CBSE Class 12 Business Studies Question Paper 2015 with Solution PDF-Set 66/3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 80**

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. Himanshu purchased a new car from 'Galaxy Motors' for ₹ 25 lakhs. He was offered free insurance for the first year and three free servicing to be availed after the car had covered 5,000 km, 10,000 km and 15,000 km respectively. When Himanshu took the car for the first free servicing, he was told that the car was not new and first service had already been availed on this car. He felt cheated and filed a complaint in the State Commission. Being not satisfied with the decision of the State Commission, after two months he decided to file an appeal against it.

Can Himanshu appeal against the decision of the State Commission ? Give reason in support of your answer. [1 mark]

Solution:

Concept:

- Consumer Protection under the Consumer Protection Act, 1986: an aggrieved consumer may appeal against a State Commission order to the National Commission.
- For this paper, the prescribed appeal period is 30 days from the date of the order.

Step 1: Identify the appeal forum The decision challenged is an order of the State Commission. The next appellate body in the consumer redressal machinery is the National Commission.

Step 2: Apply the time limit Himanshu decided to appeal only after two months. This exceeds the prescribed 30-day period. On the facts stated, no sufficient cause explaining the delay is given, so he cannot appeal in the ordinary course after that period. A delayed appeal can be entertained only if sufficient cause for the delay is accepted.

Step 3: Conclusion No, on the stated facts Himanshu cannot appeal after two months, because an appeal to the National Commission should be filed within 30 days of the State Commission order.

Quick Tip to Solve: For an appeal question, identify both the next higher consumer forum and the time limit applicable to the order.

2. How does 'cost of equity' affect the choice of capital structure of a company ? Explain. [1 mark]

Solution:

Concept:

- Financial Management: capital structure is the proportion of debt and equity used to finance a company.
- Cost of equity is the return equity shareholders expect for bearing the risk of their investment.

Step 1: Relate debt to shareholders' risk Using more debt creates fixed interest obligations. Interest must be paid before the residual earnings are available to equity shareholders, so increasing debt raises their financial risk.

Step 2: Explain the financing implication As this risk increases, shareholders expect a higher return and the cost of equity rises. Although debt may initially be cheaper, excessive debt can therefore increase the overall cost of capital. Management should use debt only up to a level at which this increase in equity cost does not outweigh its benefit.

Step 3: Conclusion A higher proportion of debt increases shareholders' financial risk and hence the

cost of equity; the company must consider this rise while choosing its debt-equity mix.

Quick Tip to Solve: When assessing cheap debt, also consider the higher return demanded by equity shareholders as financial risk rises.

3. 'Bharat Express' specialises in Courier Services. Its 'wide range of express package and parcel services' help business firms to make sure that the goods are made available to the customers at the right place and at the right time.

State with reason, whether the working capital requirements of 'Bharat Express' will be high or low. [1 mark]

Solution:

Concept:

- Financial Management: working capital finances day-to-day operations and investment in current assets.
- The nature of business affects working capital: a service enterprise generally needs less inventory than a manufacturing enterprise.

Step 1: Identify the nature of business Bharat Express provides courier services. The words 'specialises in Courier Services' identify it as a service enterprise rather than a manufacturer of goods.

Step 2: Connect the business to current assets It need not maintain large stocks of raw materials, work in progress and finished goods for production. The parcels it carries are customers' goods rather than its own stock for sale. It still needs funds for wages, fuel and other daily expenses, but its inventory-related working capital requirement is relatively low.

Step 3: Conclusion Bharat Express will have relatively low working capital requirements because it is a service organisation and does not need large inventories.

Quick Tip to Solve: Classify the business first: goods carried for customers are not the courier company's own manufacturing inventory.

4. 'Maruti Vega Ltd.' entered into the market with coloured television and have now introduced products like audio systems, air-conditioners washing machines, etc. The company is not only offering the products but also handling complaints and offering after-sales services.

Identify the element of marketing-mix discussed here. [1 mark]

Solution:

Concept:

- Marketing Management: the product element of the marketing mix concerns the goods and services offered to satisfy customer needs.
- Product decisions include the product range and supporting services such as after-sales service and handling complaints.

Step 1: Identify the product decisions The company has expanded from coloured television to 'audio systems, air-conditioners washing machines'. This concerns the range of products offered to customers.

Step 2: Include the supporting services The case also mentions 'handling complaints and offering after-sales services'. These services support the product and form part of the total product offering. They do not describe its price, distribution channels or advertising.

Step 3: Conclusion The element of the marketing mix discussed is Product (the product mix).

Quick Tip to Solve: Treat after-sales service and complaint handling as part of the total product offering when identifying the marketing-mix element.

5. Explain, how management helps in the development of society. [1 mark]

Solution:

Concept:

- Nature and Significance of Management: management helps in the development of society by using organisational resources effectively and responsibly.
- An organisation operates within society and must provide useful goods and services while recognising its responsibilities to different groups.

Step 1: Explain the economic contribution Efficient management supplies good-quality goods and services at reasonable prices. It uses scarce resources carefully and helps create employment opportunities, thereby contributing to economic development.

Step 2: Explain the social contribution Management can adopt new technology, provide fair rewards and improve conditions for employees. By meeting consumer needs and fulfilling social obligations, it improves the welfare and living standards of people rather than considering only the organisation's immediate gains.

Step 3: Conclusion Management develops society through quality products at reasonable prices, employment, better use of resources and fulfilment of social responsibilities.

Quick Tip to Solve: Link society's development to concrete outcomes: useful products, reasonable prices, jobs and improved living standards.

6. 'Himalaya Ltd.', is engaged in manufacturing of washing machines. The target of the organisation is to manufacture 500 washing machines a day. There is an occupational specialisation in the organisation which promotes efficiency of employees. There is no duplication of efforts in such type of organisation structure. Identify the type of organisation structure described above. [1 mark]

Solution:

Concept:

- Organising: a functional structure groups activities according to specialised functions such as production, finance and marketing.
- Functional grouping promotes occupational specialisation and avoids duplicating the same function across separate product divisions.

Step 1: Locate the decisive clue The case explicitly mentions 'occupational specialisation' that promotes employee efficiency. Grouping similar work under specialist functions develops expertise in each area.

Step 2: Confirm the structure The statement that there is no duplication of efforts is also consistent with functional grouping: a common functional department serves the organisation. The company manufactures washing machines, rather than describing several product divisions each maintaining its own functional staff.

Step 3: Conclusion Himalaya Ltd. has a functional organisational structure.

Quick Tip to Solve: Occupational specialisation and avoidance of duplicated functional work are strong clues to a functional structure.

7. Give the meaning of 'Programme' as a type of plan. [1 mark]

Solution:

Concept:

- Planning: a programme is a detailed plan for carrying out a particular project or undertaking.
- It integrates objectives, policies, procedures, rules, tasks and resources into a coordinated course of action.

Step 1: Define the plan A programme sets out the major steps and activities needed to accomplish a specified undertaking. It translates a broad objective into an organised plan of work.

Step 2: State what the programme contains It specifies the objectives, policies, procedures and rules to be followed, the tasks to be performed, the human and physical resources required and the budget associated with the work. These related elements tell the organisation what is to be done and how the project will be carried out.

Step 3: Conclusion A programme is a detailed plan combining objectives, policies, procedures, rules, tasks, resources and budgets for carrying out a specific undertaking.

Quick Tip to Solve: Remember a programme as a complete project plan: it brings the objective, activities, resources and budget together.

8. Define 'co-ordination'. [1 mark]

Solution:

Concept:

- Coordination is the process of integrating the activities of different departments and individuals so that they work towards common organisational objectives.
- It brings unity of action to interdependent efforts; separate activities must fit together rather than pull in different directions.

Step 1: State the definition Coordination is the process by which a manager synchronises the activities of different departments and individuals to ensure unity of action in the pursuit of common organisational goals.

Step 2: Clarify the central idea The emphasis is on integrating individual and group efforts. For example, production and sales activities must be harmonised so that the goods produced correspond to what can be sold. This illustrates why coordination concerns the relationship among activities, rather than merely assigning each activity to someone.

Step 3: Conclusion Coordination means integrating and synchronising individual and group efforts to achieve unity of action towards common organisational objectives.

Quick Tip to Solve: Build the definition around three expressions: integration of efforts, unity of action and common organisational goals.

9. State any three features of 'Informal Organisation'. [3 marks]

Solution:

Concept:

- Informal organisation is the network of social relationships that arises spontaneously among people who interact in a formal organisation.
- Its relationships reflect personal interaction and shared interests rather than the deliberately prescribed official structure.

Step 1: State how it originates **Spontaneous formation:** Informal organisation develops naturally through social interaction among employees. Management does not deliberately create it through an organisation chart or assign membership by an official order. People who work together may become friends and form groups because of common interests or personal affinity.

Step 2: Describe its standards and relationships **Independent standards of behaviour:** The standards of conduct followed by members evolve from group norms. A member is influenced by what the group regards as acceptable, rather than solely by the rules and procedures prescribed by the organisation. These unwritten expectations shape behaviour within the group.

Step 3: Explain its communication pattern **No fixed direction of communication:** Communication flows through social relationships and does not follow the prescribed chain of command. Members may communicate across departments or levels because they know one another. Thus informal communication can move in any direction instead of being confined to officially established reporting

relationships.

Step 4: Conclusion Three features of informal organisation are spontaneous formation, group-based standards of behaviour and communication without a fixed prescribed direction.

Quick Tip to Solve: For informal organisation, connect each feature with social relationships: natural formation, unwritten group norms and communication outside the formal chain.

10. Jaideep recently joined as the Managing Director of 'Tivori Ltd.', an apparel designing company. He observed that the company had a number of experienced fashion designers on its payroll. They regularly offered useful suggestions which were neither appreciated nor rewarded by the company. Instead the company outsourced its services to some renowned fashion designers and paid them a good compensation for their services. Because of this the employees felt disheartened and stopped giving useful suggestions.

(a) Identify the communication barrier discussed above.

(b) State the category of this communication barrier.

(c) Explain any other communication barrier of the same category. [3 marks]

Solution:

Concept:

- Personal barriers to communication arise from personal factors of the sender or receiver, such as incentives, confidence or concern about authority.
- When employees receive no encouragement for communicating useful suggestions, they may stop communicating even though they possess relevant knowledge.

Step 1: Identify the barrier from the case **(a) Lack of proper incentives:** This is the communication barrier in Tivori Ltd. The employees regularly offered useful suggestions, but these were "neither appreciated nor rewarded. Consequently, they felt disheartened and stopped giving suggestions. The absence of recognition or reward discouraged them from communicating information that could benefit the company.

Step 2: State its category **(b) Personal barrier:** Lack of proper incentives belongs to the category of personal barriers to communication. Here the employees have the ability and experience to contribute, but their willingness to communicate falls because their contributions receive no encouragement. The difficulty is therefore motivational, rather than a problem in the language or wording of their messages.

Step 3: Explain another barrier in the same category **(c) Lack of confidence of a superior in subordinates:** If a superior has no confidence in the competence or capability of subordinates, the superior may disregard their advice and suggestions. Employees then find that their ideas are not given due consideration, which obstructs effective communication between levels. This is another personal barrier because the superior's attitude towards the employees restricts the exchange of ideas.

Step 4: Conclusion The barrier is lack of proper incentives, which is a personal barrier. Another personal barrier is a superior's lack of confidence in subordinates and consequent disregard of their advice.

Quick Tip to Solve: When a case links ignored or unrewarded suggestions with employees becoming silent, identify lack of proper incentives and classify it as a personal barrier.

11. 'The Stock Exchange performs many vital functions in today's commercial world.' Explain any three such functions. [3 marks]

Solution:

Concept:

- A stock exchange provides an organised market in which existing securities can be bought and sold under prescribed rules.
- Its functions help investors transfer investments, discover market prices and trade within a regulated framework.

Step 1: Explain the provision of liquidity **Providing liquidity and marketability to existing securities:** A stock exchange offers a continuous market for the purchase and sale of existing securities. An investor who needs money can sell securities, while another investor can buy them. This gives investors an opportunity to convert their investments into cash without requiring the issuing company to return its capital.

Step 2: Explain price determination **Pricing of securities:** The forces of demand and supply operating in the stock exchange help determine security prices. These prices provide information about the market valuation of different securities. Investors can use this information while deciding whether to buy or sell, and companies can observe how the market values their securities.

Step 3: Explain safety of transactions **Safety of transactions:** Dealings on a stock exchange take place within an established legal and regulatory framework. The exchange regulates its members and transactions, and securities admitted to trading must satisfy the relevant requirements. Such regulation promotes fair dealings and protects investors against malpractice. It does not guarantee that a security will never fall in price, because investment risk still remains.

Step 4: Conclusion Three vital functions of a stock exchange are providing liquidity and marketability, helping determine security prices, and promoting safety of transactions through regulated trading.

Quick Tip to Solve: Remember liquidity, pricing and safety; explain each by describing what the exchange does and how that action helps investors.

12. 'A.S. Ltd.' is a large company engaged in assembly of air-conditioners. Recently the company had conducted the 'Time' and 'Motion' study and concluded that on an average a worker can assemble ten air-conditioners in a day. The target volume of the company in a day is assembling of 1,000 units of air-conditioners. The company is providing attractive allowances to reduce labour turnover and absenteeism. All the workers are happy. Even then the assembly of air-conditioners per day is 800 units only. To find out the reason the company compared actual performance of each worker and observed through C.C.T.V. that some of the workers were busy in gossiping.

(a) Identify the function of management discussed above.

(b) State those steps in the process of the function identified which are discussed in the above paragraph. [3 marks]

Solution:

Concept:

- Controlling compares actual performance with predetermined standards, identifies deviations and their causes, and enables corrective action so that organisational objectives are achieved.
- Standards provide the benchmark for appraisal. Measuring performance, comparing it with standards and analysing deviations show where and why performance falls short.

Step 1: Identify the management function (a) The function is **controlling**. A.S. Ltd. checks the output achieved against its target and investigates the reason for the shortfall. The time and motion studies establish a benchmark; the subsequent comparison and investigation identify the controlling function discussed in the case.

Step 2: State the steps illustrated in the case (b) **Setting performance standards:** The study concludes that a worker can assemble "ten air-conditioners in a day", and the company sets a daily target of "1,000 units". These are the standards against which performance is to be assessed.

Measurement of actual performance: The company finds that the actual daily assembly is "800 units only". Observation through C.C.T.V. also provides information about workers' actual performance.

Comparison of actual performance with standards: The output of 800 units is compared with the target of 1,000 units, revealing a shortfall of 200 units. The company also "compared actual performance of each worker" against the expected performance.

Analysing deviations: To find the cause of the shortfall, the company investigates and observes that "some of the workers were busy in gossiping". This identifies a reason for the deviation. The paragraph does not describe a subsequent corrective measure to stop this behaviour.

Step 3: Conclusion The function is controlling. The steps discussed are setting standards, measuring actual performance, comparing actual performance with standards and analysing deviations. Taking corrective action against the identified cause has not yet been described.

Quick Tip to Solve: Link each controlling step to evidence: target means standard, output means measurement, shortfall means comparison, and finding the cause means deviation analysis.

13. How do the 'Company-related factors' affect the choice of channels of distribution ? Explain.

[3 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods move from the producer to the consumer. It may involve direct selling or one or more intermediaries such as wholesalers and retailers.
- The main company-related considerations are the company's financial strength and the degree of control it wishes to exercise over distribution. These influence whether it can and should perform distribution functions itself.

Step 1: Explain the effect of financial strength **Financial strength:** Direct distribution or a shorter channel requires the company to invest its own funds in sales personnel, outlets, warehousing, transport and other distribution arrangements. A financially strong company can afford this expenditure and can therefore choose direct selling or a shorter channel when appropriate. A company with limited financial resources generally depends more on intermediaries, who perform these functions through their established network. Thus, a longer channel can reduce the producer's need to finance its own extensive distribution system.

Step 2: Explain the effect of the desired degree of control **Degree of control:** A company wanting close control over how its goods are sold, their presentation, selling terms and customer service generally prefers direct selling or a shorter channel. Fewer independent intermediaries make it easier to supervise distribution and maintain the intended marketing policy. If the company is prepared to surrender some control in return for the reach and services of intermediaries, it can use a longer channel. Independent wholesalers and retailers make some of their own selling decisions, so the producer's direct control over the process is lower.

Step 3: Conclusion Financial strength determines the company's ability to finance its own distribution arrangements, while the desired degree of control determines how closely it wants to manage selling activities. Strong finances and a desire for close control generally favour direct or shorter channels; limited finances or willingness to delegate distribution favour greater use of intermediaries.

Quick Tip to Solve: For company-related factors, organise the answer around two questions: Can the firm finance its own distribution, and how much control does it want to retain?

14. State any four points which highlight the importance of principles of management. [4 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decision-making and behaviour. They summarise experience and observation rather than prescribe a rigid answer for every situation.
- Their importance lies in helping managers understand work situations, use resources wisely and take decisions on a reasoned basis. A principle must be applied with due regard to the circumstances of the organisation.

Step 1: Explain their contribution to understanding and resource use

- **Providing managers with useful insights into reality:** Principles improve managers' knowledge and understanding of actual managerial situations. Experience embodied in principles helps a manager anticipate the result of a decision and avoid repeating earlier mistakes. Managers learn from accumulated experience instead of relying entirely on trial and error.
- **Optimum utilisation of resources and effective administration:** Principles guide the economical use of human and material resources. They help reduce waste and establish appropriate working relationships, responsibilities and authority. Effective administration follows when managers organise activities and direct effort towards common objectives using these guidelines.

Step 2: Explain their contribution to decisions and adaptation

- **Scientific decisions:** Management principles encourage logical, balanced decisions based on facts and an objective assessment of a situation. They provide a basis for judging alternatives, reducing dependence on personal prejudice or guesswork. Managers still exercise judgement because a general guideline must be adapted to the particular problem.
- **Meeting changing environmental requirements:** Principles are flexible guidelines which managers can modify in their application as business conditions change. They help managers respond to changes in technology, competition and people's expectations. Their flexibility allows the organisation to retain sound managerial reasoning while adjusting its practices to new requirements.

Step 3: Conclusion Four points highlighting the importance of management principles are useful insights into reality, optimum utilisation of resources and effective administration, scientific decisions, and meeting changing environmental requirements.

Quick Tip to Solve: Use the NCERT heading for each importance point, then explain the managerial benefit it produces; do not merely list the names of individual principles.

15. Explain any two points of importance of 'consumer protection' from the point of view of business and any two points from the point of view of consumers. [4 marks]

Solution:

Concept:

- Consumer protection means safeguarding consumers against unfair trade practices and providing information, organisation and redressal so that their rights can be exercised effectively.
- Consumer protection is important to business because satisfied customers support its long-term success and because business has social responsibilities. Consumers need protection because ignorance and exploitation can prevent them from securing fair treatment.

Step 1: Explain two points from the business point of view

- **Long-term interest of business:** A business serves its own long-term interest by satisfying customers and protecting their interests. Satisfied customers are likely to buy again and recommend the firm's products to others. Fair dealing builds goodwill and supports survival and growth; exploiting customers may produce an immediate gain but damages this continuing relationship.
- **Social responsibility:** Business has responsibilities towards the different groups affected by its

operations, including consumers. It should supply safe products of the promised quality, give accurate information and deal fairly with complaints. Protecting consumers is therefore part of the firm's obligation to society rather than merely a response to the threat of punishment.

Step 2: Explain two points from the consumers' point of view

- **Consumer ignorance:** Many consumers do not know their rights or the remedies available when those rights are violated. They may be unaware of the importance of information on labels, proof of purchase and the procedure for seeking redressal. Consumer protection educates them about their rights and available remedies so that they can make informed choices and seek relief.
- **Widespread exploitation of consumers:** Consumers may face adulteration, defective or unsafe goods, false weights, misleading advertisements and other unfair practices. An individual buyer often cannot effectively prevent these practices alone. Consumer protection provides safeguards and mechanisms for complaints and redressal, helping buyers secure fair treatment and relief against exploitation.

Step 3: Conclusion From the business viewpoint, consumer protection serves the long-term interest of business and fulfils social responsibility. From the consumers' viewpoint, it is needed because of consumer ignorance and widespread exploitation through unfair trade practices.

Quick Tip to Solve: Divide the answer explicitly into business and consumer viewpoints, giving two explained points under each; do not repeat the same benefit for both groups.

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16. 'Mission Coach Ltd.' is a large and creditworthy company manufacturing coaches for Indian Railways. It now wants to export these coaches to other countries and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost, the company decides to tap the money market.

(a) Name and explain the money-market instrument the company can use for the above purpose.

(b) What is the duration for which the company can get funds through this instrument ?

(c) State any other purpose for which this instrument can be used. [4 marks]

Solution:

Concept:

- Commercial paper is a short-term, unsecured and negotiable promissory note issued by large, creditworthy companies to raise money-market finance.
- A company may use commercial paper for bridge financing: meeting immediate expenses, such as flotation costs, while awaiting funds from a long-term securities issue.

Step 1: Identify the instrument and explain its use **(a) Commercial paper:** Mission Coach Ltd. can issue commercial paper. The clues are that it is a "large and creditworthy company" and needs funds to meet the "expenses of floatation cost" before its equity issue provides the required long-term funds. Commercial paper represents the issuer's promise to repay a specified sum on maturity. It is unsecured, so the company's creditworthiness is important; it is also negotiable and is normally issued at a discount and redeemed at face value.

This is **bridge financing**. The commercial paper bridges the temporary funding gap associated with raising long-term capital. It finances the immediate flotation expenses rather than replacing equity shares as the permanent source for purchasing the hi-tech machines.

Step 2: State the maturity period **(b) Duration:** Commercial paper can provide funds for a period ranging from **15 days to one year**. It therefore belongs to the money market, which deals in short-term funds, even though the equity issue itself is intended to finance a long-term investment.

Step 3: Give another purpose of commercial paper **(c) Working-capital finance:** The company can also use commercial paper to meet its short-term working-capital requirements, for example, to purchase materials or pay operating expenses while awaiting receipts from customers. Such a temporary requirement suits the short maturity of the instrument.

Step 4: Conclusion The appropriate instrument is **commercial paper**, used here for bridge financing of flotation costs. Its maturity ranges from **15 days to one year**; another use is financing short-term working-capital requirements.

Quick Tip to Solve: Link "creditworthy company" and "flotation expenses" to commercial paper and bridge finance; keep the short-term instrument distinct from the long-term equity issue.

17. Beni, after completing her MBA, took up a job with a multinational company named 'Fortio'. The company was paying good salary and perks to its employees. The wages were within the paying capacity of the company that provided the employees a reasonable standard of living. The company also had a good work-culture and the behaviour of superiors was very good towards their subordinates. Beni was very happy in this organisation, but due to long working hours she did not have time to cook her meal. She had to depend upon outside food, which was deteriorating her health.

She observed that this problem was faced by many of her colleagues, not only in her company but also in many other companies. This was because of increase in the number of working women and non-availability of hygienic home-cooked food. She identified this as a great opportunity and decided to give up her job to supply packaged home-cooked food to office goers at a reasonable price. At the end of the day she was also distributing the left-over food in the nearby night-shelters.

(a) State the dimension of business environment being discussed above.

(b) State the principle of management being followed by 'Fortio'.

(c) Identify any two values being communicated by the company to the society in the above case.

[4 marks]

Solution:

Concept:

- The social environment includes social trends, lifestyles, customs and the changing role of women. Changes in these factors can create business opportunities.
- Fayol's principle of remuneration of employees requires fair and reasonable remuneration that gives employees a reasonable standard of living and remains within the organisation's paying capacity.

- A business communicates values through its conduct towards employees, customers and disadvantaged members of society, as well as through its products.

Step 1: Identify the dimension of the environment **(a) Social environment:** The case mentions an "increase in the number of working women" and the "non-availability of hygienic home-cooked food". The changing role of women and the resulting changes in the eating habits and lifestyles of office goers are social factors. Beni recognises the unmet need arising from this social change and converts it into an opportunity to supply packaged home-cooked food. Her MBA qualification or the multinational status of her employer does not determine the dimension being tested.

Step 2: Apply the management principle to Fortio **(b) Remuneration of employees:** Fortio follows Fayol's principle of remuneration. The company pays a "good salary and perks", and the wages are "within the paying capacity of the company" while providing employees "a reasonable standard of living". These details show fairness to both the employees and the employer: remuneration should satisfy employees reasonably without exceeding what the business can afford. The favourable conduct of superiors supports a good workplace, but the explicit wage and paying-capacity clues identify the remuneration principle.

Step 3: Identify two values supported by the case **(c) Concern for health and consumer welfare:** Beni's enterprise supplies hygienic home-cooked food "at a reasonable price". It responds to the deterioration in office goers' health caused by dependence on outside food and makes a suitable meal available to them.

Compassion and social responsibility: She distributes the "left-over food in the nearby night-shelters". This shows concern for people in need and responsible use of food rather than wasting food that can benefit others. These two values are grounded in the activities of the food enterprise described in the case.

Step 4: Conclusion The dimension is the **social environment**; Fortio follows the principle of **remuneration of employees**. The food enterprise communicates **concern for health and consumer welfare** and **compassion and social responsibility**.

Quick Tip to Solve: Match each case clue separately: working women's changing lifestyle identifies the environment, fair affordable wages identify the principle, and food supply and donation identify the values.

18. The workers of 'Gargya Ltd.' are unable to work on new computerised machines imported by the company to fulfil the increased demand. Therefore, the workers are seeking extra guidance from the supervisor and the supervisor is overburdened with the frequent calls of workers.

Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently.

Also state any three benefits that the workers will derive by the decision of the supervisor. [4 marks]

Solution:

Concept:

- Training is the systematic process of increasing an employee's knowledge and skills for doing a particular job effectively. It remedies a gap between the skills a job requires and those the worker currently possesses.
- Training benefits employees through improved career prospects, better performance and earnings, greater safety, and increased confidence and satisfaction.

Step 1: Identify the action the supervisor should take The supervisor should arrange **training** for the workers in operating the new computerised machines. The statement that workers are "unable to work on new computerised machines" identifies a job-specific skill gap. Training through instruction, demonstration and supervised practice would teach them the correct operating procedures. They could then perform routine operations independently, reducing their frequent calls for guidance and relieving the supervisor's burden.

Step 2: State three benefits to the workers

- **Better career prospects:** Acquiring new skills and knowledge makes workers more capable and improves their prospects of advancement. Learning computerised operations equips them for more demanding work and future opportunities.
- **Improved performance and earnings:** Training enables workers to perform their work more efficiently and accurately. Such improved performance helps them earn more and makes their contribution more valuable.
- **Greater safety:** Workers learn the proper methods of using machines, including operating precautions. Knowing how to handle the equipment correctly makes them less prone to accidents and protects them from avoidable injury.

Step 3: Conclusion The supervisor should provide job-specific training in operating the computerised machines. Besides enabling independent work, it gives workers better career prospects, improved performance and earnings, and greater safety.

Quick Tip to Solve: When a case describes workers lacking the skills to use new equipment, identify training; if asked for benefits to workers, focus on their career, earnings and safety rather than the firm's costs.

19. Neeraj Gupta started a company 'YoYo Ltd.' with ten employees, to assemble economical computers for the Indian rural market. The company did very well in its initial years. As the product was good and marketed well, the demand went up. To increase production the company decided to recruit additional employees. Neeraj Gupta, who was earlier taking all decisions for the company, had to selectively disperse the authority. He believed that people are competent, capable and resourceful and can assume responsibility for effective implementation of their decisions. This paid off and the company was not only able to increase its production but also expanded its product range with different features.

(a) Identify the concept used by Neeraj Gupta through which he was able to steer his company to greater heights.

(b) Also explain any three points of importance of this concept. [4 marks]

Solution:

Concept:

- Decentralisation means the systematic dispersal of decision-making authority throughout the organisation, extending delegation to lower levels while retaining overall accountability at the top.
- Decentralisation reflects confidence in subordinates' competence. It develops initiative, speeds up decisions and provides managerial capacity for organisational growth.

Step 1: Identify the concept from the case **(a) The concept is decentralisation.** Neeraj, who earlier took all decisions himself, "had to selectively disperse the authority". His belief that people are "competent, capable and resourceful" and can assume responsibility supports giving lower levels the authority to decide and implement decisions. This is the wider organisational dispersal of authority associated with decentralisation.

Step 2: Explain three points of importance **(b) Any three points of importance are:**

- **Develops initiative among subordinates:** Giving employees authority to take decisions encourages self-reliance and confidence. They learn to exercise judgement, accept responsibility and find solutions instead of referring every problem to Neeraj.
- **Facilitates quick decision-making:** Decisions can be taken at the level closest to the action. Because fewer decisions must travel up the hierarchy for approval, delays are reduced and managers can respond promptly to production needs and changing demand.
- **Facilitates growth:** Decentralisation gives lower-level managers autonomy and opportunities to develop their capabilities. The resulting managerial talent can take charge of new activities, helping the business expand without depending on one person for every decision. This supports YoYo Ltd.'s increased production and wider product range.

Step 3: Conclusion Neeraj used decentralisation by dispersing decision-making authority. It develops employees' initiative, enables faster decisions and creates the managerial capacity needed for growth and expansion.

Quick Tip to Solve: Look for a deliberate spread of decision-making authority across levels to identify decentralisation; then link its importance to initiative, speed and the capacity to expand.

20. Give the meaning of 'divisional structure' of organising. State its any four advantages. [5 marks]

Solution:

Concept:

- Divisional structure is an organisational structure in which activities are grouped into separate divisions on the basis of products or product lines. Each division has the functions and resources needed to carry on its own operations.
- Each division is headed by a divisional manager who is responsible for its performance. The structure suits large enterprises producing several different products, because product responsibility is clearly located.

Step 1: Explain the meaning of divisional structure A divisional structure groups all activities relating to a particular product under one division. For example, a diversified enterprise may have separate divisions for cosmetics, garments and footwear. Within each division, activities such as production, purchasing, marketing and finance are carried out for that product. The divisions operate under the overall policies and supervision of top management.

Step 2: State four advantages

- **Development of managerial skills:** A divisional head handles several functions relating to the product. This gives the manager varied experience in production, marketing and finance, develops general management abilities and prepares the manager for higher positions.
- **Accountability for results:** Revenue and costs can be identified for each product division. Its profit or loss can therefore be measured, and the divisional head can be held accountable for its performance. Poorly performing divisions can be identified and corrective action taken.
- **Flexibility and initiative:** Each division functions as a relatively autonomous unit. Its manager can take decisions concerning the division without referring every operational matter to top management. This encourages initiative and permits quicker responses to changes affecting the product.
- **Expansion and growth:** New products can be accommodated by adding new divisions without seriously disturbing the existing divisions. Each new division can be provided with the staff and facilities it needs, making diversification and expansion easier.

Step 3: Conclusion Divisional structure means grouping activities by product or product line. Its advantages include developing managerial talent, fixing responsibility for results, encouraging flexibility and initiative, and facilitating expansion.

Quick Tip to Solve: Link a product division with its own manager and results; this helps recall accountability, autonomy, managerial development and easy expansion.

21. Anjali had been working with 'Tata Enterprises' for the last ten years. She was famous for her dedication towards the work. When the Manager senior to her retired, all her colleagues thought that now Anjali would be promoted. But to everyone's surprise the vacant post was filled by an outsider 'Miss Monika'. Anjali felt demoralised and her performance started declining. She would absent herself often and could not meet her targets.

Miss Monika was a good leader who would not only instruct her subordinates, but also guide and inspire them. She noticed Anjali's behaviour and felt that her performance could be improved. She started involving Anjali in decision-making issues related to the organisation and made her a part of a high-level joint management committee. Anjali was now punctual to office and her performance started improving.

(a) Identify the function of management being performed by Monika.

(b) Name the element of the above function of management which helped Monika to improve Anjali's behaviour.

(c) State any three features of the element identified in (b) above. [5 marks]

Solution:

Concept:

- Directing is the management function of instructing, guiding, counselling, motivating and leading people to achieve organisational objectives. Motivation is an element of directing that stimulates people to act towards desired goals.
- Employee participation is a non-financial incentive. Involving an employee in decisions and committees can satisfy needs for recognition, status and belonging, thereby increasing willingness to perform.

Step 1: Identify the management function in part (a) The function is **directing**. Monika does not merely assign work: she also guides and inspires her subordinates. The statement that she would "not only instruct her subordinates, but also guide and inspire them" describes directing, which activates employees and helps them contribute effectively towards organisational goals.

Step 2: Identify the element in part (b) The element is **motivation**. Anjali's disappointment after being passed over for promotion reduced her willingness to work. Monika began "involving Anjali in decision-making issues" and made her part of a "high-level joint management committee". This employee participation acted as a non-financial incentive, satisfying her need to feel valued and restoring her willingness to perform. Her improved punctuality and performance show the effect of motivation.

Step 3: State three features for part (c)

- **Motivation is an internal feeling:** The urge to act originates within the individual from needs, desires, aspirations and feelings. A manager uses suitable incentives to stimulate this inner urge; in Anjali's case, participation helped satisfy her need for recognition.
- **Motivation produces goal-directed behaviour:** It directs a person's energy and actions towards a desired goal. A motivated employee is willing to put effort into achieving work targets. Anjali's improved punctuality and performance illustrate the resulting change in behaviour.
- **Motivation is a complex process:** Individuals differ in their needs, expectations and reactions. The same incentive may not motivate every employee, and a person's needs may change over time.

A manager must understand the particular employee and choose suitable incentives, as Monika did by involving Anjali in decisions.

Step 4: Conclusion (a) Monika performs directing. (b) Motivation, through the non-financial incentive of employee participation, improves Anjali's behaviour. (c) Motivation is an internal feeling, produces goal-directed behaviour and is a complex process.

Quick Tip to Solve: Separate the broad function from its element: guiding staff is directing, while restoring willingness to work through participation is motivation.

22. Mohit Gupta is working with 'Yellow Security Services Ltd.' He is also recruiting security guards for the company. The company provide security services in Delhi and Noida at short notice to various companies. The guards are recruited on temporary basis. The guards provided by this company are known for their honesty and punctuality. Mohit Gupta is well known in his village for providing employment to unskilled people.

(a) Name the source of recruitment used by 'Yellow Security Services Ltd.'

(b) State any one disadvantage of this source of recruitment.

(c) Identify the need of 'Security Guards' which is being fulfilled by the company as per Maslow's need hierarchy.

(d) Identify any two values communicated to the society in the above stated case. [5 marks]

Solution:

Concept:

- Staffing: labour contractors are an external source of recruitment. They maintain contact with workers and bring them to an organisation when labour is required, especially for temporary work.
- Directing: Maslow's basic physiological needs include food, clothing and shelter. Employment income helps a worker meet these needs; security needs concern protection and stability of employment.

Step 1: Identify the recruitment source in part (a) **Labour contractors** are the source of recruitment. Mohit has contact with unskilled people in his village and recruits guards who can be supplied "at short notice" and "on temporary basis". These clues match a contractor's network of workers available when the organisation requires labour.

Step 2: State one disadvantage in part (b) **Dependence on the contractor:** Workers recruited through this source may be closely attached to the contractor. If the contractor leaves the organisation, the workers may also leave with him. Consequently, the organisation can face a sudden shortage of labour and disruption of its services. Thus, the same personal network that makes quick recruitment possible can make the organisation dependent on the contractor.

Step 3: Identify the guards' need in part (c) The company fulfils the guards' **basic physiological needs**. By providing employment, it enables them to earn income for food, clothing and shelter. The question concerns the needs of the guards themselves, rather than the protection purchased by the company's clients. Moreover, the guards are recruited temporarily, so the case does not establish permanent job security.

Step 4: Link two values to the case in part (d)

- **Concern for employment and social welfare:** Mohit is known for "providing employment to unskilled people". Giving such people earning opportunities helps them support themselves and their families.
- **Honesty and integrity:** The guards are "known for their honesty". Trustworthy conduct in providing security communicates respect for other people's property and confidence in ethical service.

Step 5: Conclusion (a) The recruitment source is labour contractors. (b) Workers may leave with the contractor, creating a labour shortage. (c) Employment income meets the guards' basic physiological needs. (d) Providing employment and practising honesty communicate social welfare and integrity.

Quick Tip to Solve: For a Maslow case, identify whose need is asked about. A security guard's job title does not itself imply that the guard's security need is being met.

23. Explain the following principles of management :

(a) Subordination of Individual Interest to General Interest.

(b) Development of Each and Every Person to His or Her Greatest Efficiency. [6 marks]

Solution:

Concept:

- Henri Fayol's principle of subordination of individual interest to general interest requires the interests of the organisation as a whole to prevail when they conflict with a person's interests.
- F. W. Taylor's principle of development of each and every person to his or her greatest efficiency and prosperity calls for scientific selection, suitable assignment and training of workers to develop their potential.

Step 1: Explain the priority of organisational interest in part (a) **Meaning:** Every employee and manager has personal interests, while the organisation has common objectives. When the two conflict, the interest of the organisation should take precedence over the interest of any one individual or group. Otherwise, personal advantage can prevent the enterprise from achieving the purpose for which people work together.

Managerial application: Managers should reconcile personal and common interests wherever possible, but must not use their authority to secure private gains at the organisation's expense. They should set an example through fair conduct and decisions. This principle applies to managers as well as subordinates; it does not authorise unfair treatment of employees.

Example: A purchase manager should choose a supplier on the basis of the firm's requirements, quality and reasonable cost. Awarding an unsuitable contract to a relative merely to benefit the relative would put individual interest above general interest and violate the principle.

Step 2: Explain the development of every worker in part (b) **Meaning:** Taylor emphasised that every worker should be developed to the greatest attainable efficiency and prosperity. Management should discover a worker's capabilities and improve them systematically, rather than leave the worker to learn by trial and error.

Scientific selection and placement: Workers should be selected scientifically after considering the abilities required for a particular job. Work should then be assigned to suit each person's physical, mental and intellectual capabilities. Matching the person with the job provides the foundation for efficient performance.

Training and mutual prosperity: Management should provide the training needed to perform the job by the best method and improve skills continuously. Better competence raises efficiency and output, helping the business prosper and enabling workers to earn more. Thus, development benefits both the individual and the organisation instead of treating their prosperity as mutually exclusive.

Step 3: Conclusion Fayol's principle gives priority to the organisation's common interest whenever it conflicts with private interest. Taylor's principle develops every worker through scientific selection, suitable placement and training so that increased efficiency supports the prosperity of both workers and the enterprise.

Quick Tip to Solve: Keep the two thinkers distinct: Fayol explains whose interest takes priority; Taylor explains how scientific selection and training develop every worker's efficiency and prosperity.

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24. Radhika was a student of Business Studies of Class XII. Her father was a farmer who grew different varieties of rice and was well-versed about various aspects of rice cultivation. He was also selected by the government for a pilot-project on rice cultivation. As a project-work in Business Studies she decided to study the feasibility of marketing good quality rice at a reasonable price. Her father suggested her to use internet to gather customers' views and opinions. She found that there was a huge demand for packaged organic rice. She knew that there were no pre-determined specifications in case of rice because of which it would be difficult to achieve uniformity in the output. To differentiate the product from its competitors, she gave it the name of 'Malabari Organic Rice' and classified it into three different varieties namely — Popular, Classic and Supreme, based on the quality. She felt that these names would help her in product differentiation.

Explain the three functions of marketing, with reference to the above paragraph. [6 marks]

Solution:

Concept:

- Marketing begins by identifying consumer needs and continues through decisions that make a suitable product identifiable and available to those consumers.
- The functions illustrated here are gathering and analysing market information, standardisation and grading, and branding. Grading is especially useful for agricultural produce whose quality varies.

Step 1: Explain gathering and analysing market information **Gathering and analysing market information:** This means systematically obtaining and examining information about customers, their needs, tastes, preferences and market opportunities. It helps a marketer decide what to offer and assess the feasibility of the proposed business rather than act on guesswork.

Radhika's father suggested that she should "use internet to gather customers' views and opinions." Her finding that "there was a huge demand for packaged organic rice" shows the result of this information gathering. It indicates a customer need and provides a basis for assessing the market for her rice.

Step 2: Explain standardisation and grading **Standardisation and grading:** Standardisation lays down predetermined specifications for a product, such as quality, size or other attributes, so that output can conform to a consistent standard. Grading classifies products into groups according to their important characteristics or quality. It is particularly necessary where uniform output is difficult to obtain, as with agricultural produce.

The case says that "there were no pre-determined specifications in case of rice" and that achieving uniformity would be difficult. Radhika therefore "classified it into three different varieties namely — Popular, Classic and Supreme, based on the quality." This is grading, the aspect of the standardisation and grading function directly illustrated by her action. Different grades allow buyers to choose the quality suited to their needs.

Step 3: Explain branding **Branding:** Branding gives a product a distinct name, sign, symbol or other identifying feature that distinguishes it from competing products. It helps consumers recognise the seller's offering and makes product differentiation and repeat purchase easier.

To differentiate her rice from competitors, Radhika "gave it the name of 'Malabari Organic Rice'." This product name illustrates branding. The named quality varieties also make the different offerings easier for customers to identify; however, classification by quality is the evidence for grading, while giving the product its identifying name is the evidence for branding.

Step 4: Conclusion The three marketing functions are gathering and analysing market information, standardisation and grading (particularly grading in this case), and branding. They are shown respectively by the internet study of demand, the quality-based rice varieties, and the name Malabari Organic Rice.

Quick Tip to Solve: Link each action to a function: studying customer views means market information, sorting produce by quality means grading, and giving the product a distinct name means branding.

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25. 'Abhishek Ltd.' is manufacturing cotton clothes. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.

It has taken a loan of ₹ 50 lakhs from I.C.I.C.I. Bank and is bound by certain restrictions on the payment of dividend according to the terms of the loan agreement.

The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.

Quoting the lines from the above discussion, identify and explain any four such factors. [6 marks]

Solution:

Concept:

- A dividend decision determines how much of the profits will be distributed to shareholders and how much will be retained in the business.
- Dividend capacity depends on more than current profit: stability of earnings, cash availability,

future investment needs and contractual restrictions can all influence the amount distributed.

Step 1: Identify stability of earnings **Stability of earnings:** The company "has been consistently earning good profits for many years." A company with stable earnings can generally commit itself to a higher and more regular dividend than one whose earnings fluctuate substantially. Predictable earnings make it easier to maintain the payment in later years rather than increase it temporarily and then reduce it. Abhishek Ltd.'s sustained profitability therefore supports a regular dividend policy, subject to the other constraints.

Step 2: Identify the cash flow position **Cash flow position:** "There is availability of enough cash in the company." A dividend involves an actual outflow of cash. Accounting profits alone do not establish the ability to pay a cash dividend, since funds might be tied up in inventories or receivables. A sound cash position makes dividend payment easier without disrupting day-to-day operations. Here, sufficient cash favours payment, although management must still consider the funds needed for future activities.

Step 3: Identify growth opportunities **Growth opportunities:** The company has "good prospects for growth in future." Businesses with attractive growth opportunities need funds for investment and expansion. They may retain a larger part of profits to finance those opportunities internally and consequently distribute a smaller proportion as dividend. Abhishek Ltd. must therefore balance shareholders' current income against the financing requirements of its prospective growth; good present profits need not all be paid out.

Step 4: Identify contractual constraints **Contractual constraints:** The company "is bound by certain restrictions on the payment of dividend according to the terms of the loan agreement." Lenders may place conditions on dividend payments to protect their claims and ensure that sufficient funds remain in the company for repayment and financial stability. Since Abhishek Ltd. has borrowed Rs 50 lakhs from I.C.I.C.I. Bank, it must comply with the stated loan conditions when deciding the dividend. Availability of profits and cash does not permit it to disregard a binding restriction.

Step 5: Conclusion Any four factors were required. The four identified above are stability of earnings, cash flow position, growth opportunities and contractual constraints. Stable earnings and adequate cash favour dividends, while growth funding needs and loan covenants can limit the amount distributed.

Quick Tip to Solve: For a dividend case, separate profit from cash, then look for future investment needs and lender conditions. Quote the sentence that establishes each factor before explaining its effect.