CBSE Class 12 Business Studies Question Paper 2018 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. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly available to the paint manufacturing companies. Bonler Paints Company is also facing this problem and because of this there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods. Identify the factor affecting the working capital requirements of this industry. [1 mark]

Solution:

Concept:

- Availability of raw materials affects how much inventory a manufacturer must keep and hence the funds tied up in working capital.
- When a vital input is scarce or has a long procurement lead time, a larger stock is maintained to avoid interrupting production.

Step 1: Identify the procurement problem The material is 'not readily and regularly available', and there is a 'time lag between placing the order and the actual receipt'. These clues concern obtaining the input, rather than the speed of manufacturing.

Step 2: Relate it to working capital The company must keep sufficient raw-material inventory against irregular supply. More money is therefore blocked in stocks, increasing its working capital requirement even though conversion into finished goods is quick.

Step 3: Conclusion The factor is availability of raw materials, specifically irregular availability and the long lead time in procurement.

Quick Tip to Solve: Separate procurement time from production time: delayed supply points to availability of raw materials.

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2. Saurabh decided to start a chocolates manufacturing business. He set the target of earning 10% profit on sales in the first year. As a good businessman, he was concerned about the future of the business, which was uncertain. He gathered information that the demand for chocolates is increasing day-by-day. He used this information as the base for future planning and shared it with his team. On the basis of the gathered information, he scheduled a meeting in the following week to find innovative ways to achieve the objectives.

List the first two steps, which have been followed by Saurabh that are related to the process of one of the functions of management. [1 mark]

Solution:

Concept:

- Planning begins with setting objectives, which specifies the desired results.
- Developing premises establishes assumptions about the future on which plans are based.

Step 1: Identify the objective Saurabh 'set the target of earning 10% profit on sales in the first year'. This is setting objectives because it states a measurable result and a time period.

Step 2: Identify the premise He gathered information that demand was increasing and 'used this

information as the base for future planning'. This is developing premises: the expected demand becomes an assumption shared with the team for planning.

Step 3: Conclusion The first two steps are setting objectives and developing premises.

Quick Tip to Solve: A target indicates objectives; information used as an assumption about future conditions indicates premises.

3. Give the meaning of 'Method' as a type of plan. [1 mark]

Solution:

Concept:

- A method is a type of plan prescribing the way in which a particular task or activity is to be performed.
- It gives a standard manner of doing the work, suited to the objective and available facilities.

Step 1: State what a method specifies A method provides the prescribed way or manner of performing a task. It guides employees about how a particular activity should be carried out.

Step 2: Distinguish its scope Its focus is the manner of doing one task. A procedure, in comparison, gives the sequence of steps for completing work; a method specifies how a step or activity is performed.

Step 3: Conclusion A method is a prescribed way or manner in which a particular task is to be performed to achieve the desired objective.

Quick Tip to Solve: For a method, focus on how a task is performed; for a procedure, focus on the sequence of steps.

4. Define 'Decentralisation'. [1 mark]

Solution:

Concept:

- Decentralisation means systematic delegation of decision-making authority throughout the organisation.
- Authority is dispersed towards lower levels, while top management retains control over major policies and overall decisions.

Step 1: Identify the distribution of authority Decentralisation distributes decision-making authority down the organisational hierarchy. Managers at lower levels receive discretion to take decisions relating to their own areas of work.

Step 2: State its systematic nature It is a deliberate, organisation-wide extension of delegation, rather than an isolated assignment by one superior. Authority other than that reserved for top management is shared across levels.

Step 3: Conclusion Decentralisation is the systematic delegation of authority throughout the organi-

sation, down to lower levels, except authority reserved for top management.

Quick Tip to Solve: Mention systematic delegation across organisational levels to distinguish decentralisation from one act of delegation.

5. 'Buy one get one free' is printed on the label of the package of a mosquito repellant. State the labelling function being performed by this statement. [1 mark]

Solution:

Concept:

- A label can promote a product by drawing attention to an attractive sales offer.
- Promotion through labelling encourages prospective buyers to choose the product and may stimulate immediate purchase.

Step 1: Identify the message on the label The words 'Buy one get one free' announce a sales incentive. They highlight an additional benefit of buying the mosquito repellant rather than describing its ingredients or directions for use.

Step 2: Name the labelling function By publicising the offer at the point of purchase, the label makes the package more attractive to buyers and encourages sales. It is therefore performing the product-promotion function.

Step 3: Conclusion The function is promoting the product: the label communicates a promotional offer to encourage purchase.

Quick Tip to Solve: An offer or discount on a label indicates promotion; product contents or usage details indicate description.

6. Give the constitution of the District Consumer Disputes Redressal Forum under the Consumer Protection Act, 1986. [1 mark]

Solution:

Concept:

- The Consumer Protection Act, 1986 provides a three-tier machinery for redressal of consumer grievances.
- The District Forum is the district-level body, constituted by a President and two other members appointed by the State Government.

Step 1: State the membership The District Consumer Disputes Redressal Forum consists of a President and two other members. The President and members are appointed by the State Government.

Step 2: State the required representation Of the two other members, at least one must be a woman. Thus the composition includes three persons in total, with the prescribed representation of women among the members.

Step 3: Conclusion The District Forum consists of a President and two other members, one of whom

must be a woman; they are appointed by the State Government.

Quick Tip to Solve: For the District Forum under the 1986 Act, remember President plus two members, including a woman.

7. Why is the understanding of 'Marketing Management Philosophies' important ? [1 mark]

Solution:

Concept:

- Marketing management philosophies describe the alternative orientations that guide a firm's marketing efforts.
- They determine the relative emphasis placed on production, product quality, selling, customer satisfaction and societal welfare.

Step 1: Identify the need for a guiding orientation A firm must decide which interests will guide its marketing activities. Different philosophies give different weight to the organisation, customers and society, so they lead to different decisions.

Step 2: Explain why understanding them matters Understanding these philosophies helps management choose the orientation for its marketing effort and understand the consequences of that choice. For example, a marketing orientation starts with customer needs rather than merely trying to sell what has been produced.

Step 3: Conclusion Understanding marketing management philosophies is important because they guide an organisation's marketing efforts and determine the emphasis it gives to the interests of the organisation, customers and society.

Quick Tip to Solve: Explain the importance as guidance for marketing decisions and the balance of organisation, customer and societal interests.

8. An investor wanted to invest ₹ 20,000 in Treasury Bills for a period of 91 days. When he approached the Reserve Bank of India for this purpose he came to know that it was not possible.
Identify the reason why the investor could not invest in the Treasury Bill. [1 mark]

Solution:

Concept:

- Treasury bills are short-term money-market instruments issued by the Reserve Bank of India on behalf of the Central Government.
- The prescribed minimum investment in a Treasury Bill is Rs 25,000; investments above it are made in multiples of Rs 25,000.

Step 1: Check the proposed amount The investor wishes to invest only Rs 20,000. This is below the minimum amount of Rs 25,000 required for subscribing to Treasury Bills.

Step 2: Separate the amount from the maturity The proposed period of 91 days is a valid Treasury

Bill maturity. Therefore, the period is not the obstacle; the insufficient investment amount prevents the proposed investment.

Step 3: Conclusion The investor could not invest because Rs 20,000 is less than the minimum Treasury Bill investment of Rs 25,000.

Quick Tip to Solve: For a Treasury Bill eligibility question, check both the minimum denomination and the maturity; here only the amount fails.

9. Explain briefly any two points of importance of consumer protection from the point of view of business. [3 marks]

Solution:

Concept:

- Consumer protection means safeguarding consumers against unfair trade practices and ensuring that their legitimate interests are respected.
- For business, consumer protection supports lasting success and reflects its responsibility towards the people who buy and use its products.

Step 1: Explain the long-term interest of business **Long-term interest of business:** A business can prosper over time only when it satisfies consumers and wins their confidence. Fair dealing, reliable quality and effective handling of complaints encourage repeat purchases and favourable word of mouth. Satisfied consumers become loyal customers, and their recommendations attract new buyers. Thus, expenditure and effort on protecting consumers help create a continuing market for the firm rather than merely a single sale.

Step 2: Explain social responsibility **Social responsibility:** Business is a part of society and uses society's resources to carry on its activities. It therefore has responsibilities towards different groups, including consumers. Supplying safe products of the promised quality, charging fair prices and providing truthful information fulfil this obligation. Protecting consumers shows that the business recognises their welfare and does not treat profit as its only responsibility.

Step 3: Conclusion Two points of importance are the long-term interest of business, through consumer satisfaction and loyalty, and its social responsibility towards consumers.

Quick Tip to Solve: When the question asks for the business viewpoint, explain how consumer protection supports the firm or fulfils its responsibility; do not merely list consumer rights.

10. The Return on Investment (ROI) of a company ranges between 10 – 12% for the past three years. To finance its future fixed capital needs, it has the following options for borrowing debt :

Option 'A' : Rate of interest 9%

Option 'B' : Rate of interest 13%

Which source of debt, 'Option A' or 'Option B', is better ? Give reason in support of your answer. Also state the concept being used in taking the decision. [3 marks]

Solution:

Concept:

- Trading on equity means using fixed-interest debt in the capital structure to increase the return available to equity shareholders.
- Debt is favourable for equity returns when the return earned on the invested funds exceeds the interest cost; a higher interest cost than ROI has the opposite effect.

Step 1: Compare Option A with the return **Option A:** The interest rate is 9%, whereas the company's ROI has ranged from 10% to 12%. Even at the lower end of that range, the return exceeds the cost of this debt. After meeting interest, the surplus return on borrowed funds can increase the earnings available to equity shareholders. Hence Option A offers favourable financial leverage on the given information.

Step 2: Compare Option B and identify the concept **Option B:** Interest at 13% exceeds even the highest stated ROI of 12%. Borrowing at this rate would cost more than the company earns on the invested funds and would reduce the earnings available to equity shareholders. The comparison uses **trading on equity**, also described as the effect of financial leverage on equity returns. It supports choosing the lower-cost borrowing under Option A.

Step 3: Conclusion Option A is better because its 9% interest cost is below the company's 10–12% ROI. The concept used is trading on equity (financial leverage).

Quick Tip to Solve: Compare the interest rate with the entire ROI range: debt below the range is favourable, while debt above it reduces the return available to equity shareholders.

11. State the steps in the selection procedure, after the employment interview and before the job offer. [3 marks]

Solution:

Concept:

- Selection is the process of choosing the most suitable candidate for a job after assessing the applicants against its requirements.
- In the NCERT selection sequence, reference and background checks, selection decision and medical examination fall after the employment interview and before the job offer.

Step 1: State the checks and the decision **1. Reference and background checks:** The employer contacts the persons named as references to obtain information about the applicant's character, abilities, experience and previous performance. This helps verify the information given by the

applicant.

2. Selection decision: Having considered the results of the tests, interview and reference checks, the organisation decides which candidate is suitable for appointment. The manager responsible for the new employee's performance participates in making this decision.

Step 2: State the medical examination **3. Medical examination:** After the selection decision, the candidate is required to undergo a medical fitness examination. This establishes whether the person is physically fit for the duties of the job. The job offer is made only after the candidate has satisfactorily cleared this stage. These are the intervening steps requested; employment interview has already occurred and the job offer follows them.

Step 3: Conclusion The required steps, in order, are reference and background checks, selection decision, and medical examination.

Quick Tip to Solve: Use the sequence Interview then References then Decision then Medical examination then Offer, and state only the three stages between the two endpoints.

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12. Sandhya is a successful manager at Manisons Enterprises. She has a team of twelve people working under her. She encourages them to set their own objectives and take decisions. She respects their opinions and supports them, so that they can perform their duties and accomplish organisational objectives. To manage and exercise effective control she uses forces within the group.

As an intelligent manager, at times, she also makes use of positive aspects of informal communication. This way, she is able to unify diverse interests and ensure that targets are met.

(a) There are many theories and styles of influencing people's behaviour. Identify the style used by Sandhya which is based on the use of authority.

(b) State two positive aspects of the communication discussed above, which Sandhya is using as an intelligent manager. [3 marks]

Solution:

Concept:

- Leadership styles based on authority describe how a leader uses power and how much freedom subordinates receive in deciding and performing their work.
- A laissez-faire or free-rein leader allows subordinates considerable freedom to set objectives and make decisions, while providing support. Informal communication arises through social relations outside prescribed official channels.

Step 1: Identify the leadership style in part (a) Sandhya uses the **laissez-faire or free-rein leadership style**. She encourages employees to "set their own objectives and take decisions", and "respects their opinions and supports them". Thus, the team exercises a high degree of independence, while she acts as a supporter. Her use of "forces within the group" for effective control is also characteristic of this style: members themselves provide the motivation and control needed to accomplish their duties.

Step 2: State two positive aspects of informal communication in part (b) **Faster spread of information:** Informal communication does not have to pass through each prescribed level of authority. Messages can therefore travel quickly, helping Sandhya obtain or share information promptly when

coordinating the team.

Fulfilment of social needs and a sense of belonging: Informal interaction allows employees to build friendly relationships and express themselves. It supports satisfaction of their social needs, develops belongingness and helps bring people together. These positive relationships help Sandhya "unify diverse interests" while working towards organisational targets.

Step 3: Conclusion (a) Sandhya follows laissez-faire or free-rein leadership. (b) Two positive aspects of informal communication are the rapid spread of information and the fulfilment of employees' social needs through friendly relations and a sense of belonging.

Quick Tip to Solve: Freedom to set one's own objectives and take decisions points to free-rein leadership; distinguish it from consultation followed by the leader's decision.

13. Differentiate between formal and informal organisations on the basis of (i) origin, (ii) authority, and (iii) flow of communication. [3 marks]

Solution:

Concept:

- Formal organisation is the structure of jobs, responsibilities and authority relationships deliberately established by management to achieve organisational objectives.
- Informal organisation is the network of personal and social relationships that arises spontaneously when people interact at work. It operates alongside the formal structure.

Step 1: Establish the basis of comparison Compare the two organisations using the three bases stated in the question. Origin asks how the relationship comes into existence; authority asks why a person's influence is accepted; flow of communication asks which routes messages follow. Keeping these bases separate avoids confusing personal influence with the official right to issue orders.

Step 2: Present the three differences

Basis	Formal organisation	Informal organisation
(i) Origin	It is deliberately created by management through the organisation structure and the allocation of duties and responsibilities.	It develops spontaneously from social interaction and personal relationships among employees.
(ii) Authority	Authority arises from a person's position in the management hierarchy. It is attached to the officially assigned role.	Authority or influence arises from personal qualities and acceptance by other members of the group; it does not depend on an official post.
(iii) Flow of communication	Communication follows the officially prescribed channels and the scalar chain of authority.	Communication has no prescribed route and may flow freely in any direction through the grapevine.

Step 3: Conclusion Formal organisation is deliberately established, derives authority from official position and communicates through prescribed channels. Informal organisation emerges spontaneously, derives influence from personal acceptance and communicates through freely formed social networks.

Quick Tip to Solve: Use the sequence "created by management - position - prescribed channels" for formal organisation and "spontaneous - personal - free flow" for informal organisation.

14. Explain any four points of importance of the controlling function of management. [4 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with predetermined standards, analysing deviations and taking corrective action.
- It ensures that activities remain directed towards organisational goals and helps managers improve the use of resources and employee performance.

Step 1: Explain goal achievement and better standards **1. Accomplishing organisational goals:** Controlling measures progress towards the goals by comparing actual results with planned standards. It identifies deviations, investigates their causes and enables corrective action. Managers can therefore bring activities back on course and ensure that the organisation achieves its objectives rather than merely carrying out activities without checking results.

2. Judging accuracy of standards: An effective control system helps managers verify whether the standards set during planning are accurate and realistic. While comparing performance with standards, managers review changes in the organisation and its environment. If a standard has become inappropriate, it can be revised for future operations, improving the quality of subsequent planning.

Step 2: Explain resource efficiency and motivation **3. Making efficient use of resources:** Under controlling, each activity is performed in accordance with predetermined standards and norms. Departures that waste material, time or effort are detected and corrected. This reduces wastage and spoilage and helps the organisation use its human and physical resources effectively and economically.

4. Improving employee motivation: A good control system tells employees clearly what they are expected to do and the standards against which their performance will be assessed. Objective appraisal and appropriate rewards for good performance encourage employees to work to their potential. Thus, control provides direction and a fair basis for recognising achievement.

Step 3: Conclusion Controlling is important because it helps accomplish organisational goals, judge the accuracy of standards, use resources efficiently and improve employee motivation.

Quick Tip to Solve: For each importance point, name the benefit and explain how comparing performance with standards produces that benefit.

15. Ram Murthy, the CEO of 'Goodcare Hospitals', a leading chain of hospitals, decided to reward the good work of the doctors of his organisation. For this he instituted two running trophies. A 'Healthcare Achievers Trophy' to acknowledge and appreciate the tireless efforts of the doctors who rendered selfless services to the patients and another 'Beti Bachao Trophy' to recognise the outstanding work done by the doctors in saving the girl child.

The CEO also wanted to improve the health services in rural areas all over the country. He decided that all doctors must work in rural areas for at least six months. He also decided that the paramedical staff should be employed locally.

(a) Identify the incentive provided by 'Goodcare Hospitals' to its doctors through running trophies.

(b) Which need of the doctors will be satisfied through the incentive identified in part (a) ? State.

(c) State any two values that the CEO of 'Goodcare Hospitals' is trying to communicate to the society.

[4 marks]

Solution:

Concept:

- Employee recognition programmes are non-financial incentives that acknowledge and appreciate an employee's contribution to the organisation.
- Under Maslow's need hierarchy, esteem needs include self-respect, recognition, status and respect from others. Recognition of good work helps satisfy these needs.

Step 1: Identify the incentive in part (a) **Employee recognition programme:** The running trophies are a non-financial incentive in the form of recognition and appreciation of good performance. The case says that the Healthcare Achievers Trophy will 'acknowledge and appreciate the tireless efforts' of doctors, while the Beti Bachao Trophy will 'recognise the outstanding work' of doctors in saving the girl child. These awards publicly acknowledge achievement and encourage such conduct. They recognise the doctors' contribution rather than providing a cash payment or a salary increase.

Step 2: State the need satisfied in part (b) **Esteem needs:** The recognition satisfies the doctors' esteem or ego needs. These are the needs for self-respect, status, recognition and respect from others. Appreciation of their valuable service gives doctors a sense of achievement and makes them feel respected and valued by their organisation. Thus, a trophy acts through recognition of merit, which is the esteem level of Maslow's hierarchy.

Step 3: State two social values in part (c) **1. Gender equality and protection of the girl child:** The Beti Bachao Trophy rewards doctors for 'saving the girl child'. It communicates respect for the life of girls and opposition to discrimination against them, encouraging equal care and protection.

2. Concern for the health and welfare of rural communities: Requiring doctors to work in rural areas 'for at least six months' communicates a commitment to making healthcare accessible to people in underserved areas. The decision places service to society alongside the hospital's organisational objectives and encourages doctors to attend to rural health needs.

Step 4: Conclusion (a) The incentive is an employee recognition programme, a non-financial incentive. (b) It satisfies esteem needs, including recognition, self-respect and respect from others. (c) Two values are gender equality and protection of the girl child, and concern for rural health and social welfare.

Quick Tip to Solve: Link trophies and public appreciation to employee recognition, then link recognition to esteem needs. Support each social value with a specific decision in the case.

16. Sumit purchased an ISI marked washing machine of a famous brand 'MG' from TG Electronics Ltd. The shopkeeper asked him to wait for two days for installation of the machine. His friend, Vivek, was very fond of experimenting with new electronic products. He told Sumit that there is no need to wait for the company's representative to install the machine and that he could do it. So, both of them installed the machine without following the manufacturer's instructions. Initially, the machine worked effectively and the wash was good. But after two days, the machine started stopping in between the wash cycle. Sumit and Vivek tried their best to start the machine but failed in their efforts. Sumit, therefore, approached TG Electronics Ltd., which refused to provide any service on the plea that the installation of the machine was not done by the company.

(a) State the responsibility which Sumit had to fulfil as an aware consumer to get the services of the company.

(b) Explain briefly any two rights which Sumit could have exercised had he fulfilled his responsibility identified in part (a). [4 marks]

Solution:

Concept:

- Consumer protection includes both consumer rights and consumer responsibilities. A consumer should use a product safely and according to its manufacturer's instructions.
- The right to be heard allows a consumer's interests and complaint to receive consideration; the right to seek redressal provides remedies against defective goods or deficient services.

Step 1: Identify the responsibility in part (a) **Follow the manufacturer's instructions and use the product safely.** Sumit should have read and followed the installation and operating instructions and waited for the authorised company representative. The case states that the friends installed the machine "without following the manufacturer's instructions". Buying an ISI-marked product does not remove the responsibility to follow these instructions. Their unauthorised installation is the reason the shopkeeper gives for refusing service.

Step 2: Explain the right to be heard in part (b) **Right to be heard:** A consumer has the right to file a complaint and have it heard when dissatisfied with a good or service. Had Sumit complied with the installation instructions, he could have complained about the machine stopping during the wash cycle and asked the seller or company's grievance cell to consider his complaint and arrange appropriate service. His interests should receive due consideration.

Step 3: Explain the right to seek redressal in part (b) **Right to seek redressal:** A consumer can seek relief against defective goods, deficient services or unfair trade practices. Having fulfilled his responsibility, Sumit could have sought removal of the defect or proper repair and, where warranted, replacement, refund or compensation for the loss suffered. If the seller did not resolve the grievance, he could approach the appropriate consumer redressal forum. The remedy would depend on the defect and evidence; it is not an automatic entitlement to every remedy together.

Step 4: Conclusion Sumit needed to follow the manufacturer's installation and safety instructions. If he had done so, he could have exercised the rights to be heard and to seek redressal when the machine malfunctioned.

Quick Tip to Solve: In a consumer case, identify the neglected responsibility first, then link each right to a practical action such as making a complaint or seeking repair.

17. State the protective functions of Securities and Exchange Board of India. [4 marks]

Solution:

Concept:

- The Securities and Exchange Board of India (SEBI) protects investors' interests and promotes the orderly functioning of the securities market.
- Its protective functions safeguard investors against manipulation, misuse of confidential information and unethical market conduct, while helping them make informed decisions.

Step 1: State the prohibitions that protect investors **Prohibiting fraudulent and unfair trade practices:** SEBI prohibits practices such as misleading statements and price rigging that artificially manipulate securities prices or induce investors to trade on false information. This helps prevent investors from being cheated and supports a fair market.

Prohibiting insider trading: SEBI acts against trading by insiders on the basis of unpublished price-sensitive information. Directors, employees or others with confidential information should not use it to gain an unfair advantage over ordinary investors who do not possess that information.

Step 2: State the measures that promote fair and informed dealings **Promoting fair practices and a code of conduct:** SEBI promotes fair practices and ethical conduct in the securities market. A code of conduct guides market participants and intermediaries towards honest dealings, reducing the scope for exploitation of investors and strengthening confidence in the market.

Educating investors: SEBI undertakes measures to educate investors so that they understand the securities market, the risks involved and their rights. Better-informed investors can evaluate investment proposals, recognise misleading promises and take sensible precautions rather than relying blindly on market rumours.

Step 3: Conclusion SEBI's protective functions include prohibiting fraudulent and unfair trade practices, prohibiting insider trading, promoting fair practices and a code of conduct, and educating investors. Together, these protect investors from unfair treatment in the securities market.

Quick Tip to Solve: For protective functions, focus on investor safeguards: fraud, insider trading, fair conduct and investor education; do not substitute registration or inspection duties.

18. Aradhana and Gandharv are heads of two different departments in 'Yumco Ltd.' They are efficient managers and are able to motivate the employees of their respective departments to improve performance. However, their drive to excel in their own sphere of activity instead of giving emphasis on objectives of the enterprise has hindered the interaction between the departments that Aradhana and Gandharv are heading. Often there are inter-departmental conflicts and they have become incompatible. This has proved to be harmful in the fulfilment of the organisational objectives. The situation has deteriorated to such an extent that the CEO of 'Yumco Ltd.' has hired a consultant, Rashmi, to resolve the problem. After studying the situation closely, Rashmi found that the problem has arisen due to inflexibility and a narrow perspective on the part of both Aradhana and Gandharv. She is of the view that this situation is a result of the type of organisational structure 'Yumco Ltd.' has adopted.

From the above information, identify the organisational structure adopted by 'Yumco Ltd.' and state any three advantages of the structure so identified. [4 marks]

Solution:

Concept:

- A functional structure groups activities of a similar nature into specialised departments, such as production, marketing and finance. Each department is headed by a functional specialist.
- Functional specialisation can increase efficiency, but excessive concern for departmental interests may cause a narrow perspective and inter-departmental conflict.

Step 1: Identify the structure from the case Yumco Ltd. has adopted a **functional organisational structure**. Aradhana and Gandharv seek to excel in their own departments rather than pursue the enterprise's overall objectives. The phrases "drive to excel in their own sphere of activity" and "inflexibility and a narrow perspective" indicate the departmental orientation that can arise in this structure. Their conflict is a limitation of functional specialisation; it does not mean that the structure has no advantages.

Step 2: State three advantages of functional structure

- **Occupational specialisation:** Employees repeatedly perform similar tasks within one function. Their experience, expertise and specialised knowledge improve, helping them perform their work more efficiently.
- **Effective control and coordination within a department:** Similar activities are placed under one departmental head. A manager familiar with that function can supervise the work closely and coordinate the efforts of employees doing related tasks.
- **Improved managerial and operational efficiency:** Concentration on a limited range of functions develops proficiency. Managers and employees can focus on their specialised responsibilities, improving the quality and efficiency of performance and ultimately supporting higher profits.

Step 3: Conclusion The structure is functional. Its advantages include occupational specialisation, effective control and coordination within each department, and improved managerial and operational efficiency. Yumco's problem arises when departmental goals overshadow the goals of the organisation as a whole.

Quick Tip to Solve: Link departmental expertise and a narrow functional outlook to functional structure; product-wise divisions would point to divisional structure.

19. In 2015, Naveen left his luxurious life in Mumbai, where he worked as a manager for Blue Birds Ltd. He shifted to Begampur, Chhattisgarh to fulfil his grandmother's dream of converting their 25-acre ancestral land into a fertile farm. For this he set out specific goals along with the activities to be performed to achieve the goals.

Every activity was a challenge since he was clueless about farming. He learnt every activity from filling the land to sowing the seeds. To aid farmers he launched his own company 'Innovative Agriculture Solutions Pvt. Ltd'.

It was difficult initially as no one trusted an urban youth telling farmers about farming. But when everything was discussed in detail the farmers started taking interest. He wanted to ensure that the future events meet effectively the best interests of the company. Through sales forecasting, he prepared an annual plan for production and sales.

He also found that the farmers grew only paddy, which was an activity of 3 – 4 months and the land remained idle for the rest 8 – 9 months of the year. He not only identified but evaluated various alternatives through which the farms could be utilised for the remaining months of the year. Through correct foresight and logical and systematic thinking based on analysis of all facts, all alternatives were examined and evaluated. He presented a plan to the farmers, where after harvesting paddy, vegetables could be grown.

The above case highlights the features of one of the functions of management. By quoting lines from the above identify and explain these features. [4 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done and how it is to be done. It provides a course of action for achieving specified objectives.
- Planning focuses on objectives, looks ahead to future events, involves choosing among alternatives and requires logical, systematic mental effort.

Step 1: Identify the function and its focus on objectives The function highlighted is **planning**. The first feature is **planning focuses on achieving objectives**. The case states: "he set out specific goals along with the activities to be performed to achieve the goals." Planning begins with definite objectives and determines the actions needed to attain them. Naveen therefore connected his goal of developing the ancestral land with the activities required to achieve that goal.

Step 2: Explain its future orientation **Planning is futuristic.** The relevant lines are: "He wanted to ensure that the future events meet effectively the best interests of the company. Through sales forecasting, he prepared an annual plan for production and sales." Planning looks ahead and anticipates future conditions. Forecasting likely sales helps decide production and other activities in advance, so that the organisation is prepared for the future.

Step 3: Explain the choice between alternatives **Planning involves decision making.** The case says: "He not only identified but evaluated various alternatives through which the farms could be utilised for the remaining months of the year." Planning requires identifying possible courses of action, comparing them and choosing the most suitable one. Naveen examined ways to use the idle land and proposed growing vegetables after harvesting paddy. This links the choice to the aim of using the farms for more of the year.

Step 4: Explain the mental effort involved **Planning is a mental exercise.** The evidence is: "Through correct foresight and logical and systematic thinking based on analysis of all facts, all alternatives were examined and evaluated." Planning requires intellectual activity rather than guesswork. Foresight, judgement and analysis of facts help the planner assess alternatives and formulate a workable course of action. Naveen's systematic examination before presenting his plan illustrates this feature.

Step 5: Conclusion The case illustrates four features of planning: focus on objectives, futuristic orientation, decision making and mental exercise. The specific goals, sales forecast, evaluation of alternative uses of the land and logical analysis provide the respective evidence.

Quick Tip to Solve: In a planning case, map goals to objectives, forecasting to futurism, alternatives to decision making, and logical analysis to mental exercise.

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20. After acquiring the necessary knowledge and skills on starting an Aloevera Farm, Ashok wanted to be the leading manufacturer of Aloevera products worldwide. He observed that the products were expensive as the demand of the products was more than the supply. He was also keen to promote methods and practices that were economically viable, environmentally sound and at the same time protecting public health.

Ashok's main consideration was about the amount of money paid by the consumers in consideration of the purchase of Aloevera products. He also thought that competitors prices and their anticipated reactions must also be considered for this.

After gathering and analysing information and doing correct marketing planning, he came to know that the consumers compare the value of a product to the value of money which they are required to pay. The consumers will be ready to buy a product when they perceived that the value of the product is at least equal to the value of money which they would pay.

Since he was entering into a new market, he felt that he may not be able to cover all costs. He knew that in the long run the business will not be able to survive unless all costs are covered in addition to a mininum profit.

He examined the quality and features of the products of the competitors and the anticipated reactions of the consumers. Considering the same he decided to add some unique features to the packaging and also decided to provide free home delivery of the products.

The above case relates to a concept which is considered to be an effective competitive marketing weapon. In conditions of perfect competition most of the firms compete with each other on this concept in the marketing of goods and services.

(a) Identify the concept.

(b) Explain briefly any four factors discussed in the above case related to the concept so identified.

[5 marks]

Solution:

Concept:

- Price is the amount of money a buyer pays in consideration of the purchase of a product or service. Pricing is the decision about the price to charge and is an important competitive instrument in the marketing mix.
- Price determination requires balancing the firm's costs and competitive position with the demand for the product and the value perceived by its customers.

Step 1: Identify the concept in part (a) The concept is **price (or pricing)**. The case refers directly to the "amount of money paid by the consumers in consideration of the purchase of Aloevera products". Ashok is deciding what consumers should pay for the products, rather than merely deciding how to advertise them.

Step 2: Explain four factors for part (b)

- **Product cost:** The cost of producing, distributing and selling the product is a major determinant of its price. A firm may initially charge a price that does not recover every cost, but in the long run it must recover its total costs and earn a minimum profit to survive. This is indicated by Ashok's recognition that "all costs are covered in addition to a minimum profit".
- **Utility and demand:** The utility or value the buyer perceives and the intensity of demand influence the maximum price the buyer will accept. Consumers buy when the perceived value is at least equal to the money paid. Demand exceeding supply can support a higher price. The case says that the products were expensive because "the demand of the products was more than the supply", and that consumers compare product value with the money they must pay.
- **Extent of competition in the market:** The prices, quality and features of competing products, and competitors' likely reactions, must be considered while fixing the price. A firm cannot set its price in isolation when customers can turn to substitutes. Ashok therefore considers "competitors prices and their anticipated reactions" and examines their products' quality and features.
- **Marketing methods used:** Other elements of the marketing programme, such as packaging, product differentiation and customer services, affect the price that can be charged. Attractive packaging or additional services may raise costs while also enhancing customer value. Ashok decides to add "unique features to the packaging" and provide "free home delivery", so these decisions must be considered in pricing.

Step 3: Conclusion The concept is price or pricing. Four relevant factors are product cost, utility and demand, extent of competition in the market, and marketing methods used; each is illustrated by Ashok's decisions in the case.

Quick Tip to Solve: Link each pricing factor to its clue: cost recovery means product cost, perceived value means utility and demand, rivals mean competition, and packaging or delivery means marketing methods.

21. What is meant by co-ordination ? State its any four features. [5 marks]

Solution:

Concept:

- Coordination is the process by which a manager synchronises the activities of different departments and individuals to bring unity of action in the pursuit of common organisational goals.
- It binds the different management functions together and harmonises individual efforts with the overall objective of the organisation.

Step 1: State the meaning of coordination **Coordination** means integrating the efforts of individuals and departments so that their activities work together towards common objectives. For example, the production department's output must match the sales department's commitments and the purchasing department's supply of materials. It brings unity of action rather than allowing departments to pursue isolated goals.

Step 2: State four features of coordination

- **Integrates group efforts:** Coordination unifies the diverse interests and efforts of individuals and departments. It gives a common focus to group effort so that the organisation's collective performance supports its objectives rather than being a collection of unrelated activities.
- **Ensures unity of action:** Coordination secures agreement and consistency among activities undertaken by different people. It links the activities of departments so that each contributes to the organisation's overall goals. Thus, departmental specialisation does not cause conflicting or contradictory action.
- **Continuous process:** Coordination is an ongoing activity. It begins at the planning stage and continues through organising, staffing, directing and controlling. Managers must maintain it as activities, requirements and circumstances change; it cannot be achieved by a single instruction given once.
- **All-pervasive function:** Coordination is needed at every level of management and in every department. Top managers coordinate overall plans, middle managers coordinate departments, and supervisory managers coordinate workers' activities. Production, marketing, finance and other functional areas all require it.

Step 3: Conclusion Coordination synchronises individual and departmental efforts towards common organisational objectives. Its features include integration of group efforts, unity of action, continuity and its presence at all levels and in all departments.

Quick Tip to Solve: For coordination, remember the common goal first, then distinguish its features: combining efforts, aligning actions, continuing through time, and operating throughout the organisation.

22. 'Konark Ltd.' is an electronic goods manufacturing enterprise situated in Shivpuri, Madhya Pradesh. It is earning a very low revenue in comparison to a competing electronic goods manufacturing enterprise, 'Nova Ltd.' situated in Mumbai. Both Konark's and Nova's operations are affected directly by the investors, customers, competitors and suppliers, which are unique to their respective locations. In addition to this, individual firms of this field are affected indirectly by the factors like the money supply in the economy, composition of the families, the technological changes, etc.

(a) Identify and state the feature of the concept discussed in the above paragraph.

(b) Also, state any four points of importance of this concept. [5 marks]

Solution:

Concept:

- Business environment means the totality of individuals, institutions and other forces outside a business enterprise that may affect its performance.
- The feature of specific and general forces distinguishes forces that directly affect an individual enterprise from wider forces that affect enterprises indirectly.

Step 1: Identify and state the feature in part (a) The feature is **specific and general forces**. Specific forces, such as investors, customers, competitors and suppliers, affect individual enterprises directly and immediately in their day-to-day working. General forces, such as economic, social and technological conditions, affect all enterprises and may affect an individual firm indirectly.

The case identifies the specific forces as "investors, customers, competitors and suppliers", which are "unique to their respective locations". It identifies general forces through "the money supply in the economy, composition of the families, the technological changes". Thus, the paragraph illustrates both categories within the business environment.

Step 2: State four points of importance in part (b)

- **Identifying opportunities and getting first-mover advantage:** Understanding the environment helps an enterprise recognise favourable external trends and act on them before competitors. It can thereby gain an advantage by serving an emerging customer need early.
- **Identifying threats and early warning signals:** Environmental awareness alerts managers to unfavourable changes, such as stronger competition or changes in customer preferences. Early recognition gives the enterprise time to prepare an appropriate response.
- **Tapping useful resources:** A business obtains finance, materials, labour and other inputs from its environment and supplies goods and services back to it. Understanding that environment helps it secure suitable resources and offer outputs that customers will accept.
- **Coping with rapid changes:** Markets, technology and competitive conditions change rapidly. Environmental understanding helps managers anticipate such developments and modify products, processes and strategies so that the enterprise can continue to operate effectively.

Step 3: Conclusion The feature is **specific and general forces**. Understanding the business environment enables an enterprise to identify opportunities, recognise threats early, tap useful resources and cope with rapid changes.

Quick Tip to Solve: Direct effects from customers or suppliers indicate specific forces; economy-wide social, economic and technological conditions indicate general forces.

23. 'Moga Industries Ltd.' approached a well established university in the city of Madurai to recruit qualified personnel for various technical and professional jobs. They selected Tanya, Ritu, Garima and Chetan for various vacancies in the organisation.

After the selection and placement, 'Moga Industries Ltd.' felt the need to increase the skills and abilities, and the development of positive attitude of the employees to perform their specific jobs better. The company also realised that learning new skills would improve the job performance of the employees. Hence, the company decided to take action for the same.

(a) Name the step of the staffing process regarding which the company decided to take action.

(b) State the benefits of the action to 'Moga Industries Ltd.' [6 marks]

Solution:

Concept:

- Training and development is the step of staffing that improves employees' knowledge, skills, abilities and attitudes so that they can perform effectively and prepare for future responsibilities.
- Training focuses on learning skills for a specific job, while development concerns the employee's broader growth and capacity to assume greater responsibilities. Their benefits to the organisation must be distinguished from personal benefits to employees.

Step 1: Name the staffing step in part (a) The step is **training and development**. Moga Industries has already completed selection and placement and now wants to "increase the skills and abilities" and develop a "positive attitude" so that employees can "perform their specific jobs better". These words identify training and development as the next action.

The earlier approach to a university is campus recruitment, a source of recruitment. It is not the action now being proposed: the question specifically concerns the learning and improvement planned after selection and placement.

Step 2: State the organisational benefits in part (b)

- **Systematic learning and reduced wastage:** Training provides an organised learning process rather than leaving employees to learn through hit-and-trial methods. Moga Industries can reduce the wastage of time, effort and money arising from mistakes while employees learn their technical and professional work.
- **Higher productivity and profitability:** Better knowledge and skills enable employees to perform their jobs more efficiently. Training enhances productivity in terms of both quantity and quality of output, which can lead to higher profits for the company.
- **Preparation of future managers:** Development equips employees with capabilities needed for greater responsibility. The organisation has people ready to take over managerial work when required, including in an emergency, rather than being entirely dependent on outside recruitment.
- **Higher morale and reduced absenteeism and turnover:** Investment in employees' learning improves their confidence and morale. Employees feel better equipped and supported in their jobs, helping the company reduce absenteeism and employee turnover and maintain continuity in its workforce.
- **Effective response to a changing environment:** Training and development keep employees' knowledge and skills current. This helps Moga Industries respond effectively to fast-changing technological and economic conditions instead of continuing with outdated methods of work.

Step 3: Conclusion Moga Industries decided to undertake **training and development**. It benefits the company through systematic learning, greater productivity and profits, a supply of future managers, improved morale with lower absenteeism and turnover, and a more effective response to environmental changes.

Quick Tip to Solve: Use the timing of the action: improving job skills after selection and placement means training and development. State benefits to the company when the question names the organisation.

24. Explain briefly any four factors affecting the fixed capital requirements of an organisation.

[6 marks]

Solution:

Concept:

- Fixed capital is the investment of long-term funds in fixed assets such as land, buildings, plant and machinery. These assets support operations over several accounting periods.
- Fixed capital requirements depend on the kind and size of operations and the method used to produce goods. Any four relevant factors can be explained; the following four show both the factor and its effect.

Step 1: Explain the nature and scale of business **Nature of business:** A manufacturing concern generally needs a large investment in plant, machinery, factory buildings and other production facilities. Its fixed capital requirement is therefore relatively high. A trading concern mainly buys finished goods for resale and normally requires fewer fixed assets. A service business's requirement depends on the service: a consultancy may need little equipment, whereas a transport business needs costly vehicles. Thus, the assets needed to carry out the particular activity determine the requirement.

Scale of operations: A business operating on a large scale needs greater production capacity, larger premises and more equipment than a similar business operating on a small scale. Consequently, its total fixed capital requirement is usually higher. A small concern can meet its limited volume of work with fewer assets. The comparison concerns total investment; economies of scale may reduce cost per unit without reducing the total funds required for fixed assets.

Step 2: Explain technology and future growth **Choice of technique:** A capital-intensive production technique uses more machinery and equipment and relatively less labour. It requires a larger initial investment in fixed assets and hence more fixed capital. A labour-intensive technique relies more on workers and generally needs less investment in machinery, so its fixed capital requirement is lower. Management must therefore consider the technique it proposes to use while estimating long-term funds.

Growth prospects: A company expecting substantial growth must plan for increased future capacity. It may invest in additional plant, machinery and premises in advance so that rising demand can be met without a capacity shortage. Its fixed capital requirement is therefore greater than that of a similar company with limited growth prospects, which can continue with its existing facilities. The estimate should reflect the expected expansion of operations rather than only the present level of sales.

Step 3: Conclusion The four factors are nature of business, scale of operations, choice of technique and growth prospects. Manufacturing, larger operations, capital-intensive techniques and stronger expansion plans generally increase the investment needed in fixed assets.

Quick Tip to Solve: For each factor, state what changes the need for fixed assets and then show whether the fixed capital requirement rises or falls.

25. Karan Nath took over 'D'north Motor Company' from his ailing father three months ago. In the past the company was not performing well. Karan was determined to improve the company's performance. He observed that the methods of production as well as selection of employees in the company were not scientific.

He believed that there was only one best method to maximise efficiency. He also felt that once the method is developed, the workers of the company should be trained to learn that 'best method'.

He asked the Production Manager to develop the best method and carry out the necessary training. The Production Manager developed this method using several parameters right from deciding the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers. This method was implemented throughout the organisation. It helped in increasing the output, improving the quality and reducing the cost and wastage.

Identify and explain the principles and the technique of scientific management followed by the Production Manager in the above case. [6 marks]

Solution:

Concept:

- Taylor's scientific management replaces unscientific working habits with methods established through systematic observation and analysis. The aim is to improve efficiency and prosperity for the organisation and its workers.
- The case illustrates two principles: science, not rule of thumb; and development of each and every person to his or her greatest efficiency and prosperity. The technique used to discover the best way of doing the job is method study.

Step 1: Identify and explain the two principles **Science, not rule of thumb:** The statement that there was "only one best method to maximise efficiency" points to this principle. Taylor advocated replacing traditional methods based on guesswork, personal judgement or trial and error with a scientifically developed method for each element of work. Management should investigate alternative ways of performing a job and choose the method that produces the best results. Here, Karan rejects the company's unscientific production practices and directs the Production Manager to develop a better method instead of continuing the old habits.

Development of each and every person to his or her greatest efficiency and prosperity: The statement that workers "should be trained to learn that 'best method'" points to this principle. Scientific management requires the scientific selection of employees, assigning work that suits their physical, mental and intellectual capabilities, and providing the necessary training. Training enables employees to perform the scientifically designed job efficiently instead of being left to discover a method on their own. Developing workers' capabilities improves their performance and contributes to the prosperity

of both the employees and the organisation. In this case, the Production Manager is specifically asked to carry out the required training.

Step 2: Identify and explain the technique **Method study:** The manager considers the "sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers". These are the scope of method study, which determines the best way of doing a job. It examines the complete process, including the arrangement and movement of people and materials, the sequence of activities and the delivery of the finished product.

Its purpose is to minimise the cost of production while maximising the quality and satisfaction of the customer. Studying the process scientifically helps eliminate unnecessary activities and movement, use resources better and establish an efficient method. The case confirms these results: implementation increases output, improves quality and reduces cost and wastage. This is method study rather than time study, which sets the standard time for a job, or motion study, which specifically examines workers' movements to remove unnecessary motions.

Step 3: Conclusion The principles are **science, not rule of thumb** and **development of each and every person to his or her greatest efficiency and prosperity**. The technique is **method study**: developing the best process from the sequence and arrangement of operations through to delivery.

Quick Tip to Solve: Match "one best method" to science, "training workers" to individual development, and study of the whole production process to method study.