specialisation:** Employees repeatedly perform similar tasks under specialist supervision. They develop expertise in their particular function, improving the quality and efficiency of their work. Specialists can also guide workers on the technical requirements of that function.
- **Economy of operations:** Similar activities are performed together, reducing unnecessary duplication of personnel, equipment and effort. Facilities and other resources can be shared within the department, helping the organisation achieve economies of scale and lower costs.
- **Easier employee training:** Employees need training in a limited range of closely related skills. Since tasks within a function are similar, the department can provide focused training and specialist guidance. This makes training more systematic and helps employees improve their competence in their assigned work.

Step 3: Conclusion Functional structure groups similar activities into specialised departments. Its three merits are functional specialisation, economy of operations and easier training of employees.

Quick Tip to Solve: Define the basis of grouping first: similar functions. Then give three distinct benefits, explaining how grouping similar work creates each benefit.

14. You are the representative of workers in a factory and want to impress upon the management the need for introducing time-rate system in place of existing piece-rate system of wage payment. What four reasons would you like to give to the management to justify your viewpoint ? Explain, in brief. [4 marks]

Solution:

Concept:

- Under the time-rate system, wages depend on the time for which a worker works, such as hours or days, at an agreed rate. Piece-rate wages depend on the number of units produced.
- A wage system should protect workers' earnings while encouraging reliable work, good quality and economical use of the factory's resources.

Step 1: Explain income security and protection of health

- **Assured and stable earnings:** A worker who puts in the agreed working time receives the agreed wage, even when output falls because of machine breakdowns, inferior materials or other causes beyond the worker's control. This provides economic security and helps workers plan household expenditure. It also reduces dissatisfaction arising from such interruptions.
- **Less overstrain and risk of accidents:** Piece-rate workers may work at an excessive speed to earn more. Time-rate payment reduces this pressure and permits a reasonable pace of work. Workers are less likely to neglect safety precautions, overwork themselves or damage their health merely to increase the number of pieces produced.

Step 2: Explain gains in quality and careful use of resources

- **Better quality of output:** When wages do not rise merely with the number of pieces, workers can give proper attention to accuracy, workmanship and finishing. They need not sacrifice quality for speed. This can reduce defective production, rejection and the expense of reworking faulty units.
- **Economical use of materials and machinery:** Workers need not rush production to enlarge their wage packet. They can handle equipment carefully, follow prescribed methods and avoid unnecessary wastage of materials. Less careless handling can reduce machine wear, damage and avoidable repair costs, benefiting the factory as well as its workers.

Step 3: Conclusion The four reasons are assured earnings, protection against overstrain, better workmanship and economical use of resources. These worker benefits also support management's interest in safe, dependable and good-quality production.

Quick Tip to Solve: Link each reason to the difference in the wage basis: time-rate payment removes the direct pressure to produce more pieces merely to earn a wage.

15. Describe, in brief, Taylor's principles of
(i) Science, not the rule of thumb, and
(ii) Harmony, not discord. [4 marks]

Solution:

Concept:

- Scientific management replaces untested customary methods with systematically studied methods of doing work. Taylor sought increased efficiency and prosperity for both employers and workers.
- The principles of science, not rule of thumb, and harmony, not discord, concern respectively the method of work and the relationship between management and labour.

Step 1: Describe science, not the rule of thumb **Use a scientifically determined method:** Management should replace methods based merely on habit, personal judgement or trial and error with methods established through systematic observation, study and experimentation. Different ways of performing a task should be analysed to find the most efficient method for the given conditions.

Apply the results to the work: The selected method should specify how the operation is to be performed, including suitable tools, equipment and working conditions. Workers should be trained to follow it. For example, management can study alternative ways of handling materials and adopt the method that avoids unnecessary movement and fatigue. Thus efficiency rests on tested knowledge rather than each worker's own customary practice.

Step 2: Describe harmony, not discord **Recognise the common interest:** Management and workers should maintain harmonious relations instead of treating each other as opponents. Both depend on the success of the enterprise; conflict and mutual suspicion obstruct production and reduce the benefits available to both sides.

Bring about a mental revolution: Both sides must change their attitudes towards each other. Management should seek workers' welfare and share the gains of greater productivity, while workers should cooperate sincerely in improving efficiency instead of restricting output. They should focus on increasing the total surplus through joint effort rather than quarrelling only over its division. Mutual trust and a fair approach create the conditions for lasting cooperation.

Step 3: Conclusion Science, not rule of thumb, calls for work methods based on systematic study. Harmony, not discord, calls for a mental revolution that replaces conflict with mutual trust and a shared commitment to the enterprise's prosperity.

Quick Tip to Solve: Keep the two principles distinct: explain the scientific work method for the first and the change in management–worker attitudes for the second.

16. Explain any five factors that affect the requirement of fixed capital of an enterprise. [5 marks]

Solution:

Concept:

- Fixed capital is the investment in long-term assets such as land, buildings, plant and machinery. These assets support business operations over several accounting periods.

- The requirement depends on the enterprise's operating needs and future plans. A factor increases fixed-capital needs when it requires more, larger or more expensive long-term assets.

Step 1: Explain the effect of the business and its scale **1. Nature of business:** A manufacturing enterprise normally requires substantial investment in factory buildings, plant and machinery. A trading enterprise mainly purchases finished goods for resale and generally needs less fixed capital, since it does not install a manufacturing plant. Thus, the assets needed to carry out the basic activity determine the initial requirement.

2. Scale of operations: A large enterprise needs greater production capacity, larger premises and more equipment than a small enterprise carrying on a similar activity. Consequently, operating on a large scale generally raises the total requirement of fixed capital. The comparison concerns the total investment, even where large-scale production reduces cost per unit.

Step 2: Explain the effect of technology and future plans **3. Choice of production technique:** A capital-intensive technique relies heavily on machines and automated equipment and therefore requires more fixed capital. A labour-intensive technique relies more on human effort and generally requires a smaller investment in machinery for a comparable activity.

4. Technological upgradation: In industries where technology changes rapidly, existing machinery may become obsolete before it is physically worn out. Enterprises in such industries must provide for replacement or upgrading of equipment and therefore need more fixed capital than enterprises using technology that remains suitable for a long period.

5. Growth prospects: An enterprise expecting expansion needs additional productive facilities, equipment and premises. It may also install extra capacity in anticipation of future demand. Strong growth plans therefore increase fixed-capital requirements, whereas an enterprise planning to maintain its present capacity needs relatively less additional fixed investment.

Step 3: Conclusion Five factors affecting fixed-capital requirements are the nature of business, scale of operations, choice of production technique, need for technological upgradation and growth prospects. Their effect is assessed through the long-term assets the enterprise must acquire or replace.

Quick Tip to Solve: Link each factor to a specific long-term asset and state why its required investment rises or falls; keep stock and day-to-day expenses out of fixed capital.

17. You are a newly appointed finance advisor in a company and found that the company is over-capitalised. The management does not agree with your findings. Convince the management by giving five reasons in support of your viewpoint. [5 marks]

Solution:

Concept:

- Over-capitalisation occurs when the capital employed is excessive in relation to the company's earning capacity. Its earnings do not justify a normal return on the amount of capital raised.
- It does not simply mean that the company holds surplus cash. Funds may already have been invested, but the assets and operations may generate inadequate profits relative to the capital committed.

Step 1: Explain why the capital invested may exceed its productive value To convince the management, I would examine the company's records and explain the following five possible causes of over-capitalisation, supporting those that apply with actual figures rather than assuming facts about the company.

1. Excessive promotion and formation expenses: If an unduly large amount was spent on promotion, incorporation, underwriting and preliminary expenses, a significant part of the capital raised did not create productive assets. The business must nevertheless earn a return on the capital used to meet these expenses.

2. Acquisition of assets at inflated prices: If land, buildings, machinery or an existing business were bought at prices above their real earning value, the company committed excessive capital to those assets. Their normal income would then be insufficient to provide a reasonable return on the inflated investment.

3. Overestimation of future earnings: Capital may have been raised on the basis of an excessively optimistic forecast of sales and profits. When actual earnings fall short of that estimate, the amount of capital justified by those earnings is lower than the capital already employed.

Step 2: Explain how financing and replacement policies can weaken earnings **4. Borrowing at a high rate of interest:** Costly borrowing imposes a heavy recurring interest burden. If the return earned from the borrowed funds is inadequate to cover that cost satisfactorily, earnings available to shareholders decline and the total capital is not supported by the company's earning capacity.

5. Inadequate provision for depreciation: Failure to provide sufficient depreciation prevents the accumulation of adequate resources for timely replacement of worn-out assets. Continued use of old, inefficient equipment raises operating costs and reduces productive efficiency. The resulting decline in earning capacity can leave the existing capital excessive relative to the profits it produces.

Step 3: Conclusion I would support the finding by examining excessive formation costs, inflated asset purchase prices, overestimated earnings, costly borrowing and inadequate depreciation. Where these causes are established, the decisive evidence is that sustainable earnings cannot provide a normal return on the company's capital; the management should judge over-capitalisation by earning capacity rather than by the cash balance alone.

Quick Tip to Solve: Start with capital in relation to earning capacity, then explain how each cause either inflates the investment or depresses the earnings supporting it.

18. Explain any five major changes initiated by the Government of India since 1991 to modernise India's Industrial system. [5 marks]

Solution:

Concept:

- The New Industrial Policy of 1991 introduced economic reforms to make Indian industry more efficient, competitive and internationally integrated.
- Liberalisation reduced government controls, privatisation enlarged the role of private enterprise, and globalisation opened the economy to foreign investment and technology.

Step 1: Explain the removal of entry restrictions **1. Reduction in industrial licensing:** Industrial licensing was abolished for most industries, with only a small group retained under compulsory licensing for strategic, safety or environmental reasons. Entrepreneurs gained greater freedom to start undertakings and expand production without obtaining numerous prior permissions. This encouraged enterprise, quicker investment decisions and competition.

2. Reduction in the public sector's reserved area: The number of industries reserved exclusively for the public sector was reduced. Activities previously restricted to government enterprises were opened to private participation. This enlarged the scope for private investment and introduced competitive pressure to improve productivity and service.

Step 2: Explain changes in ownership and access to resources **3. Disinvestment of public enterprises:** The government began selling a part of its equity in selected public sector enterprises. By bringing private ownership and participation into these enterprises, disinvestment sought better efficiency and accountability and reduced the government's financial burden.

4. Liberalisation of foreign investment: Restrictions on foreign equity participation were relaxed, including automatic approval within specified limits in selected industries. This encouraged foreign capital inflows and gave Indian industry access to modern technology, managerial expertise and international business connections.

5. Easier access to foreign technology: Rules governing foreign technology agreements were liberalised, and approval procedures were simplified in specified cases. Indian enterprises could obtain improved production techniques more easily, modernise plants, raise product quality and compete more effectively with international producers.

Step 3: Conclusion Thus, reduced licensing, a smaller public sector monopoly, disinvestment, liberalised foreign investment and easier foreign technology agreements were five major policy changes introduced from 1991 to modernise India's industrial system.

Quick Tip to Solve: Organise the five reforms as entry, public sector reservation, ownership, foreign capital and foreign technology; explain what changed and how each helped industry.

19. "Controlling helps in achieving objectives of the organisation and improving employees' morale." Explain this statement, in brief. [5 marks]

Solution:

Concept:

- Controlling means comparing actual performance with planned standards, analysing deviations and taking corrective action so that organisational objectives are achieved.
- A sound control system makes expectations clear and provides fair, constructive feedback. It therefore supports employee motivation and morale as well as organisational performance.

Step 1: Explain how control helps achieve objectives **1. Translate objectives into performance standards:** Control begins with standards derived from the organisation's plans, such as a production target or a quality requirement. These give managers and employees a definite result towards which to work, linking daily activities with organisational objectives.

2. Identify deviations through comparison: Actual performance is measured and compared with the standards. A shortfall, excessive cost or fall in quality becomes visible while there is still an opportunity to act. Managers can therefore see whether activities are proceeding in the intended direction rather than merely assuming that plans are being fulfilled.

3. Take corrective action: Managers investigate important deviations and remove their causes, for example by improving methods, providing resources or arranging training. This brings actual performance closer to the planned result. The feedback may also reveal unrealistic standards that require revision, making future plans more workable.

Step 2: Explain how control improves employees' morale **4. Make expectations and evaluation clear:** Employees know in advance what work is expected and the standards against which it will be judged. Clear and reasonable standards reduce uncertainty and enable employees to direct their effort confidently. Evaluation based on known performance criteria also reduces the feeling that supervisors are judging them arbitrarily.

5. Recognise achievement and support improvement: Control supplies evidence of good performance, allowing appreciation and appropriate rewards. Where performance falls short, constructive feedback and corrective assistance help employees improve. Fair recognition and useful support create a sense of achievement and strengthen motivation and morale; purely punitive or unreasonable controls would not produce this benefit.

Step 3: Conclusion Controlling helps the organisation attain its objectives by detecting and correcting departures from plans. It improves employees' morale when clear standards, fair assessment, recognition and constructive guidance help them understand and improve their contribution.

Quick Tip to Solve: Explain both halves of the statement: use the standards–comparison–correction chain for objectives, and clear expectations–fair feedback–recognition for morale.

20. "Management is regarded as fully-developed profession." Do you agree ? Give reasons. [5 marks]

Solution:

Concept:

- Nature and Significance of Management: a profession is an occupation requiring specialised knowledge and training, usually regulated by a professional body and ethical standards.
- Management must be tested against the characteristics of a profession rather than judged merely by the use of the word professional for a manager.

Step 1: State the judgement and examine knowledge and entry I do not agree that management is a fully-developed profession. It has several professional characteristics, but does not satisfy all of them completely.

Well-defined body of knowledge: Management has an organised body of principles and concepts that can be acquired through study. Universities and management institutes teach this knowledge systematically. This characteristic of a profession is present.

Restricted entry: Entry into an established profession normally requires a prescribed qualification. There is no universally compulsory management degree or licence required before a person can

become a manager. Owners may appoint managers on the basis of experience and ability. Hence entry into management is not restricted as it is in medicine or law.

Step 2: Examine regulation, ethics and service **Professional association:** Management associations, such as the All India Management Association, promote managerial standards and learning. However, membership is voluntary; a manager need not belong to such an association to practise. These bodies therefore do not control entry and practice in the same way as statutory bodies in established professions.

Ethical code of conduct: Management associations encourage ethical behaviour, but their codes are not universally binding upon every manager through compulsory professional membership. The existence of recommended codes alone does not establish complete professional regulation.

Service motive: A profession places service to its clients and society at its centre. Management increasingly recognises responsibility towards employees, consumers and society, and must serve them effectively. Nevertheless, business management also pursues organisational and economic objectives; a universally enforced professional service obligation is not present. Profit and social responsibility should be reconciled rather than treated as mutually exclusive.

Step 3: Conclusion Management possesses specialised knowledge and is moving towards professionalisation. Since prescribed qualifications, compulsory association membership and universally enforceable professional standards are not essential for every manager, it cannot be regarded as a fully-developed profession.

Quick Tip to Solve: Test management against knowledge, entry, association, ethics and service; distinguish the existence of a feature from its compulsory application to all managers.

21(a). Why is the employees' training necessary in an organisation ? Explain in brief any six reasons.

[6 marks]

Solution:

Concept:

- Staffing: training is the systematic process of increasing employees' knowledge and skills for performing a particular job effectively.
- Training is needed both for new recruits learning their duties and for existing employees adapting to changed methods, technology and responsibilities.

Step 1: Explain the improvement in work performance Employees' training is necessary because merely appointing a suitable person does not ensure that the person knows the organisation's particular methods and standards. The following are six reasons for providing it.

1. Higher productivity and better quality: Training teaches employees the correct methods of doing their work and develops job-related skills. They can perform tasks more accurately and efficiently, increasing output and reducing defects. Improved competence therefore raises the quality as well as the quantity of work.

2. Economy in the use of resources: A trained employee knows how to handle materials, tools and machinery properly. This reduces wastage, spoilage, avoidable reworking and damage to equipment.

Systematic instruction is more economical than leaving each employee to learn through repeated, costly mistakes.

3. Reduced need for close supervision: Employees who understand their duties and the prescribed procedures require less continuous guidance. They can deal with routine work confidently and correctly. Supervisors can consequently devote more attention to coordination and exceptional problems; training reduces supervision needs without removing accountability.

Step 2: Explain safety, employee confidence and readiness for change **4. Fewer accidents:** Training in safe operating methods, correct machine handling and necessary precautions reduces the likelihood of accidents caused by ignorance or improper practices. It protects employees and helps prevent interruptions and damage to organisational property.

5. Better morale and confidence: An employee who knows how to perform the job faces less uncertainty and frustration. Increased competence creates confidence, job satisfaction and a sense of achievement. Employees can see opportunities for improving their performance and advancement, which encourages a positive attitude towards work.

6. Adaptability to change and future requirements: New technology, revised procedures and new products demand updated skills. Training enables existing employees to adjust to such changes instead of continuing with outdated methods. It also prepares them to handle more demanding work, helping the organisation meet its future staffing requirements.

Step 3: Conclusion Training is necessary to improve productivity and quality, economise resources, reduce close supervision, improve safety, strengthen morale and prepare employees for changing work requirements. It benefits the organisation through better performance and employees through increased competence and confidence.

Quick Tip to Solve: For six reasons, link each distinct benefit to how training produces it; avoid listing productivity and efficiency as two unexplained versions of the same point.

OR

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

Solution:

Concept:

- Selection is the process of choosing, from the applicants, the person whose qualifications and abilities best fit the requirements of a particular job.
- Each stage provides additional evidence about suitability. Recruitment attracts candidates, whereas selection evaluates them and eliminates unsuitable applicants.

Step 1: Screen applications and assess abilities

- **Preliminary screening:** The employment application and an initial interview are used to check basic eligibility, such as education, experience and age. Applicants who do not meet the essential job requirements are screened out, saving the organisation and the applicant the time and expense of further assessment.

- **Selection tests:** Suitable tests measure relevant attributes objectively. Intelligence tests assess learning and reasoning, aptitude tests indicate the capacity to acquire skills, and trade or proficiency tests assess existing job skills. Tests must relate to the work to be performed rather than to irrelevant personal characteristics.
- **Employment interview:** A formal conversation allows the employer to assess the candidate's knowledge, communication, interests and suitability for the job. The candidate can also understand the duties and employment conditions. Information from the interview is considered along with, rather than as a substitute for, other evidence.

Step 2: Verify suitability and make the selection decision

- **Reference and background checks:** The organisation contacts the referees and, where appropriate, previous employers named by the applicant. It verifies claims about experience, performance, reliability and conduct so that selection is not based only on the applicant's own statements.
- **Selection decision:** The managers responsible for the appointment compare the information obtained from applications, tests, interviews and references. The best-suited candidate is selected, normally with the involvement of the manager who will supervise the employee and is responsible for the job's performance.
- **Medical examination:** The selected candidate undergoes a medical fitness examination where required. It establishes whether the person is physically fit for the particular duties and whether any relevant health condition requires attention. The examination should be related to the requirements of the job.

Step 3: Conclusion Preliminary screening, selection tests, employment interview, reference and background checks, selection decision and medical examination are six steps in employee selection. Together they establish eligibility, ability and suitability before the appointment is completed through the job offer and employment contract.

Quick Tip to Solve: Remember the sequence as screen, test, interview, verify, decide and examine. Explain what each stage checks; merely listing its name does not explain the procedure.

22(a). Explain the various factors which should be considered before taking decision on the choice of a particular medium of advertising for a product. [6 marks]

Solution:

Concept:

- An advertising medium is the channel through which a paid, non-personal promotional message reaches prospective buyers, such as a newspaper, magazine, radio or television.
- Media selection should match the product, the target audience and the communication objective within the available budget. The cheapest medium in absolute terms need not be the most effective.

Step 1: Match the medium to the product and its buyers

- **Nature of the product:** The medium must present the product effectively. A product whose appearance, colour or working needs demonstration benefits from a visual or audiovisual medium. Detailed technical products may need a specialist publication that permits a fuller explanation.

- **Nature of the target market:** Consider the prospective buyers' age, income, education, language and media habits. A message for children must use a medium they attend to, while a professional product may reach its buyers more precisely through a trade journal. Literacy also affects the usefulness of a printed advertisement.
- **Geographical coverage:** The medium's circulation or audience should correspond to the area where the product is sold. A local newspaper may suit a local retailer, whereas a product distributed nationally may justify a national newspaper or television network. Paying for a large audience outside the selling area wastes resources.

Step 2: Compare communication effectiveness and cost

- **Advertising objective and message:** The choice depends on whether the aim is to announce a new product, demonstrate its benefits, build an image or provide an immediate reminder. An audiovisual demonstration, a detailed printed explanation and a short outdoor reminder serve different communication needs.
- **Cost and available funds:** Compare both the cost of preparing the advertisement and the cost of space or airtime. The firm must afford adequate repetition. Cost should be assessed in relation to the relevant audience reached and the likely response, rather than only by the total price of an advertisement.
- **Reach, frequency and useful life:** Assess how many potential customers will see the message, how often they will encounter it, and how long it remains available. A radio message is fleeting, while a magazine can be retained and read again. The medium must permit the exposure needed for the campaign.
- **Credibility, timing and flexibility:** The reputation of a publication or programme affects attention and confidence in the message. Booking deadlines, the speed of releasing or changing an advertisement, and the availability of suitable space or airtime must also fit the campaign's schedule.

Step 3: Conclusion The appropriate advertising medium is chosen by balancing product suitability, target audience, geographical coverage, message and objective, budget, exposure and the medium's credibility and flexibility. A combination of media may be used when it reaches the intended buyers more effectively within the firm's resources.

Quick Tip to Solve: Organise a media-choice answer around product, people, place, purpose and price; then add reach and timing. Link every factor to how it changes the choice of medium.

OR

22(b). You are the marketing manager of a company manufacturing toy car. Which media would you choose for advertising your product ? Explain in brief, any five reasons in support of your answer. [6 marks]

Solution:

Concept:

- Advertising is paid, non-personal communication by an identified sponsor. A suitable medium must carry the message effectively to the intended buyers and users.
- For a toy car, children are the main users while parents normally make or finance the purchase. Television can appeal to both through moving pictures and sound.

Step 1: Choose the medium I would choose **television advertising**, particularly around suitable children's and family programmes. A toy car is a visual product whose appearance and movement are important attractions. Television allows the company to demonstrate these features directly rather than relying only on a written description.

Step 2: Explain five reasons for the choice

- **Audio-visual appeal:** Television combines colour, pictures, music and speech. An attractive toy car can therefore be presented in a lively manner that catches children's attention and makes the message easier to remember.
- **Effective demonstration:** Moving pictures can show the car running, turning and being used in play. Viewers can understand its actual play value and features more clearly than from a static printed advertisement.
- **Wide reach:** Television can communicate the advertisement to a large number of households across different places. This is useful when the company wishes to build demand for a toy car through a broad retail distribution network.
- **Access to the target audience:** Selecting children's programmes and suitable family viewing times improves the chance of reaching children as well as their parents. The message can create interest in the user and also inform the person who pays for the product.
- **Strong and repeated impact:** The same short commercial can be repeated at planned intervals. Repetition of the car's appearance and brand name builds recognition, helping the family recall the advertised product when choosing a toy in a shop.

Step 3: Conclusion Television is a suitable advertising medium for the toy car because it offers audio-visual appeal, a moving demonstration, extensive reach, access to children and parents, and repeated brand impact. The commercial should show the product's real features clearly and truthfully.

Quick Tip to Solve: Link each reason to the toy car: its movement, visual appeal, child users and parent purchasers make the choice of television convincing.

23(a). Explain, in brief, any six remedies available to consumers under the Consumer Protection Act, 1986. [6 marks]

Solution:

Concept:

- The Consumer Protection Act, 1986 provides redressal for consumers against defective goods, deficient services and unfair practices. A consumer forum can order an appropriate remedy after the complaint is established.
- Remedies are the relief granted to the aggrieved consumer. They differ from consumer rights: a right states an entitlement, while a remedy specifies what the trader or service provider must do to correct the wrong.

Step 1: Explain remedies concerning goods and price

- **Removal of defects:** The forum may direct the seller or manufacturer to remove the defects found in the goods. This gives the consumer a properly functioning product instead of requiring acceptance of the defective condition.
- **Replacement of goods:** It may order replacement of the defective goods with new goods of a similar description that are free from defects. This is appropriate where merely repairing the original product would not provide satisfactory relief.
- **Refund of the price:** The opposite party may be ordered to return the price paid by the consumer for the goods, or the charges paid for the service, as applicable. The consumer thereby recovers the payment rather than being forced to retain an unsatisfactory purchase.

Step 2: Explain remedies concerning services, loss and unfair practices

- **Removal of deficiency in service:** The forum may direct the service provider to remove the deficiency in the service complained of. The provider must correct the shortcoming so that the consumer receives the service that should have been supplied.
- **Compensation for loss or injury:** It may order payment of compensation for the loss or injury suffered by the consumer due to the negligence of the opposite party. This addresses the harm caused to the consumer, rather than merely correcting or replacing the product.
- **Discontinuance of unfair or restrictive trade practices:** The forum may order the trader to discontinue the unfair or restrictive trade practice and not repeat it. This stops the objectionable conduct and helps prevent consumers from suffering the same wrong in future.

Step 3: Conclusion Six remedies available under the Consumer Protection Act, 1986 are removal of defects, replacement of defective goods, refund of the price or charges, removal of service deficiency, compensation for loss or injury, and discontinuance of unfair or restrictive trade practices. The forum selects the relief appropriate to the established complaint.

Quick Tip to Solve: Write remedies as orders: repair, replace, refund, correct the service, compensate, and stop the unfair practice. Do not substitute a list of consumer rights.

OR

23(b). Explain, in brief, any four rights of consumers as provided under the Consumer Protection Act, 1986. [6 marks]

Solution:

Concept:

- Consumer protection recognises that buyers need protection against unsafe goods, misleading information and unfair trade practices. The Consumer Protection Act, 1986 provides rights that enable consumers to make informed choices and seek relief.
- A consumer right states an entitlement of the buyer. It is different from a remedy, such as replacement or refund, which may be ordered after a complaint is established.

Step 1: Explain the rights that protect the purchase decision

- **Right to safety:** A consumer has the right to be protected against the marketing of goods and services hazardous to life and property. For example, an electrical appliance should meet the prescribed safety requirements so that its normal use does not expose the buyer to avoidable danger. This right concerns protection against risk, rather than merely obtaining a low price.
- **Right to be informed:** A consumer has the right to information about the quality, quantity, potency, purity, standard and price of goods or services, so as to be protected against unfair trade practices. Adequate labelling and truthful product information allow the buyer to compare alternatives, understand what is being purchased and avoid being misled by false claims.

Step 2: Explain the rights that protect choice and representation

- **Right to choose:** Wherever possible, the consumer should have access to a variety of goods and services at competitive prices. The buyer should be able to select the product that suits their needs without being forced to buy a particular brand or an unwanted additional product. Availability of alternatives makes the consumer's choice meaningful.
- **Right to be heard:** A consumer has the right to have their interests receive due consideration at appropriate forums. Consumers must have an opportunity to express complaints and concerns, either individually or through consumer organisations, so that their voice is considered in decisions affecting them. A grievance should not be ignored simply because the individual buyer has less bargaining power than the seller.

Step 3: Conclusion Four rights available to consumers are the right to safety, the right to be informed, the right to choose and the right to be heard. Together they protect buyers from hazards and deception and support free choice and effective representation.

Quick Tip to Solve: Distinguish rights from remedies: safety, information, choice and a hearing are entitlements; a refund or replacement is relief after a complaint.

24(a). Distinguish between formal and informal organisations on the basis of

(i) formation,

(ii) purpose,

(iii) structure,

(iv) behaviour of members,

(v) stability, and

(vi) adherence to rules. [6 marks]

Solution:

Concept:

- Formal organisation is the deliberately designed structure of jobs, authority and responsibility through which management seeks to achieve organisational objectives.
- Informal organisation is the network of personal and social relationships that develops naturally as people interact at work. Both may exist among the same employees, but their origin and governing relationships differ.

Step 1: Compare formation, purpose and structure

Basis	Formal organisation	Informal organisation
Formation	Deliberately created by management through the organising process. Positions and reporting relationships are officially defined.	Arises spontaneously from interaction among employees, common interests and personal relationships; management does not deliberately design it.
Purpose	Primarily serves the achievement of organisational objectives by coordinating work and assigning duties.	Primarily satisfies members' social and psychological needs, including friendship, belonging and mutual support.
Structure	Has a defined hierarchy, authority relationships and channels of communication, normally shown in an organisation chart.	Has no officially prescribed hierarchy or fixed chart. Relationships form a flexible network, with influence arising from personal acceptance.

Step 2: Compare behaviour, stability and adherence to rules

Basis	Formal organisation	Informal organisation
Behaviour of members	Behaviour in official roles is guided by prescribed duties, authority, procedures and the organisation's expectations.	Behaviour is influenced by personal feelings, group norms, shared interests and the expectations of the social group.
Stability	Relatively stable because positions and relationships continue even when particular employees change; alterations usually require managerial decisions.	Comparatively less stable because relationships can change as friendships, group membership and common interests change.
Adherence to rules	Members are expected to follow officially prescribed rules and procedures; compliance is supported by formal authority.	No officially prescribed rules govern the network. Members follow unwritten group norms and social expectations, supported by group acceptance or disapproval.

Step 3: Conclusion Formal organisation provides the planned framework for work and authority, whereas informal organisation provides the naturally developing social network. The six distinctions

concern how each arises, what it serves and how its members' relationships and conduct are governed.

Quick Tip to Solve: Use the same six bases in the question as table rows. Contrast official design and rules with spontaneous relationships and unwritten group norms.

OR

24(b). "Authority can be delegated but accountability cannot." Explain the statement. [6 marks]

Solution:

Concept:

- Delegation means entrusting a subordinate with work and granting the authority needed to perform it. Authority is the right to command, take decisions and use resources within prescribed limits.
- Accountability means being answerable for the final outcome of assigned work. Delegation creates a subordinate's accountability to the superior without extinguishing the superior's existing accountability to higher management.

Step 1: Explain how authority passes to a subordinate **Assignment of work:** A superior divides work and entrusts a specified task to a subordinate. The expected result must be clear so that the subordinate knows what is to be accomplished.

Grant of authority: The superior gives the subordinate sufficient power to take decisions, issue necessary instructions and use resources for that task. For example, a sales manager may authorise a sales supervisor to allocate sales territories and direct the sales staff. The subordinate can then act within the limits of that authority rather than seek permission for every routine decision.

Step 2: Explain why the superior remains accountable **Answerability cannot be transferred:** The sales manager remains answerable to the general manager for the sales department's results even after delegating work to the supervisor. The manager cannot escape this obligation by saying that the subordinate failed to perform the delegated task.

Accountability is added at the lower level: The supervisor becomes answerable to the sales manager for the assigned work. Thus, delegation creates an additional relationship of accountability; it does not replace the manager's accountability to the general manager.

Step 3: State the managerial implication **Retain supervision and control:** Since the final obligation remains, the superior must select a competent subordinate, define duties and authority clearly, provide guidance and review progress. Necessary corrective action must be taken when results depart from expectations.

Retain ultimate responsibility: The superior delegates authority to get work done through others but retains ultimate responsibility for achieving the assigned results. The subordinate also remains responsible for performing the work properly. Delegation therefore distributes decision-making power while preserving a clear chain of answerability.

Step 4: Conclusion Authority can be passed down to enable a subordinate to perform a task, but the superior's accountability to higher management remains. Both levels are answerable within their respective reporting relationships; delegation is not a means of avoiding responsibility for results.

Quick Tip to Solve: Trace two reporting links: the subordinate answers to the delegating manager, and that manager still answers to the higher authority. The second link survives delegation.

25(a). Explain, in brief, any six features of planning. [6 marks]

Solution:

Concept:

- Planning is deciding in advance what is to be done, how it is to be done, when it is to be done and who will do it. It bridges the gap between the present position and the desired future position.
- Planning gives direction to managerial action. Its features describe how plans guide objectives and connect the work of different functions and management levels.

Step 1: Explain the purpose and position of planning **1. Planning focuses on achieving objectives:** Plans are prepared to attain predetermined organisational objectives. They specify the activities needed to achieve those objectives and direct effort towards a common end. A production plan, for example, determines the output needed to meet the enterprise's sales objective rather than allowing production to proceed without a target.

2. Planning is the primary function of management: Planning precedes organising, staffing, directing and controlling. Managers first decide what results are required and how to obtain them; they then arrange resources, appoint people and guide their efforts. Plans also provide the standards against which actual performance is controlled. It is therefore the basis of the other managerial functions.

Step 2: Explain the scope and continuity of planning **3. Planning is pervasive:** It is required at all levels of management and in every department. Top management prepares plans for the enterprise as a whole, while departmental and supervisory managers plan activities within their own areas. The scope and time horizon differ, but no managerial level can dispense with planning.

4. Planning is continuous: A plan is prepared for a particular period or purpose. When that period ends, another plan is required. Existing plans may also need revision when conditions or assumptions change. Planning is thus an ongoing managerial activity rather than a task completed once when the business is established.

Step 3: Explain the future orientation and choice involved **5. Planning is futuristic:** It looks ahead and anticipates future events, opportunities and difficulties. Managers examine likely demand, resources and other relevant conditions before deciding present action. Forecasts support this process, although planning goes further than prediction by deciding what the organisation should do in response.

6. Planning involves decision-making: Managers identify alternative courses of action, evaluate them and select the most suitable one for achieving objectives. For example, a firm may compare increasing its own production with buying from another producer. Selecting a feasible course after considering alternatives makes planning a process of choice, not merely a statement of wishes.

Step 4: Conclusion The six features are focus on objectives, primacy, pervasiveness, continuity, future orientation and decision-making. Together, they show how planning provides a continuing framework for purposeful action throughout an organisation.

Quick Tip to Solve: Use six distinct headings and explain each in one short paragraph. Keep primacy (before other functions) separate from pervasiveness (at every level and in every department).

OR

25(b). Defining 'organisational objectives' is the first step in the process of planning. Explain, in brief, the other steps of this process. [6 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done, how it is to be done, when it is to be done and by whom. It provides a course of action for achieving organisational objectives.
- After objectives have been defined, managers must examine the expected future conditions, compare possible courses of action and put the chosen plan into operation. Monitoring connects the plan with actual performance.

Step 1: Develop planning premises **Developing premises:** Premises are assumptions about the future environment within which a plan will operate. Managers forecast such factors as demand, prices, competition, technology and government policy. For example, a production plan may assume a particular level of sales and a dependable supply of raw materials. The assumptions should be sufficiently clear and shared by the managers concerned so that their plans are consistent with one another.

Step 2: Identify alternative courses of action **Identifying alternatives:** Managers identify the different feasible ways of attaining the objectives. An objective of increasing sales may be pursued by entering a new market, improving the product, changing distribution arrangements or using additional promotion. Managers should consider relevant alternatives rather than accept the first idea that occurs to them; creative thinking may reveal a better course.

Step 3: Evaluate the alternatives **Evaluating alternatives:** Each course is examined in the light of the objectives and planning premises. Managers compare its likely benefits, costs, risks, resource requirements and feasibility. Both favourable and unfavourable consequences must be considered. For example, a course with higher expected sales may also require investment beyond the organisation's financial capacity, making it unsuitable despite its apparent benefit.

Step 4: Select the best course **Selecting an alternative:** Managers choose the course most suitable for achieving the objectives under the expected conditions. The best plan is the one that offers the most appropriate balance of benefits, costs and risk within the resources available. In some situations a combination of alternatives is chosen rather than a single course. This decision provides the basis for detailed action plans.

Step 5: Implement the plan **Implementing the plan:** The selected course is translated into action. Managers allocate resources, assign responsibilities and communicate what each person has to do. Necessary supporting arrangements must be made: for instance, implementing an expansion plan may require purchasing machinery, arranging finance and recruiting employees. A plan produces results only when the activities it specifies are actually carried out.

Step 6: Follow up the action **Follow-up action:** Managers check whether activities are being performed according to the plan and whether the objectives are being achieved. Actual progress is compared with the planned course, deviations are examined and suitable corrective action is taken. If the assumptions underlying the plan change materially, the plan may need revision. Follow-up

therefore helps maintain the plan's relevance and effectiveness.

Step 7: Conclusion The steps following the setting of organisational objectives are developing premises, identifying alternatives, evaluating alternatives, selecting the best course, implementing the plan and following up its execution. Together they convert the desired result into an organised and monitored course of action.

Quick Tip to Solve: Remember the sequence as assumptions, alternatives, appraisal, choice, action and review. Since setting objectives is already given, begin the answer with developing premises.