CBSE Class 12 Business Studies Question Paper 2005 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. How does marketing help an enterprise to establish a place in the market ? [2 marks]

Solution:

Concept:

- Marketing begins by identifying customers' needs and satisfying them through a suitable product, price, distribution and promotion.
- Customer satisfaction and the value offered by the enterprise help it earn customer preference in a competitive market.

Step 1: Identify and satisfy the target market **Understand customer needs:** Marketing research tells the enterprise what buyers want. The firm can then offer products of the desired quality, at an acceptable price and through convenient outlets, making its offer relevant to the market.

Step 2: Build recognition and lasting demand **Create preference and goodwill:** Branding and promotion make buyers aware of the product and its benefits. Consistent satisfaction encourages repeat purchases and recommendations, allowing the enterprise to develop a loyal customer base and a recognised position among competitors.

Step 3: Conclusion Marketing helps an enterprise establish its place by matching its offer to customer needs and building awareness, satisfaction and loyalty for that offer.

Quick Tip to Solve: Link market position to two ideas: satisfying the target customer and creating a recognised, preferred offer.

2. What is meant by 'selling concept of marketing' ? [2 marks]

Solution:

Concept:

- The selling concept is a marketing philosophy that starts with products already produced and stresses persuading customers to buy them.
- Its central assumption is that buyers will not purchase enough unless the business undertakes substantial selling and promotional effort.

Step 1: State the basic assumption Under the selling concept, customers are assumed to need persuasion before they will buy a sufficient quantity of the firm's goods. The enterprise therefore places emphasis on an aggressive sales effort rather than expecting the product to sell itself.

Step 2: Explain the focus and objective **Focus on selling existing output:** The firm uses personal selling, advertising and other promotional measures to increase sales volume. Its objective is to earn profits through higher sales of what it has made; the starting point is the existing product rather than a fresh assessment of customer needs.

Step 3: Conclusion The selling concept means that a firm must use vigorous selling and promotion to persuade customers to buy enough of its existing products, thereby earning profits through sales volume.

Quick Tip to Solve: Remember the sequence: existing product, selling and promotion, higher sales volume. This distinguishes selling from a customer-led marketing approach.

3. State any two functions of lower-level management. [2 marks]

Solution:

Concept:

- Lower-level or supervisory management links higher management with the workers who actually perform production and other operating tasks.
- Its functions concern translating plans into day-to-day work and ensuring that workers carry out that work properly.

Step 1: Assign and explain the daily work **Allocate duties and give instructions:** A supervisor assigns specific jobs to workers, explains the methods and standards required, and clarifies what each worker must do. This converts departmental plans into definite operating tasks.

Step 2: Supervise and guide performance **Oversee and guide workers:** Lower-level managers observe work in progress, correct mistakes and provide practical guidance when workers face difficulties. By checking the quality and timely completion of work, they help ensure that actual operations follow the instructions given.

Step 3: Conclusion Two functions of lower-level management are allocating and explaining duties to workers, and supervising and guiding their day-to-day performance.

Quick Tip to Solve: For lower-level management, choose functions directly connected with workers and daily operations, rather than company-wide policy decisions.

4. What is meant by 'political environment' of business ? [2 marks]

Solution:

Concept:

- The political environment is the part of the external business environment formed by political conditions and the attitudes of political authorities.
- Political stability, the prevailing political ideology and the government's approach towards business influence the climate in which an enterprise operates.

Step 1: Define the political environment **Political conditions and attitudes:** The political environment of business refers to the political system, political stability and the attitude of the government and political leaders towards business, industry and economic activity.

Step 2: Explain its business significance A stable political climate gives enterprises greater confidence to invest and make long-term plans. Conversely, political uncertainty can make business decisions more difficult. A government's supportive or restrictive attitude towards private enterprise, foreign investment or particular industries also influences business opportunities and expectations.

Step 3: Conclusion The political environment consists of political conditions, stability and government attitudes that shape the external climate for business decisions and operations.

Quick Tip to Solve: Use stability and government attitudes to identify the political environment; specific Acts and enforceable rules are usually discussed under the legal environment.

5. Enumerate any two features of directing. [2 marks]

Solution:

Concept:

- Directing is the management function of instructing, guiding, motivating and leading people to achieve organisational objectives.
- Two of its features are that it initiates action and is a continuous process throughout the life of an organisation.

Step 1: State that directing initiates action **Initiates action:** Planning, organising and staffing prepare the work, but directing gets employees to perform it. Through instructions, guidance and motivation, managers translate plans and arrangements into actual effort towards organisational goals.

Step 2: State that directing is continuous **Continuous process:** Employees need guidance, communication and motivation while their work is being performed. Directing therefore continues as long as the organisation operates; it is not completed merely by giving an initial order or appointing a person to a job.

Step 3: Conclusion Two features of directing are that it initiates action and that it is a continuous process.

Quick Tip to Solve: When asked for features, describe the nature of directing, such as continuity or initiation of action, rather than merely listing its elements.

6. "Managerial functions cannot be carried out without an efficient system of communication." Do you agree ? Give any three reasons is support of your answer. [3 marks]

Solution:

Concept:

- Communication is the process of exchanging facts, ideas, opinions and feelings between people to create mutual understanding.
- Management functions require information to pass between managers and employees. Efficient communication therefore supports planning, coordination and direction.

Step 1: State agreement and explain planning Yes, I agree with the statement. **Basis of planning and decision making:** Managers need reliable information about objectives, available resources, conditions and past performance before deciding what should be done. Communication brings this information to the decision maker and conveys the resulting plans to those who must implement them. Without this exchange, even a well-prepared plan may not be understood or acted upon.

Step 2: Explain coordination **Basis of coordination:** Different departments must know one another's activities, requirements and schedules. Communication connects their efforts so that individual and departmental work contributes to common organisational objectives. For example, production must know the sales department's requirements to arrange output accordingly.

Step 3: Explain effective direction **Facilitates direction and leadership:** Managers communicate instructions, explain duties and clarify expected standards to subordinates. Employees can seek

clarification and report difficulties through feedback. This mutual understanding helps managers guide and motivate employees and secure willing cooperation in carrying out the work.

Step 4: Conclusion Efficient communication is essential because it supplies information for planning, coordinates interdependent activities and enables managers to direct people effectively.

Quick Tip to Solve: Link each reason to a management activity: information for planning, exchange for coordination and instructions with feedback for direction.

7. Enumerate any three product related factors that should be taken into consideration while taking a decision on the choice of channel of distribution for any product. [3 marks]

Solution:

Concept:

- The channel of distribution is the route through which goods move from the producer to the ultimate consumer.
- Product-related factors concern the characteristics of the goods themselves. These characteristics determine whether direct sale or a longer chain of intermediaries is suitable.

Step 1: Consider the nature and life of the product **Perishability:** A perishable product, such as fresh vegetables or milk, needs quick delivery because delay increases the risk of deterioration. A direct or short channel is generally preferable. A durable product can tolerate storage and longer transit and can therefore be distributed through a longer channel where appropriate.

Step 2: Consider the value per unit **Unit value:** High-value products can bear the cost of personal selling and direct contact with customers, so a shorter channel is often used. Low-value products usually require wide distribution and sales in large quantities; intermediaries help reach many small buyers economically. The relevant consideration is the value of each unit, rather than the producer's total turnover.

Step 3: Consider the complexity of the product **Technical nature:** Complex technical products may require explanation, installation, demonstration and after-sales service. Direct sale or a short channel through specialised dealers allows the producer to provide this support. Simple, standardised products need less technical assistance and can pass through a longer channel more easily.

Step 4: Conclusion Three product-related factors are perishability, unit value and technical complexity. Each affects the speed, cost and specialised support required in distribution.

Quick Tip to Solve: For product factors, ask whether the goods spoil, how valuable each unit is and whether buyers need technical help.

8. State any three features of public relations. [3 marks]

Solution:

Concept:

- Public relations involves planned efforts to establish and maintain favourable relations between an organisation and its various publics.
- Public relations uses communication such as news reports, features and events to build goodwill and a favourable image. Its appeal differs from that of a paid advertisement.

Step 1: State the credibility feature **High credibility:** Information about an organisation presented in a news story or feature is often considered more authentic and credible than a paid advertisement. Readers may regard it as information from an independent source rather than simply the seller's own claim. This credibility can help the organisation build public confidence and goodwill.

Step 2: State its ability to reach reluctant buyers **Ability to reach buyers who avoid advertising:** Public relations can reach people who ordinarily avoid salespersons or ignore advertisements. A person may read a report about an organisation or attend an event because of its informational or public-interest appeal. The communication reaches such a person as news or an activity rather than as a direct sales appeal.

Step 3: State its presentation appeal **Dramatisation:** Public relations can present the organisation or its products in an interesting, striking and memorable manner. A well-organised event, demonstration or news feature can draw attention to a company's activities and highlight their significance. In this way, public relations makes the organisation's message more noticeable and helps shape its public image.

Step 4: Conclusion Three features of public relations are high credibility, the ability to reach people who avoid advertisements and salespersons, and the capacity to dramatise the organisation or its products.

Quick Tip to Solve: Remember credibility, reach and dramatisation; explain each as a communication feature rather than merely listing public relations tools.

9. An organisation follows the principles of management. What are the positive effects of each of the following principles of management on the organisation :

(i) Scalar chain

(ii) Equity

(iii) Division of work [3 marks]

Solution:

Concept:

- Fayol's principles guide managerial behaviour and the organisation of work. Their application improves cooperation, clarity and efficiency.
- Scalar chain concerns the line of authority, equity concerns fair treatment, and division of work concerns specialisation. Their positive effects follow from these different purposes.

Step 1: Explain the effect of scalar chain **Scalar chain:** A clear chain of authority from the highest to the lowest level provides an orderly route for official communication. Employees know whom they report to and from whom instructions should come. This clarifies superior-subordinate relationships, reduces confusion in passing messages and supports systematic coordination and accountability within the organisation.

Step 2: Explain the effect of equity **Equity:** Fair and kind treatment, without discrimination or favouritism, builds employees' confidence in management. Employees feel respected and become more loyal and willing to cooperate. This improves morale and encourages sincere effort towards organisational objectives because workers expect just treatment from their superiors.

Step 3: Explain the effect of division of work **Division of work:** Dividing work into specialised tasks enables employees to concentrate on activities suited to their abilities. Repetition develops skill and proficiency, and less time is lost in changing from one kind of task to another. As a result, the organisation benefits from greater efficiency, improved quality and higher productivity.

Step 4: Conclusion Scalar chain brings orderly communication and clear authority; equity promotes trust, loyalty and cooperation; division of work increases specialisation, efficiency and productivity.

Quick Tip to Solve: Connect each principle to its own effect: scalar chain to clarity, equity to loyalty and division of work to expertise and efficiency.

10. Why is leadership considered as the most important element of directing function of management ? Give any three reasons. [3 marks]

Solution:

Concept:

- Leadership is the process of influencing the behaviour of people so that they willingly strive to achieve organisational goals. It gives human effort a common direction.
- Directing puts managerial plans into action through people. A leader secures willing cooperation rather than relying only on formal authority, so leadership is a vital element of this function.

Step 1: Explain how leadership influences employees **1. Influences behaviour towards organisational goals:** A leader explains the purpose of the work and shows employees how their individual efforts contribute to common objectives. By setting an example and providing guidance, the leader wins their confidence and channels their energy towards the desired results. Thus, plans become coordinated action instead of remaining instructions on paper.

Step 2: Explain its effect on motivation and cooperation **2. Motivates employees to give their best:** A leader understands employees' needs, recognises good performance and encourages those facing difficulties. This raises their morale and confidence and develops a willingness to work. Employees are therefore more likely to use their abilities fully, rather than merely comply with orders.

3. Builds cooperation and a supportive work environment: Through personal contact and two-way communication, a leader listens to grievances, clarifies misunderstandings and helps resolve conflicts. This creates trust and team spirit. Employees cooperate with one another and with management, making the implementation of decisions smoother.

Step 3: Conclusion Leadership is central to directing because it influences employees towards common goals, motivates them to perform willingly and builds the cooperation needed to put plans into practice.

Quick Tip to Solve: For three reasons, connect leadership to three different results: goal-directed effort, higher motivation and better cooperation. Explain how each result helps directing.

11. The workers of a factory are demanding the introduction of time-wage system in place of the existing piece-rate system of wage payment. The management is not prepared to accept this demand of the workers. Why, in your opinion, is the management opposing this demend ? Explain in brief any four reasons. [4 marks]

Solution:

Concept:

- Under a piece-rate system, wages depend on the number of units produced at an agreed rate per unit. Under a time-wage system, wages depend on time worked, irrespective of the number of units produced.
- The case states that workers demand the 'introduction of time-wage system in place of the existing piece-rate system' and that management is 'not prepared to accept this demand'. Management's likely objection is that replacing output-linked payment with time-linked payment may weaken the incentive to produce and increase the cost of obtaining a given output.

Step 1: Explain the incentive and output considerations **1. Loss of direct incentive to work efficiently:** Piece-rate wages link a worker's earnings directly with production. A worker who produces more acceptable units earns more. Management may fear that time wages would remove this immediate financial reward for extra effort, since employees working the same time receive wages on the time basis even if their output differs.

2. Possibility of lower production: With output-linked payment, workers have a reason to make productive use of their working time and avoid unnecessary delays. Under time wages, management may expect a slower pace of work or more idle time unless other incentives and controls are effective. A reduction in output would make it harder to meet production targets and delivery commitments.

Step 2: Explain the supervision and cost considerations **3. Greater need for supervision:** Under piece rates, employees have a personal financial interest in maintaining output. Time wages may require closer supervision to ensure that paid time is used productively. Management may therefore oppose the change because it could increase the effort and expense of monitoring workers' performance.

4. Risk of higher labour cost per unit: With a fixed piece rate, the direct wage payment for an acceptable unit is known in advance. Under time wages, wages remain payable for the time worked even when fewer units are produced. If productivity falls, the same wage bill is spread over fewer units and labour cost per unit rises, reducing the factory's profitability and ability to compete on price.

Step 3: Conclusion Management may oppose time wages because it expects weaker individual incentives, lower output, a greater supervisory burden and a possible rise in labour cost per unit. These are likely concerns in the stated situation; their actual effect depends on how the factory is

managed.

Quick Tip to Solve: Link each objection to the change in the payment basis: piece rates reward output, while time wages reward time worked. Keep incentive, production, supervision and unit cost as separate reasons.

12. Distinguish between the features of National Stock Exchange of India (NSEI) and Over the Counter Exchange of India (OTCEI) on the basis of

(i) size of company,

(ii) securities traded,

(iii) settlement, and

(iv) objective. [4 marks]

Solution:

Concept:

- Financial Markets: NSEI and OTCEI were established as electronic exchanges to make securities trading more accessible and transparent.
- Their historical textbook features differ in the companies served, instruments traded, settlement arrangements and principal objectives.

Step 1: Compare the companies and securities covered The first two bases concern who uses the exchange and what investors can trade. NSEI has a broad national market, whereas OTCEI was designed particularly to meet the financing needs of smaller companies.

Basis	NSEI	OTCEI
Size of company	Primarily serves large, established companies meeting its listing requirements.	Primarily serves small and medium-sized companies needing easier access to the capital market.
Securities traded	Trades securities admitted to listing on the exchange, including shares, debentures and wholesale debt instruments.	Provides trading in its listed securities and permitted unlisted securities, giving eligible smaller companies access to an organised market.

Step 2: Compare settlement and objectives The remaining bases concern completion of transactions and the purpose for which each exchange was established. The settlement comparison below gives the historical textbook features relevant to this paper.

Basis	NSEI	OTCEI
Settlement	Payment and delivery were described as being completed within 15 days of the transaction.	Payment and delivery were described as being completed within 7 days of the transaction.
Objective	To establish nationwide trading facilities, give investors equal access and provide a fair, efficient and transparent securities market.	To help smaller companies raise funds cost-effectively and give small investors a convenient, liquid and transparent investment market.

Step 3: Conclusion NSEI serves the wider national securities market, including large companies and wholesale debt, while OTCEI focuses on the financing and liquidity needs of smaller companies and investors.

Quick Tip to Solve: Use the four bases given in the question as table rows, pairing each NSEI feature directly with the corresponding OTCEI feature.

13. "In today's commercial world, the stock exchange performs many vital functions." Do you agree ? Give any four reasons in support of your answer. [4 marks]

Solution:

Concept:

- Financial Markets: a stock exchange is an organised market in which existing securities are bought and sold under prescribed rules.
- Its functions benefit investors, companies and the economy by providing liquidity, discovering prices and supporting orderly investment.

Step 1: Explain liquidity and price determination Yes, I agree with the statement. A stock exchange performs the following vital functions:

- **Liquidity and marketability of existing securities:** It provides a ready, continuous market where investors can sell their securities and obtain cash. An investor need not wait for the company to repay capital or for the security to mature. This gives investors the confidence to commit savings to securities in the first place.
- **Determination of security prices:** Buy and sell orders bring together the demand for and supply of each security. Their interaction determines its market price. Publicly available quotations help investors assess their holdings and make informed purchase and sale decisions, while prices respond to information about company performance.

Step 2: Explain transaction safety and capital formation

- **Safety of transactions:** Trading takes place through authorised intermediaries under exchange rules and regulatory supervision. Listing requirements, disclosures and prescribed trading procedures promote fair dealings and reduce fraudulent practices. Such safeguards support investor confidence, although they do not eliminate the risk of a fall in market prices.
- **Promotion of savings and capital formation:** A visible, organised market encourages people to invest their savings in securities. The ability to resell existing securities makes new issues more attractive, indirectly helping companies raise capital for productive activity. Trading also enables investors to shift funds towards enterprises with better prospects, supporting efficient use of capital.

Step 3: Conclusion The statement is justified: the stock exchange provides liquidity, determines prices, supports safe and regulated trading, and encourages savings and capital formation. These functions make it an important institution in commercial activity.

Quick Tip to Solve: For each stock-exchange function, name the function first and then explain how it helps investors or businesses; do not merely list headings.

14. Describe, in brief, Taylor's principles of
(i) co-operation, not individualism, and
(ii) maximum, not restricted output. [4 marks]

Solution:

Concept:

- Scientific management seeks to improve efficiency through a scientific approach to work and a change in the attitudes of both management and workers.
- Taylor's principles of co-operation and maximum output emphasise a common interest in greater productivity rather than conflict or deliberate restriction of production.

Step 1: Explain co-operation, not individualism **Joint effort:** Management and workers should work together as partners to achieve the organisation's objectives, instead of pursuing conflicting individual interests. Management should consult workers, consider useful suggestions and reward suggestions that substantially reduce costs.

Mutual responsibility: Workers should co-operate in adopting scientific methods and should avoid unnecessary strikes or unreasonable demands. Management should provide suitable working conditions and share the gains of increased efficiency with workers. Thus, both sides contribute to prosperity rather than treating each other as opponents.

Step 2: Explain maximum, not restricted output **Increase production:** Both workers and management should seek the maximum feasible output through efficient use of resources. Workers should give up the practice of deliberately working slowly or restricting production, sometimes called soldiering.

Share the gains: Greater output lowers the cost per unit and increases the surplus available to the enterprise. This makes it possible to provide higher earnings to workers and greater profits to employers, while consumers can benefit from lower prices. The aim is increased production through scientific methods, not merely greater physical strain on workers.

Step 3: Conclusion Co-operation replaces individual conflict with joint action, while maximum output replaces deliberate restriction with efficient production. Together, these principles seek prosperity for both employers and workers.

Quick Tip to Solve: Link co-operation with working together and sharing gains; link maximum output with ending soldiering and raising productivity scientifically.

15. Define the term 'Organising' and enumerate the steps involved in the process of organising . [4 marks]

Solution:

Concept:

- Organising is the management function that creates a structure of activities, jobs and authority relationships for carrying out plans.
- The organising process connects the work that must be done with suitable people and establishes who is responsible to whom.

Step 1: Define organising Organising is the process of identifying and grouping the work to be performed, assigning duties to people, delegating the necessary authority and establishing relationships among positions so that people can work together effectively to achieve organisational objectives. It translates a plan into a workable arrangement of jobs and responsibilities.

Step 2: Enumerate the steps in the process **1. Identification and division of work:** Identify all the activities required to implement the plan and divide the total work into manageable tasks. This avoids duplication and permits specialisation.

2. Departmentalisation: Group related tasks into departments or other units, for example production, finance and marketing, so that similar activities can be coordinated.

3. Assignment of duties: Allocate jobs to people according to their abilities and competence. Clearly specify each person's duties so that responsibility for completing the work is fixed.

4. Establishment of reporting relationships: Define authority and responsibility relationships between positions, deciding who reports to whom. Give each person the authority needed to perform the assigned duties, thereby creating a clear hierarchy and channels of communication.

Step 3: Conclusion Organising gives a practical structure to plans through identification and division of work, departmentalisation, assignment of duties and establishment of reporting relationships.

Quick Tip to Solve: Remember the sequence: identify the work, group it, assign it and establish who reports to whom. Include a clear definition before listing these steps.

16. "Controlling helps in financial matters and maintaining and improving quality." Explain this statement, in brief. [5 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, identifying significant deviations and taking corrective action.
- Financial standards relate to costs, revenue, cash and returns, while quality standards specify the characteristics and acceptable performance of products and services.

Step 1: Explain control in financial matters

- **Control expenditure through budgets:** Management fixes budgets for materials, wages and other expenses and compares actual expenditure with them. An adverse difference is investigated, so avoidable expenses can be reduced before they seriously affect profits.
- **Prevent financial waste and misuse:** Checks on cash receipts, payments, purchases and stock help reveal irregularities, idle resources and unnecessary purchases. Corrective action protects funds and promotes economical use of the organisation's resources.
- **Evaluate financial performance:** Comparing actual revenue, profit and returns with targets helps management locate weak activities. It can then improve collections, adjust expenditure or reconsider an unprofitable activity, rather than allowing the problem to continue unchecked.

Step 2: Explain how control maintains and improves quality

- **Maintain the prescribed quality:** Standards for raw materials, production methods and finished output provide a clear basis for inspection and testing. Actual output is checked against these specifications, and defective output is identified and corrected or rejected before it reaches customers.
- **Remove causes of defects and improve quality:** Deviations reveal problems such as unsuitable materials, worn machinery or inadequate employee training. Management corrects these causes, monitors the results and uses the feedback to improve processes and, where appropriate, revise standards. This reduces repeat defects and makes quality more consistent.

Step 3: Conclusion Controlling assists financial management by checking expenditure, safeguarding funds and evaluating results. It also maintains and improves quality by setting specifications, detecting deviations and correcting their causes.

Quick Tip to Solve: Organise this answer under the two demands in the statement: financial control, and quality control. In each, link a standard to a comparison and a corrective action.

17. Explain briefly any five points of importance of financial planning. [5 marks]

Solution:

Concept:

- Financial planning estimates a business's future financial requirements and decides how and when the required funds will be obtained and used.
- Its purpose is to make sufficient funds available at the right time while avoiding unnecessary surplus funds and their associated costs.

Step 1: Explain how planning secures and balances funds

- **Ensure timely availability of funds:** Estimates of expenditure and expected receipts show how much finance will be needed and when. The business can arrange suitable sources in advance, helping prevent shortages from interrupting production, investment or payments to suppliers.
- **Avoid both shortage and wasteful surplus:** Financial planning matches the amount raised with the business's estimated needs. It reduces the risk of undercapitalisation, while also avoiding funds lying idle and earning little even though the business may bear financing costs on them.

Step 2: Explain its contribution to coordinated decisions and control

- **Prepare for future uncertainties:** Forecasts and alternative financial arrangements help the business anticipate changes in sales, costs or cash flows. Management can prepare for an adverse situation instead of being forced into an expensive emergency borrowing decision.
- **Coordinate different activities:** Production, purchasing, marketing and expansion plans all require finance. A common financial plan integrates their requirements with the resources available, so one department's spending does not leave another without the funds needed to carry out its approved work.
- **Provide a basis for financial control:** Financial plans and budgets set targets for expenditure, receipts and financing. Comparing actual results with these targets identifies deviations and helps

management take corrective action and improve subsequent plans.

Step 3: Conclusion Financial planning ensures timely funds, avoids shortages and unnecessary surplus, prepares the business for uncertainty, coordinates departmental activities and provides standards for financial control. Together, these benefits help the business carry out its operating and investment plans systematically.

Quick Tip to Solve: Give five distinct benefits, then explain the practical effect of each. Separate arranging funds on time from avoiding an unnecessarily large amount of funds.

18. You have joined as a finance advisor in a company and found that the company was under-capitalised. The directors of the company do not agree with you as they are ignorant about the meaning of under-capitalisation. Explain to them the meaning of 'under-capitalisation' and convince them by giving four reasons in support of your viewpoint. [5 marks]

Solution:

Concept:

- Under-capitalisation exists when a company's actual capitalisation is below the capitalisation justified by its normal earning capacity. Its normal rate of return is consequently higher than that earned by comparable companies in the same industry.
- It is a relationship between capital and earning capacity, rather than merely a shortage of cash. The real value of the business, based on sustainable earnings, exceeds the book value represented by its capitalisation.

Step 1: Explain the financial position to the directors A company is under-capitalised when it earns an unusually high rate of profit on the capital employed compared with the normal industry rate. Its earning capacity supports a larger capitalisation than the amount actually shown. Thus, the directors should examine normal earnings and the capital invested together; the presence of adequate cash by itself does not disprove under-capitalisation. The following four causes explain how such a position can arise.

Step 2: Explain the four reasons for under-capitalisation

- **Underestimation of earnings:** At promotion, the expected profits may have been estimated too conservatively and capital raised on that basis. If actual sustainable profits are substantially greater, the existing capitalisation is small in relation to the earning capacity of the company.
- **Acquisition of assets at low prices:** A company established during a depression may acquire land, buildings and machinery cheaply. When business conditions recover, these assets can generate normal or higher earnings on a relatively small original investment, producing an abnormally high return on its capitalisation.
- **Efficient management and operations:** Economical purchasing, efficient production and effective selling may reduce costs and increase profits without a proportionate addition to capital. The increased normal earning capacity then justifies more capitalisation than the amount already employed.
- **Conservative dividend policy:** A company may retain a substantial part of its profits and use

these reserves to finance expansion. The additional productive assets increase earnings without a corresponding increase in issued share capital. Over time, its earning capacity and real worth may greatly exceed its original capitalisation.

These are reasons to examine in the company's records; no particular cause can be asserted merely from the directors' disagreement. Compare sustainable profits and the industry return, and then identify which of these circumstances the accounts substantiate.

Step 3: Conclusion Under-capitalisation means that the company's capitalisation is inadequate relative to its normal earning capacity. Underestimated earnings, cheaply acquired assets, efficient operations and retained profits can each explain the resulting high rate of return on the existing capital.

Quick Tip to Solve: Link under-capitalisation to high normal earnings relative to capital; do not define it simply as insufficient cash or working capital.

19. "Management is regarded as a perfect science." Do you agree ? Explain in brief any five reasons.

[5 marks]

Solution:

Concept:

- Science is a systematised body of knowledge based on observation and experimentation, with principles that explain relationships between events.
- Management has a systematic body of knowledge and principles based on experience and observation. However, because it deals with human behaviour and changing situations, it is a social or inexact science rather than a perfect or exact science.

Step 1: State whether the claim is correct No, I do not agree that management is a perfect science. Management has scientific features, but its principles do not produce the same precise and predictable results as the laws of an exact science. The following five reasons explain this limitation.

Step 2: Explain five reasons why management is not a perfect science

- **Human behaviour is variable:** Management deals with individuals and groups whose needs, attitudes, abilities and reactions differ. The same incentive may motivate one employee strongly and have little effect on another, so identical managerial action need not produce identical responses.
- **Principles are not universally exact:** Management principles are broad guidelines, rather than rigid laws with fixed results. Their usefulness depends on the nature, size and circumstances of an organisation. A manager must adapt a principle to the situation instead of applying it mechanically.
- **Controlled experiments are difficult:** An organisation cannot readily isolate all variables in a laboratory. People, technology, market conditions and other influences operate together. It is therefore difficult to repeat an experiment under precisely identical conditions and establish an exact general law.
- **Cause-and-effect relationships are not precise:** Business outcomes usually arise from several interacting causes. A rise in output may reflect supervision, training, better machinery or higher demand. Management can identify useful relationships, but cannot always measure the separate

effect of one managerial action with certainty.

- **Predictions are subject to change:** The economic, technological and social environment changes, and employees also learn and change their behaviour. A policy successful in the past may not yield the same result later. Managerial forecasts therefore express expectations rather than guaranteed outcomes.

Step 3: Conclusion Management is not a perfect science. It is an inexact or social science: its organised knowledge and tested principles assist decisions, but their application requires judgement because human reactions and organisational circumstances vary.

Quick Tip to Solve: Begin with disagreement, then connect each limitation to people or changing circumstances; acknowledge management's systematic knowledge while denying exactness.

20. Explain briefly any five negative impacts of liberalisation and globalisation on business and industry in India. [5 marks]

Solution:

Concept:

- Liberalisation reduces government restrictions on business, while globalisation integrates the Indian economy with the world economy through trade, investment and technology.
- Greater freedom and integration create opportunities, but also expose Indian business and industry to strong competition and rapid changes in technology and consumer expectations.

Step 1: Explain the pressure on Indian producers

- **Increased competition:** The removal of import restrictions and entry of foreign companies brought Indian firms into direct competition with established international producers. Firms lacking comparable technology, quality or marketing strength faced loss of market share and pressure on profit margins.
- **Threat to small-scale industry:** Small producers often lacked the finance, modern machinery and economies of scale available to large foreign firms. Competition from better-quality or lower-priced products made survival difficult for many such units, sometimes leading to sickness or closure.

Step 2: Explain the adjustment costs for industry

- **Rapid technological change:** To remain competitive, firms had to replace outdated machinery and adopt modern production methods. This required heavy investment and technical expertise; businesses unable to bear these costs fell behind.
- **More demanding customers:** Exposure to international brands raised buyers' expectations about quality, variety, price and service. Indian firms could no longer rely on protected domestic markets and had to spend more on product improvement, research and customer support.
- **Pressure to restructure and reduce employment:** Competition forced firms to cut costs, reorganise operations and introduce labour-saving technology. Uncompetitive units could close, while other firms could retrench workers, creating insecurity and difficulties in industrial adjustment.

Step 3: Conclusion Five adverse impacts were intensified competition, difficulties for small-scale units,

costly technological adjustment, greater pressure to satisfy demanding customers, and restructuring that could cause job losses. These pressures affected firms differently according to their ability to adapt.

Quick Tip to Solve: State each adverse impact separately and explain its effect on Indian firms; do not present the opportunities of the reforms as negative effects.

21(a). Explain the major activities involved in physical distribution of goods. [6 marks]

Solution:

Concept:

- Physical distribution is the movement of finished goods from the producer to the customer, so that the right goods reach the right place at the right time and in the required quantity.
- Its major activities are order processing, transportation, warehousing and inventory control. They must be coordinated to provide satisfactory customer service at a reasonable total distribution cost.

Step 1: Process orders and arrange transportation

- **Order processing:** This begins when a customer places an order. The seller checks the order details, availability of goods and credit terms, prepares the necessary documents, and arranges packing and dispatch. Accurate and speedy processing reduces errors and delays. If processing is slow, customers may face shortages or shift their purchases to competitors.
- **Transportation:** Goods must be carried from factories to warehouses, dealers or final customers. The firm selects a suitable mode, such as road, rail, water or air, according to cost, speed, reliability, distance and the nature of the goods. Efficient transport makes goods available where they are demanded and helps avoid damage and late delivery.

Step 2: Store goods and control stock levels

- **Warehousing:** Goods are stored between production and sale because production and consumption do not always occur at the same time. Warehouses protect goods and permit a regular supply to customers. Their number and location affect delivery speed and cost: warehouses nearer customers improve service, but maintaining more storage points increases expense.
- **Inventory control:** The firm decides how much stock to maintain and when and how much to reorder. Adequate stock prevents lost sales and interruptions in supply, but excessive inventory blocks funds and adds storage, insurance and deterioration costs. Management therefore balances the cost of holding stock against the risk and cost of stock-outs.

Step 3: Conclusion Physical distribution consists mainly of processing orders, transporting goods, warehousing them and controlling inventories. Coordinating these activities ensures timely and reliable delivery while keeping the total distribution cost economical.

Quick Tip to Solve: Remember the flow: receive the order, move the goods, store them when necessary, and maintain enough stock. Explain both customer service and cost for each activity.

OR

21(b). You are the advertising manager in a company manufacturing coloured television sets. Which media would you choose for advertising your product ? Explain briefly any five reasons in support of your answer. [6 marks]

Solution:

Concept:

- Advertising is a paid form of non-personal presentation and promotion of goods, services or ideas by an identified sponsor. The advertising medium should communicate the product's main benefits to the intended buyers.
- A coloured television set is an audiovisual consumer durable. Television advertising can show the picture quality, colours and sound of the set while reaching household purchase decision-makers.

Step 1: Select television as the advertising medium I would choose **television advertising** for the company's coloured television sets. The advertisement can show the actual set, demonstrate its use and explain the brand's features through a combination of moving pictures, spoken words, music and colour. Suitable programmes and time slots should be selected according to the intended buyers and the advertising budget.

Step 2: Explain five reasons for this choice

1. **Effective product demonstration:** Television can show the set working, including its screen, controls and picture features. A demonstration makes the benefits easier to understand than an advertisement consisting only of written words. Claims should be realistic because the viewer's own screen also affects how the advertisement appears.
2. **Combined appeal to sight and hearing:** Moving images, colour, speech and music attract attention together. This audiovisual presentation is particularly suitable for a product purchased for viewing and listening, and makes the advertising message lively and persuasive.
3. **Wide reach among households:** A television commercial can reach a large number of families in different places at the same time. Since television sets are household products, this extensive audience provides access to many potential buyers and family members who influence the purchase.
4. **Strong and memorable impact:** A well-designed demonstration, brand name and advertising slogan can be repeated in an attractive form. Repetition helps viewers remember the brand when comparing durable products and can build familiarity and confidence over time.
5. **Selection of an appropriate audience:** The company can place advertisements during programmes and in regional-language channels watched by its intended customers. This gives scope to match the message and timing to the target market instead of communicating indiscriminately to every audience.

Step 3: Conclusion Television is an appropriate advertising medium for coloured television sets because it permits demonstration, combines visual and sound appeal, reaches households widely, creates a memorable impression and allows suitable programme-based audience selection.

Quick Tip to Solve: Name the medium first, then link each reason to the product: a television set benefits especially from moving pictures, colour, sound and a household audience.

22(a). Explain, in brief, any six reasons as to why consumer protection is needed in India. [6 marks]

Solution:

Concept:

- Consumer protection means safeguarding consumers against unfair trade practices and ensuring that their rights and interests are respected. It involves awareness, responsible business conduct and effective remedies for grievances.
- Protection is necessary because consumers may have less information and bargaining power than sellers. Its importance also extends to business, which depends on consumer trust and draws resources from society.

Step 1: Explain the need from the consumer's viewpoint

1. **Consumer ignorance:** Many consumers in India are unaware of their rights, quality standards and available remedies. They may buy without checking labels, guarantees or bills and may not know how to challenge an unfair transaction. Consumer education and protection enable them to make informed choices and seek relief.
2. **Unorganised consumers:** Consumers are numerous and widely scattered, whereas producers and traders can be better organised. An individual buyer may lack the time, money and bargaining strength to challenge a powerful seller. Consumer organisations and protection arrangements provide collective support and a stronger voice.
3. **Widespread exploitation:** Consumers may face adulteration, short weights, overcharging, misleading advertisements, defective goods or unsatisfactory services. They cannot always detect such practices before buying. Protection is needed to prevent these abuses and to provide an effective means of obtaining redress when they occur.

Step 2: Explain the wider business and social reasons

4. **Long-term interest of business:** A business survives through satisfied customers and repeat purchases. Exploitation may bring an immediate gain but damages goodwill and drives buyers away. Protecting consumers therefore encourages trust, loyalty and the long-term growth of honest business.
5. **Social responsibility and moral duty:** Business uses society's resources and earns its income by serving people. It has a responsibility to supply safe, reliable products at fair prices and to communicate truthful information. Consumer protection helps ensure that profit is earned through fair dealing rather than at the consumer's expense.
6. **Avoidance of government intervention:** Persistent exploitation invites complaints, public pressure and stricter government action. When businesses voluntarily respect consumer interests and settle genuine grievances, the need for coercive intervention is reduced. Protective laws and enforcement remain necessary where voluntary responsibility fails.

Step 3: Conclusion Consumer protection is needed in India because consumers may be ignorant, unorganised and exposed to exploitation; it also supports the long-term interests of business, fulfils business's social and moral responsibilities, and reduces the need for government intervention through responsible conduct.

Quick Tip to Solve: Organise the six reasons as three consumer concerns and three business responsibilities; explain how each creates a need for protection rather than merely listing consumer rights.

OR

22(b). Explain, in brief, any six responsibilities of consumers to safeguard their interests. [6 marks]

Solution:

Concept:

- Consumer protection is effective when consumers exercise their rights and also fulfil their responsibilities before, during and after purchase.
- An alert consumer obtains information, buys safely and keeps evidence of the transaction so that misleading practices can be challenged.

Step 1: Act carefully before buying

- **Be aware of available goods and services:** Obtain information about different products, prices and sellers before deciding. Comparing alternatives helps a consumer make an informed choice rather than relying blindly on advertisements or a salesperson's claims.
- **Buy standardised goods:** Prefer products bearing the appropriate quality certification, such as ISI for relevant industrial goods and AGMARK for agricultural products. Such marks help the buyer choose goods meeting prescribed standards of quality and safety.
- **Read labels carefully:** Check the quantity, ingredients, maximum retail price, date of manufacture, expiry date and warnings wherever applicable. This protects the buyer against expired products, unsuitable ingredients and overcharging.

Step 2: Protect the transaction and seek redress

- **Follow instructions and learn about risks:** Use products according to the manufacturer's directions and observe safety precautions. Understanding risks associated with a product prevents avoidable harm caused by careless handling or improper use.
- **Ask for a cash memo or bill:** Obtain and preserve the receipt, guarantee card and other purchase documents. A bill provides evidence of the product, price, date and seller, which is essential when requesting replacement, repair or compensation.
- **Complain against genuine grievances:** Approach the seller first and, where necessary, the appropriate consumer redressal agency when goods or services are defective or deficient. A consumer should not remain silent merely because the loss is small; a justified complaint also discourages exploitation of other buyers.

Step 3: Conclusion Consumers can safeguard their interests by being informed, choosing standardised products, reading labels, following safety instructions, retaining bills and pursuing genuine complaints.

Quick Tip to Solve: Arrange the six responsibilities as before purchase, at purchase and after purchase; this makes each action distinct and easy to explain.

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

Solution:

Concept:

- Planning means deciding in advance what is to be done, how it is to be done and who will do it. It provides direction, but cannot remove every difficulty faced by management.
- Limitations arise because plans involve forecasts, commitment of resources and prescribed courses of action, while business conditions and human behaviour can change.

Step 1: Explain limitations affecting adaptability

- **Planning leads to rigidity:** A detailed plan fixes objectives, procedures and methods in advance. Employees may feel bound to follow the prescribed course even when circumstances require a different approach. Excessive attachment to the plan therefore reduces flexibility.
- **Planning may not work in a dynamic environment:** Economic conditions, government policies, competitors' actions and technology keep changing. Plans based on earlier assumptions can become unsuitable after an unexpected change; management cannot accurately predict or control every external event.
- **Planning reduces creativity:** Plans are often formulated by top management and implemented by other employees. When staff merely carry out predetermined instructions, they have fewer opportunities to suggest independent ideas or develop new ways of doing the work.

Step 2: Explain limitations involving resources and results

- **Planning involves huge costs:** Collecting and analysing information, consulting experts, conducting surveys and assessing alternatives require money. The expense of preparing and revising plans must be justified by the benefits expected from them.
- **Planning is time-consuming:** Setting objectives, collecting facts and comparing alternative courses of action take considerable time. A business opportunity may be lost if management spends too long planning when prompt action is required.
- **Planning does not guarantee success:** A sound plan still needs effective implementation and coordination. Moreover, success of a plan in the past does not ensure its future success, because circumstances may differ. Merely relying on a previously successful plan can create a false sense of security.

Step 3: Conclusion The six limitations are rigidity, difficulty in a dynamic environment, reduced creativity, high costs, time consumption and absence of a guarantee of success. Managers should therefore review plans and implement them intelligently.

Quick Tip to Solve: Keep rigidity and reduced creativity separate: rigidity concerns changing an existing course, while creativity concerns generating new ideas.

OR

23(b). "Planning is of vital importance in the managerial process." Do you agree ? Explain in brief any five reasons in support of your answer. [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 who is to do it. It bridges the gap between the present position and the desired future position.
- Planning is a primary function of management because it sets objectives and the course of action that guides organising, staffing, directing and controlling.

Step 1: State agreement and explain direction and uncertainty Yes, I agree that planning is of vital importance in the managerial process. The following five reasons support this view:

- **Planning provides direction:** Clear objectives tell managers and employees what the organisation seeks to achieve. Plans specify the activities and responsibilities required to reach those objectives, so individual and departmental efforts move towards a common goal instead of proceeding without a purpose.
- **Planning reduces the risks of uncertainty:** Managers anticipate future events and consider their likely effects before choosing a course of action. Forecasting demand, costs and other changes helps them prepare suitable responses and contingency arrangements. Planning cannot remove uncertainty, but it reduces the impact of avoidable surprises.

Step 2: Explain coordination, choice and control

- **Planning reduces overlapping and wasteful activities:** A common plan coordinates the work of different departments and individuals. Each unit knows how its work relates to the others, reducing duplication, confusion and unnecessary operations. Resources can therefore be used more economically.
- **Planning facilitates decision-making:** Managers identify alternative courses of action and evaluate them in relation to objectives and available resources. Comparing their likely costs and benefits helps them select the most suitable course rather than making an arbitrary decision under pressure.
- **Planning establishes standards for controlling:** Plans specify the results expected, such as output targets, budgets and completion dates. Managers compare actual performance with these standards, identify deviations and take corrective action. Without planned targets, there would be no definite basis for judging whether performance is satisfactory.

Step 3: Conclusion Planning is vital because it gives direction, prepares the organisation for uncertainty, prevents waste, improves decisions and supplies the standards needed for control. It provides the foundation on which the other managerial functions operate.

Quick Tip to Solve: For an importance-of-planning answer, link each benefit to a managerial action: set goals, anticipate change, coordinate work, compare alternatives and measure results.

24(a). Why is staffing an important function of management in all organisations ? Explain, in brief, any six reasons. [6 marks]

Solution:

Concept:

- Staffing is the managerial function concerned with obtaining, placing, developing and retaining suitable people for the various jobs in an organisation. It includes manpower planning, recruitment, selection, training and related personnel activities.
- Human resources put material and financial resources to use. Staffing is therefore necessary in every organisation, whatever its size or activity, and is a continuing responsibility of managers.

Step 1: Explain how staffing secures suitable and effective employees Staffing is important in all organisations for the following six reasons:

- **Obtains competent personnel:** Staffing identifies the qualifications and abilities required for different jobs and attracts suitable candidates. Scientific selection helps the organisation secure competent employees who can carry out its activities successfully.
- **Improves performance through proper placement:** Matching an employee's knowledge, skills and aptitude with the requirements of a job places the right person in the right position. Employees can then perform their duties more effectively, improving both individual and organisational performance.
- **Ensures optimum utilisation of human resources:** Manpower planning assesses the number and kind of employees needed. It helps avoid both overstaffing, which raises costs and leaves people underused, and understaffing, which overburdens employees and delays work.

Step 2: Explain development, continuity and employee satisfaction

- **Develops employees' abilities:** Training equips employees with the skills needed for their present jobs, while development prepares them for greater responsibilities. This improves efficiency and enables employees to adapt to changes in methods, technology and work requirements.
- **Ensures continuous survival and growth:** Performance appraisal, career planning and promotion help identify and prepare employees for future positions. A supply of trained people is available to fill vacancies caused by retirement, resignation or expansion, so organisational work can continue smoothly.
- **Improves job satisfaction and morale:** Fair appraisal, suitable remuneration, recognition and opportunities for advancement make employees feel valued. Proper placement and career prospects increase satisfaction and commitment, helping the organisation retain capable employees and obtain their willing cooperation.

Step 3: Conclusion Staffing provides competent people, matches them with suitable jobs, uses their services efficiently, develops their abilities, maintains a supply of future personnel and improves satisfaction and morale. Since every organisation depends on people to achieve its objectives, staffing is essential in all organisations.

Quick Tip to Solve: Organise the six reasons around the employee's journey: obtain suitable people, place them, use them well, develop them, prepare successors and maintain morale.

OR

24(b). Explain, in brief, any six external sources of recruitment of employees. [6 marks]

Solution:

Concept:

- Recruitment means searching for prospective employees and stimulating them to apply for jobs in the organisation. It creates a pool of candidates from which suitable people can be selected.
- External sources bring applicants from outside the existing workforce. They widen the choice of skills and experience, but recruiting an applicant does not itself mean selecting or appointing that person.

Step 1: Explain sources that reach a broad labour market

- **Direct recruitment:** The employer displays a notice of vacancies at the factory or office gate, specifying the jobs available. Interested job seekers assemble and suitable applicants are considered. This is particularly useful for casual, unskilled or semi-skilled workers needed at short notice.
- **Advertisement:** Vacancies are advertised in newspapers, professional journals or other suitable media. The advertisement states the job, required qualifications and application procedure. It reaches a wide area and is especially useful when the organisation needs qualified or experienced personnel whom local sources cannot readily supply.
- **Employment exchanges:** Government employment exchanges register job seekers and maintain details of their qualifications and experience. An employer notifies its vacancies and the exchange forwards names of suitable registered candidates. The employer then conducts its own selection; registration does not guarantee a job.

Step 2: Explain sources that identify particular candidate groups

- **Placement agencies and management consultants:** Private agencies maintain information about candidates and help employers obtain suitable personnel for a fee. Management consultants are especially useful in finding specialised, technical or senior managerial staff whose abilities match a particular position.
- **Campus recruitment:** Employers contact universities, colleges, management institutes and technical institutions to recruit their graduating students. Interviews or other selection activities may be arranged on campus. This supplies trained young entrants, particularly for professional, technical and management-trainee posts.
- **Recommendations of existing employees:** Present employees introduce friends, relatives or other persons whom they consider suitable for vacancies. Employees know both the organisation's requirements and the people they recommend, so this can produce useful applicants quickly. Such applicants are external candidates and should still be assessed against the job's requirements.

Step 3: Conclusion Six external sources are direct recruitment, advertisement, employment exchanges, placement agencies and management consultants, campus recruitment, and recommendations of existing employees. Each brings prospective employees from outside the organisation, although the way candidates are contacted differs.

Quick Tip to Solve: Name each source and then state how it brings applicants to the employer; do not replace recruitment sources with selection stages such as tests or interviews.

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

(i) Communication,

(ii) Flow of authority,

(iii) Tenure,

(iv) Leadership,

(v) Durability, and

(vi) Interdependence. [6 marks]

Solution:

Concept:

- Formal organisation is the structure of jobs, authority and reporting relationships deliberately established by management to achieve organisational objectives. Its relationships attach to official positions.
- Informal organisation is the network of personal and social relationships that develops spontaneously when people interact at work. Its relationships arise from shared interests, friendship and mutual acceptance rather than an organisation chart.

Step 1: Compare communication, authority and tenure Compare each basis directly across the two columns: these three distinctions explain how members exchange information, exercise influence and remain connected with the group.

Basis	Formal organisation	Informal organisation
Communication	Communication follows prescribed official channels and the established reporting relationships.	Communication travels through the grapevine, following personal contacts without a prescribed official route.
Flow of authority	Authority flows through the official hierarchy, from superior to subordinate, according to delegated powers.	There is no prescribed scalar chain of authority. Influence flows through social relationships and acceptance by group members, in any direction.
Tenure	Occupancy of a position is governed by appointment and service conditions; it continues until an authorised change, transfer or separation.	Membership has no formally prescribed term. It continues as long as personal association and the members' willingness to remain in the group continue.

Step 2: Compare leadership, durability and interdependence The remaining distinctions concern how the group is led, how stable its structure is and how it relates to the official organisation.

Basis	Formal organisation	Informal organisation
Leadership	Leaders are appointed to official positions by management and derive authority from those positions.	Leaders emerge from the group because members accept their personality, competence or influence; appointment by management is unnecessary.
Durability	It is relatively stable and enduring. Positions and reporting relationships can continue even when individual office-holders change.	It is relatively less stable: friendships, interests and group composition can change, causing a group to change or dissolve.
Interdependence	It can be deliberately created independently of an informal network; its establishment does not require a pre-existing informal group.	In an enterprise it develops within and depends for its setting on the formal organisation, whose members interact and form social relationships.

Both structures normally coexist in a working enterprise. Their coexistence does not make their origins identical: management designs the formal structure, whereas employees' interactions generate the informal network.

Step 3: Conclusion Formal organisation rests on prescribed positions, official channels and delegated authority. Informal organisation rests on spontaneous social contacts and accepted influence. These different foundations explain all six distinctions in communication, authority, tenure, leadership, durability and interdependence.

Quick Tip to Solve: Use the six bases named in the question as row headings, and compare both organisations on the same basis in each row.

OR

25(b). Delegation of authority is based on the elementary principle of division of labour." Explain this statement. [6 marks]

Solution:

Concept:

- Delegation is the transfer of authority from a superior to a subordinate to carry out an assigned task. It enables a manager to share work while retaining ultimate accountability to the superior.
- Division of labour means breaking a total task into smaller activities and assigning them to different persons according to their abilities. Delegation applies this principle to managerial work.

Step 1: Explain how delegation divides managerial work

- **Divide the total workload:** A manager cannot personally perform every activity in a growing organisation. The manager identifies the work that must be retained personally and separates the remaining tasks for assignment to subordinates.
- **Assign specific duties:** The separated tasks are entrusted to suitable subordinates. Each subordinate becomes responsible for a defined portion of the total work, according to competence and the requirements of the job. Thus, delegation gives practical effect to division of labour.
- **Grant corresponding authority:** Assignment of work alone is insufficient. The subordinate must also receive the right to take the decisions, use the resources and issue the instructions necessary for the assigned task. Authority should be commensurate with responsibility, so that the division of work can operate effectively.

Step 2: Explain how the divided work remains coordinated

- **Establish responsibility and accountability:** The subordinate is obliged to perform the assigned duty and is answerable to the delegating superior for the result. However, delegation does not remove the manager's ultimate accountability to a higher authority; the manager continues to supervise and review performance.
- **Obtain specialisation and efficiency:** Repeated attention to a defined area develops the subordinate's skill and improves the quality and speed of decisions. Meanwhile, the manager can devote more attention to important policy, planning and coordination matters instead of handling every routine detail.
- **Integrate individual contributions:** Clear duties, authority limits and reporting relationships link the separate activities to the common objective. For example, a sales manager may delegate territory-wise sales work and the necessary operating decisions to territory supervisors while retaining overall sales planning and review. Each supervisor handles a part of the whole sales task.

Step 3: Conclusion Delegation is based on division of labour because it distributes a manager's total work among subordinates and equips them with the authority needed to perform their respective portions. Defined responsibility, accountability and supervision then combine these separate efforts into the achievement of organisational objectives.

Quick Tip to Solve: Link the statement to the sequence: divide work, assign duties, grant authority and review results. Always mention that the delegating manager retains ultimate accountability.