CBSE Class 12 Business Studies Question Paper 2015 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: 80**

General Instructions

(i) Answer 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. Give the meaning of 'Method' as a type of plan. [1 mark]

Solution:

Concept:

- A method is a standing plan that specifies the prescribed way of performing a particular task.
- It gives detailed guidance about how work is to be done within a procedure, promoting consistency.

Step 1: Identify what a method specifies A method states the prescribed manner in which a particular task must be performed. It tells the employee how to carry out that task rather than merely stating the result to be achieved.

Step 2: Distinguish it from a procedure A procedure sets out the sequence of activities, whereas a method describes the way of performing one activity in that sequence. For example, a specified technique for checking the quality of cloth is a method.

Step 3: Conclusion A method is the prescribed way or manner of performing a particular task.

Quick Tip to Solve: Remember: a method answers how a task is performed; a procedure answers the sequence of tasks.

2. How does co-ordination ensures unity of action ? State. [1 mark]

Solution:

Concept:

- Coordination integrates the efforts of individuals and departments towards common organisational objectives.
- Unity of action means that different activities work together instead of pulling the organisation in different directions.

Step 1: Recognise the need for integration Individuals and departments perform different tasks and may have different immediate priorities. Unless their efforts are linked, one department's work may obstruct another's, even when each is working hard.

Step 2: Explain unity of action Coordination synchronises and integrates these diverse efforts into purposeful work directed towards a common goal. It acts as the binding force between departments so that their contributions form one coherent organisational effort.

Step 3: Conclusion Coordination ensures unity of action by integrating diverse individual and departmental efforts towards common organisational objectives.

Quick Tip to Solve: Link unity of action with integration of efforts towards one common goal.

3. What is meant by 'Efficiency' in management ? [1 mark]

Solution:

Concept:

- Efficiency means doing a task correctly and with minimum cost or wastage of resources.
- Management seeks the best relationship between the resources used and the output obtained.

Step 1: Focus on resource use Efficiency concerns the way work is performed. A manager uses inputs such as money, materials, labour and time carefully so that avoidable waste and unnecessary costs are reduced.

Step 2: Relate inputs to output An efficient operation produces a given output with fewer resources, or obtains more output from the same resources. Thus completing a task is not enough to establish efficiency; the cost and resources consumed also matter.

Step 3: Conclusion Efficiency means doing the task correctly with minimum cost and wastage of resources.

Quick Tip to Solve: For efficiency, look at inputs and cost; for effectiveness, look at achievement of the intended result.

4. A textile company is diversifying and starting a steel manufacturing plant. State with reason the effect of diversification on the fixed capital requirements of the company. [1 mark]

Solution:

Concept:

- Fixed capital is invested in long-term assets such as land, buildings, plant and machinery.
- Diversification into a new business generally increases fixed capital requirements because additional fixed assets must be acquired.

Step 1: Identify the change in business The textile company is entering steel manufacturing in addition to its existing business. This diversification requires facilities suited to steel production rather than merely using the existing textile operations.

Step 2: Explain the fixed capital effect The company will need additional long-term assets, particularly plant, machinery and other production infrastructure, for the new steel unit. Investment in these assets increases its requirement of fixed capital.

Step 3: Conclusion The fixed capital requirement will increase because diversification into steel manufacturing requires investment in additional fixed assets.

Quick Tip to Solve: When diversification adds a new production unit, connect the higher capital need with additional long-term assets.

5. Besides financing decision the finance function is concerned with two other broad decisions. Name these decisions. [1 mark]

Solution:

Concept:

- Financial management involves investment, financing and dividend decisions.
- Investment decisions concern the use of funds, while dividend decisions concern the distribution or retention of earnings.

Step 1: Name the investment decision The first other broad decision is the investment decision. It determines how the firm's funds are invested in assets, including long-term investment projects and short-term assets required for operations.

Step 2: Name the dividend decision The second is the dividend decision. It determines what portion of earnings should be distributed to shareholders as dividend and what portion should be retained in the business to meet future financial needs.

Step 3: Conclusion The two decisions are the investment decision and the dividend decision.

Quick Tip to Solve: Recall the three broad decisions as investment, financing and dividend; remove the one already supplied in the question.

6. To make the annual function of the school successful the principal of the school divided all the activities into task groups each dealing with a specific area like rehearsals, decoration, stage management, refreshments etc. Each group was placed under the overall supervision of a senior teacher. Identify the function of management performed by the Principal in doing so. [1 mark]

Solution:

Concept:

- Organising involves identifying and dividing work, grouping activities, assigning duties and establishing reporting relationships.
- The case must be identified from the actions performed, rather than merely from the aim of making the event successful.

Step 1: Locate the organising activities The principal "divided all the activities into task groups, with separate areas such as rehearsals, decoration, stage management and refreshments. Dividing and grouping work are key activities in organising.

Step 2: Identify responsibility and supervision Each group was placed under the overall supervision of a senior teacher. This assigns responsibility and establishes a reporting relationship, providing further evidence that the principal is performing the organising function.

Step 3: Conclusion The function performed is organising.

Quick Tip to Solve: Division into task groups plus assignment of supervision is a strong clue for organising.

7. On the eve of Diwali Ravi purchased two kilograms of sweets from Nandan Sweets. On consumption of sweets his wife fell sick and was to be hospitalized. Ravi wanted to file a case in the consumer forum but could not do so because he did not have any proof of buying the sweets from Nandan sweets. Name the document that Ravi could had obtained for filing the complaint in the consumer forum. [1 mark]

Solution:

Concept:

- A consumer should obtain a cash memo or bill when buying goods or services.
- The purchase document provides evidence of the transaction when seeking redressal for defective goods or deficient services.

Step 1: Identify the missing evidence Ravi cannot produce proof that the sweets were purchased from Nandan Sweets. The relevant document must therefore establish the purchase from that particular seller, rather than merely show that his wife became ill.

Step 2: Name the purchase document Ravi should have obtained a cash memo or bill from Nandan Sweets at the time of purchase. It records the transaction and can be used as documentary evidence in support of his consumer complaint.

Step 3: Conclusion Ravi should have obtained a cash memo or bill as proof of purchase.

Quick Tip to Solve: Always ask for and retain the bill or cash memo: it links the goods purchased to the seller.

8. A TV manufacturing company is spending substantial amount of money to persuade the target customers to buy its T.V. sets through advertisements, personal selling and sales promotion techniques. Identify the element of marketing mix referred here. [1 mark]

Solution:

Concept:

- Promotion is the element of the marketing mix that communicates information about a product and persuades customers to buy it.
- Advertising, personal selling and sales promotion are tools of the promotion mix.

Step 1: Identify the purpose of the expenditure The company spends money to persuade the target customers to buy its T.V. sets. This is communication intended to influence purchasing decisions, rather than a decision about the features, price or distribution of the television.

Step 2: Connect the techniques with the element The case expressly mentions advertisements, personal selling and sales promotion. These are promotional tools used to inform customers, create interest and stimulate demand. Together, they identify the promotion element of the marketing mix.

Step 3: Conclusion The element is **promotion**, since the company uses promotional communication to persuade its target customers to buy its television sets.

Quick Tip to Solve: When a case lists advertising, personal selling or sales promotion, identify promotion as the marketing-mix element.

9. State any three advantages of informal organization. [3 marks]

Solution:

Concept:

- Informal organisation is the network of personal and social relations that arises spontaneously among people working in a formal organisation.
- Its advantages arise from personal contact, social support and cooperation across officially prescribed reporting relationships.

Step 1: State the communication advantage **Faster communication:** Informal relationships allow information to travel quickly because communication need not pass through each prescribed level of the formal hierarchy. Personal contacts can therefore help employees exchange relevant information and obtain prompt feedback. This is an advantage of speed; it does not imply that every informal message is necessarily accurate.

Step 2: State the social advantage **Fulfilment of social needs:** Informal groups provide friendship, acceptance and a sense of belonging. Employees can share their feelings and receive support from colleagues. Such relationships satisfy social needs that the formal structure alone may not meet and can improve satisfaction at work.

Step 3: State the organisational advantage **Support for organisational objectives:** Informal relationships can make up for gaps or inadequacies in the formal structure. Employees may help one another and cooperate beyond their narrowly defined duties, assisting the organisation in getting work done. This benefit is realised when the group supports organisational objectives rather than opposing them.

Step 4: Conclusion Three advantages of informal organisation are faster communication, fulfilment of social needs and support for organisational objectives through cooperation and the filling of gaps in the formal structure.

Quick Tip to Solve: Remember three distinct benefits: information moves faster, people gain belonging, and cooperation fills gaps in formal arrangements.

10. 'Sometimes advertising confuses the buyers.' Do you agree with this ? Give reasons in support of your answer. Also state the arguments of supporters of advertisement regarding the above statement. [3 marks]

Solution:

Concept:

- Advertising is an impersonal, paid form of communication by an identified sponsor to promote goods, services or ideas.
- The objection that advertising confuses buyers concerns competing claims made by different brands; supporters distinguish this problem from the information that advertising provides.

Step 1: Explain why buyers may be confused **Agree with the limited statement:** Yes, advertising can sometimes confuse buyers. Rival brands often advertise similar products, and each may claim

that its product is better than the others. A buyer confronted with many competing claims may find it difficult to decide which brand is really superior or best suited to personal needs. The objection is especially relevant when claims are exaggerated or do not provide a clear basis for comparison.

Step 2: Present the argument of supporters **Advertising helps buyers become informed:** Supporters argue that advertising brings the availability, features, uses and other relevant information about different products to the notice of consumers. This information enables consumers to compare alternatives and make an intelligent choice. Without advertising, buyers may not even know that competing products exist. Thus the existence of several advertised alternatives is also an opportunity to compare, rather than proof that advertising must always mislead.

Step 3: Reconcile the two views **Distinguish misuse from the function itself:** Confusing or exaggerated advertisements justify criticism of those claims, but do not remove the useful informational role of advertising. A consumer should compare factual product details with personal requirements rather than accept each superiority claim uncritically.

Step 4: Conclusion Advertising may confuse buyers when competing brands make conflicting superiority claims. Its supporters nevertheless maintain that it provides information about alternative products and helps consumers compare them and choose intelligently.

Quick Tip to Solve: Answer both sides: competing superiority claims can confuse, while factual product information can help the buyer compare and choose.

11. Name and define the process in which candidates are eliminated at every stage and a few move on to the next stage till the right type of candidate is found. [3 marks]

Solution:

Concept:

- Selection is the process of identifying and choosing the best person from the pool of prospective candidates for a job.
- Unlike recruitment, which attracts applicants, selection screens applicants against job requirements and eliminates those found unsuitable.

Step 1: Name the process from the clue The process is **selection**. The decisive clue is that candidates are eliminated at every stage while only a few move to the next stage. This describes screening applicants, not attracting a large pool of candidates through recruitment.

Step 2: Define selection precisely **Definition:** Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job. The employer compares the qualifications, abilities and suitability of applicants with the requirements of the vacant position, with the aim of securing the right person for that job.

Step 3: Explain the successive elimination An applicant may have to pass successive screening stages, such as preliminary screening, selection tests and an employment interview, followed by relevant checks and the final selection decision. Those who do not meet the required standards are removed from consideration; suitable candidates move ahead. Selection is therefore called a negative process because it rejects unsuitable applicants, even though its ultimate purpose is the positive one

of appointing a suitable employee. The successive elimination described in the case leads to that final choice.

Step 4: Conclusion The process is **selection**: identifying and choosing the best person from the available prospective candidates for a job by assessing suitability and screening out unsuitable applicants.

Quick Tip to Solve: Use the direction of the process: attracting applicants means recruitment; screening and eliminating applicants means selection.

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12. Neha was a regional sales manager in 'Good Look Garments Ltd' for ten years. On the retirement of the marketing manager Neha applied for the same post as she was extremely ambitious and had dedicated all her energies to obtain the post of marketing manager. However, the top management of the company decided to fill this post by selecting a better person from outside the company. Because of this Neha was heart-broken and her performance declined.

When the new marketing manager joined, one of her major problems was how to motivate and inspire Neha to her former level of performance ?

Suggest any three non-financial incentives that the new marketing manager may use to motivate Neha. [3 marks]

Solution:

Concept:

- Non-financial incentives satisfy psychological, social and esteem needs rather than directly increasing monetary income. Recognition, career advancement and participation can restore an employee's willingness to perform.
- Neha is described as "extremely ambitious" and as having "dedicated all her energies" to obtaining the higher post. Her disappointment therefore concerns achievement and advancement, so incentives should address these needs.

Step 1: Offer career advancement opportunities **Career advancement opportunity:** The new manager can provide training, challenging assignments and a clear opportunity for future promotion. Since Neha had worked as regional sales manager "for ten years" and wanted to become marketing manager, a fair path for further growth can renew her belief that sustained performance will help her progress. Training should develop the competencies needed for greater responsibility, rather than promising the already filled post.

Step 2: Recognise her contribution **Employee recognition programme:** The manager can appreciate Neha's achievements and acknowledge her past contribution in an appropriate meeting or through a letter of appreciation. The case says that she became "heart-broken and her performance declined" after not being selected. Sincere recognition of her valuable work can restore her self-esteem and show that the organisation continues to value her abilities and service.

Step 3: Involve her in decisions **Employee participation:** The manager can invite Neha's suggestions and involve her in decisions concerning regional sales plans and sales problems. Her long experience can then influence work-related decisions. Participation gives her a sense of importance and belonging,

encourages ownership of the agreed plans and motivates her to use her experience to improve performance.

Step 4: Conclusion Career advancement opportunities, employee recognition and employee participation are three suitable non-financial incentives for motivating Neha and helping her regain her earlier performance.

Quick Tip to Solve: Match an incentive to the employee's unmet need: for a disappointed promotion aspirant, explain growth, recognition and meaningful involvement rather than a cash reward.

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13. 'Efficient functioning of stock exchange creates a conducive climate for active and growing primary market for new issues as well as for an active and healthy secondary market.' In the light of this statement state any three functions of a stock exchange. [3 marks]

Solution:

Concept:

- A stock exchange is an organised market in which existing securities are bought and sold under prescribed rules. It performs important functions for investors as well as businesses raising capital.
- A healthy secondary market supports the primary market: investors are more willing to subscribe to a new issue when they know that its securities can subsequently be traded in an organised market.

Step 1: Explain liquidity and marketability **Providing liquidity and marketability to existing securities:** The stock exchange provides a ready market where investors can sell securities already held and other investors can buy them. An investor can therefore realise cash without waiting for the business itself to repay the investment. This liquidity makes investment in securities attractive and helps create the "conducive climate" for new issues mentioned in the statement.

Step 2: Explain the determination of prices **Pricing of securities:** The interaction of demand and supply on the stock exchange determines the prices of securities. These prices reflect buyers' and sellers' assessments of the companies and provide useful information to market participants. Market quotations help investors judge the value of their investments and guide decisions about buying, selling and investing in new issues.

Step 3: Explain safety of transactions **Safety of transactions:** Transactions on a stock exchange take place within a defined legal and regulatory framework. Its rules and regulations help ensure fair dealing and protect investors' interests. The resulting confidence encourages investors to participate in the securities market and supports an "active and healthy secondary market", as referred to in the question.

Step 4: Conclusion Three functions of a stock exchange are providing liquidity and marketability to existing securities, pricing securities through demand and supply, and ensuring safety of transactions through regulated trading. Together they encourage confidence in both the secondary market and new issues.

Quick Tip to Solve: For a function of a stock exchange, state the textbook heading and explain its benefit: ready resale, price discovery or confidence through regulated transactions.

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14. Your company has setup a food processing unit in Kashmir with a production capacity of 10,000 litres of apple juice per day. The company plans to market the apple juice in tetra pack of 100 mili litres. Design a label for the same. [4 marks]

Solution:

Concept:

- A label identifies the product and its brand and gives the buyer essential information about the contents, quantity, producer and use of the package.
- An effective food-product label combines an attractive identity with clear descriptive information. The quantity printed must describe one retail pack, not the factory's daily production capacity.

Step 1: Select a clear product identity Use the illustrative brand name **Kashmir Orchard** and prominently print **Apple Juice**. The words identify the fruit beverage and connect it with the Kashmir processing unit. Print **Net quantity: 100 mL** because each tetra pack contains this amount. The capacity of 10,000 litres per day describes the factory and is not the quantity being sold to an individual buyer.

Step 2: Design the retail-pack label The following is a model layout for the tetra pack. Bracketed entries are fields to be completed from the actual product and manufacturer's records before sale; they are not invented certification numbers or claims. The front gives the brand, product and quantity, while the information panel provides the details needed to identify the pack and use it properly.

KASHMIR ORCHARD

APPLE JUICE

Tetra pack Net quantity: 100 mL

Ingredients: [actual ingredients]

Nutrition information: [applicable declaration]

Manufactured by: [company name and full address], Kashmir

Food licence No.: [actual number]

Batch No.: [number] Packed on: [date]

Best before: [period/date]

MRP: Rs [price], inclusive of all taxes

Storage/use: [instructions appropriate to this product]

Consumer care: [telephone/e-mail and address]

Model label for a 100 mL apple-juice tetra pack

Step 3: Complete the descriptive and consumer information **Product description:** State the ingredients in their actual order and provide the applicable nutritional information; do not claim that the juice is preservative-free or pure without evidence. **Producer identification:** Give the manufacturer's name and full address in Kashmir, along with the applicable food licence details. **Pack identification:** State batch number, packing date, best-before information and the maximum retail price inclusive of taxes. **Use and contact:** Give the storage and opening instructions appropriate to the product and a

consumer-care contact. These details let a consumer recognise the product, compare packs, check freshness and contact the producer if necessary.

Step 4: Conclusion The model label identifies Kashmir Orchard Apple Juice in a 100 mL tetra pack and provides clearly located fields for the producer, ingredients, dates, batch, price and safe use. Its emphasis is on the contents of the retail pack rather than daily factory output.

Quick Tip to Solve: For a label-design answer, show the label itself and include identity, net quantity, producer details, price and dates; factory capacity is not the pack size.

15. State any four factors which affects the requirements of working capital of a company. [4 marks]

Solution:

Concept:

- Working capital is the investment needed for day-to-day operations, including inventories, receivables and cash. Net working capital is current assets less current liabilities.
- Its requirement depends on how much money is tied up in operations and how long that money takes to return as cash. A longer operating cycle or a larger volume of activity normally increases the funds required.

Step 1: Consider the nature and scale of operations **1. Nature of business:** A trading concern normally needs less working capital than a manufacturing concern because it buys goods ready for sale and does not have to finance raw materials, work-in-progress and a production process. A service concern may need still less inventory. Thus, the kind of operating activities determines how much money remains tied up in current assets.

2. Scale of operations: A company operating on a large scale generally requires more working capital in absolute terms. It needs larger quantities of materials and finished stock, and usually has higher wages, operating expenses and receivables. A smaller operation needs fewer such funds, other conditions remaining the same. This is a comparison of total requirements rather than a claim about working capital per unit.

Step 2: Examine the production and selling arrangements **3. Production cycle:** The longer the interval between acquiring raw materials and completing finished goods, the greater the working capital requirement. Funds are committed to materials, wages and other production costs before the goods can be sold and the cash recovered. A shorter production cycle releases funds sooner and reduces the amount tied up in work-in-progress.

4. Credit allowed to customers: A liberal credit policy, particularly a longer credit period, increases the investment in debtors and therefore raises working capital needs. Sales have occurred but their cash proceeds are unavailable for meeting current expenses until customers pay. Cash sales or a shorter collection period bring money back earlier and reduce this requirement, other factors being equal.

Step 3: Conclusion Any four relevant factors may be stated. The nature of business, scale of operations, length of the production cycle and credit allowed to customers affect how much money a company must keep invested in its day-to-day activities.

Quick Tip to Solve: Explain each working-capital factor through cash being tied up or released: larger activity and longer production or collection periods generally require more funds.

16. Mr. Naresh recently completed his M.B.A. from one of the Indian Institutes of Management in Human Resource Management. He has been appointed as Human Resource Manager in a Truck Manufacturing Company. The company has 1,500 employees and has an expansion plan in hand that may require additional 500 persons for various types of jobs. Mr. Naresh has been given the complete charge of the company's Human Resource Department.

List out the specialized activities that Mr. Naresh is supposed to perform as the Human Resource Manager of the company. [4 marks]

Solution:

Concept:

- Staffing deals with obtaining, developing and retaining suitable people for organisational jobs. Human resource management includes specialised activities supporting this managerial function.
- A Human Resource Manager attends to employees throughout their association with the enterprise, including recruitment, development, compensation, welfare and industrial relations.

Step 1: Connect the case with human resource management Mr. Naresh has "complete charge of the company's Human Resource Department". The company already has 1,500 employees and its expansion may require another 500 persons. His work therefore covers both obtaining suitable additional employees and looking after the development and employment conditions of the existing workforce.

Step 2: List the specialised activities The activities Mr. Naresh is expected to perform include the following:

Recruitment: Search for qualified people and attract them to apply for the various jobs required by the company's expansion.

Job analysis: Gather information about jobs to prepare job descriptions and personal specifications, so that the duties and the qualities required of employees are clear.

Compensation and incentives: Develop appropriate compensation and incentive plans for employees.

Training and development: Train employees and arrange their development so that they can perform their present jobs effectively and take up greater responsibilities.

Labour relations: Maintain effective labour relations and establish arrangements for communication and cooperation with employees.

Grievances and complaints: Handle employee grievances and complaints through suitable procedures.

Social security and welfare: Provide for employees' social security and welfare needs.

Legal matters: Defend the company in lawsuits and avoid legal complications relating to employment.

Step 3: Conclusion As Human Resource Manager, Mr. Naresh must undertake specialised activities relating to recruitment, job analysis, compensation, training, labour relations, grievance handling, employee welfare and employment-related legal matters.

Quick Tip to Solve: For a question about the HR Manager's specialised work, list activities covering entry into employment, development, rewards and employee relations; do not restrict the answer to recruitment alone.

17. It is deciding in advance what to do and how to do ? It is one of the basic managerial functions. It requires that before doing something, the manager must formulate an idea of how to work on a particular task. This function is closely connected with creativity and innovation. It seeks to bridge the gap between where we are and where we want to go and is performed at all levels of management. Inspite of this the function of management referred above has a number of limitations. Explain any two such limitations. [4 marks]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it. It establishes objectives and selects a course of action for achieving them.
- Planning provides direction, but predetermined courses of action and assumptions about the future impose limitations on its usefulness.

Step 1: Identify the function described The function is **planning**. The expressions "deciding in advance what to do and how to do" and "bridge the gap between where we are and where we want to go" identify it. Planning is needed at every level, although the scope of the plans differs. Two limitations of this function are explained below.

Step 2: Explain how planning leads to rigidity **Planning leads to rigidity:** Once a specific plan is prepared, it lays down objectives and the course of action employees are expected to follow. Managers may adhere to these predetermined arrangements even when changed circumstances require a different approach. As a result, employees have less freedom to use their initiative or modify their actions to suit a new situation. A plan intended to give direction can therefore become an obstacle if it is treated as unchangeable. Managers must retain enough flexibility to revise plans when necessary.

Step 3: Explain the difficulty of a dynamic environment **Planning may not work in a dynamic environment:** Business operates in an environment that keeps changing. Changes in economic policy, competitors' actions, technology or social preferences can make the assumptions underlying a plan inaccurate. It is difficult to predict every such change and provide for it in advance. A course of action that was suitable when the plan was made may cease to be suitable later. Thus, planning cannot fully protect a business from unexpected external developments, and a plan based on outdated assumptions may fail to achieve its objectives.

Step 4: Conclusion The function is planning. Two of its limitations are that it can create rigidity and that plans may become ineffective in a dynamic business environment.

Quick Tip to Solve: Keep the two limitations distinct: rigidity concerns unwillingness to change an existing plan, while a dynamic environment concerns external changes that upset the plan's assumptions.

18. An environmental conscious multinational company "AXN Ltd." follows certain well defined business principles that result to minimize the employee turnover. Following are some of the important environmental factors followed by 'AXN Ltd.'

(1) Honour the law of every country in which it operates.

(2) Respect the culture and customs of all nations.

(3) Provide clean and safe products to enhance the quality of life throughout the world.

(4) Develop a culture in the company that enhances individual creativity and team work while honouring mutual trust and respect between management and labour.

From the above :

(i) identify and state any one general principle of management and any one dimension of business environment.

(ii) also identify any two values which the above guiding principles and environmental factors are conveying to the society. [4 marks]

Solution:

Concept:

- Fayol's general principles guide managerial behaviour. Esprit de corps promotes team spirit and unity among employees.
- The legal environment consists of laws, regulations and the legal framework within which business must operate. Values express desirable conduct towards employees, consumers and society.

Step 1: Identify and state the management principle **Esprit de corps:** AXN Ltd. seeks a culture that enhances "team work while honouring mutual trust and respect between management and labour." This indicates Fayol's principle of esprit de corps. Management should promote team spirit, unity and harmony among employees, so that they work as members of one organisation rather than as isolated individuals. A spirit of "we" strengthens cooperation and helps employees contribute towards common objectives. The supportive culture described in the case is consistent with reducing employee turnover.

Step 2: Identify and state a business-environment dimension **Legal environment:** The instruction to "Honour the law of every country in which it operates" points to the legal dimension. It includes legislation, government regulations and judicial decisions that govern business activities. As a multinational enterprise, AXN Ltd. must understand and obey the applicable laws in each country, and frame its policies accordingly. The reference to law, rather than merely to customs, makes the legal dimension the direct identification for this statement.

Step 3: Identify two values conveyed by the case **Respect for cultural diversity:** "Respect the culture and customs of all nations" conveys tolerance and respect for people with different cultural backgrounds. The company should honour local customs instead of disregarding them.

Concern for consumer health and welfare: "Provide clean and safe products to enhance the quality of life" conveys responsibility towards consumers. Product safety protects users and places their well-being alongside the company's commercial objectives. Both values are directly supported by the stated policies.

Step 4: Conclusion One management principle is **esprit de corps**, and one environmental dimension

is the **legal environment**. Two values conveyed are **respect for cultural diversity** and **concern for consumer health and welfare**.

Quick Tip to Solve: Link each identification to a separate case phrase: teamwork suggests esprit de corps, laws indicate the legal environment, and safe products show consumer welfare.

19. Explain how does the understanding of business environment help the management in the following :

(a) tapping useful resources ; and

(b) coping with rapid changes. [4 marks]

Solution:

Concept:

- Business environment comprises external forces that influence an enterprise. Understanding these forces helps managers obtain the resources needed for operations and adapt to change.
- An enterprise is an open system: it draws inputs from its environment, transforms them into outputs and supplies those outputs back to the environment.

Step 1: Explain how understanding helps tap useful resources **Recognise and obtain required inputs:** A business depends on its environment for finance, materials, machines, labour and other inputs. Understanding the environment tells management where these resources are available, their quality, their cost and the conditions on which suppliers will provide them. Managers can therefore select suitable sources and arrange the inputs needed for productive activity.

Meet the expectations of resource providers: The enterprise obtains resources in exchange for what it offers the environment, such as goods and services for customers, wages for employees and returns for investors. Environmental understanding helps it design these offerings to meet the expectations of those groups. Satisfying them improves the firm's ability to attract and retain useful resources; for example, understanding investors' expectations helps it raise finance on suitable terms.

Step 2: Explain how understanding helps cope with rapid changes **Detect changes early:** Modern business faces rapid changes in technology, competition, customer preferences and market conditions. By continuously scanning the environment, management notices these developments and can assess how they affect existing products, methods and policies. It is less likely to be taken by surprise by an emerging threat or a shift in demand.

Develop an appropriate response: Awareness gives managers a basis for revising plans and introducing suitable changes in products, technology and working methods. For example, recognising a change in customers' preferences enables a firm to adapt its product offering rather than continue producing something buyers no longer want. Understanding does not eliminate uncertainty, but it helps the enterprise respond promptly and remain competitive in a changing environment.

Step 3: Conclusion Environmental understanding helps management **tap useful resources** by locating appropriate inputs and meeting the expectations of those who supply them. It helps management **cope with rapid changes** by detecting developments early and adjusting business plans and practices to them.

Quick Tip to Solve: For resources, explain the flow of inputs into the firm and what it offers in return; for change, connect continuous scanning with timely adaptation.

20. 'i-phone India Ltd.' is a manufacturer of advanced category of mobile phones. The company trained its engineers from Japan. It markets its mobile phones domestically as well as internationally. The company had a substantial market share and had a loyal customer following because of quality of its i-phone. From the last financial year the company had been unable to achieve its targets because of competition in the market. The company is planning to revamp its controlling system.

(i) Identify the concepts of management involved in the above para.

(ii) State the steps of the revamped controlling process to be followed by the company to solve this problem.

(iii) Also, state any one value which the company wants to communicate to the society. [5 marks]

Solution:

Concept:

- Staffing includes training and development of employees, so that they can perform their jobs with the required knowledge and skills.
- Controlling means comparing actual performance with planned standards, analysing deviations and taking corrective action to ensure achievement of organisational objectives.
- Planning provides the targets against which control operates. Marketing concerns satisfying customers through the firm's offerings, while concern for quality expresses responsibility towards consumers.

Step 1: Identify the concepts from the case **(i) Staffing:** The words "trained its engineers from Japan" refer to training and development, an important element of staffing. The company is improving the competence of the people who make its phones.

Marketing: The company "markets its mobile phones domestically as well as internationally". This describes marketing its products to customers in domestic and overseas markets.

Controlling: The company has been "unable to achieve its targets" and intends to "revamp its controlling system". This is the central management function involved: it must find the gap between planned and actual performance and correct the causes. The reference to targets also shows the link between planning and controlling; plans supply the standards for control.

Step 2: State the first stages of the revamped control process **(ii) Setting performance standards:** Establish clear, measurable standards for the results expected, such as sales, market share, product quality and delivery performance. These must express the company's objectives and provide a definite basis for comparison.

Measurement of actual performance: Collect reliable information about actual results through sales reports, quality checks and other performance records. Measure performance in the same terms as the standards, and at appropriate intervals, so that deviations can be detected in time.

Comparison with standards: Compare actual results with the planned targets to determine the extent and direction of any deviation. For example, a sales shortfall must be measured rather than merely described as poor performance.

Step 3: Analyse deviations and take corrective action **Analysing deviations:** Investigate significant deviations and their causes. Use critical point control to focus on key result areas and management by exception to give priority to deviations beyond acceptable limits. In this case, examine how market competition has affected results, together with the relevant internal performance information; do not

assume that every shortfall has the same cause.

Taking corrective action: Remove the causes of significant deviations through suitable action, such as improving the product or marketing effort, strengthening employee training or correcting operational weaknesses. If a standard has become unrealistic because circumstances have changed, review it on a sound basis. Follow up the action to see whether performance improves; control is a continuous process rather than a one-time comparison.

Step 4: State the value communicated to society **(iii) Commitment to quality and consumer satisfaction:** The case says that customers are loyal "because of quality of its i-phone". By maintaining quality and improving performance, the company communicates respect for consumers and a commitment to providing dependable products. This value is directly supported by the case, rather than by an imagined activity of the company.

Step 5: Conclusion The case illustrates staffing through training, marketing through domestic and international sales, and especially controlling through the attempt to correct failure to achieve targets. The control sequence is setting standards, measuring actual performance, comparing results, analysing deviations and taking corrective action. One value communicated is commitment to quality and consumer satisfaction.

Quick Tip to Solve: Link each identified concept to an exact case phrase. For the control process, remember: standards, measurement, comparison, analysis and correction, in that order.

21. A company has been registered under the Companies Act with an authorized share capital of ₹ 20,000 crores. Its registered office is situated in Delhi and manufacturing unit in a backward district of Rajasthan. Its marketing department is situated in Bhopal. The company is manufacturing Fast Moving Consumer Goods (FMCG).

(i) Suggest with the help of a diagram a suitable organization structure for the company.

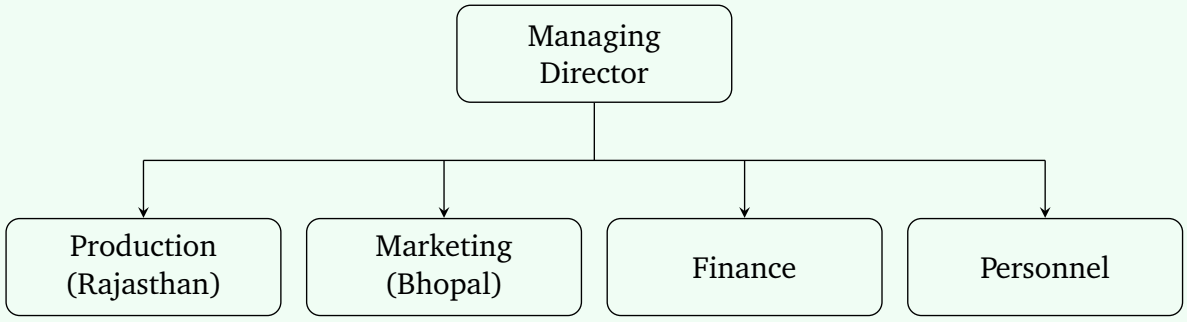
(ii) State any three advantages of this organization structure. [5 marks]

Solution:

Concept:

- A functional structure groups jobs of a similar nature into departments such as production, marketing, finance and personnel, each headed by a functional specialist.
- This structure suits a large organisation requiring a high degree of functional specialisation. The grouping is based on the work performed, even when departments operate at different locations.

Step 1: Identify the suitable structure and draw its organisation chart The company should adopt a **functional organisation structure**. The case separately identifies its 'manufacturing unit' in Rajasthan and its 'marketing department' in Bhopal. These are different business functions serving the same company. Its large scale also justifies specialised departmental heads. The different office locations do not, by themselves, require independent product divisions: the case does not identify separate product lines to be managed as divisions. The following chart shows a suitable functional grouping under the Managing Director. Production and marketing carry the locations explicitly given in the case; finance and personnel represent the other main supporting functions.



Functional organisation structure for the FMCG company

Step 2: State three advantages of the functional structure

- **Occupational specialisation:** Employees repeatedly perform similar tasks within their own department and receive guidance from a specialist head. This develops expertise and improves the efficiency and quality of production, marketing and other functional work.
- **Better coordination within each function:** All activities of a similar nature are supervised by one departmental head. For example, production-related activities can be coordinated within the manufacturing department, with clear responsibility for their performance. Functional control and supervision therefore become easier.
- **Lower operating costs:** Similar activities are brought together, which avoids unnecessary duplication of the same work and permits more economical use of personnel and equipment. The company can use each department's resources for its common functional requirements.

Step 3: Conclusion A functional structure, with production, marketing, finance and personnel departments under the Managing Director, is suitable. Its advantages include occupational specialisation, coordination within each function and reduced operating costs through avoiding duplication.

Quick Tip to Solve: Look at the basis of grouping: production and marketing indicate functions; independently managed product lines indicate divisions. Different locations alone do not establish a divisional structure.

22. Explain any five points of importance of directing function of management. [5 marks]

Solution:

Concept:

- Directing is the managerial function of instructing, guiding, inspiring and leading employees to achieve organisational objectives. It brings the plans and organisational arrangements into action.
- Its importance lies in initiating action, integrating individual efforts, developing employees, introducing change and maintaining balance in the organisation.

Step 1: Explain how directing activates and coordinates work **1. Initiates action:** Planning decides what is to be done, organising assigns duties and staffing provides people. Directing gets employees to perform those duties through instructions, guidance and supervision. Thus, it converts the other managerial preparations into actual work towards the planned objectives.

2. Integrates employees' efforts: Individual employees and departments perform different tasks.

Through guidance and leadership, a manager ensures that each person's efforts contribute to common organisational goals. Directing brings these separate activities together and reduces conflict between individual and organisational interests.

Step 2: Explain how directing develops people and sustains the organisation **3. Helps employees realise their potential:** Motivation and effective leadership encourage employees to use their abilities fully. A manager can identify a person's strengths, guide the person and provide encouragement so that unused abilities develop into improved performance.

4. Facilitates introduction of changes: Employees may resist changes in work methods because they fear uncertainty or loss of benefits. Through communication, guidance and motivation, directing explains the need for change and builds willingness to accept it. This helps the organisation implement necessary changes smoothly.

5. Brings stability and balance: Effective leadership, communication and motivation foster cooperation and commitment. Managers reconcile employees' interests with organisational requirements and maintain harmonious working relationships. This helps the organisation remain stable while adjusting to changing conditions.

Step 3: Conclusion Directing initiates action, integrates efforts, develops employee potential, facilitates change and brings stability and balance. These five contributions explain why it is essential for achieving organisational objectives through people.

Quick Tip to Solve: Remember the five effects as action, integration, potential, change and stability; explain how each improves organisational performance.

23. Aman, Ahmad and Ally are partners in a firm engaged in the distribution of dairy products in Maharashtra state. Aman is a holder of Senior Secondary School Certificate from Central Board of Secondary Education with Business Studies as one of his elective subjects. Ahmad had done his post graduation in History and Ally in dairy farming. One day their was a serious discussion between Ahmad and Ally regarding the nature of management, Ahmad argued that management was a profession. Where as Ally argued against it saying that the legal and medical profession are the only professions because they fulfill all the conditions of profession.

Aman on the basis of his knowledge of business studies explained the nature of management as a profession to Ahmad and Ally.

Explain, how Aman would have satisfied both Ahmad and Ally ? [6 marks]

Solution:

Concept:

- A profession is an occupation based on a specialised body of knowledge, with restricted entry, a professional association, an ethical code and a service motive.
- Management has some features of a profession, but does not fully satisfy all of them. Aman should compare each feature with management rather than accept either partner's absolute claim.

Step 1: Establish the specialised knowledge underlying management **1. Well-defined body of knowledge:** A profession rests on systematic knowledge acquired through instruction. Management

has an organised body of principles, concepts and techniques taught in colleges and management institutes. This feature supports Ahmad's view that management has a professional character. Aman's study of Business Studies itself enables him to explain these concepts, as the case states that he acts "on the basis of his knowledge of business studies".

Step 2: Compare entry and professional regulation **2. Restricted entry:** Legal and medical professions require prescribed qualifications and registration. Entry into management is not restricted by a universally compulsory management qualification. A person may manage a business without an MBA or similar degree. In the case, Ahmad studied History and Ally dairy farming; their different qualifications are consistent with management having no compulsory management degree for entry.

3. Professional association: Management associations, such as the All India Management Association, promote professional standards and practices. However, membership is not compulsory for practising as a manager. This differs from the compulsory professional requirements associated with established professions such as medicine and law.

Step 3: Compare ethical obligations and service objectives **4. Ethical code of conduct:** Management associations prescribe ethical codes to guide members' behaviour. However, these codes are not universally binding on every manager through compulsory membership. Therefore, management does not possess the same universally enforced professional regulation as fully established professions.

5. Service motive: A profession primarily serves clients and society. Business management seeks profit, but effective management also serves customers and other stakeholders by supplying quality goods at reasonable prices and meeting social responsibilities. Thus, management increasingly has a service orientation, although a service motive is not an obligatory condition for every person who enters management.

Step 4: Conclusion Aman would explain that Ahmad is right in recognising management's specialised knowledge and growing professional features. Ally is right that management does not yet fulfil all the conditions of a full-fledged profession, particularly restricted entry and compulsory regulation. However, the statement that law and medicine are the only professions is too narrow; they are examples of established professions. Management is moving towards professionalisation, but cannot be called a full-fledged profession at present.

Quick Tip to Solve: Test management against all five professional features, then conclude that it is developing as a profession but does not yet meet every condition fully.

24. The choice of an appropriate channel of distribution depends upon a number of factors. Explain any four such factors. [6 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods pass from the producer to the final consumer. It may be direct or may include intermediaries such as wholesalers and retailers.
- The channel should make the product available to the target customers conveniently and economically. Its length depends on the product, the company's resources, the market and the competitive

situation.

Step 1: Explain product-related factors **Product-related factors:** The nature of the goods affects the number of intermediaries required. Perishable products, such as fresh fruit or milk, need a short channel so that delays do not spoil them. Technical or complex industrial products also generally require a short channel because buyers need demonstrations, installation and after-sales service from trained personnel. Standardised, non-perishable consumer goods can pass through a longer channel because wholesalers and retailers can stock and sell them without such specialised assistance. A high unit value generally favours direct selling, whereas low-priced everyday goods need economical mass distribution.

Step 2: Explain company characteristics **Company characteristics:** A company's financial strength and the degree of control it wants over distribution influence its choice. A financially strong company can maintain its own sales force, warehouses and retail outlets and can therefore use a short or direct channel. A company with limited funds may rely on intermediaries, who perform these activities using their own resources. If the company wants close control over prices, customer service and the manner in which its goods are sold, it will prefer fewer intermediaries. Thus, resources and the desired control must be considered together.

Step 3: Explain market-related factors **Market-related factors:** The number of buyers, their geographical concentration, the size of orders and their buying habits determine the suitable channel. When buyers are few, geographically concentrated and purchase in large quantities, direct selling is feasible and economical. When consumers are numerous, widely scattered and buy small quantities frequently, a longer channel using wholesalers and retailers provides the necessary reach and convenience. For example, supplying a few industrial customers differs from supplying small household purchases throughout the country.

Step 4: Explain competitive factors **Competitive factors:** The channels used by competing firms must also be examined. A company may use the same type of channel as its competitors so that its product is available wherever customers expect to find competing brands. Alternatively, it may deliberately choose a different channel to create an advantage, such as closer personal service or direct access to customers. The decision should follow the firm's marketing objectives and customer needs rather than copying a competitor automatically.

Step 5: Conclusion Four factors influencing the choice of a distribution channel are product-related factors, company characteristics, market-related factors and competitive factors. Together, they determine the channel's appropriate length, reach, cost and degree of control.

Quick Tip to Solve: Organise this answer as product, company, market and competition; for each factor, explain when a short channel or a longer channel would be suitable.

25. Distinguish between money market and capital market on the basis of :

(a) Investment outlay ;

(b) Duration

(c) Liquidity and

(d) Instruments [6 marks]

Solution:

Concept:

- The money market deals in short-term funds and monetary assets with a maturity of up to one year. The capital market provides medium- and long-term finance through instruments such as shares and debentures.
- The distinction concerns the amount normally needed for investment, the period for which funds are raised, the ease of converting investments into cash and the instruments traded. Liquidity should be distinguished from the duration of an instrument.

Step 1: Compare the two markets on the stated bases The differences are set out below. Each row compares the same basis in the two markets.

Basis	Money market	Capital market
(a) Investment outlay	Investment normally requires a large sum because instruments are issued and traded in large denominations. It is mainly suited to institutional and other large investors.	A relatively small investment is possible because securities such as shares are available in smaller units. Individual investors as well as institutions can participate.
(b) Duration	It deals in short-term funds and securities with maturities of up to one year.	It deals in medium- and long-term funds, generally for periods exceeding one year. Equity shares do not have a fixed maturity.
(c) Liquidity	Instruments are highly liquid and can generally be converted into cash readily. Short maturity and arrangements for discounting or dealing support this liquidity.	Securities are relatively less liquid. Listed securities can be sold on stock exchanges, but the ability to sell depends on market demand and the price available.
(d) Instruments	Treasury bills, commercial paper, call money, certificates of deposit and commercial bills are important instruments.	Equity shares, preference shares, debentures, bonds and other long-term securities are important instruments.

Step 2: Interpret the comparison correctly The money market meets temporary funding needs, such as a business's short-term working-capital requirement, while the capital market supplies finance for longer-term investment and expansion. A capital-market security does not become a money-market instrument merely because its present holder intends to sell it soon: the nature and original funding period of the instrument matter. Similarly, the existence of a stock exchange makes many capital-market securities marketable, but it does not make all of them as liquid as money-market assets. The investment-outlay comparison describes the usual denominations and accessibility of the two markets; it does not mean that institutions cannot invest in the capital market.

Step 3: Conclusion The money market generally involves a large investment outlay, short durations

of up to one year, high liquidity and instruments such as Treasury bills and commercial paper. The capital market permits smaller individual investments, provides medium- and long-term funds, is relatively less liquid and deals in shares, debentures and bonds.

Quick Tip to Solve: Draw a Basis–Money market–Capital market table and keep the order asked: outlay, duration, liquidity and instruments. Mention the one-year boundary explicitly.