CBSE Class 12 Business Studies Question Paper 2005 with Solution PDF-Set 66/2/2

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 create demand for products and services ? [2 marks]

Solution:

Concept:

- Marketing identifies customers' needs and directs the firm's product, price, promotion and distribution decisions towards satisfying them.
- Demand is encouraged when buyers recognise the usefulness of an offering and can obtain it at an acceptable price.

Step 1: Identify and satisfy customer needs **Develop a suitable offering:** Marketing research discovers what customers need and prefer. The firm then offers goods or services with the benefits, quality, design and price suited to those needs. An offering that solves a customer's problem gives that customer a reason to buy.

Step 2: Communicate the benefits and facilitate purchase **Inform and persuade buyers:** Advertising, personal selling and other promotional activities make potential buyers aware of the offering and explain its benefits. Convenient distribution and suitable pricing make purchase possible. Thus marketing converts interest in useful products and services into purchases.

Step 3: Conclusion Marketing creates demand by understanding needs, offering suitable value, communicating the benefits and making products and services conveniently available.

Quick Tip to Solve: Link demand creation to both customer satisfaction and communication; advertising alone is only one part of marketing.

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

Solution:

Concept:

- The product concept is a marketing management philosophy centred on the quality and performance of the product.
- It assumes that consumers favour products offering superior quality, performance and innovative features.

Step 1: State the basic assumption **Preference for superior products:** Under the product concept, a business believes that buyers will choose a product because of its quality, performance and features. The central managerial concern is therefore to make a better product than competing firms.

Step 2: Explain the managerial emphasis **Continuous product improvement:** The firm concentrates on improving product quality, technical performance and features. This philosophy treats product excellence as the main means of attracting customers. However, improvement must remain relevant to customer needs; a technically superior product may still fail if buyers do not need or value it.

Step 3: Conclusion The product concept means that consumers are expected to favour superior quality, performance and features, so the firm focuses on continuous product improvement.

Quick Tip to Solve: Distinguish the product concept's focus on quality from the production concept's focus on availability and low cost.

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

Solution:

Concept:

- Top-level management consists of senior executives responsible for the organisation as a whole.
- Top managers establish its overall direction and arrange the resources needed to achieve organisational objectives.

Step 1: State the function of determining objectives **Set overall objectives and policies:** Top-level management determines the long-term objectives of the enterprise and frames broad policies and strategies for achieving them. These decisions provide direction to the organisation and guide the plans and activities of departmental managers.

Step 2: State the function of organising resources **Organise the required resources:** Top-level management arranges the financial, physical and human resources necessary for carrying out the plans. It decides the broad allocation of resources among activities so that departments can work towards the common objectives rather than pursue unrelated priorities.

Step 3: Conclusion Two functions of top-level management are determining overall organisational objectives and policies, and arranging the resources required to implement them.

Quick Tip to Solve: For top-level functions, choose organisation-wide decisions such as objectives, policies and resources rather than daily supervision.

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

Solution:

Concept:

- The social environment is a dimension of the external business environment.
- It includes the social forces that shape people's preferences, expectations and behaviour, thereby influencing business decisions.

Step 1: Define the social environment **Identify social forces:** The social environment of business comprises the customs, traditions, values, beliefs, attitudes, lifestyles and education prevailing in society. These influences develop over time and help determine what people regard as desirable or acceptable.

Step 2: Explain its influence on business **Relate social change to business:** Social forces influence demand for products as well as expectations about business conduct. For example, growing health consciousness increases interest in healthier food and fitness services. A business studies such changes to adjust its products and practices to society's changing needs.

Step 3: Conclusion The social environment means the customs, traditions, values, attitudes and other social forces surrounding business that influence its operations and demand for its products.

Quick Tip to Solve: Remember social environment through values, customs and lifestyles; distinguish these from laws or economic indicators.

5. Enumerate any two functions fo a supervisor. [2 marks]

Solution:

Concept:

- Supervision means overseeing employees' work and guiding them so that assigned tasks are performed effectively.
- A supervisor works directly with operative employees and connects managerial instructions with day-to-day work.

Step 1: Enumerate guidance and instruction **Guide and instruct workers:** A supervisor explains work assignments, methods and standards to employees and helps them overcome difficulties while performing their jobs. Clear directions ensure that workers understand what is expected and how the assigned work should be done.

Step 2: Enumerate monitoring of performance **Monitor work and ensure standards:** A supervisor observes the work in progress, checks whether it meets the required quantity, quality and time standards, and takes corrective action when necessary. Immediate attention to mistakes helps avoid waste and ensures that day-to-day operations follow the plans.

Step 3: Conclusion Two functions of a supervisor are guiding and instructing workers, and monitoring their performance to ensure that work meets the prescribed standards.

Quick Tip to Solve: Choose functions performed close to workers: giving instructions, observing work and correcting difficulties are clear examples.

6. "Efficiency and productivity depend upon the quality of leadership." 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 so that they willingly strive towards the achievement of organisational goals. A leader combines formal authority with personal influence.
- Efficiency means obtaining the desired output with minimum wastage of resources, while productivity relates output to the inputs used. Both depend on how effectively people work together.

Step 1: State agreement and explain motivation Yes, the statement is correct. **Motivating employees:** A good leader understands the needs of employees, encourages their efforts and gives recognition for good work. Employees then work willingly rather than merely complying under pressure. Their greater commitment reduces avoidable delays and wastage and improves the quantity and quality of output.

Step 2: Explain guidance and cooperation **Providing guidance:** Effective leadership gives employees a clear understanding of their tasks and helps them overcome work-related difficulties. Correct guidance reduces mistakes and improves the use of time and materials.

Creating cooperation and confidence: A leader develops team spirit, resolves conflicts and builds confidence among workers. Coordinated effort prevents duplication and enables the group to achieve

its targets more efficiently.

Step 3: Conclusion Thus, sound leadership improves efficiency and productivity through motivation, clear guidance and cooperation. The leader converts individual effort into purposeful team performance.

Quick Tip to Solve: Link each reason to an improvement in work: motivation raises effort, guidance reduces errors, and cooperation avoids conflict and duplication.

7. Enumerate any three company related factors that should be kept in view while deciding the choice of channels of distribution for any product. [3 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods pass from the producer to the final consumer. A company may sell directly or use intermediaries such as wholesalers and retailers.
- Company-related factors concern the producer's own resources, capabilities and distribution objectives. These must be distinguished from factors concerning the product, customers or competitors.

Step 1: Consider resources and operating capability **Financial strength:** Direct selling and short channels require investment in sales staff, warehouses, transport and selling facilities. A financially strong company can bear these costs and may choose a shorter channel. A company with limited funds generally relies more on intermediaries, who perform many distribution functions.

Managerial and selling competence: A company with an experienced sales organisation and adequate distribution expertise can handle direct distribution effectively. A company lacking such personnel and experience may prefer established intermediaries.

Step 2: Consider the desired control **Degree of control desired:** A company wanting close control over selling prices, customer service, product presentation and dealings with buyers generally prefers direct selling or a short channel. Using more intermediaries reduces its direct control, because independent dealers make many selling decisions. Thus, the firm should choose a channel consistent with the control it wishes to retain.

Step 3: Conclusion Three company-related factors are financial strength, managerial and selling competence, and the degree of control desired over distribution.

Quick Tip to Solve: Keep the answer within the company: its money, its selling ability and its desired control. Product perishability and customer location belong to other categories.

8. State any three objectives of sales promotion. [3 marks]

Solution:

Concept:

- Sales promotion consists of short-term incentives that supplement advertising and personal selling and encourage the purchase or sale of a product.
- These incentives provide an immediate reason to buy. Objectives may concern attracting new customers, increasing purchases by existing customers or accelerating sales during a particular period.

Step 1: Explain attracting buyers and raising purchases **Attract new customers and encourage trial:** Free samples, introductory offers and similar incentives reduce the perceived risk of trying an unfamiliar product. They induce prospective buyers to try the brand and can attract customers who previously purchased a competing brand.

Increase purchases by existing customers: Quantity offers, bonus packs and other purchase incentives encourage current buyers to purchase more or to buy more frequently. The objective is to increase the volume of sales by giving buyers an additional immediate benefit.

Step 2: Explain stimulating immediate sales **Accelerate sales and overcome a temporary slowdown:** A limited-period discount or special offer encourages customers to act now instead of postponing their purchase. It helps stimulate demand during a period of sluggish sales and can support the sale of available stock. The incentive should remain consistent with the brand's image and is intended to create a short-term sales response.

Step 3: Conclusion The three objectives are to attract new customers and promote trial, increase purchases by existing customers, and stimulate immediate sales during a slow period.

Quick Tip to Solve: State the objective first and use an offer only as an illustration. A list of discounts, samples and coupons alone gives methods, not objectives.

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

(i) Unity of command

(ii) Order

(iii) Stability of tenure of personnel [3 marks]

Solution:

Concept:

- Fayol's principles are general guidelines rather than rigid rules. Properly applied, unity of command, order and stability of tenure improve organisational functioning.
- The printed question says that the organisation follows these principles and asks for adverse effects. Therefore, adverse effects can sensibly be discussed as risks of rigid or excessive application, not as inevitable consequences of the principles themselves.

Step 1: Consider unity of command and order **Unity of command:** Each employee should receive

orders from one superior. This normally prevents conflicting instructions. However, interpreting it so rigidly that every specialist suggestion must pass through one superior may delay decisions and restrict access to useful technical guidance. This is a drawback of inflexibility, not of clear reporting relationships.

Order: There should be a proper place for every person and material, with the right person in the right job. Excessively fixed placements or procedures may discourage necessary changes when work requirements alter. Order should support efficient work rather than prevent sensible adjustment.

Step 2: Consider stability of tenure **Stability of tenure of personnel:** Employees should have reasonable security and sufficient time to learn their jobs. If stability is treated as an absolute guarantee regardless of performance, it may encourage complacency or retain an unsuitable employee in a position. Reasonable stability should therefore be combined with appraisal, training and justified changes in assignment.

Step 3: Conclusion Following these principles appropriately has beneficial effects. Possible adverse effects arise from rigid application: delayed specialist communication, resistance to needed changes in placement, and complacency under unconditional tenure. They are not inherent defects of the principles.

Quick Tip to Solve: Notice that the wording says "follows", not "violates". Preserve that distinction and explain any adverse effect as a risk of excessive rigidity.

10. Why is it important to motivate employees in an organisation ? Give any three reasons. [3 marks]

Solution:

Concept:

- Motivation is the process of stimulating people to act voluntarily towards the achievement of organisational objectives by satisfying their needs.
- Under directing, motivation converts an employee's ability into a willingness to perform. An organisation therefore needs both capable employees and employees who want to contribute.

Step 1: Explain its effect on performance **Improves employee performance:** Motivation encourages employees to use their knowledge and abilities fully. When they see that good work can satisfy their needs, they put greater effort into their tasks and work with commitment. This improves productivity and helps the organisation achieve its objectives; merely appointing skilled people does not ensure that they will give their best.

Step 2: Explain its effect on attitudes and stability **Develops a positive attitude:** Appropriate financial and non-financial incentives make employees feel that their contribution is valued. They become more willing to cooperate with management and accept changes needed by the organisation, rather than treating every new task as a burden.

Reduces employee turnover: Employees whose needs for income, recognition and growth are met are more satisfied with their jobs. They are less inclined to leave the organisation. Retaining experienced employees reduces recruitment and training costs and helps maintain continuity of work.

Step 3: Conclusion Motivation is important because it improves performance, develops a positive

attitude towards work and reduces employee turnover. It links the satisfaction of employees' needs with the achievement of organisational goals.

Quick Tip to Solve: For each reason, connect the incentive or satisfied need to a specific benefit for the organisation; do not merely list types of incentives.

11. You are the representative of workers in your factory. Which method of wage payment — time-rate or piece-rate — would you prefer for your colleagues ? Explain in brief any four reasons in support of your answer. [4 marks]

Solution:

Concept:

- Under the time-rate system, wages are paid according to the time worked, such as hours, days or months, rather than the number of units produced.
- Under the piece-rate system, wages depend on output. A workers' representative would generally prefer time-rate wages because they provide income security and protect workers from factors beyond their control.

Step 1: Choose time-rate wages and explain security I would prefer the **time-rate system** for my colleagues for the following reasons.

1. Certainty of earnings: Workers know the amount they will receive for the agreed time worked. A stable income allows them to plan household expenditure and provides economic security. Unlike piece-rate wages, earnings do not fluctuate immediately with the number of units completed.

2. Protection against factors beyond workers' control: Output may fall because materials are delayed, machinery breaks down or work is particularly difficult. A worker who attends and works for the agreed period should not bear an automatic loss of wages merely because such conditions reduce production. Time-rate payment protects earnings against these output variations.

Step 2: Explain health and cooperation benefits **3. Less strain and safer working:** Workers are not compelled to increase their speed continuously merely to maintain or increase earnings. They can follow safe methods and give proper attention to the work without the same pressure to overexert themselves. This protects their health and reduces the temptation to rush at the cost of safety or quality.

4. Better cooperation among workers: Time-rate wages reduce the intense competition for higher individual output that can arise under piece rates. Workers can help colleagues and perform team tasks without fearing that every minute spent helping someone else will reduce their own piece earnings. This supports harmonious relations and collective work.

Step 3: Conclusion As the workers' representative, I would choose time-rate payment because it gives predictable earnings, protects workers against output losses beyond their control, reduces excessive strain and encourages cooperation. These advantages directly serve the interests of my colleagues.

Quick Tip to Solve: Read whose viewpoint is asked: justify time-rate wages here through workers' security, health and cooperation, rather than only the employer's costs.

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

(i) Participants,

(ii) Instruments traded,

(iii) Investment outlay, and

(iv) Safety. [4 marks]

Solution:

Concept:

- The capital market deals in medium- and long-term funds; the money market deals in short-term funds with a maturity of up to one year.
- The distinction concerns participants, instruments, investment size and relative safety. Safety describes comparative risk, not a guarantee against loss.

Step 1: Compare participants and instruments

Basis	Capital market	Money market
Participants	Financial institutions, commercial banks, companies, foreign investors and individual retail investors participate.	The main participants are the Reserve Bank of India, commercial banks, financial institutions and companies. Individual retail participation is generally limited.
Instruments traded	Equity shares, preference shares, debentures and bonds are important instruments. These provide medium- or long-term finance.	Treasury bills, commercial paper, certificates of deposit, call money and commercial bills are important short-term instruments.

Capital-market securities help mobilise funds for longer-term investment. Money-market instruments meet temporary financing and liquidity needs, explaining the different instruments and participant mix.

Step 2: Compare investment outlay and safety

Basis	Capital market	Money market
Investment outlay	A relatively small investment is possible because securities can be bought in small quantities. Individual savers can therefore participate.	Transactions usually require a large outlay because instruments are commonly issued and traded in large denominations.
Safety	Securities are generally riskier: prices and returns fluctuate, while repayment risk depends on the issuer and instrument.	Instruments are generally safer because of their short maturity and the financial standing of issuers such as governments, established banks and companies.

These are general market differences. A short maturity reduces exposure to changes over time, but does not make every money-market instrument entirely risk-free.

Step 3: Conclusion The capital market has a wider investor base and long-term securities, permits smaller investment units and generally involves greater risk. The money market mainly serves institutional participants through short-term instruments with larger outlays and comparatively greater safety.

Quick Tip to Solve: Compare both markets against each of the four specified bases in the same order; avoid two separate descriptions that hide the differences.

13. "Securities and Exchange Board of India (SEBI) is the regulatory authority of the securities market." Do you agree ? Explain in brief any four reasons in support of your answer. [4 marks]

Solution:

Concept:

- The Securities and Exchange Board of India (SEBI) protects investors and promotes the development and regulation of the securities market.
- Its regulatory authority is reflected in its powers over stock exchanges, market intermediaries and securities transactions, together with enforcement of fair dealing.

Step 1: State agreement and explain supervision of market institutions Yes, the statement is correct. SEBI lays down rules for securities-market participants and supervises compliance. The following are two reasons supporting its role as regulatory authority:

- **Regulation of stock exchanges:** SEBI regulates the business conducted on stock exchanges and other securities markets. It establishes rules for their orderly functioning so that trading takes place through an organised and supervised system.
- **Registration and regulation of intermediaries:** SEBI registers and regulates stockbrokers, sub-brokers, merchant bankers and other intermediaries associated with the securities market. Prescribed eligibility requirements and codes of conduct help ensure that these intermediaries act responsibly when dealing with investors.

Step 2: Explain investigation and control of unfair practices Two further reasons concern SEBI's power to check compliance and protect market integrity:

- **Inspection and investigation:** SEBI can call for information, inspect records, conduct inquiries and undertake audits of stock exchanges and intermediaries. These powers enable it to detect breaches of market rules and initiate appropriate action rather than merely issue advice.
- **Prevention of fraudulent and unfair trading:** SEBI prohibits fraudulent and unfair trade practices, including manipulation of securities prices, and regulates dealings to prevent insider trading. Such controls protect investors from misuse of privileged information and artificial market movements, supporting fair and transparent trading.

These functions show that SEBI's role extends beyond promoting investment: it sets enforceable standards, monitors those subject to them and acts against market misconduct.

Step 3: Conclusion SEBI is the regulatory authority of the securities market because it regulates stock exchanges, registers and supervises intermediaries, investigates compliance and restrains fraudulent or unfair trading practices. These powers promote orderly markets and protect investors.

Quick Tip to Solve: Support agreement with four concrete SEBI powers: regulate exchanges, register intermediaries, inspect records and prevent unfair trading.

14. Describe, in brief, Taylor's principles of

(i) separation of planning and operational work, and

(ii) science, not the rule of thumb. [4 marks]

Solution:

Concept:

- Scientific management replaces casual judgement with a systematic study of work so that resources are used efficiently and workers follow the best method.
- Taylor separated the responsibility for scientifically planning work from the responsibility for carrying out the planned operations.

Step 1: Explain separation of planning and operational work **Separation of responsibilities:** Managers and planning specialists should undertake the intellectual work of deciding what is to be done and how it is to be done. They study the job, select suitable methods and tools, determine standards and prepare instructions. Workers should concentrate on executing the operations according to these instructions rather than being left to devise their own methods while working.

Specialisation and cooperation: This division allows each group to specialise in its task. Management accepts responsibility for scientific preparation, while workers apply the prescribed method with the required skill. Clear instructions and cooperation between the planning staff and workers reduce confusion, wasted effort and delays; separation does not mean that managers and workers cease communicating.

Step 2: Explain science, not the rule of thumb **Scientific investigation:** Every task should be studied through systematic observation and experiment instead of being performed merely according to tradition, personal judgement or a worker's rough estimate. Different methods are compared to discover the best way of doing the work.

Standardisation of the best method: The scientifically selected method, tools and working conditions are standardised and workers are trained to use them. For example, an operation's movements and the time reasonably required can be studied before setting its work standard. This reduces unnecessary movements and arbitrary practices, improves productivity and enables a more dependable estimate of output and cost.

Step 3: Conclusion Separation assigns planning to management and execution to workers; science, not the rule of thumb, requires tested and standardised methods in place of unexamined customary practices. Together they provide a systematic basis for efficient operations.

Quick Tip to Solve: Distinguish who plans from who performs in the first principle; contrast tested methods with personal estimates in the second.

15. Define the term 'Organisation Structure' and enumerate any three considerations to the kept in mind while building an organisational structure. [4 marks]

Solution:

Concept:

- Organising groups activities, assigns duties and establishes authority relationships so that people can work together towards the enterprise's objectives.
- Organisation structure is the framework of jobs, departments and formal authority-responsibility relationships within which managerial and operating tasks are performed.

Step 1: Define organisation structure Organisation structure means the formal framework showing how activities are divided and grouped, how duties and responsibilities are assigned, and how authority and reporting relationships are established. It specifies who performs a particular task, who is accountable for it and who reports to whom. Thus, it links the different positions and departments into a coordinated whole rather than merely listing the employees of the business.

Step 2: Enumerate three considerations for building the structure **1. Objectives of the enterprise:** The structure should facilitate the achievement of the organisation's objectives. Duties, departments and authority relationships should be designed around the work required to attain those objectives, so that effort is directed towards the common purpose.

2. Nature and size of activities: The type of business, its scale and the variety and complexity of its operations should be considered. Related activities should be grouped logically, with a suitable division of work and specialisation. A small enterprise may need a simple structure, whereas a large enterprise with varied operations may need several departments and managerial levels.

3. Appropriate span of management: The number of subordinates reporting directly to each superior should permit effective supervision and communication. The complexity of the work, the ability of managers and employees, and the degree of standardisation should guide this choice. An appropriate span helps establish workable reporting relationships without unnecessarily multiplying levels.

Step 3: Conclusion Organisation structure is the formal framework of work and authority relationships. Three considerations in constructing it are the enterprise's objectives, the nature and size of its activities, and an appropriate span of management.

Quick Tip to Solve: Define the framework first, then list three design considerations; link each consideration to how work or reporting should be arranged.

16. "Controlling helps in monitoring sales and coping with organisational complexities." Explain this statement in brief. [5 marks]

Solution:

Concept:

- Controlling means comparing actual performance with predetermined standards, finding significant deviations and taking corrective action to achieve organisational objectives.
- Sales monitoring is an application of control: management checks sales results against targets.

Control also coordinates the many activities and levels of a complex organisation.

Step 1: Explain how control monitors sales

- **Set sales standards:** Management fixes sales targets for a period, territory, product or salesperson. Targets provide a clear basis for judging results, rather than relying on an impression that sales are satisfactory.
- **Measure and compare results:** Sales reports show actual quantities sold and sales revenue. Comparing these results with targets reveals shortfalls or unusually high sales in particular products and areas, so management can identify where attention is required.
- **Find causes and correct deviations:** Managers investigate significant differences. A shortfall may arise from poor distribution, inadequate selling effort or a change in customer demand. Appropriate action, such as improving availability, training sales staff or revising the selling programme, brings performance back towards the target.

Step 2: Explain how control handles organisational complexity

- **Coordinate interdependent activities:** As an enterprise grows, it has more departments, products and locations. Common standards and regular performance reports show whether the activities of production, sales and other departments support the overall plan. A sales shortfall can therefore be related to a production or delivery problem instead of being viewed in isolation.
- **Focus managerial attention and ensure accountability:** Clearly assigned responsibilities and control reports show who is responsible for results. Management can concentrate on important deviations while routine work continues at lower levels. Timely corrective action prevents small problems from spreading through a large organisation.

Step 3: Conclusion Controlling makes sales performance measurable and correctable, and provides standards, information and corrective action across a complex enterprise. Thus, it helps management keep both selling activities and the wider organisation directed towards their objectives.

Quick Tip to Solve: Link sales monitoring to targets, actual results and correction; link organisational complexity to coordination, responsibility and attention to significant deviations.

17. Explain briefly any five factors that affect the capital structure of a business enterprise. [5 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and owners' funds used to finance a business. Debt carries contractual interest and repayment obligations, while equity represents ownership funds.
- An appropriate financing mix balances cost, risk and the interests of owners. The enterprise must be able to meet its obligations even when business conditions are unfavourable.

Step 1: Consider earning capacity and the cost of borrowing

- **Cash-flow position:** A company with strong and predictable cash flows can use more debt because it can meet interest payments and repay principal when due. If cash receipts are irregular or insufficient, greater dependence on equity reduces the danger of default. Accounting profits alone

are not enough; payments require available cash.

- **Return on investment:** When the return earned on total funds is higher than the interest rate on debt, borrowing can increase the return available to equity shareholders. This is favourable financial leverage. If the return is low or uncertain, heavy borrowing may reduce shareholders' earnings and increase risk, so a lower debt proportion is preferable.
- **Cost of debt:** When borrowing is available at a low interest rate, debt becomes an attractive source of finance. Interest is also generally deductible in calculating taxable business income, reducing its effective cost. A rise in borrowing rates makes debt less attractive and may favour a greater use of equity.

Step 2: Consider financial risk and ownership control

- **Business risk:** If operating earnings fluctuate considerably because of unstable demand, high fixed operating costs or other uncertainties, adding large fixed interest commitments increases total risk. Such an enterprise should use less debt. A business with stable operating earnings has greater capacity to bear financial risk.
- **Control considerations:** Issuing additional equity shares may dilute the voting power of existing owners. When they wish to retain control, they may prefer borrowing, since lenders do not normally receive ownership voting rights. However, this preference must remain within safe borrowing limits, because lenders can impose conditions and excessive debt creates repayment pressure.

Step 3: Conclusion Five factors affecting capital structure are cash-flow position, return on investment, cost of debt, business risk and control considerations. Management combines them to select a debt-equity mix that is economical while keeping financial obligations manageable.

Quick Tip to Solve: For each factor, state its effect on the debt-equity choice and explain why; low cost alone does not justify debt when cash flows are unreliable.

18. You are a newly appointed finance manager in the company and you found that the company is badly affected by over-capitalisation. The directors do not agree with your findings. Convince the directors by giving any five effects of over-capitalisation on the company. [5 marks]

Solution:

Concept:

- Over-capitalisation exists when a company's earnings are insufficient to provide a normal return on the capital employed. It does not merely mean that the company has a large amount of capital or temporarily holds surplus cash.
- Its effects on the company arise because weak earning capacity reduces dividends, investor confidence and the firm's ability to obtain and use finance efficiently.

Step 1: Establish the financial condition I would explain to the directors that the test is the relationship between capital and sustainable earnings. If the company cannot earn the normal return expected in comparable businesses on its capital, its earning capacity does not justify that capital. The following five consequences explain why this condition deserves corrective action.

Step 2: Explain the effects on the company

1. **Difficulty in raising further capital:** Low earnings and poor returns discourage prospective investors. The company finds it difficult to issue new shares on favourable terms, restricting finance for expansion and modernisation.
2. **Difficulty in obtaining credit:** Weak profitability reduces the confidence of lenders and suppliers. They may refuse further credit, demand stronger security or impose expensive terms, making the company's financial position more difficult.
3. **Decline in market value and goodwill:** Low or irregular dividends reduce demand for the company's shares and depress their market price. The resulting loss of reputation weakens the company's standing in the financial market.
4. **Shortage of funds for maintenance and replacement:** In an effort to show profits or maintain dividends, the company may provide inadequately for depreciation, repairs and reserves. Assets then deteriorate and replacements are postponed, reducing productive efficiency and future earnings.
5. **Use of unhealthy financial practices:** Pressure to maintain the appearance of prosperity may tempt management to manipulate accounts or distribute dividends without adequate earnings. Such practices conceal the real weakness, undermine confidence when exposed and can aggravate financial distress.

Step 3: Conclusion The directors should recognise over-capitalisation as a threat to the company's access to finance, creditworthiness, market reputation, asset maintenance and financial discipline. These effects explain why capital must be brought into a sound relationship with earning capacity rather than judging financial strength by the amount of capital alone.

Quick Tip to Solve: For effects on the company, focus on finance, credit, reputation and productive efficiency; keep shareholders' personal losses separate.

19. "Management is regarded as an art." Do you agree ? Explain the reasons. [5 marks]

Solution:

Concept:

- An art is the skilful and personal application of knowledge to achieve desired results. Its main characteristics are a body of theoretical knowledge, personalised application, and improvement through practice and creativity.
- Management involves applying knowledge and principles to get organisational objectives achieved through people. A manager must adapt this knowledge to the particular people and circumstances involved.

Step 1: State the agreement and the meaning of art Yes, management is regarded as an art because successful management depends on how skilfully a manager applies knowledge in practice. Knowing a principle alone does not ensure a result: the manager must decide when and how to use it. Like a musician using knowledge of music, a manager uses knowledge of management to obtain a practical outcome.

Step 2: Apply the characteristics of art to management

1. **Existence of theoretical knowledge:** Every art rests on organised knowledge of its basic principles. Management also has a body of knowledge concerning planning, organising, staffing, directing and controlling. Managers study these principles and techniques before applying them in real situations.
2. **Personalised application:** Artists differ in the way they apply the same knowledge. Similarly, managers differ in their judgement, experience, initiative and ability. Two managers facing similar problems may choose different ways of motivating employees or coordinating work, even though both know the same principles.
3. **Practice and experience:** An artist develops proficiency through repeated practice. Managers also improve by handling actual decisions, resolving conflicts and learning from results. Practical experience helps them recognise the circumstances in which a particular method is likely to work.
4. **Creativity and adaptation:** Art involves producing a result through imagination and skill. Managers combine human and material resources in suitable ways and adapt general principles to changing conditions. They cannot apply every principle mechanically without considering the situation.
5. **Achievement of a definite result:** Artistic skill is directed towards an intended outcome. Management likewise uses knowledge and skill purposefully to achieve organisational objectives, such as improved productivity, effective cooperation and customer satisfaction.

Step 3: Conclusion Management is an art because it requires a manager to apply theoretical knowledge personally, creatively and skilfully, improve through practice, and direct these abilities towards desired results. Its recognition as an art is compatible with its having an organised body of knowledge: knowledge provides the basis, while skilful application produces performance.

Quick Tip to Solve: Explain each feature of art and immediately show its managerial application; a list of features alone does not establish the comparison.

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

Solution:

Concept:

- Liberalisation means reducing unnecessary government restrictions on business, while globalisation integrates the Indian economy with the world economy through trade, investment and technology flows.
- Their positive effects arise when firms gain greater freedom, resources and market access, and respond to competition by improving their performance. The following are five such benefits to business and industry in India.

Step 1: Explain the gains in competition, technology and investment

- **Improvement in efficiency and quality:** Entry of foreign firms and greater competition encouraged Indian enterprises to reduce costs, avoid waste and improve product quality. Firms had to modernise

their methods and provide better customer service to retain buyers, making Indian industry more competitive.

- **Access to modern technology:** Easier imports and collaborations with foreign enterprises gave Indian firms access to advanced machinery, production processes and managerial skills. Adoption of these methods helped raise productivity and improve the reliability and quality of their output.
- **Greater foreign investment:** Liberal rules encouraged foreign direct investment and joint ventures. These brought additional capital for establishing and expanding businesses, together with technical expertise and international business experience. Indian industry could consequently undertake projects beyond its earlier resource limits.

Step 2: Explain the gains in markets and business freedom

- **Wider markets and export opportunities:** Integration with the world economy enabled Indian firms to reach customers outside India and participate in international production and distribution networks. The larger potential market encouraged expansion, specialisation and production on a greater scale.
- **Greater freedom for business decisions:** Reduction of licensing, controls and restrictions allowed entrepreneurs to enter new fields and expand or diversify more readily. Management could respond faster to changes in demand and choose suitable products, capacity and investment plans, encouraging initiative and industrial growth.

Step 3: Conclusion The five positive impacts are higher efficiency and quality, access to modern technology, increased foreign investment, wider export markets and greater freedom of business decisions. Together, these changes created opportunities for modernisation and growth of Indian business and industry.

Quick Tip to Solve: Link each policy change to a business benefit: competition to efficiency, collaboration to technology, foreign investment to capital, global integration to markets, and deregulation to enterprise.

21(a). Explain any six qualities of a successful salesman. [6 marks]

Solution:

Concept:

- Personal selling is direct interaction between a salesperson and a prospective buyer to explain a product, answer doubts and persuade the buyer to purchase it. A successful salesman combines knowledge and persuasive ability with trustworthy behaviour.
- The salesperson represents the business to customers. His qualities must help him understand their needs, present a suitable product and build a lasting relationship rather than merely secure a single order.

Step 1: Explain the qualities needed to understand and approach customers

- **Good personality and physical fitness:** A salesman should be neat, presentable, courteous and healthy. A pleasant appearance creates a favourable first impression, while fitness provides the energy to meet customers, demonstrate products and perform the regular work of selling.

- **Thorough knowledge:** He should know the product's features, uses, price, quality and limitations, as well as the firm's policies and competing products. Accurate knowledge enables him to match the product to the customer's needs and answer questions convincingly without making misleading claims.
- **Effective communication and listening:** He should explain benefits clearly in language the customer understands and listen carefully to the customer's requirements and objections. This makes the exchange meaningful and helps him present the relevant benefits instead of giving an unsuitable routine sales talk.

Step 2: Explain the qualities needed to persuade and build confidence

- **Honesty and integrity:** A salesman should give truthful information, keep promises and avoid concealing defects or exaggerating benefits. Customers are more willing to trust an honest representative, which supports repeat business and the goodwill of the firm.
- **Self-confidence:** He should have confidence in himself and in the product he is offering. A confident manner helps him approach new customers, demonstrate the product and answer objections calmly. Confidence must rest on knowledge rather than an aggressive or boastful attitude.
- **Patience and persistence:** Customers may need time to decide, raise several doubts or initially refuse to buy. The salesman should remain calm, explain matters politely and follow up at an appropriate time. Patient effort can develop a prospect into a buyer without pressuring or irritating the customer.

Step 3: Conclusion A successful salesman should possess a good personality and fitness, thorough knowledge, effective communication and listening, honesty, self-confidence, and patience with persistence. These qualities enable him to serve customers effectively and maintain their trust in the business.

Quick Tip to Solve: For each quality, explain its selling purpose: first impression, accurate advice, understanding needs, trust, confident persuasion or patient follow-up. Naming qualities alone does not explain them.

OR

21(b). You are the advertising manager of a business unit providing catering services for supplying food and snacks at the doorsteps of consumers in a metropolitan area. Which media of advertisement would you choose to advertise your product ? Give any five reasons in support of your answer.

[6 marks]

Solution:

Concept:

- Advertising media should be selected according to the geographical market, the likely customers, the message and the advertising budget. A local service requires concentrated local reach rather than nationwide exposure.
- A newspaper advertisement can communicate the service, menu, delivery area, prices and contact

details in a form that customers can consult again.

Step 1: Choose a local newspaper I would choose a widely circulated local newspaper, preferably its city or neighbourhood edition. The service supplies food and snacks at consumers' doorsteps within a metropolitan area, so the advertisement should reach households in the area where delivery is possible. The advertisement should clearly state the service offered, delivery locations, timings and the telephone number for orders. Five reasons for choosing this medium are explained below.

Step 2: Explain reach, economy and flexibility **1. Wide local circulation:** A popular city newspaper reaches a large number of households in the metropolitan area. It therefore brings the catering service to the attention of many potential customers within the delivery market.

2. Economy: A local or city edition avoids expenditure on an audience outside the service area. Its large readership can make the cost per prospective customer economical, particularly compared with a national television campaign.

3. Flexibility and timely communication: Advertisements can be inserted or changed at relatively short notice. The business can announce a revised menu, a special catering offer or a change in delivery arrangements without waiting for a long advertising production cycle.

Step 3: Explain information and response benefits **4. Detailed written information:** The advertisement can give the types of meals and snacks, prices, order procedure and contact details together. Readers can understand the offer at their own pace, which is useful when comparing catering services.

5. Reference and convenient response: A reader can retain the advertisement or cut it out and use the printed telephone number when food is required. The written details make it easy for the customer to contact the business and place an order.

Step 4: Conclusion A local newspaper is an appropriate medium because it combines wide metropolitan reach, economy, flexibility, scope for detailed information and convenient reference for ordering.

Quick Tip to Solve: Link each reason to the actual service: a limited delivery area needs local reach, and home ordering needs clear menu and contact details.

22(a). Explain, in brief, any six ways and means of consumer protection followed in India. [6 marks]

Solution:

Concept:

- Consumer protection safeguards buyers against unfair practices such as adulteration, misleading advertisements, deficient services and the sale of defective goods.
- Protection requires preventive action by business, informed action by consumers, organised assistance and public enforcement. The following six means describe complementary ways of achieving it in India.

Step 1: Explain protection through responsible business **1. Self-regulation by business:** Businesses should voluntarily adopt fair dealing and ethical standards. Supplying goods of the promised quality, giving accurate information, charging fair prices and maintaining a prompt complaint-handling system can prevent exploitation before outside intervention becomes necessary.

2. Business associations: Trade and industry associations can prescribe codes of conduct for their members and encourage compliance. They can discourage misleading advertisements, unfair selling practices and substandard products, while taking up complaints with the concerned members.

Step 2: Explain the role of informed and organised consumers **3. Consumer education and awareness:** Consumers should be informed about their rights and responsibilities and about precautions to take while buying. Checking quality marks and labels, understanding terms of purchase and retaining cash memos help them make sound choices and support a complaint with evidence. Schools, publications and awareness programmes can spread this knowledge.

4. Consumer organisations: Voluntary consumer associations can educate consumers, investigate complaints, test products and publish useful information. They can guide aggrieved buyers, take up their grievances with sellers and assist them in pursuing remedies. Collective action gives individual consumers greater confidence and bargaining strength.

Step 3: Explain protection through public action **5. Government legislation and enforcement:** The government can prohibit unfair practices through laws concerning consumer protection, quality, adulteration and weights and measures. Inspection, prescribed standards and action against violations make the protection effective rather than merely a voluntary promise by sellers.

6. Consumer grievance-redressal machinery: Under the Consumer Protection Act, 1986 framework applicable to this paper, consumers could approach the District Forum, State Commission and National Commission, as appropriate, for redress. Such machinery provides a channel for relief concerning defective goods, deficient services and unfair trade practices, including appropriate replacement, refund or compensation.

Step 4: Conclusion Thus, responsible business conduct, action by trade associations, consumer awareness, voluntary consumer organisations, government enforcement and accessible grievance redressal together protect consumers in India.

Quick Tip to Solve: Arrange the six means by who acts: business, trade bodies, informed consumers, consumer organisations, government and redressal agencies.

OR

22(b). Explain, in brief, any six functions of consumer organisations in the area of consumer protection.

[6 marks]

Solution:

Concept:

- Consumer organisations are voluntary associations that protect and promote consumers' interests. They supplement the efforts of government and responsible businesses by educating buyers and helping them resist exploitation.
- Their functions cover both prevention and redressal: a well-informed buyer can avoid an unfair transaction, while collective support enables an injured consumer to obtain a remedy.

Step 1: Explain education and publication **1. Educating consumers:** Consumer organisations organise seminars, workshops, training programmes and public meetings to explain consumer rights, responsibilities and available remedies. They teach buyers to check price, quality, labels, expiry dates and bills, helping people make informed purchases rather than relying only on advertisements.

2. Publishing consumer information: They publish periodicals, reports and other material about consumer problems, legal provisions and unfair trade practices. Such information makes people aware of misleading claims and helps them compare products and choose reliable sellers.

Step 2: Explain product testing and complaints **3. Testing consumer products:** They arrange comparative testing through suitable laboratories to assess quality, safety and performance. Publishing the results gives consumers independent information about competing brands and helps expose adulterated, unsafe or substandard goods.

4. Assisting consumers with complaints: They guide aggrieved buyers in identifying the proper authority, preparing complaints and collecting evidence such as bills and warranty cards. They may approach the seller or service provider to secure replacement, repair, refund or another appropriate remedy.

Step 3: Explain legal action and public representation **5. Filing cases on behalf of consumers:** Consumer organisations can take complaints to the consumer redressal agencies on behalf of affected consumers. Collective legal assistance is particularly valuable when an individual buyer lacks the time, money or knowledge needed to pursue a legitimate claim.

6. Representing consumers before authorities: They bring consumer grievances and harmful trade practices to the attention of government departments, regulatory bodies and the public. By making representations and pressing for enforcement or suitable protective measures, they give consumers an organised voice in matters affecting their welfare.

Step 4: Conclusion Consumer organisations protect consumers through education, publication of information, comparative product testing, assistance with complaints, filing cases and representation before authorities. These six functions strengthen both informed buying and access to redressal.

Quick Tip to Solve: Arrange the six functions as three pairs: educate and publish; test and guide complaints; pursue cases and represent consumer interests.

23(a). Explain in brief, the meaning of 'Planning' and any five characteristics 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 is to do it. It involves setting objectives and selecting a suitable course of action to achieve them.
- The characteristics of planning describe its nature as a management function. They explain how plans guide subsequent decisions and activities, rather than merely listing the benefits of planning.

Step 1: Define planning and its focus Planning bridges the gap between the present position of an organisation and the desired future position. Managers first decide the results to be achieved and

then determine the activities, resources and responsibilities required to obtain those results.

1. Planning focuses on achieving objectives: A plan is prepared for a definite purpose. Organisational objectives guide the selection of activities and methods, so that resources and effort are directed towards desired results. A course of action is useful only if it contributes to the objectives for which it is adopted.

Step 2: Explain primacy and pervasiveness **2. Planning is the primary function of management:** Planning provides the basis for organising, staffing, directing and controlling. Managers must know what they intend to achieve before allocating work and resources. Plans also supply the standards against which actual performance is controlled.

3. Planning is pervasive: Planning is required at every level of management and in every department. Top management prepares broad plans for the organisation, while middle and supervisory managers prepare more detailed plans for their respective units. Their scope differs, but each manager must decide the future course of work.

Step 3: Explain continuity and concern with the future **4. Planning is continuous:** Plans are normally prepared for a particular period. When that period ends, new plans are needed; existing plans may also require revision as circumstances change. Planning therefore continues throughout the life of the enterprise instead of ending once a document has been prepared.

5. Planning is futuristic: Planning looks ahead and anticipates future conditions, opportunities and difficulties. Managers use forecasts and available information to decide suitable action in advance. Although the future cannot be predicted with certainty, such anticipation gives present decisions a purposeful direction.

Step 4: Conclusion Planning means deciding objectives and the course of action in advance. Its five characteristics explained here are objective orientation, primacy among management functions, pervasiveness, continuity and a futuristic outlook.

Quick Tip to Solve: For a characteristics question, explain the nature of planning with headings such as primary, pervasive, continuous and futuristic; keep each heading distinct from a benefit such as reducing waste.

OR

23(b). "No enterprise can achieve its objectives without systematic planning." Do you agree ? Give 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 will do it. It links the present position with the desired future position.
- The statement concerns the importance of planning: objectives must be converted into coordinated courses of action. Planning supports achievement, although changing conditions can still affect actual results.

Step 1: State agreement and explain direction and uncertainty Yes, systematic planning is essential

for purposeful achievement of enterprise objectives. The following reasons support the statement:

1. Planning provides direction: Plans clearly state the objectives and specify the action required to achieve them. Managers and employees know what they must do and how their work contributes to the enterprise. Activities are therefore guided towards a common destination instead of depending on individual guesses.

2. Planning reduces the risk of uncertainty: Planning requires managers to look ahead, assess possible changes and consider their likely effects. They can prepare alternative courses of action for changes in demand, competition or supplies. Planning cannot eliminate uncertainty, but it reduces surprise and enables a more prepared response.

Step 2: Explain efficient action, decisions and control **3. Planning reduces overlapping and wasteful activities:** A coordinated plan defines the work of different departments and establishes the sequence of operations. This helps avoid duplication, unnecessary movements and conflicting actions. Resources such as time, materials and labour can consequently be used more efficiently towards the stated objectives.

4. Planning facilitates decision making: Managers identify alternative ways of attaining an objective and evaluate their likely costs and results. Choosing an appropriate alternative in advance provides a rational basis for subsequent decisions. Routine action can follow the plan, while important departures receive deliberate attention.

5. Planning establishes standards for controlling: Plans specify the results expected within a stated period. Actual performance can be measured against these standards, deviations identified and corrective action taken. Without a planned target, managers would lack a clear basis for judging whether the enterprise is progressing towards its objectives.

Step 3: Conclusion Thus, I agree that systematic planning is indispensable for achieving enterprise objectives: it gives direction, prepares for uncertainty, prevents waste, improves decisions and makes effective control possible. It is a necessary foundation for achievement, rather than a guarantee of success by itself.

Quick Tip to Solve: Support the statement with five benefits of planning, linking each benefit to achievement of objectives; do not substitute characteristics such as continuity or flexibility.

24(a). Why are external sources of recruitment better than internal sources of recruitment ? Explain briefly, any six reasons. [6 marks]

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and encouraging them to apply for jobs. External recruitment seeks applicants from outside the existing workforce.
- Internal recruitment fills vacancies through existing employees, generally by promotion or transfer. External sources are advantageous when the enterprise needs a wider choice, new capabilities or additional personnel that its present workforce cannot supply.

Step 1: Explain access to a larger and more suitable talent pool External sources can be better than

relying only on internal recruitment for the following six reasons:

1. Wider choice: Advertisements, employment exchanges, placement agencies and educational institutions bring applications from a large number of people. Management is not restricted to the small pool of existing employees and can compare a broader range of candidates before selecting the most suitable person.

2. Availability of qualified personnel: A required technical qualification, professional competence or specialised experience may be absent within the enterprise. External recruitment allows management to approach persons who already possess that qualification instead of appointing an existing employee who is not yet suitable for the vacancy.

3. Fresh talent and new ideas: Outsiders bring knowledge, approaches and experience acquired in other organisations or through recent education. Their different outlook can help question outdated practices and improve methods of work. Internal recruitment alone circulates the knowledge already present within the enterprise.

Step 2: Explain effects on performance, preparation and vacancies **4. Competitive spirit:** The opportunity to appoint capable outsiders encourages existing employees to improve their performance and qualifications. Employees recognise that advancement requires ability and results rather than depending entirely on length of service. This can introduce healthy competition and raise organisational efficiency.

5. Reduced need for specialised job training: Where a vacancy is filled by an experienced person already trained in the relevant occupation, the enterprise may save the time and expense of teaching those specialised skills to an internal candidate. The newcomer will still require induction into the enterprise; the advantage concerns existing job competence, not the elimination of all training.

6. Avoidance of a chain of internal vacancies: Promoting or transferring an employee fills one post but leaves that employee's previous post vacant. Filling it internally may create another vacancy. Appointing an outsider can fill the original vacancy directly without disturbing a succession of existing positions, which is useful when additional staff are actually required.

Step 3: Conclusion External recruitment offers wider choice, access to qualified specialists, fresh ideas, competitive pressure, possible savings in specialised training and direct filling of vacancies without an internal vacancy chain. These benefits explain its superiority in suitable circumstances, although the choice of source depends on the enterprise's staffing needs.

Quick Tip to Solve: Write six distinct advantages and explain the comparison with internal recruitment in each; a wider applicant pool and access to a missing specialist skill are different benefits.

OR

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

Solution:

Concept:

- Staffing is the managerial function of filling and keeping filled the positions in the organisation structure through recruitment, selection, placement, training and development.
- The quality and commitment of employees determine how effectively an organisation uses its physical and financial resources. Staffing is therefore needed in organisations of every size and type.

Step 1: Explain how staffing provides suitable and capable people

- **Obtaining competent personnel:** Staffing identifies manpower requirements and searches for suitable applicants. Careful selection enables the organisation to obtain people with the knowledge, skills and abilities needed for different jobs rather than filling positions arbitrarily.
- **Putting the right person on the right job:** Selection and placement match an employee's qualifications and aptitude with the requirements of the position. This improves the quality of work and reduces errors caused by assigning a person work for which that person is unsuitable.
- **Improving performance:** Training helps employees learn the methods and skills needed to perform their present duties. Development prepares them for greater responsibilities. Better-equipped employees work more efficiently and contribute more effectively to organisational objectives.

Step 2: Explain how staffing sustains the organisation and its workforce

- **Ensuring continuity and growth:** Manpower planning and management development build a reserve of capable employees. Vacancies arising from retirement, resignation or expansion can then be filled, so operations continue and future growth does not suffer for want of people.
- **Making optimum use of human resources:** A systematic assessment of staffing needs helps avoid both overstaffing and understaffing. Suitable placement and deployment use employees' abilities productively, prevent unnecessary labour costs and avoid excessive workload on too few workers.
- **Improving job satisfaction and morale:** Fair remuneration, performance appraisal and opportunities for promotion and development give employees recognition and prospects for advancement. These practices increase confidence and commitment and help the organisation retain capable employees.

Step 3: Conclusion Staffing is important because it secures competent people, places them suitably, improves their performance, maintains continuity, uses human resources efficiently and builds satisfaction and morale. It enables all other managerial functions to be carried out by a capable and committed workforce.

Quick Tip to Solve: Build the six reasons around the employee's journey: obtain, place, train, prepare successors, deploy efficiently and retain through fair treatment.

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

(i) Purpose,

(ii) Stability,

(iii) Adherence to rules,

(iv) Tenure,

(v) Flow of authority, and

(vi) Communication. [6 marks]

Solution:

Concept:

- Formal organisation is the deliberately designed structure of official positions, duties and authority created by management to achieve organisational objectives.
- Informal organisation is the network of personal and social relationships that arises spontaneously when people interact at work. Its relationships coexist with the formal structure.

Step 1: Compare purpose, stability and adherence to rules

Basis	Formal organisation	Informal organisation
Purpose	Created to achieve the organisation's planned objectives through a defined division of work and coordinated responsibility.	Arises to satisfy members' social and psychological needs, such as friendship, belonging and mutual support.
Stability	Relatively stable, because it is based on officially established positions and procedures; changes require deliberate managerial decisions.	Relatively less stable, because relationships and group influence may change with members' interests, interactions and personal feelings.
Adherence to rules	Members are expected to follow prescribed rules, procedures and official standards when performing their duties.	Conduct is guided mainly by unwritten group norms and shared expectations rather than officially prescribed organisational rules.

These differences follow from their origins: management intentionally creates the formal structure, whereas employees develop informal relationships naturally. Informal groups can have strong norms even though those norms are not management's written rules.

Step 2: Compare tenure, authority and communication

Basis	Formal organisation	Informal organisation
Tenure	Official relationships generally continue as long as the relevant positions and structure exist; a change of the individual holding a post does not itself abolish the relationship.	Relationships have no officially fixed tenure; they last while personal association, common interests and acceptance by the group continue.
Flow of authority	Authority flows down the prescribed chain of command from superior to subordinate and is attached to official position.	Influence flows through personal relationships and group acceptance, without a prescribed superior–subordinate chain; an informal leader need not hold a senior post.
Communication	Messages normally pass through officially recognised channels and the prescribed scalar chain.	Messages pass through the grapevine in any direction, across levels and departments, according to personal contacts.

Thus formal authority comes from the position, while informal influence comes from the person and the group's willingness to accept that person's guidance. Informal communication is often rapid because it need not follow every official level.

Step 3: Conclusion Formal organisation supplies the planned structure for achieving official objectives; informal organisation supplies the social relationships that develop within it. They differ on all six specified bases but usually operate alongside each other in the same enterprise.

Quick Tip to Solve: For every comparison, link formal organisation to officially created positions and informal organisation to spontaneously formed personal relationships.

OR

25(b). "Delegation of authority helps in reducing the workload of managers and in motivating the subordinates." Explain this statement. [6 marks]

Solution:

Concept:

- Delegation means entrusting responsibility for a task to a subordinate and granting adequate authority to perform it. The subordinate becomes answerable for the assigned work, while the manager retains ultimate accountability.
- Delegation promotes effective management by sharing work and develops employees by giving them meaningful responsibility, discretion and opportunities to demonstrate their abilities.

Step 1: Explain how delegation reduces managerial workload

- **Sharing operational work:** A manager assigns suitable routine tasks to subordinates instead of personally performing every activity. For example, a sales manager may authorise a supervisor to prepare daily sales schedules. The manager's direct workload is therefore reduced.
- **Decisions at the appropriate level:** Adequate authority enables subordinates to take decisions

connected with their assigned duties. They need not refer every small matter to the manager, which saves managerial time and avoids unnecessary delays.

- **Attention to important responsibilities:** The time released can be used for planning, policy decisions, coordination and exceptional problems. The manager can supervise results and guide employees while concentrating on work requiring managerial judgement. Delegation thus improves effectiveness without removing the manager's ultimate accountability.

Step 2: Explain how delegation motivates subordinates

- **Recognition and trust:** Entrusting important work shows confidence in the employee's competence. This recognition raises self-esteem and encourages the subordinate to justify the manager's trust through better performance.
- **Initiative and sense of achievement:** Authority gives the subordinate an opportunity to exercise judgement, solve problems and see the results of personal efforts. Participation in decisions creates involvement and a sense of achievement, rather than the feeling of merely following orders.
- **Development and advancement:** Handling responsibility builds knowledge, confidence and managerial skills. Employees become better prepared for higher positions, and the opportunity for growth encourages them to accept responsibility and work enthusiastically.

Step 3: Conclusion The statement is correct: delegation relieves managers of suitable operational duties and allows them to focus on key responsibilities. At the same time, meaningful authority and responsibility satisfy subordinates' needs for recognition, achievement and development, thereby motivating them to perform better.

Quick Tip to Solve: Link the two benefits clearly: sharing tasks frees the manager's time; trusting employees with decisions builds their confidence and motivation. Remember that ultimate accountability remains with the manager.