CBSE Class 12 Business Studies Question Paper 2014 with Solution PDF-Set 66/1/2 - Compartment

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 90**

General Instructions

(i) Answers to questions carrying **1 mark** may be from **one word to one sentence**.
(ii) Answers to questions carrying **3 marks** may be from **50 – 75** words.
(iii) Answers to questions carrying **4 – 5 marks** may be about **150** words.
(iv) Answers to questions carrying **6 marks** may be about **200** words.
(v) Attempt all parts of a question together.

1. Besides a 'consumer', name any two parties who can file a complaint before the appropriate consumer forum. [1 mark]

Solution:

Concept:

- Consumer Protection: the Consumer Protection Act permits specified parties, besides the consumer personally, to seek redressal.
- A recognised consumer association and the government can initiate a complaint in the interest of consumers.

Step 1: Name a consumer organisation **A registered consumer association:** Any voluntary consumer association registered under the Companies Act or any other law can file a complaint. The consumer concerned need not be a member of that association.

Step 2: Name the public authority **The Central Government or any State Government:** Either may file a complaint before the appropriate consumer forum. This enables a public authority to protect consumer interests even when the individual consumer does not initiate proceedings.

Step 3: Conclusion Two such parties are a registered voluntary consumer association and the Central Government or any State Government.

Quick Tip to Solve: For a question asking who can complain, name the eligible complainant rather than the redressal forum.

2. How many members are required to constitute 'District Consumer Dispute Redressal Forum' ? [1 mark]

Solution:

Concept:

- Consumer Protection: the District Consumer Disputes Redressal Forum is the district-level redressal body under the law applicable to this paper.
- Its constitution distinguishes the President from the two other members.

Step 1: Count the President The District Forum has one President. The President heads the forum; this position is included when counting the total number of persons constituting it.

Step 2: Add the other members There are two other members, of whom at least one must be a woman. Thus the forum consists of the President together with these two members, making three persons in all. The two other members alone are not the total strength of the forum.

Step 3: Conclusion Three persons are required: one President and two other members, including at least one woman.

Quick Tip to Solve: Count the President as well as the two other members when stating the total composition of the District Forum.

3. Give the meaning of 'Critical Point Control'. [1 mark]

Solution:

Concept:

- Controlling: critical point control directs managerial attention towards the key result areas of an organisation.
- These areas are crucial to the success of the organisation and therefore require close monitoring.

Step 1: Identify the critical areas A manager first identifies the key result areas on which the success of the business depends. Every activity does not have the same effect on overall performance, so these crucial areas deserve special attention.

Step 2: Focus control on these areas Critical point control means concentrating control efforts on these key result areas rather than trying to control every activity with equal intensity. Their performance is watched closely so that weaknesses affecting organisational success can be detected and corrected promptly.

Step 3: Conclusion Critical point control means focusing control on key result areas that are critical to the success of the organisation.

Quick Tip to Solve: Link critical point control to key result areas; management by exception instead focuses on significant deviations.

4. List any two non-financial incentives. [1 mark]

Solution:

Concept:

- Directing: non-financial incentives satisfy psychological, social and higher-level needs rather than offering direct monetary rewards.
- Employee recognition and participation are two non-financial incentives used to motivate employees.

Step 1: Identify recognition as an incentive **Employee recognition programmes:** Acknowledging good performance, for example through appreciation or a certificate, gives an employee a sense of achievement and recognition. The motivating element is the acknowledgement rather than a cash payment.

Step 2: Identify participation as an incentive **Employee participation:** Involving employees in decisions concerning their work gives them a sense of belonging and importance. It encourages commitment because employees feel that their opinions contribute to organisational decisions.

Step 3: Conclusion Two non-financial incentives are employee recognition programmes and employee participation.

Quick Tip to Solve: Choose incentives based on recognition, responsibility or belonging; salary and bonus are financial incentives.

5. Why is it said that 'Motivation is a complex process' ? State. [1 mark]

Solution:

Concept:

- Directing: motivation stimulates people to act towards desired goals by satisfying their needs.
- Individuals differ in their needs, expectations, perceptions and reactions to incentives.

Step 1: Recognise differences among people Employees are not identical. A particular person may value recognition, another may seek job security, and another may place greater importance on financial rewards. Their needs and expectations also change over time.

Step 2: Explain the resulting complexity Because people react differently, the same type of motivation may not produce the same response from every employee. A manager must understand individual needs and select suitable incentives rather than assume that a single method will motivate everyone equally.

Step 3: Conclusion Motivation is complex because individuals have different needs and expectations and may respond differently to the same incentive.

Quick Tip to Solve: To explain complexity, connect differences in individual needs with differences in responses to incentives.

6. How is staffing a continuous process ? State. [1 mark]

Solution:

Concept:

- Staffing: staffing fills and keeps filled the positions in an organisational structure.
- Human resource requirements continue to change throughout the life of an organisation.

Step 1: Identify recurring personnel needs An organisation repeatedly needs employees because existing employees may retire, resign, be promoted or be transferred. Expansion and changes in business activities can also create new positions that have to be filled.

Step 2: Explain the continuing work Staffing therefore does not end with the first recruitment and selection of employees. Recruitment, selection, placement, training, development and appraisal have to be undertaken as needs arise throughout the life of the enterprise. Existing employees also require development for changing responsibilities.

Step 3: Conclusion Staffing is continuous because positions must be filled and kept filled, while employees must be trained and developed throughout the life of the organisation.

Quick Tip to Solve: Use the phrase fill and keep filled: recurring vacancies and development needs explain why staffing never ends.

7. State the suitability of functional structure of organising. [1 mark]

Solution:

Concept:

- Organising: a functional structure groups similar activities into specialised departments, such as production, finance and marketing.
- Its suitability depends on the size of operations, the range of activities and the need for specialisation.

Step 1: Identify the scale and range of work A functional structure is suitable for an organisation with large operations and a number of diverse activities that need to be grouped by function. Each department can then concentrate on its own specialised work.

Step 2: Connect the structure to specialisation It is particularly suitable where a high degree of functional specialisation is required. Placing similar tasks and specialists together enables expertise and coordination within each function; for example, finance specialists work together in the finance department.

Step 3: Conclusion A functional structure is suitable for large organisations with diversified activities requiring a high degree of functional specialisation.

Quick Tip to Solve: Match functional structure with specialised functions; several distinct product lines may instead favour a divisional structure.

8. Define 'organising' as a function of management. [1 mark]

Solution:

Concept:

- Organising is the management function that creates a structure for implementing plans.
- It links the work to be performed with the people and resources available to perform it.

Step 1: Identify the work required Once objectives and plans are decided, the necessary activities must be identified and divided into manageable tasks. Similar activities are grouped so that work can be assigned systematically.

Step 2: Establish working relationships Duties are assigned to suitable people, the necessary authority is given, and reporting relationships are established. These arrangements enable people to work together effectively towards organisational objectives.

Step 3: Conclusion Organising is the process of identifying and grouping activities, assigning duties, delegating authority and establishing relationships so that people can work together effectively to achieve organisational objectives.

Quick Tip to Solve: For a definition of organising, connect the work, its assignment, authority and reporting relationships.

9. State the type of plan that does not allow any flexibility. [1 mark]

Solution:

Concept:

- Rules are specific statements indicating what must or must not be done in a given situation.
- Unlike a policy, a rule leaves no scope for personal discretion in its application.

Step 1: Recognise the absence of discretion The question asks for a plan that does not permit flexibility. Such a plan must prescribe a definite action or prohibition, rather than offer broad guidance that can be adapted.

Step 2: Name the appropriate plan A rule states exactly what is required or forbidden. For example, a no-smoking rule must be followed as stated; a person cannot modify it according to personal judgement. Policies, in contrast, allow discretion within broad limits.

Step 3: Conclusion The type of plan that does not allow any flexibility is a **rule**.

Quick Tip to Solve: No flexibility or discretion points to a rule; broad guidance with judgement points to a policy.

10. 'Dreams can be turned into reality only when managers think in advance what to do and how to do it.' Name the function of management indicated by the statement. [1 mark]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it.
- It bridges the gap between the present position and the desired future position.

Step 1: Identify the decisive words The statement says managers must **"think in advance what to do and how to do it."** This describes deciding future action before carrying it out, which is the essential meaning of planning.

Step 2: Relate advance decisions to objectives The desired dream represents a future objective. Planning identifies suitable courses of action and selects the way to achieve that objective. Organising would arrange resources to implement the plan, whereas this statement concerns advance thinking itself.

Step 3: Conclusion The function of management indicated is **planning**. The words "think in advance what to do and how to do it" identify it.

Quick Tip to Solve: When a case stresses deciding beforehand what to do and how to do it, identify planning.

11. Why is business environment called dynamic ? State. [1 mark]

Solution:

Concept:

- Business environment includes external forces that influence the functioning of an enterprise.
- Its dynamic nature means that these forces keep changing rather than remaining fixed.

Step 1: Explain the changing external forces The economic, social, technological, political and legal conditions surrounding business can change over time. Changes in technology, consumer preferences or government policy alter the conditions in which an enterprise operates.

Step 2: Connect change with business decisions Because the external situation is not constant, a decision appropriate today may need revision later. Enterprises must continuously observe environmental changes and adapt their activities to the opportunities and threats that arise.

Step 3: Conclusion Business environment is called **dynamic** because it keeps changing through shifts in technology, consumer preferences, government policies and other external forces.

Quick Tip to Solve: For dynamic nature, explain continuing change; uncertainty refers instead to difficulty predicting that change.

12. Identify the basic characteristic of management involved in the statement — 'The activities involved in managing an organisation are common to all organisations, whether economic, social or political.' [1 mark]

Solution:

Concept:

- Management is all-pervasive: it is required in every type of organisation.
- The basic management process is common even though an organisation's purpose and scale may differ.

Step 1: Read the evidence in the statement The statement says the activities of managing are "common to all organisations, whether economic, social or political." Its emphasis is the presence of management across different kinds of organisations.

Step 2: Identify the characteristic Businesses, social bodies and political organisations all need their activities planned, organised, staffed, directed and controlled. Their objectives differ, but the need for management is universal. This is the all-pervasive nature of management.

Step 3: Conclusion The characteristic is that **management is all-pervasive**, as shown by the words "common to all organisations, whether economic, social or political."

Quick Tip to Solve: A reference to every type of organisation identifies all-pervasiveness; coordination of several activities alone does not.

13. Identify and explain the marketing management philosophy which implies that products and services are bought not merely because of their quality or brand name, but because they satisfy a specific need of a customer. [3 marks]

Solution:

Concept:

- The marketing concept makes customer needs and their satisfaction the starting point of business activity.
- It seeks organisational objectives through better satisfaction of target customers than competitors.
- Product quality or a brand name is useful only when the offering meets what the customer needs.

Step 1: Identify the philosophy from the statement The philosophy is the **marketing concept**. The decisive words are "they satisfy a specific need of a customer." The statement puts the customer's need, rather than the producer's emphasis on quality or brand name alone, at the centre of the exchange.

Step 2: Explain customer focus and satisfaction

- **Customer focus:** The enterprise first identifies the needs and wants of its target market through appropriate enquiry and research. It then designs the product or service to meet those needs, instead of making a product first and merely searching for buyers.
- **Customer satisfaction:** The offering must provide the benefits customers seek. Quality, price, availability and communication must together create value and satisfy the identified need better than competing offerings.

Step 3: Explain integrated effort and the objective

- **Integrated marketing and profitability:** All business functions should work together towards customer satisfaction. Satisfied customers are more likely to buy again and maintain a relationship with the enterprise; thus customer satisfaction is the means of achieving long-term profitability. The philosophy does not treat aggressive selling or superior technical quality by itself as sufficient.

Step 4: Conclusion The statement represents the **marketing concept**: identify the needs of target customers, coordinate business efforts to satisfy them better than competitors, and achieve long-term profitability through customer satisfaction.

Quick Tip to Solve: Distinguish the marketing concept by its starting point: customer needs come before the product and selling effort.

14. Give the meaning of the following money market instruments :

(i) Certificate of deposit; and

(ii) Commercial bill. [3 marks]

Solution:

Concept:

- The money market deals in short-term funds through instruments with a maturity of up to one year. It helps institutions and businesses meet temporary financing needs.

- A certificate of deposit represents a deposit with a financial institution, whereas a commercial bill originates from a credit sale of goods.

Step 1: Define a certificate of deposit **Certificate of deposit:** It is an unsecured, negotiable instrument issued in bearer form by commercial banks and development financial institutions. It is issued against funds deposited with the institution for a specified short period. Being negotiable, it can be transferred to another holder rather than requiring the original depositor to retain it until maturity. Banks generally issue certificates of deposit when liquidity is tight and demand for credit is high; they help mobilise large amounts of money for short periods.

Step 2: Define a commercial bill **Commercial bill:** It is a bill of exchange used to finance a firm's working-capital requirements arising from credit sales. The seller draws the bill on the buyer, who accepts the obligation to pay the stated amount on a specified future date. Such a trade bill becomes a commercial bill when accepted by a commercial bank. If the seller needs cash before its maturity, the accepted bill can be discounted with a bank, which pays the amount after deducting a discount and collects the payment at maturity.

Step 3: Conclusion A certificate of deposit mobilises short-term deposits for banks and financial institutions. A commercial bill provides short-term finance against credit sales and can be discounted to obtain cash before the buyer's payment falls due.

Quick Tip to Solve: Link a certificate of deposit with a bank deposit, and a commercial bill with a credit sale, acceptance and discounting.

15. State any three points of importance of financial planning. [3 marks]

Solution:

Concept:

- Financial planning estimates the funds required by a business and specifies when and from which sources they will be raised. It converts business plans into a programme of financing.
- Its purpose is to ensure that adequate funds are available at the right time and to avoid unnecessary funds remaining idle. The following are three points of its importance.

Step 1: Explain how planning anticipates financial needs **Forecasting future requirements:** Financial planning forecasts the likely receipts and payments associated with the business's future activities. It enables management to estimate the amount and timing of funds needed for investment and operations. By anticipating these requirements, the firm can arrange finance in advance instead of encountering an unexpected shortage when a planned activity has to begin.

Step 2: Explain how planning prepares for uncertainty **Preparing for eventualities:** Future conditions may differ from expectations. Financial planning identifies possible situations involving shortages or surpluses of funds and helps the business prepare alternative financial arrangements. This allows the firm to respond to an unforeseen requirement without unnecessarily disrupting production, purchases or other essential activities.

Step 3: Explain how planning coordinates business functions **Coordinating different business functions:** The plans for sales, production, purchases and investment all have financial implications.

Financial planning brings these requirements together within a common financial framework. It helps management ensure that the proposed expenditure of each department is consistent with available resources and the overall business plan, rather than allowing departments to make incompatible commitments.

Step 4: Conclusion Financial planning is important because it forecasts future financing needs, prepares the business for financial eventualities and coordinates different functions through a common financial plan.

Quick Tip to Solve: For an importance question, state a distinct benefit and explain how it helps the business; do not merely list sources of finance.

16. Explain the factors that affect capital budgeting decision. [3 marks]

Solution:

Concept:

- A capital budgeting decision is a long-term investment decision involving the commitment of funds to fixed assets or projects. Such decisions influence the firm's earning capacity over several years.
- Financial management evaluates proposed investments with reference to their expected cash flows, the required return and suitable investment criteria, aiming to increase shareholders' wealth.

Step 1: Assess the project's cash flows **Cash flows of the project:** An investment requires cash outflows, such as the initial purchase and installation cost, and generates cash inflows over its life. The amounts and timing of these flows must be estimated carefully. The firm compares the expected stream of benefits with the funds committed to the project. Cash received sooner can be used earlier, so the timing of receipts matters as well as their total amount.

Step 2: Consider the required rate of return **Rate of return:** Each project is expected to yield a return in relation to its investment. The firm assesses whether this expected return is sufficient compared with the return required to justify committing its funds. The required return and investment risk must be considered while choosing between proposals; a project should not be selected merely because its absolute cash receipts appear large.

Step 3: Apply appropriate investment criteria **Investment criteria involved:** Capital budgeting techniques evaluate the investment, interest rate, expected cash flows and their timing. Management uses appropriate criteria, such as net present value, to judge whether a proposal is worthwhile and to compare alternative projects. A criterion that recognises the time value of money helps assess whether the future benefits justify the present commitment of funds.

Step 4: Conclusion Capital budgeting decisions are affected by the project's cash flows, its rate of return and the investment criteria used to evaluate it. These factors help the firm select long-term investments that contribute to shareholders' wealth.

Quick Tip to Solve: Remember the three NCERT headings: cash flows, rate of return and investment criteria; explain each with reference to a proposed project.

17. Voltech India Ltd. is manufacturing LED bulbs to save electricity and running under heavy losses. To revive from the losses, the management thought of shifting the unit to a backward area where labour is available at a low cost. The management also asked the workers to work overtime without any additional payment and promised to increase the wages of the workers after achieving its mission. Within a short period the company started earning profits because both the management and the workers honoured their commitments.

(a) State the principle of management described in the above para.

(b) Identify any two values that the company wants to communicate to the society. [3 marks]

Solution:

Concept:

- Fayol's principle of discipline means obedience to organisational rules and to the employment agreement. It requires clear and fair agreements, good supervision and their observance by both workers and management.
- A value-based case answer must connect each value with a specific action described in the case, rather than merely listing desirable qualities.

Step 1: Identify the principle in the mutual commitments **(a) Discipline:** The decisive words are "both the management and the workers honoured their commitments." The workers fulfilled their undertaking to help the company recover, and management honoured its promise concerning wages. Discipline therefore operates on both sides: employees observe their agreement and management keeps the promises made to them. This mutual observance of the agreement is the feature of Fayol's principle illustrated here.

Step 2: Link two values to the company's actions **(b) Environmental protection and conservation of energy:** The company is "manufacturing LED bulbs to save electricity." Promoting electricity-saving products communicates the importance of conserving scarce energy resources and avoiding their waste.

Balanced regional development and employment generation: Management considers "shifting the unit to a backward area." Establishing the unit there would create local employment opportunities and support the development of an economically less developed area. These values follow from the stated location decision; they do not require assuming an additional activity by the company.

Step 3: Conclusion The management principle is **discipline**, shown by both sides honouring their commitments. Two values communicated are **energy conservation/environmental protection** and **development of backward areas through employment opportunities**.

Quick Tip to Solve: When a case says that both workers and managers keep an agreement, identify discipline; support each social value with the company's own stated action.

18. ABC Ltd. is engaged in producing electricity from domestic garbage. There is almost equal division of work and responsibility between workers and management. The management even takes workers into confidence before taking important decisions. All the workers are satisfied as the behaviour of the management is very good.

(a) State the principle of management described in the above para.

(b) Identify any two values which the company wants to communicate to the society. [3 marks]

Solution:

Concept:

- Taylor's principle of cooperation, not individualism requires workers and management to cooperate rather than act in isolation or compete against one another. They must recognise their mutual dependence in achieving organisational objectives.
- Cooperation includes sharing work and responsibility and considering constructive suggestions from workers. Social values in a case are identified from the activities and treatment explicitly described.

Step 1: Recognise the scientific management principle **(a) Cooperation, not individualism:** The case states that there is "almost equal division of work and responsibility between workers and management." It further states that management "takes workers into confidence before taking important decisions." These features show cooperation and consultation between the two groups. Management contributes its planning and guidance while workers contribute their effort and practical experience; both work for the organisation's success. The emphasis is on active cooperation, rather than merely the absence of conflict.

Step 2: Explain two values with evidence from the case **(b) Environmental protection and cleanliness:** ABC Ltd. is "producing electricity from domestic garbage." Using domestic waste as an input promotes productive waste utilisation and communicates concern for a cleaner environment instead of allowing such waste to remain unused.

Respect for employees and participative decision-making: Management "takes workers into confidence before taking important decisions," and its behaviour towards them is described as "very good." Consulting employees acknowledges their views and dignity. Such respectful participation helps explain why the workers are satisfied, as stated in the case.

Step 3: Conclusion The principle illustrated is **cooperation, not individualism**. Two values are **environmental protection through waste utilisation** and **respect for employees through participative decision-making**.

Quick Tip to Solve: Equal sharing of work and responsibility, together with worker consultation, points to cooperation, not individualism; quote a separate case clue for each value.

19. 'Science is a systematized body of knowledge that explains certain general truths or the operation of general laws.' In the light of this statement, describe whether management is a science. [4 marks]

Solution:

Concept:

- Science is a systematised body of knowledge explaining general truths or the operation of general laws. Its main features are an organised body of knowledge, principles based on experimentation, and universal validity.
- Management can be tested against these features. Because it deals with human behaviour, its principles guide decisions but do not predict outcomes with the precision of the physical sciences.

Step 1: Examine the systematic body of knowledge **Systematised knowledge:** Management has its own organised body of knowledge, theories and principles. Concepts such as division of work, unity of command and delegation explain how organisations can be managed. Thus, management fulfils this characteristic of science; it is more than an unconnected collection of personal opinions.

Step 2: Examine how the principles are developed **Principles based on experimentation:** Management principles have developed through observation and repeated experiments in different organisations. For example, Taylor's scientific management drew on studies of work methods. However, people differ in attitudes, abilities and responses, so such experiments cannot reproduce identical conditions as readily as experiments in physics or chemistry.

Step 3: Assess the extent of universal validity **Limited universal validity:** Management principles have broad application, but their use must be modified to suit the situation. A method effective in one enterprise may need adjustment in another because employees, organisational conditions and the business environment differ. Therefore, the principles do not produce the same exact result in every setting.

Step 4: State the nature of management science **An inexact or social science:** Management possesses scientific knowledge and principles, but their application involves human behaviour. Its principles indicate probable relationships and provide useful guidelines rather than rigid laws. Managers must apply them with judgement after considering the circumstances.

Step 5: Conclusion Management is a science because it has a systematic body of knowledge and principles developed through observation and experimentation. It is an inexact or social science, since human behaviour limits the precision and universal validity of its principles.

Quick Tip to Solve: Test management against the three features of science, then qualify the conclusion: management principles need adaptation because people and situations differ.

20. Explain any four characteristics of business environment. [4 marks]

Solution:

Concept:

- Business environment means the totality of individuals, institutions and other forces outside the control of a business enterprise that may affect its performance.

- Its characteristics explain why a business must study external forces continuously instead of treating its surroundings as fixed or as a set of isolated influences.

Step 1: Explain the scope and connections of external forces **1. Totality of external forces:** Business environment is the aggregate of all forces external to a business enterprise. It includes customers, competitors, suppliers, government, social conditions and technological developments. The environment therefore refers to their combined influence, rather than to any single outside factor. For example, demand for a product depends on buyers as well as wider economic and social conditions.

2. Interrelatedness: The different elements of the environment are closely connected. A change in one element can cause changes in others and affect the enterprise through several channels. For example, greater health awareness is a social change that can increase demand for health products and encourage firms to introduce suitable products. Thus, external forces must be considered together.

Step 2: Explain change and the difficulty of prediction **3. Dynamic nature:** Business environment keeps changing in terms of technological improvement, shifts in consumer preferences, new competition and government policies. Conditions favourable to a firm today may become unfavourable later. For example, a new technology may make an existing production method obsolete. Businesses must monitor such changes and adapt their decisions.

4. Uncertainty: Future environmental changes are difficult to predict accurately, especially when they occur rapidly. A firm may know that tastes or technology will change without knowing exactly when, in which direction, or by how much. An unexpected product innovation by a competitor, for instance, can alter market demand. Managers therefore need flexibility while planning for the future.

Step 3: Conclusion Four characteristics of business environment are totality of external forces, interrelatedness, dynamic nature and uncertainty. Together, they show that a business operates within connected external conditions that change and cannot be predicted with complete accuracy.

Quick Tip to Solve: Use four distinct headings and explain each with its own meaning and example; dynamic nature describes change, while uncertainty describes difficulty in predicting it.

21. Give the definition of 'Consumer' as per Consumer Protection Act, 1986. [4 marks]

Solution:

Concept:

- Consumer Protection: the Consumer Protection Act, 1986 defines a consumer in relation to both the purchase of goods and the hiring or availing of services.
- Consideration means the price or payment for goods or services. It may already have been paid, be promised, be partly paid and partly promised, or be payable under a system of deferred payment.

Step 1: Define a consumer of goods **Purchase for consideration:** A consumer is any person who buys any goods for consideration which has been paid or promised, partly paid and partly promised, or under any system of deferred payment. Thus, a credit purchase is covered; immediate cash payment is not essential.

Approved user and exclusions: The definition includes any user of those goods, other than the buyer,

when such use is made with the buyer's approval. It does not include a person who obtains the goods for resale or for any commercial purpose. For example, a family member using a household appliance with the purchaser's approval is also covered.

Step 2: Define a consumer of services **Hiring or availing of services:** A consumer is also any person who hires or avails of any services for consideration which has been paid or promised, partly paid and partly promised, or under any system of deferred payment. It includes a beneficiary of such services, other than the person hiring or availing of them, when the services are availed of with that person's approval.

Commercial-purpose exclusion and livelihood exception: A person availing of services for a commercial purpose is excluded. However, commercial purpose does not include the use of goods bought and used, or services availed of, exclusively for earning one's livelihood by means of self-employment. Thus, the definition distinguishes an ordinary commercial enterprise from an individual's self-employment for livelihood.

Step 3: Conclusion Under the Consumer Protection Act, 1986, a consumer is a buyer of goods or a person hiring or availing of services for consideration, including an approved user or beneficiary. Goods for resale and commercial-purpose transactions are excluded, subject to the exception for earning livelihood exclusively through self-employment.

Quick Tip to Solve: Frame the definition in two parts: goods and services. In each, mention consideration and the approved user or beneficiary; then state the exclusions and the self-employment exception.

22. After the following logical steps in the process of planning, explain the steps required to complete the process :

(a) Setting objectives;

(b) Developing premises; and

(c) Identifying alternative courses of action. [4 marks]

Solution:

Concept:

- Planning: the planning process moves from deciding objectives and assumptions to choosing a course of action, carrying it out and checking its results.
- The question already supplies the first three steps: setting objectives, developing premises and identifying alternative courses of action. The remaining steps must therefore begin with evaluating those alternatives.

Step 1: Evaluate alternatives and select the best one **Evaluating alternative courses:** Examine the positive and negative aspects of each alternative in the light of the objectives to be achieved. Compare their expected benefits, costs, risks and feasibility, considering the planning premises and the resources available. This analysis shows which alternatives are likely to achieve the objectives most effectively.

Selecting an alternative: Choose the most appropriate course of action after the evaluation. The selected plan should be feasible and profitable and should have the least undesirable consequences. The manager's judgement and experience supplement the analysis. Sometimes a combination of

alternatives is selected rather than a single course, if that better serves the objectives.

Step 2: Put the plan into action and review its progress **Implementing the plan:** Translate the selected course into action. Allocate resources, assign responsibilities and arrange the activities needed to carry out the plan. For instance, if the plan requires additional production capacity, implementation involves obtaining the necessary machinery and appointing the required personnel. A selected plan achieves nothing unless these practical arrangements are made.

Follow-up action: Monitor the implementation and compare actual results with the planned objectives. Check whether activities are proceeding according to the plan and whether the expected results are being obtained. Identify deviations and take suitable corrective action. Regular follow-up helps management ensure that the plan remains useful and is implemented effectively.

Step 3: Conclusion The four steps completing the process, in order, are evaluating alternative courses, selecting an alternative, implementing the plan and follow-up action. These move planning from the available choices to actual execution and review.

Quick Tip to Solve: After alternatives have been identified, remember the sequence: evaluate, select, implement and follow up. Do not repeat the three steps already supplied in the question as the answer.

23. State the limitations of internal sources of recruitment. [5 marks]

Solution:

Concept:

- Staffing includes recruitment, which means searching for prospective employees and stimulating them to apply for jobs. Internal recruitment fills vacancies from the organisation's existing workforce through promotion or transfer.
- Promotion raises an employee to a position of greater responsibility, whereas transfer shifts an employee between jobs or departments without a substantial change in status. Although these sources use known employees, relying only on them has limitations.

Step 1: State the limitations relating to employees and talent

- **Employees may become lethargic:** When employees are certain of time-bound promotions, they may become complacent. The assurance of advancement can weaken the incentive to improve performance and acquire additional skills.
- **No induction of fresh talent:** If every vacancy is filled internally, people with new qualifications, ideas and experience cannot enter the organisation. The choice of suitable candidates is restricted to the existing workforce, even when better talent is available outside.
- **Competitive spirit may be hampered:** Existing employees do not face competition from outside candidates. The absence of this challenge can reduce their willingness to develop their abilities and prove their suitability for higher positions.

Step 2: State the limitations relating to the enterprise and work

- **Unsuitable for a new enterprise:** A newly established business has no existing pool of employees from which to recruit. It must obtain people from external sources before internal promotions or transfers can become possible.

- **Frequent transfers may reduce productivity:** Repeatedly shifting employees from one job or department to another can interrupt their work. They need time to adjust to new duties, colleagues and procedures, so frequent transfers can lower productivity.

Step 3: Conclusion The limitations of internal recruitment are possible employee lethargy, the exclusion of fresh talent, reduced competitive spirit, its unsuitability for a new enterprise and the loss of productivity caused by frequent transfers. Thus, internal sources alone may not meet all staffing needs.

Quick Tip to Solve: Recall five limits through employees, talent, competition, a new enterprise and transfers; connect each heading to its effect on staffing or performance.

24. Explain the steps in the process of Controlling. [5 marks]

Solution:

Concept:

- Controlling ensures that activities conform to plans. Managers establish standards, measure actual performance and correct deviations so that organisational objectives can be achieved.
- Standards are the criteria against which actual results are judged. Control is a continuous process: information from corrective action helps improve later performance and, where necessary, future plans.

Step 1: Set standards and measure actual performance

- **Setting performance standards:** Translate plans into clear standards that employees can understand. Standards may be quantitative, such as units of output, cost or sales, or qualitative, such as improved employee motivation. They provide the basis for evaluating results and should be realistic and measurable wherever possible.
- **Measurement of actual performance:** Obtain information about work actually done through personal observation, sample checking, performance reports or other suitable methods. Measurement should be objective and reliable and should use units comparable with the standards. Wherever possible, performance is measured while work is in progress so that problems can be corrected promptly.

Step 2: Compare results and analyse deviations

- **Comparing actual performance with standards:** Place actual results against the predetermined standards to identify deviations. For example, compare actual output with the planned output for the same period. The comparison shows whether performance meets, exceeds or falls short of expectations.
- **Analysing deviations:** Identify significant deviations and investigate their causes. Critical point control focuses attention on key result areas, while management by exception directs attention to deviations beyond acceptable limits. Causes may include defective materials, inefficient methods or unrealistic standards; the cause must be understood before choosing a remedy.

Step 3: Take corrective action

- **Taking corrective action:** Remove the causes of significant deviations through suitable action,

such as training employees, repairing equipment or improving methods. If a standard itself is unrealistic, revise it appropriately. Minor deviations within acceptable limits may require no action. Follow up the remedy to ensure that performance returns to the desired level.

Step 4: Conclusion The controlling process proceeds through setting performance standards, measuring actual performance, comparing actual results with standards, analysing deviations and taking corrective action. These linked steps help bring actual performance into conformity with planned objectives.

Quick Tip to Solve: Remember the sequence: set, measure, compare, analyse and correct. Comparison identifies a gap; analysis explains its cause; corrective action removes that cause.

25. Explain the trading procedure on a stock exchange. [5 marks]

Solution:

Concept:

- A stock exchange provides an organised market for buying and selling existing securities. An investor trades through a registered broker rather than directly entering the exchange's trading system.
- Trading links the investor's order with a matching order through the exchange. Settlement completes the transaction by transferring securities to the buyer and payment to the seller.

Step 1: Select a registered broker and open the necessary accounts **Selection and registration:** The investor selects a broker registered with SEBI and a member of the stock exchange. The investor completes the client-registration formalities and supplies the required identification and bank details. This establishes the relationship through which orders will be placed.

Opening a demat account: The investor opens a dematerialised account with a depository participant to hold securities electronically. A linked bank account is used for the money involved in purchases and sales; a trading account enables the investor to place orders through the broker.

Step 2: Place the order and have it executed **Placing the order:** The investor instructs the broker to buy or sell, specifying the security, quantity and acceptable price. For example, a limit order authorises the broker to transact only at the specified price or a better price. The broker enters the order into the exchange's electronic trading system.

Execution of the order: The system matches the order with a corresponding buy or sell order. On a match, the trade is executed and the broker informs the investor of the price and quantity traded. Placing an order alone does not mean a trade has occurred; a matching order is necessary.

Step 3: Obtain the contract note and complete settlement **Issue of the contract note:** Within 24 hours of execution, the broker issues a contract note showing the security, quantity, transaction price, date and time, and brokerage charges. It provides documentary evidence of the transaction and helps resolve a dispute.

Settlement: The buyer arranges payment and the seller makes the securities available for delivery. Through the exchange's clearing and settlement mechanism, securities are credited to the buyer's demat account and sale proceeds reach the seller through the broker. Under the T+2 rolling-settlement

system described for this paper's period, settlement is completed on the second working day after the trading day.

Step 4: Conclusion The procedure runs from selecting and registering with a broker and opening accounts to placing and executing an order, obtaining the contract note and settling the exchange of money and securities.

Quick Tip to Solve: Remember the sequence: broker and accounts, order, execution, contract note, settlement. Execution fixes the trade; settlement delivers the securities and money.

26. State any five functions of Labelling. [5 marks]

Solution:

Concept:

- Labelling means designing and displaying the label or tag attached to a product or its package. A label may be a simple tag or a detailed printed statement carrying information about the product.
- In marketing, the label communicates with the buyer at the point of purchase. It identifies and describes the product, differentiates its quality and supports promotion and the disclosure of essential information.

Step 1: State the identification and information functions **1. Identifying the product or brand:** A label displays the product name, brand name or identifying symbol. It enables a customer to recognise the product among competing goods and buy the desired brand again. For example, a brand's name on a tea packet distinguishes it from other packets on the same shelf.

2. Describing the product and specifying its contents: A label provides details such as ingredients, net quantity, date of manufacture, expiry date and directions for use. It may also indicate precautions or storage requirements. Such information helps the buyer understand what the package contains and how to use or handle the product properly.

Step 2: State the grading, promotional and disclosure functions **3. Grading products:** Labels distinguish varieties or quality grades of the same product, for example tea labelled as a premium or a standard grade. This enables customers to select a grade suited to their preference and budget and helps the seller market different grades clearly.

4. Helping in promotion: Attractive colours, pictures and lettering on a label draw attention and make the product appealing. A label may also announce a special offer, such as extra quantity in the pack. It thereby communicates a selling point and encourages customers to consider purchasing the product.

5. Providing information required by law: Labels carry prescribed declarations and warnings for the relevant product category. For example, a statutory health warning on tobacco products informs consumers about the associated danger. Such declarations help protect buyers by ensuring that essential information is available before purchase.

Step 3: Conclusion The five functions are identifying the product or brand, describing the product and its contents, grading products, supporting promotion, and providing information required by law.

Quick Tip to Solve: Recall five purposes of a label: identify, describe, grade, promote and disclose. Give each purpose its own heading and a short example or explanation.

27(a). Explain the four important elements of marketing mix. [6 marks]

Solution:

Concept:

- Marketing mix is the combination of marketing tools that a firm uses to achieve its marketing objectives in a chosen target market.
- Its four important elements, known as the four Ps, are product, price, place and promotion. Their combination must satisfy customers while meeting the firm's objectives.

Step 1: Explain the product and price decisions

- **Product:** A product is the bundle of utilities offered to satisfy a customer's needs. It includes the goods or services themselves and associated benefits, such as a warranty or after-sales service. Product decisions concern quality, design, features, variety, branding, packaging and labelling. For example, a producer of school bags must decide their size, strength, compartments, brand name and packaging. These decisions determine what value the buyer receives.
- **Price:** Price is the amount of money a customer must pay to obtain the product. Pricing decisions include fixing the basic price, discounts, allowances, credit terms and payment periods. The firm considers its costs, customers' perception of value, demand, competition and pricing objectives. A suitable price should be acceptable to the target customer and also enable the firm to meet its objectives; an excessively high price may discourage purchases.

Step 2: Explain the place and promotion decisions

- **Place or physical distribution:** This element makes the product available to target customers at the right place and time. It covers the choice of distribution channels, such as selling directly or through wholesalers and retailers. It also includes physical distribution decisions relating to order processing, transportation, warehousing and inventory. For example, keeping school bags in conveniently located shops and maintaining adequate stocks helps customers buy them when needed.
- **Promotion:** Promotion means communicating the product's availability, features and benefits to customers and persuading them to buy it. Its tools include advertising, personal selling, sales promotion and public relations. A firm chooses a suitable promotional combination and message for its target audience. For instance, an advertisement can create awareness of a new bag, while a sales demonstration can explain its features. Promotion must accurately communicate the value offered by the other elements.

Step 3: Conclusion The four elements are product, price, place and promotion. An effective marketing mix combines a need-satisfying offering, an appropriate price, convenient availability and persuasive communication; the four decisions support one another.

Quick Tip to Solve: Recall the four Ps, then explain each through the decision it answers: what to offer, what to charge, where to sell and how to communicate.

OR

27(b). Explain any four factors determining the choice of an appropriate channel of distribution.

[6 marks]

Solution:

Concept:

- A channel of distribution is the route through which a product moves from its producer to its ultimate consumer, directly or through intermediaries such as wholesalers and retailers.
- The appropriate channel depends on the product and the conditions in which it is marketed. A channel should provide the required customer reach and services at a reasonable cost.

Step 1: Consider the product and company characteristics

- **Product-related factors:** The nature, unit value, perishability, bulk and technical complexity of the product influence the choice. Perishable goods need quick movement and generally a short channel to reduce deterioration. Bulky industrial products also favour shorter channels because repeated handling and transportation are costly. Technically complex products may require direct selling so that the producer can provide demonstrations, installation and after-sales support. Standardised consumer products can often move through longer channels to obtain wide availability.
- **Company characteristics:** The company's financial strength and the degree of control it wants over distribution are important. A financially strong firm can maintain its own sales force, outlets and distribution facilities, whereas a firm with limited resources may depend on intermediaries who perform these functions. A company seeking close control over prices, customer service and the way the product is presented is more likely to choose a direct or shorter channel. Thus the channel must suit both the firm's resources and its objectives.

Step 2: Consider competitive and market conditions

- **Competitive factors:** The channels used by competing firms affect the decision. A producer may use similar channels because customers already expect to find such products there and the outlets provide established market access. Alternatively, it may deliberately choose a different channel to distinguish its offering or avoid direct competition in the same outlets. The choice therefore follows an assessment of competitors' distribution arrangements and the firm's own marketing strategy.
- **Market factors:** The number of potential buyers, their geographical concentration, buying habits and the size of their orders determine how customers can be reached efficiently. A small number of geographically concentrated industrial buyers placing large orders can often be served directly. A large number of widely scattered consumers making frequent purchases in small quantities generally calls for intermediaries and a longer channel. Wholesalers and retailers then make products available close to consumers and reduce the producer's burden of serving every buyer separately.

Step 3: Conclusion Four factors are product-related characteristics, company characteristics, competitive factors and market factors. The firm evaluates these together to choose a channel that provides suitable coverage, control and customer service economically.

Quick Tip to Solve: For each factor, link the condition to its channel implication: perishability or concentrated bulk buyers favour shorter routes; scattered small buyers favour intermediaries.

28(a). Explain any four factors affecting the dividend decision of a company. [6 marks]

Solution:

Concept:

- Financial Management: the dividend decision determines how much of the profit earned by a company is distributed to shareholders and how much is retained in the business.
- Retained earnings provide internal finance, while dividends provide a current return to shareholders. The company must balance these uses of its profits in light of its earnings, investment needs and liquidity.

Step 1: Explain the earnings-related factors

- **Amount of earnings:** Dividends are paid out of current and past earnings. A company with substantial distributable earnings can generally declare a higher dividend than one with small earnings. The amount of profit available therefore places an important limit on what can be distributed; the company cannot treat the whole of its sales receipts as funds available for dividends.
- **Stability of earnings:** A company with stable and predictable earnings can afford to commit itself to a higher dividend. It can reasonably expect to sustain the payment in future years. A company whose earnings fluctuate widely is likely to retain a larger proportion in good years and adopt a more cautious dividend policy, so that a subsequent fall in earnings does not make its dividend commitment difficult to maintain.

Step 2: Explain the investment and liquidity factors

- **Growth opportunities:** A company with attractive opportunities for expansion needs funds for new projects. It may retain more of its profits and distribute a smaller dividend, because retained earnings are a source of finance for these opportunities. A company with fewer such investment opportunities may distribute a larger proportion of its earnings, other things remaining the same.
- **Cash flow position:** Payment of dividends involves an outflow of cash. The company must therefore have sufficient cash after meeting its operational and other commitments. A profitable company may still be unable to pay a large dividend if its funds are tied up in receivables or other assets. A sound cash flow position makes payment of dividends easier; accounting profit alone does not establish the capacity to pay them.

Step 3: Conclusion Four factors affecting the dividend decision are the amount of earnings, stability of earnings, growth opportunities and cash flow position. Larger and more stable earnings and adequate cash generally support dividends, whereas substantial growth opportunities encourage retention of profits.

Quick Tip to Solve: For each dividend factor, state its effect on the payout: earnings and cash support payment, while funds needed for growth encourage retention.

OR

28(b). Explain any four factors affecting fixed capital requirements of a company. [6 marks]

Solution:

Concept:

- Financial Management: fixed capital refers to investment in long-term assets such as land, buildings, plant and machinery, which are used in the business over several accounting periods.
- Fixed capital requirements concern the amount needed for these long-term assets. They depend on the activities, size, production methods and expansion plans of the business, rather than merely its day-to-day operating expenses.

Step 1: Explain how the business and its size affect investment

- **Nature of business:** A manufacturing concern generally requires more fixed capital than a trading concern. Manufacturing involves investment in plant, machinery and production premises to convert inputs into finished goods. A trading concern primarily purchases and resells goods and normally does not require manufacturing machinery. Thus, other things remaining the same, the nature of the activity changes the long-term assets the company must acquire.
- **Scale of operations:** A company operating on a large scale normally needs more fixed capital than a small-scale company. A larger volume of operations requires greater production capacity and investment in assets such as machinery and premises. Consequently, an increase in the scale at which the business operates generally increases its total investment in long-term assets, even if some economies in cost per unit are available.

Step 2: Explain how production methods and expansion affect investment

- **Choice of technique:** A capital-intensive production technique uses relatively more machinery and equipment and therefore requires a larger investment in fixed assets. A labour-intensive technique relies relatively more on human labour and generally needs less fixed capital. The choice between these techniques affects the amount of long-term funds required; wages paid during operations should not be confused with the purchase of machinery.
- **Growth prospects:** A company expecting significant growth must provide additional capacity to meet the anticipated increase in demand. It may need to acquire additional plant, machinery, land or buildings, increasing its fixed capital requirement. A company with limited growth prospects may not need comparable additions. Fixed capital planning must therefore consider future expansion, rather than only the assets sufficient for the present level of business.

Step 3: Conclusion Four factors affecting fixed capital requirements are the nature of business, scale of operations, choice of technique and growth prospects. Manufacturing, a larger scale, capital-intensive methods and expansion plans generally increase the need for investment in long-term assets.

Quick Tip to Solve: Link every fixed capital factor to a long-term asset: ask whether it creates a need for more plant, machinery, buildings or production capacity.

29(a). Describe psychological barriers to effective communication. [6 marks]

Solution:

Concept:

- Effective communication requires the receiver to understand the message in the same sense in which the sender intended it. The psychological state of either person can obstruct this understanding.
- In NCERT's classification, psychological barriers include premature evaluation, lack of attention, loss by transmission and poor retention, and distrust. These barriers arise from attitudes, mental preoccupation and the handling of information.

Step 1: Explain premature evaluation and lack of attention **Premature evaluation:** A person forms a judgement about a message before listening to or understanding it completely. Preconceived ideas and prejudices influence this judgement. Consequently, the receiver may reject a useful suggestion or misunderstand an instruction without considering the full facts. For example, rejecting a worker's suggestion merely because earlier suggestions were unsuccessful prevents an impartial understanding of the present message.

Lack of attention: When the receiver is preoccupied with personal problems, another task or other thoughts, the receiver does not listen attentively. Important words and qualifications in the message may be missed. A superior who continues attending to another matter while a subordinate explains a production problem may fail to understand its urgency, even though the subordinate speaks clearly.

Step 2: Explain loss of information and distrust **Loss by transmission and poor retention:** As a message passes through several people, part of it may be omitted, altered or incorrectly reproduced. Each person may remember only selected details, so the final receiver obtains an incomplete or distorted message. People also cannot retain every detail of a long oral message for long; unfamiliar or uninteresting information is especially liable to be forgotten. Thus both repeated transmission and weak memory reduce the accuracy of communication.

Distrust: If the sender and receiver do not trust one another, they are less willing to exchange information openly or accept each other's statements in their intended sense. The receiver may doubt the truth of even a correct message and look for hidden motives. For instance, an employee who distrusts management may treat a sincere explanation of a new work method as an attempt to increase the workload unfairly. This suspicion obstructs understanding and cooperation.

Step 3: Conclusion The psychological barriers are premature evaluation, lack of attention, loss by transmission and poor retention, and distrust. They prevent a complete, accurate and open understanding of the message even when the language used is clear.

Quick Tip to Solve: Organise this answer around four obstacles: judging too early, not listening, losing or forgetting information, and not trusting the communicator. Explain how each changes understanding.

OR

29(b). Explain how directing helps in effective and efficient functioning of the organisation. [6 marks]

Solution:

Concept:

- Directing means instructing, guiding, counselling, motivating and leading people to achieve organisational objectives. It puts the plans and organisational arrangements into action through people.
- Effective functioning means achieving the intended objectives; efficient functioning means doing so with economical use of resources. Supervision, motivation, leadership and communication help employees work towards both.

Step 1: Explain how directing starts and coordinates performance **Initiates action:** Planning decides what is to be done and organising assigns duties, but employees must actually perform the work. Through instructions, guidance and supervision, directing tells them how to carry out their responsibilities and starts purposeful action. It therefore converts prepared plans into results rather than allowing them to remain statements on paper.

Integrates employees' efforts: Different individuals and departments perform different activities. Directing guides these activities towards common organisational objectives and helps ensure that one person's work supports the work of others. Communication and leadership reduce conflicting efforts, duplication and waste. Coordinated effort improves both the achievement of targets and the use of available resources.

Step 2: Explain how directing develops people and handles change **Helps employees realise their potential:** Employees may possess abilities that they do not use fully without encouragement and guidance. Appropriate motivation and leadership help identify these abilities, build confidence and encourage better performance. An employee who receives helpful guidance can improve work methods and contribute more effectively to the organisation.

Facilitates the introduction of changes: People may resist new methods, technology or procedures because of uncertainty or fear. Through effective communication, managers explain the reasons for change, and through motivation and leadership they encourage employees to accept and cooperate with it. This makes the implementation of necessary changes smoother and helps the organisation respond to its environment.

Brings stability and balance: Differences between individual interests and organisational requirements may create conflict. Effective communication, supportive supervision, persuasion and suitable incentives help reconcile these differences. By encouraging cooperation and commitment, directing maintains balance among people and activities and supports continuity in organisational functioning.

Step 3: Conclusion Directing makes the organisation function effectively and efficiently by initiating action, integrating effort, developing employee potential, facilitating change, and maintaining stability and balance. It links people's day-to-day performance with organisational goals while reducing avoidable conflict and waste.

Quick Tip to Solve: Recall the five NCERT benefits in sequence: start action, unite efforts, develop potential, introduce change, and maintain stability. Link each benefit to how employees actually work.

30(a). Explain the steps in the process of Organising. [6 marks]

Solution:

Concept:

- Organising is the management function that identifies and groups the work required to implement plans, assigns duties and establishes authority relationships.
- The NCERT organising process has four connected steps: identification and division of work, departmentalisation, assignment of duties, and establishment of reporting relationships.

Step 1: Identify and divide the work **Identification and division of work:** First identify all the activities necessary to carry out the chosen plan and achieve organisational objectives. Divide the total work into manageable jobs so that each job can be performed effectively. This division avoids duplication and unnecessary work, makes responsibilities clearer and promotes specialisation. For example, producing and selling a product requires activities such as purchasing materials, manufacturing, selling and maintaining accounts. The work must be identified before it can be allocated to people.

Step 2: Group similar activities into departments **Departmentalisation:** Next combine activities that are similar in nature into departments. Grouping creates a common focus for related tasks and facilitates coordination within each group. Departments may be formed on the basis of functions, such as production, finance and marketing, or on another suitable basis such as products or territory. The basis selected should suit the needs and size of the enterprise. Thus, the separate jobs identified in the first step are brought together into logical units.

Step 3: Assign duties to suitable employees **Assignment of duties:** Allocate the work of each department to its members according to their skills, qualifications, experience and competence. Define each employee's duties clearly so that the person knows what work is expected. Matching the nature of the job with the capabilities of the employee helps secure effective performance and makes good use of human resources. For instance, accounting work should be entrusted to a person with the required accounting knowledge, rather than assigned without considering competence.

Step 4: Establish authority and reporting relationships **Establishment of reporting relationships:** Finally specify who will report to whom and who has authority to direct whose work. Employees must know from whom they receive instructions and to whom they are accountable. Grant the authority necessary to discharge assigned duties. Clear superior-subordinate relationships create the managerial hierarchy, link departments and support coordination. They also prevent confusion about instructions and responsibility, enabling the separate activities to contribute to the enterprise's common objectives.

Step 5: Conclusion The organising process proceeds from identifying and dividing work to departmentalisation, assignment of duties and establishment of reporting relationships. Together, these steps convert a plan into a coordinated structure of jobs, people and authority.

Quick Tip to Solve: Remember the sequence as work, groups, people and relationships: identify the jobs, group them, assign them and specify who reports to whom.

OR

30(b). Differentiate between Formal and Informal organisation on the basis of the following :

(i) Meaning;

(ii) Origin;

(iii) Authoring;

(iv) Behaviour;

(v) Flow of Communication; and

(vi) Leadership. [6 marks]

Solution:

Concept:

- Formal organisation is the structure of jobs and authority deliberately created by management to achieve organisational objectives.
- Informal organisation is the network of social relationships that develops spontaneously as people interact at work. The authority basis below addresses the item printed as 'Authoring'.

Step 1: Compare meaning, origin and authority The first three bases distinguish the designed structure from the social network that grows within it.

Basis	Formal organisation	Informal organisation
(i) Meaning	A structure of jobs and relationships consciously created by management to achieve organisational objectives. It defines duties and official reporting relationships.	A network of social relationships arising from interaction among employees. It develops alongside the formal structure and satisfies social needs.
(ii) Origin	Arises as a result of the rules and policies deliberately framed by management. Its positions and relationships are planned.	Arises naturally from social interaction among people who work together, rather than from a deliberate management plan.
(iii) Authority	Authority arises from the official position occupied by a manager in the management hierarchy. A superior can issue instructions because of that position.	Influence arises from personal qualities and the acceptance of the group. A member may influence others without holding a superior official position.

Step 2: Compare behaviour, communication and leadership The remaining bases explain how members act, exchange information and accept leaders in the two kinds of organisation.

Basis	Formal organisation	Informal organisation
(iv) Behaviour	Behaviour is guided by prescribed rules, procedures and policies. Employees are expected to perform their duties according to officially defined standards.	No fixed management-prescribed pattern governs the social relationships. Behaviour is guided by group norms, shared interests and the wishes of members.
(v) Flow of communication	Communication follows the official channels established through the scalar chain. Reporting relationships determine the prescribed routes for official messages.	Communication can flow in any direction through social contacts. It need not follow the official scalar chain and may cross departmental or hierarchical boundaries.
(vi) Leadership	Managers occupy officially appointed positions of leadership. Their role comes from the formal structure and the authority attached to their jobs.	Leaders emerge through group acceptance and personal qualities. Members follow them because of their influence, rather than merely an official appointment.

Step 3: Conclusion Formal organisation is deliberately created, position-based and governed by official relationships. Informal organisation develops spontaneously, depends on personal influence and operates through social relationships. Both can exist among the same employees, but they differ on each of the six stated bases.

Quick Tip to Solve: For each basis, pair an official feature with a social feature: planned versus spontaneous, position versus personal influence, and scalar-chain communication versus communication in any direction.