CBSE Class 12 Business Studies Question Paper 2019 with Solution PDF-Set 66/2/3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

(i) This question paper contains five Sections : A, B, C, D and E.

(ii) Section A contains questions **1 to 8** carrying **one mark** each. Answers to these questions may be given in one word or a sentence.

(iii) Section B contains questions **9 to 13** carrying **three marks** each. Answers to these questions may be given in **50 – 75 words**.

(iv) Section C contains questions **14 to 19** carrying **four marks** each. Answers to these questions may be given in about **120 words**.

(v) Section D contains questions **20 to 22** carrying **five marks** each. Answers to these questions may be given in about **150 words**.

(vi) Section E contains questions **23 to 25** carrying **six marks** each. Answers to these questions may be given in about **200 words**.

(vii) There is no over-all-choice in the question paper, however an internal choice has been provided in **3** questions of one mark, **2** questions of three marks, **2** questions of four marks, **1** question of five marks and **1** question of six marks. You have to attempt only one of the choices in such questions.

Section A (8 marks)

1(a). Differentiate between 'Authority' and 'Responsibility' on the basis of 'origin'. [1 mark]

Solution:

Concept:

- Authority is the right to give orders and obtain obedience from subordinates.
- Responsibility is the obligation to perform an assigned task. Origin asks how each of these arises.

Step 1: Identify the source of each relationship Authority originates in the formal position occupied by a manager in the organisation. Responsibility arises when the superior assigns a duty and the subordinate accepts it.

Step 2: Compare on the stated basis

Basis	Authority	Responsibility
Origin	Arises from the formal position in the organisational hierarchy.	Arises from the duty assigned by the superior and accepted by the subordinate.

Step 3: Conclusion Thus, authority originates in a formal position, while responsibility originates in an assigned duty.

Quick Tip to Solve: For origin, write where the right or obligation comes from; do not substitute the direction in which it flows.

OR

1(b). Distinguish between 'Responsibility' and 'Accountability' on the basis of 'delegation'. [1 mark]

Solution:

Concept:

- Responsibility is the obligation of a subordinate to carry out the duty assigned by a superior.
- Accountability means being answerable for the final outcome of an assigned task.

Step 1: Identify what can be entrusted to another person A manager can delegate responsibility for performing an assigned task to a subordinate, together with the authority needed to perform it. The manager nevertheless remains answerable to the superior.

Step 2: Distinguish on delegation

Basis	Responsibility	Accountability
Delegation	Can be delegated to a subordinate.	Cannot be delegated; the superior remains answerable for the final result.

Step 3: Conclusion Responsibility can be delegated, whereas accountability cannot be delegated.

Quick Tip to Solve: Remember the distinction as assigning performance versus retaining answerability for the result.

2. "Purchase goods worth ₹ 10,000 and get a discount voucher of ₹ 5,000." Identify the sales promotion activity. [1 mark]

Solution:

Concept:

- Sales promotion offers short-term incentives to stimulate purchase of a product.
- A usable benefit offered on a purchase can encourage the customer to buy again.

Step 1: Read the incentive in the offer The customer must 'Purchase goods worth Rs 10,000' and receives 'a discount voucher of Rs 5,000'. The voucher is the additional benefit linked to the purchase.

Step 2: Identify the promotion technique This is the sales promotion technique of usable benefits: the buyer receives a voucher which can be redeemed for a benefit on a subsequent purchase. The key clue is the voucher rather than an immediate reduction in the amount charged for the present goods.

Step 3: Conclusion The sales promotion activity is **usable benefits**, offered here through a discount voucher.

Quick Tip to Solve: In NCERT terminology, name this technique usable benefits; the discount voucher is the form in which the benefit is offered.

3. Das is the Managing Director of 'Gamut Ltd.', manufacturing different varieties of cheese. He has an efficient team working under him consisting of Rajat – the Production manager, Vinay – the Marketing manager and Adit – the Finance manager. They understand and interpret the policies made by Das, ensure that their departments have adequate manpower, assign them the necessary duties and motivate them to achieve the desired objectives.

State one more function other than those mentioned above, that this team may perform at the level they are working. [1 mark]

Solution:

Concept:

- Departmental managers belong to middle-level management and connect top management with operational management.
- They interpret top-level policies and coordinate departmental activities to achieve organisational objectives.

Step 1: Identify the level from the case Rajat, Vinay and Adit are the production, marketing and finance managers. The case says they 'understand and interpret the policies made by Das', which identifies them as middle-level managers.

Step 2: State an additional function They cooperate with other departments to ensure the smooth functioning of the organisation. For example, production, marketing and finance must coordinate their activities so that departmental efforts support the common organisational objectives. This is additional to interpreting policies, staffing, assigning duties and motivating employees already mentioned.

Step 3: Conclusion One additional function is **cooperating with other departments for the smooth functioning of the organisation**.

Quick Tip to Solve: Identify the level from the managers and their policy-interpretation role, then give a function that the case has not already listed.

4(a). What is meant by 'Rule' ? [1 mark]

Solution:

Concept:

- A rule is a standing plan that guides behaviour in a specified situation.
- Rules prescribe a definite action or prohibition and allow no discretion in their application.

Step 1: Identify the nature of the plan A rule is a specific statement informing employees what is to be done or what is not to be done. It makes the required conduct clear in advance.

Step 2: Explain the absence of discretion A rule does not allow flexibility or individual judgement in deciding whether to comply. For example, a prohibition on smoking on factory premises states a definite restriction rather than a broad guideline.

Step 3: Conclusion A **rule** is a specific statement that prescribes what must or must not be done and allows no discretion.

Quick Tip to Solve: Include both elements in a definition of a rule: specific required conduct and no discretion.

OR

4(b). Define 'Organising'. [1 mark]

Solution:

Concept:

- Organising is a function of management that establishes relationships among people and resources.
- Its purpose is to enable people to work together effectively towards planned objectives.

Step 1: Identify the activities involved Organising is the process of identifying and grouping the work to be performed, assigning duties and responsibilities, and establishing authority relationships. These activities convert plans into an arrangement for action.

Step 2: Connect the arrangement with its purpose The manager defines who will do each task, the resources available and who will report to whom. This arrangement enables people to work together effectively to accomplish the organisational objectives.

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

Quick Tip to Solve: A complete definition links division and assignment of work with authority relationships and the achievement of objectives.

5(a). State any two characteristics of 'Directing'. [1 mark]

Solution:

Concept:

- Directing involves instructing, guiding, inspiring and motivating employees to achieve organisational goals.
- It activates human effort and is required wherever managers guide the work of subordinates.

Step 1: State the first characteristic **Directing initiates action:** It starts the actual performance of work by guiding and motivating employees to carry out the tasks planned and organised for them.

Step 2: State the second characteristic **Directing takes place at every level of management:** Every manager, from the top to the supervisory level, directs subordinates. Thus, it is not confined to the chief executive or only to supervisors.

Step 3: Conclusion Two characteristics are that directing **initiates action** and **takes place at every level of management**.

Quick Tip to Solve: For characteristics, state the feature and briefly explain it; avoid replacing features with elements such as motivation or leadership.

OR

5(b). Give the meaning of 'Management by Exception'. [1 mark]

Solution:

Concept:

- Management by exception is a principle used while analysing deviations in the controlling process.
- Managerial attention is concentrated on significant deviations from established standards rather than on every minor difference.

Step 1: Identify the exceptions Actual performance is compared with the planned standard. A permissible range of deviation is established so that normal variations do not require intervention by higher management.

Step 2: Focus managerial attention Only deviations beyond the permissible limit are brought to the attention of management for corrective action. This lets managers devote their limited time to important exceptions instead of routinely examining every activity.

Step 3: Conclusion Management by exception means that only significant deviations beyond the permissible limits should be brought to the notice of management for corrective action.

Quick Tip to Solve: Remember the word exception: management acts on deviations outside the acceptable range, not every small variation.

6. Kamal is working as a gang boss in the assembly unit of 'Sokia Ltd.', a laptop manufacturing company. He supervises the work of ten trained workers who perform the various activities related to the assembly of the laptops. One day when he was supervising the work of his workers, he told Ashok, a worker that his work could be improved. Ashok interpreted the comments of Kamal as that his work was not good.

Identify the type of barrier to effective communication in this case. [1 mark]

Solution:

Concept:

- Semantic barriers arise when a message is expressed or interpreted with a meaning different from the one intended by its sender.
- The meaning understood by the receiver must agree with the meaning intended by the sender for communication to be effective.

Step 1: Compare the intended and received meanings Kamal said that Ashok's work 'could be improved'. He intended to suggest scope for better performance. Ashok interpreted this as meaning that 'his work was not good'.

Step 2: Identify the communication barrier The same words convey different meanings to the sender and receiver. Therefore, the case illustrates a semantic barrier to effective communication: the intended meaning of the message is not correctly understood.

Step 3: Conclusion The barrier is a semantic barrier, because Ashok gives a negative meaning to a comment intended as a suggestion for improvement.

Quick Tip to Solve: When a case contrasts what was meant with what was understood, look for a semantic barrier involving interpretation of meaning.

7. This market helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other.

Name the market and identify the function being referred to. [1 mark]

Solution:

Concept:

- A financial market brings together buyers and sellers of financial assets and facilitates their exchange.
- One function of financial markets is reducing the cost of transactions by providing information and a common meeting place for participants.

Step 1: Name the market The assets being bought and sold are financial assets, so the market described is the financial market. It connects people wishing to invest funds with those selling financial securities.

Step 2: Link the saving to its function The words 'save time, effort and money' and 'find each other' refer to the search costs of locating a suitable counterparty. By bringing participants together, the financial market reduces these transaction costs.

Step 3: Conclusion The market is the financial market, and the function referred to is reducing the cost of transactions.

Quick Tip to Solve: Link saving the time and expense of finding buyers or sellers with the financial market function of reducing transaction costs.

8. Kumar wanted to purchase a fuel efficient car having the latest standards regarding minimisation of pollution. He saw an advertisement offering such a car and visited the showroom of the company wherein the car was displayed. In his discussion, the Marketing manager told him that the company is providing credit facilities, maintenance services and many other effective services which are helping in bringing repeat sales and developing brand loyalty.

Identify the marketing function which the Marketing manager was discussing with Kumar. [1 mark]

Solution:

Concept:

- Customer support services are marketing activities that assist customers in buying and using a product satisfactorily.
- Such services include credit facilities, maintenance, after-sales services and other assistance that promote customer satisfaction and repeat purchases.

Step 1: Select the relevant case evidence The Marketing manager mentions 'credit facilities, maintenance services' and other services that bring 'repeat sales and developing brand loyalty'. These are services supporting the customer, beyond the car itself.

Step 2: Identify the marketing function The function is customer support services. Credit makes the purchase more convenient and maintenance helps the customer use the car satisfactorily. This continuing support encourages customers to buy again and remain loyal to the brand.

Step 3: Conclusion The marketing function being discussed is customer support services.

Quick Tip to Solve: Credit, maintenance and after-sales assistance point to customer support services; the advertisement is only background to this question.

Section B (15 marks)

9. One of the functions of Securities and Exchange Board of India is 'Promotion of fair practices and code of conduct in securities market'. State the category to which this function belongs and state any two other functions of this category. [3 marks]

Solution:

Concept:

- SEBI protects investors and promotes the orderly functioning of the securities market through protective, regulatory and development functions.
- Protective functions guard investors against unfair practices and safeguard the integrity of dealings

in securities.

Step 1: Identify the category **Protective functions:** Promotion of fair practices and a code of conduct belongs to SEBI's protective functions. Fair behaviour helps investors deal in a market where participants are expected to follow ethical standards rather than exploit them.

Step 2: State the first other protective function **Prohibiting fraudulent and unfair trade practices:** SEBI prohibits practices such as misleading statements and market manipulation that may deceive investors or distort securities prices. Preventing such conduct protects investors from transactions induced by false information or artificial market conditions.

Step 3: State the second other protective function **Controlling insider trading:** SEBI prohibits insiders from trading on the basis of unpublished price-sensitive information. Directors, employees or other connected persons must not use confidential information to obtain an unfair advantage over ordinary investors who do not possess it.

Step 4: Conclusion The stated function belongs to protective functions. Two other functions in this category are prohibiting fraudulent and unfair trade practices and controlling insider trading.

Quick Tip to Solve: Use investor protection as the test: unfair practices and insider trading are protective issues; registration and inspections are regulatory functions.

10(a). Explain any three points of importance of planning function of management. [3 marks]

Solution:

Concept:

- Planning means deciding in advance what to do, how to do it, when to do it and who is to do it. It bridges the gap between the present position and the desired future position.
- Its importance lies in guiding action towards objectives and preparing the organisation to deal with future conditions rather than reacting without a considered course of action.

Step 1: Explain how planning guides work **Planning provides directions:** Planning states the objectives to be achieved and specifies the actions needed to achieve them. Employees and departments therefore know what they are expected to do and how their activities contribute to the organisation's goals. This common direction promotes purposeful, coordinated effort instead of unrelated individual activity.

Step 2: Explain how planning prepares for uncertainty **Planning reduces the risks of uncertainty:** Managers look ahead, anticipate possible changes and consider the action required under likely future conditions. They can prepare responses to opportunities and threats in advance. Planning cannot eliminate uncertainty, but this preparation reduces the adverse impact of unexpected developments.

Step 3: Explain how planning supports control **Planning establishes standards for controlling:** A plan sets the goals and standards against which actual performance can be measured. Managers compare results with these standards, identify deviations and take corrective action. Without planned targets, there would be no clear basis for deciding whether performance is satisfactory.

Step 4: Conclusion Thus, planning provides direction, reduces the risks arising from uncertainty and

establishes standards for controlling. These benefits help managers guide effort and assess progress towards organisational objectives.

Quick Tip to Solve: For each importance point, name the benefit first and then show how a plan produces it; do not merely list the headings.

OR

10(b). Explain any three limitations of planning function of management. [3 marks]

Solution:

Concept:

- Planning sets objectives and selects a future course of action. Although it is essential to management, it operates under practical limitations and cannot guarantee that objectives will be achieved.
- These limitations arise both from the way plans influence behaviour within an organisation and from changes in the external business environment.

Step 1: Explain the problem of rigidity **Planning leads to rigidity:** A well-defined plan specifies objectives, procedures and courses of action to be followed. Managers and employees may then insist on following it even when circumstances require a different response. Strict adherence to an existing plan can reduce flexibility and prevent the organisation from adapting promptly to changed conditions.

Step 2: Explain the effect of a changing environment **Planning may not work in a dynamic environment:** Plans depend on assumptions about future economic, political, technological and other conditions. These conditions can change rapidly and may be beyond the organisation's control. A plan based on earlier assumptions may therefore become unsuitable, making reliable long-term planning difficult.

Step 3: Explain the restriction on creativity **Planning reduces creativity:** Planning is often undertaken by top management, while other managers are required to implement the plans. If employees only carry out predetermined instructions, they have less opportunity to develop their own ideas or suggest new ways of doing work. Excessive dependence on prescribed plans may consequently discourage initiative and creative thinking.

Step 4: Conclusion Three limitations are rigidity, difficulty in coping with a dynamic environment and reduced creativity. Managers should recognise these limitations while using planning and review plans when conditions change.

Quick Tip to Solve: Keep limitations distinct: rigidity concerns inflexible action, a dynamic environment concerns changing assumptions, and reduced creativity concerns fewer new ideas.

11(a). Distinguish between Formal and Informal organisation on the basis of the following :

(a) Origin;

(b) Authority; and

(c) Leadership. [3 marks]

Solution:

Concept:

- Formal organisation is the structure of jobs and relationships deliberately designed by management to achieve organisational objectives. It specifies responsibilities and reporting relationships.
- Informal organisation is the network of personal and social relationships that develops spontaneously among employees through their interaction. It exists alongside the formal structure.

Step 1: Identify the bases of distinction The question asks for origin, authority and leadership. Origin concerns how the organisation comes into existence; authority concerns the source of the right or influence to direct others; leadership concerns how a person becomes a leader. Compare the two organisations on the same basis in each row.

Step 2: Present the comparison

Basis	Formal organisation	Informal organisation
Origin	It is deliberately created by management through rules, policies and the planned division of work.	It arises spontaneously from personal interaction, friendship and social relationships among employees.
Authority	Authority arises from the position a person holds in the formal management structure. The superior has authority because of the assigned office.	Influence arises from personal qualities and acceptance by the group, rather than an officially assigned position.
Leadership	Managers are the formally designated leaders, appointed to positions in the organisational hierarchy.	Leaders emerge from within the group and are accepted by its members because of their personal influence.

Step 3: Conclusion Formal organisation is intentionally designed and position-based, with appointed managers as leaders. Informal organisation develops naturally, relies on personal influence and has leaders who emerge through group acceptance.

Quick Tip to Solve: Use the same basis for both columns: deliberate versus spontaneous origin, position versus personal influence, and appointed versus emergent leadership.

OR

11(b). Distinguish between Functional and Divisional structure on the basis of the following points :

(a) Coordination;

(b) Managerial Development; and

(c) Cost. [3 marks]

Solution:

Concept:

- A functional structure groups jobs according to specialised functions such as production, finance and marketing. A divisional structure groups activities around products, with each division having its own functional departments.
- The differences arise because functional departments specialise in one activity, whereas a product division combines the activities needed for its product and operates as an identifiable unit.

Step 1: Compare coordination and managerial development The first two prescribed bases distinguish the ease of integrating work and the breadth of experience available to managers:

Basis	Functional structure	Divisional structure
Coordination	Coordination is difficult for a multiproduct business because the requirements of different products pass through common functional departments.	Coordination is easier within a division because all functions connected with a particular product are integrated under its divisional manager.
Managerial development	Managers specialise in one function; their limited functional experience makes development as general managers more difficult.	Managers gain experience in several functions within a division, facilitating development as general managers.

Step 2: Compare the cost of the two structures The cost difference follows from whether resources are shared or duplicated.

Basis	Functional structure	Divisional structure
Cost	It is economical because each function is performed by a common department, avoiding duplication of functional facilities and effort.	It is more costly because each product division maintains its own functional departments, leading to duplication of personnel and facilities.

Step 3: Conclusion Functional structure offers functional specialisation and economy, but makes product coordination and general managerial development more difficult. Divisional structure improves coordination within each product division and develops general managers, at the cost of duplicated resources.

Quick Tip to Solve: For each basis, compare the same feature on both sides: common functional departments save cost, while complete product divisions improve coordination and broaden managerial experience.

12. Explain 'Career Advancement Opportunity' and 'Job Security' as non-financial incentives. [3 marks]

Solution:

Concept:

- Non-financial incentives satisfy employees' psychological, social and emotional needs rather than offering a direct cash payment. Recognition, growth and security can motivate people to contribute more effectively.
- Career advancement opportunity meets the desire for personal growth and higher responsibility. Job security meets the need for stability and freedom from the fear of losing employment.

Step 1: Explain career advancement opportunity **Career advancement opportunity:** Managers should provide employees with opportunities to improve their skills and to be promoted to higher-level jobs. Suitable training and development, together with a sound promotion policy, show employees that good performance can lead to greater responsibility and progress in the organisation. Employees are consequently encouraged to develop their abilities and work efficiently because they can see a future career path, rather than remaining in the same position indefinitely.

Step 2: Explain job security **Job security:** Employees want their jobs to be secure and their future income and work to be stable. A sense of continuity reduces anxiety about losing employment and enables them to concentrate on their duties. Security can increase loyalty, willingness to remain with the organisation and commitment to its objectives. However, management must also maintain meaningful performance standards, because excessive security without accountability can encourage complacency.

Step 3: Conclusion Career advancement motivates employees through prospects of growth, skill development and promotion. Job security motivates them through confidence in continued employment and a stable future. Both satisfy important needs beyond an immediate monetary reward.

Quick Tip to Solve: Link career advancement with growth and promotion, and job security with stability and reduced fear of unemployment; explain how each encourages better work.

13. 'G. Motors' is the manufacturer of sophisticated cranes. The Production manager of the company, reported to the Chief Executive Officer, Ashish Jain that one of the machines used in manufacturing sophisticated cranes had to be replaced to compete in the market, as other competitors were using automatic machines for manufacturing cranes. After a detailed analysis, it was decided to purchase a new automatic machine having the latest technology. It was also decided to finance this machine through long term sources of finance. Ashish Jain compared various machines and decided to invest in the machine which would yield the maximum returns to its investors.

(a) Identify the financial decision taken by Ashish Jain.

(b) Explain any three factors affecting the decision identified in (a) above. [3 marks]

Solution:

Concept:

- An investment decision concerns how an organisation's funds are invested in assets. Buying a fixed asset with benefits extending over a long period is a long-term investment decision, also called a capital budgeting decision.
- Capital budgeting compares the expected cash flows, returns and investment criteria of alternative projects so that funds are committed to an asset that contributes to shareholders' wealth.

Step 1: Identify the decision from the case Ashish Jain takes a **long-term investment decision or capital budgeting decision**. The case states that it was decided to **'purchase a new automatic machine having the latest technology'** and that he **'compared various machines'** to select the one yielding maximum returns. The company is choosing a fixed asset in which to invest funds for long-term benefits. The separate statement about financing through long-term sources concerns the financing decision; the choice of machine itself is the investment decision asked here.

Step 2: Explain three factors affecting the investment decision

- **Cash flows of the project:** An investment generates a series of cash receipts and payments over its life. The amount and timing of these cash flows must be carefully assessed before deciding whether the expected benefits justify the initial expenditure on the machine.
- **Rate of return:** The expected return from each investment proposal is estimated and compared with the risk involved and the required return. Other things being equal, a proposal offering a higher satisfactory return is preferred. This directly relates to the case's aim of selecting the machine that would **'yield the maximum returns to its investors'**.
- **Investment criteria involved:** Proposals must be evaluated using capital budgeting techniques. These take account of the investment outlay, interest rate, expected cash flows and return to judge the desirability of an investment and to compare the available machines systematically.

Step 3: Conclusion The decision is a capital budgeting decision because G. Motors is replacing a fixed asset with a new automatic machine. The three principal factors are the project's cash flows, its expected rate of return and the investment criteria used to assess competing proposals.

Quick Tip to Solve: Choosing which machine to buy is an investment decision; choosing how to raise the money is a financing decision. For capital budgeting, recall cash flows, return and investment criteria.

Section C (24 marks)

14(a). Explain the following dimensions of business environment :

(a) Political Environment; and

(b) Social Environment. [4 marks]

Solution:

Concept:

- Business environment consists of external forces that affect an enterprise's decisions and performance. Its dimensions are closely related, but each highlights a different source of influence.
- Political environment concerns government, political conditions and attitudes towards business. Social environment concerns society's customs, traditions, values, trends and expectations.

Step 1: Explain the political environment

- **Meaning and constituents:** Political environment includes political conditions such as general stability and peace in the country and the attitudes of elected government representatives towards business. The ideology and priorities of the government influence the climate in which firms operate.
- **Influence on business:** Political stability builds confidence among businesspeople and encourages long-term investment. Political unrest or uncertainty can undermine that confidence. A government attitude favourable to enterprise can encourage business activity, while a change in its priorities may require firms to review their plans.

Step 2: Explain the social environment

- **Meaning and constituents:** Social environment includes social forces such as customs and traditions, values, social trends and society's expectations from business. Traditions are practices followed over generations; values are ideas society holds important, such as freedom, equality and respect for others.
- **Influence on business:** These forces shape people's preferences and acceptable business behaviour. For example, a growing concern for health increases demand for health-oriented products and services. Firms that recognise changing lifestyles and expectations can adapt their offerings, whereas ignoring them may reduce demand.

Step 3: Conclusion Political environment affects business through political stability and government attitudes; social environment affects it through society's traditions, values, trends and expectations. An enterprise must understand both when choosing its policies and products.

Quick Tip to Solve: Link political environment with stability and government attitudes, and social environment with traditions, values and changing lifestyles. Explain the business effect of each.

OR

14(b). Explain the following economic reforms which had an impact on Indian Business and Industry :
(a) Liberalisation; and
(b) Globalisation. [4 marks]

Solution:

Concept:

- Economic reforms changed the conditions under which Indian business and industry operated. Liberalisation reduced unnecessary government controls; globalisation increased integration with the world economy.
- The reforms created opportunities for expansion and access to resources, while also exposing enterprises to stronger competition and the need to improve efficiency.

Step 1: Explain liberalisation

- **Meaning:** Liberalisation means freeing Indian business and industry from unnecessary government controls and restrictions. It gives enterprises greater freedom to make commercial decisions instead of seeking approval for many routine business activities.
- **Measures and business impact:** The reforms abolished industrial licensing requirements in most industries, reduced restrictions on the expansion of business and removed restrictions on the movement of goods and services. They also allowed greater freedom in fixing prices and simplified import-export procedures. These measures made entry and expansion easier and encouraged firms to respond more quickly to market opportunities.

Step 2: Explain globalisation

- **Meaning:** Globalisation means integrating the national economy with the world economy. It involves a greater level of interaction and interdependence among countries through the movement of goods, services, capital, technology and people across national boundaries.
- **Measures and business impact:** Reduction of barriers to foreign trade and foreign investment increased links between Indian enterprises and international markets. Indian firms gained opportunities to obtain technology and capital, source inputs internationally and sell abroad. At the same time, competition from foreign enterprises increased, making improvements in quality, cost and customer service essential.

Step 3: Conclusion Liberalisation increased business freedom by reducing unnecessary controls, while globalisation connected Indian business more closely with world markets. Together they widened business opportunities and increased the pressure to compete efficiently.

Quick Tip to Solve: Remember liberalisation as freedom from unnecessary controls and globalisation as integration with the world economy. State the meaning, then explain measures and their business impact.

15. 'Foods India Ltd.' is a company engaged in the production of packaged juice since 2010. Over this period, a large number of competitors have entered the market and are putting a tough challenge to 'Foods India Ltd.'. To face this challenge and to increase its market share, the company has decided to replace the old machinery with an estimated cost of ₹ 100 crores. To raise the finance, the company decided to issue 9% debentures. The Finance department of the company has estimated that the cost of issuing the 9% debentures will be ₹ 10,00,000. The company wants to meet its floatation cost.

(a) Explain the instrument that the company may issue for this purpose.

(b) In which type of financial market, is the instrument explained in (a) above traded ? Also explain how safe the instruments are in this market. [4 marks]

Solution:

Concept:

- Commercial paper is a short-term money-market instrument used by large, creditworthy companies to raise funds, including bridge finance for the floatation costs of a long-term securities issue.
- The money market deals in short-term funds and financial assets with a maturity of up to one year. Its instruments generally involve low default risk because issuers have strong credit standing.

Step 1: Identify the immediate financing need The company plans to finance replacement machinery by issuing debentures, but its immediate need is to meet the expenses of that issue. The case states that it "wants to meet its floatation cost", estimated at Rs 10,00,000. Therefore, identify an instrument that can provide short-term bridge finance rather than treating the Rs 100 crores machinery investment as the immediate borrowing requirement.

Step 2: Explain commercial paper **(a) Commercial paper:** Foods India Ltd. may issue commercial paper. It is an unsecured promissory note, issued for a short period by a large and creditworthy company. It is negotiable and transferable by endorsement and delivery, and is generally issued at a discount and redeemed at its face value. Its maturity normally ranges from 15 days to one year. Besides meeting working-capital needs, it can provide bridge finance to meet floatation costs incurred before the proceeds of a long-term issue become available. This use fits the company's stated purpose.

Step 3: Identify the market and explain safety **(b) Money market:** Commercial paper is traded in the money market, which meets short-term requirements for funds. **Safety of instruments:** Money-market instruments are generally regarded as relatively safe, with low risk of default, because their issuers usually possess strong creditworthiness and financial standing. Typical issuers include the government, banks and highly rated companies. However, commercial paper is unsecured: the investor relies on the issuing company's creditworthiness, so relatively low risk does not mean that repayment is guaranteed or that the instrument is completely risk-free.

Step 4: Conclusion Foods India Ltd. may issue **commercial paper** to finance its Rs 10,00,000 floatation cost. It belongs to the **money market**, whose instruments generally carry low default risk because of the sound credit standing of their issuers.

Quick Tip to Solve: In a financing case, distinguish the long-term investment from the temporary need: meeting floatation costs before issue proceeds arrive points to commercial paper as bridge finance.

16(a). Define a 'Consumer' according to the provisions of the Consumer Protection Act, 1986.

[4 marks]

Solution:

Concept:

- Under the Consumer Protection Act, 1986, a consumer includes a person who buys goods or hires or avails of services for consideration. The definition also covers specified approved users and beneficiaries.
- Consideration may be paid, promised, partly paid and partly promised, or payable under a system of deferred payment. Buying goods for resale or a commercial purpose is generally excluded.

Step 1: Define a consumer of goods **Buyer of goods:** A consumer is any person who buys any goods for a consideration which has been paid or promised, or partly paid and partly promised, or under any system of deferred payment. Thus, both an immediate payment and a qualifying credit purchase are covered. **Approved user:** The term also includes a user of such goods other than the buyer, when that use takes place with the buyer's approval. The person using the goods need not personally have made the payment.

Step 2: Define a consumer of services **Person hiring or availing of services:** A consumer is also any person who hires or avails of any services for consideration paid or promised, partly paid and partly promised, or payable under a system of deferred payment. **Approved beneficiary:** It includes a beneficiary of those services other than the person hiring or availing of them, provided that the services are availed of with that person's approval. For example, a family member benefiting from a paid service with the purchaser's approval may be covered.

Step 3: State the exclusions and the livelihood exception **Exclusions:** A person obtaining goods for resale or for a commercial purpose is not a consumer under this definition. Similarly, a person availing of services for a commercial purpose is excluded. Services rendered free of charge or under a contract of personal service do not fall within the Act's definition of service. **Self-employment exception:** For goods, commercial purpose does not include goods bought and used exclusively to earn one's livelihood by means of self-employment. A person purchasing and personally operating a sewing machine to earn a livelihood, for instance, is not excluded merely because it produces income.

Step 4: Conclusion A consumer under the Consumer Protection Act, 1986 is a qualifying buyer of goods or hirer or recipient of services for consideration, including approved users or beneficiaries, subject to the statutory exclusions and the self-employment livelihood exception.

Quick Tip to Solve: Organise the definition into goods and services; for each, state consideration and approved users or beneficiaries, then add resale, commercial-purpose and self-employment qualifications.

OR

16(b). State any eight reliefs available to the consumer, if the court is satisfied about the genuineness of the complaint. [4 marks]

Solution:

Concept:

- Under the Consumer Protection Act, 1986, a consumer redressal agency can direct the opposite party to provide appropriate relief when it is satisfied that the complaint is genuine.
- The relief may correct the defective product or deficient service, restore the consumer's money, compensate the loss, or prevent an unfair or hazardous practice from continuing.

Step 1: State the reliefs relating to goods and services

- **Removal of defect:** The opposite party may be ordered to remove the defect in the goods complained of, so that the product conforms to the required standard.
- **Replacement of goods:** The defective goods may be replaced with new goods of similar description which are free from any defect.
- **Refund of price or charges:** The price paid for the goods, or the charges paid for the service, may be returned to the consumer.
- **Removal of deficiency in service:** The service provider may be directed to remove the deficiencies in the service in question.

Step 2: State the compensatory and preventive reliefs

- **Compensation:** A reasonable amount may be awarded as compensation for loss or injury suffered by the consumer due to the negligence of the opposite party.
- **Discontinuance of unfair or restrictive trade practice:** The opposite party may be ordered to discontinue such a practice and not repeat it.
- **Stopping sale of hazardous goods:** The seller may be directed not to offer hazardous goods for sale, protecting consumers from unsafe products.
- **Withdrawal of hazardous goods:** Hazardous goods already being offered for sale may be ordered to be withdrawn from the market.

Step 3: Conclusion Thus, eight available reliefs are removal of defects, replacement, refund, removal of service deficiencies, compensation, discontinuance of unfair or restrictive trade practices, stopping the sale of hazardous goods, and withdrawal of hazardous goods from sale. The agency selects the appropriate relief according to the genuine complaint.

Quick Tip to Solve: Organise the reliefs into product or service correction, money relief, and prevention. Keep stopping future sale and withdrawing goods already on sale as separate reliefs.

17. Kunal joined as a shop level manager in the Production department of a textile company in the year 2005. Because of his good work, he became the Deputy Production Manager of the company in the year 2010. He had status and prestige and was well-respected by all in the company. On 1st March, 2019, he was promoted as the General Manager of the company. Kunal was very happy on his promotion as now he had become what he was capable of becoming. As a good manager, Kunal decided to motivate his subordinates, after understanding the Need Hierarchy theory which is based on various assumptions. He realised that people's behaviour is based on their needs and the manager can influence the behaviour of his employees by satisfying their needs.

(a) One of the assumptions of Need Hierarchy theory is stated in the above paragraph. State the other three assumptions of this theory.

(b) State the needs of Kunal which are being satisfied through promotion. [4 marks]

Solution:

Concept:

- Maslow's Need Hierarchy Theory explains motivation through five levels of needs: basic physiological, safety or security, affiliation or belongingness, esteem, and self-actualisation needs.
- The case already states the assumption that behaviour is based on needs and that satisfying needs can influence employees' behaviour. Part (a) therefore requires the remaining three assumptions.

Step 1: State the other three assumptions of the theory

- **Hierarchy of needs:** People's needs are arranged in a hierarchical order, starting with basic physiological needs and moving upward through safety, affiliation and esteem to self-actualisation.
- **A satisfied need ceases to be a motivator:** Once a particular need has been reasonably satisfied, it no longer provides the same incentive for action. An unsatisfied need becomes the source of motivation.
- **Movement to a higher need follows satisfaction of a lower need:** A person moves to the next higher level of the hierarchy only when the lower-level need has been satisfied. Thus the dominant motivating need changes as the person progresses.

These are additional assumptions; merely repeating that behaviour depends on needs would repeat the assumption already supplied in the question.

Step 2: Link Kunal's promotions to the needs satisfied

- **Esteem needs:** His promotion to Deputy Production Manager gave him recognition, status and respect. The evidence is that he "had status and prestige and was well-respected by all in the company." These words directly indicate esteem needs, which include recognition, self-respect and respect from others.
- **Self-actualisation needs:** His promotion to General Manager enabled him to realise his potential. The case says that "now he had become what he was capable of becoming." This is the desire to achieve one's full potential and become what one is capable of becoming, which defines self-actualisation.

Step 3: Conclusion The remaining assumptions are the hierarchical ordering of needs, the loss of motivating power of a satisfied need, and progression to higher needs after lower needs are satisfied. Kunal's promotions satisfy esteem needs through status and respect, and self-actualisation needs through the fulfilment of his potential.

Quick Tip to Solve: In a Maslow case, connect status and prestige with esteem; connect becoming what one is capable of becoming with self-actualisation. Quote the clue before explaining the need.

18. 'Smart Stationery Ltd.' wants to raise funds of Rs 40,00,000 for its new project. The management is considering the following mix of debt and equity to raise this amount:

Capital Structure	Alternative		
	I (Rs)	II (Rs)	III (Rs)
Equity	40,00,000	30,00,000	10,00,000
Debt	0	10,00,000	30,00,000

Other details are as follows:

Interest Rate on Debt	9%
Face Value of Equity Shares	Rs 100 each
Tax Rate	30%
Earning Before Interest and Tax (EBIT)	Rs 8,00,000

(a) Under which of the three alternatives will the company be able to take advantage of Trading on Equity?

(b) Does Earning Per Share always rise with increase in debt? [4 marks]

Solution:

Concept:

- Trading on equity is the increase in the earnings per equity share obtained by using fixed-charge funds such as debt. It is favourable when the return on investment exceeds the interest rate on debt.
- Earnings per share (EPS) is profit after interest and tax divided by the number of equity shares. Debt interest is paid before tax, while the residual profit belongs to equity shareholders.

Step 1: Calculate earnings available to shareholders The case states 'Interest Rate on Debt 9%' and EBIT of 'Rs 8,00,000'. Interest under Alternatives I, II and III is respectively Rs 0, Rs 90,000 and Rs 2,70,000. Subtract interest from EBIT and then deduct tax at 30%:

Particulars	I	II	III
EBIT (Rs)	8,00,000	8,00,000	8,00,000
Less: Interest (Rs)	0	90,000	2,70,000
Profit before tax (Rs)	8,00,000	7,10,000	5,30,000
Less: Tax (Rs)	2,40,000	2,13,000	1,59,000
Profit after tax (Rs)	5,60,000	4,97,000	3,71,000

Step 2: Compare EPS under the alternatives The 'Face Value of Equity Shares' is 'Rs 100 each'. Dividing each alternative's equity capital by Rs 100 gives 40,000, 30,000 and 10,000 shares respectively. EPS is therefore Rs 14 under I, approximately Rs 16.57 under II and Rs 37.10 under III. Thus both debt-bearing alternatives improve EPS over the all-equity alternative, and Alternative III provides the greatest advantage of trading on equity.

Step 3: Explain when additional debt helps EPS does not always rise when debt increases. Here the return on total investment is 20%, which exceeds the 9% interest rate, so borrowing leaves a favourable surplus for fewer equity shares. If the return on investment falls below the borrowing rate, fixed interest absorbs more of the earnings than the borrowed funds generate and leverage

reduces EPS. Interest remains payable even when operating earnings decline, so greater debt also raises financial risk.

Step 4: Conclusion (a) Alternative III is the best choice for taking advantage of trading on equity, with the highest EPS of Rs 37.10; Alternative II also produces favourable leverage compared with I. (b) No: increased debt raises EPS favourably only when the return on investment exceeds its interest cost.

Quick Tip to Solve: Compare EPS after interest and tax, using equity capital divided by face value for the share count. Check the return against the debt interest rate before concluding that more borrowing helps.

19. Explain any four factors which affect the fixation of price of a product. [4 marks]

Solution:

Concept:

- Price is the amount paid by a buyer in consideration of obtaining a product or service. Price determination must reconcile the firm's costs and objectives with customers' willingness to pay and market conditions.
- Product cost, utility and demand, competition, and pricing objectives are four important factors affecting the fixation of price. These factors operate together rather than providing four separate prices.

Step 1: Explain cost and customer demand

- **Product cost:** Cost includes the expenditure on producing, distributing and selling the product, including fixed and variable costs. In the long run the price should recover the full cost and provide a reasonable profit. Cost therefore supplies a basic minimum consideration for pricing; a firm cannot continuously sell below its total cost and remain viable.
- **Utility and demand:** The utility buyers perceive and the intensity of their demand influence the maximum price they are willing to pay. Buyers pay when the value received appears to justify the sacrifice. If demand is elastic, a small price increase can cause a substantial fall in demand, limiting the firm's pricing freedom. Relatively inelastic demand permits greater scope to charge a higher price.

Step 2: Explain the market and the firm's objectives

- **Extent of competition in the market:** The number and strength of competitors, their prices and the quality and features of their products affect the firm's price. With close substitutes and intense competition, a firm has less freedom to charge a price substantially above rivals. Where competition is limited or the product is differentiated, the firm has greater pricing discretion.
- **Pricing objectives:** The price depends on what the firm wants to achieve. An objective of increasing market share may lead to a relatively low price, whereas maximising profit requires judging the effect of price on both sales and margin. Objectives such as survival under difficult market conditions or product-quality leadership can also influence the price selected.

Step 3: Conclusion Four factors affecting price fixation are product cost, utility and demand, extent of competition in the market, and pricing objectives. The firm should assess them jointly to select a

price acceptable to customers and consistent with its business goals.

Quick Tip to Solve: Organise pricing factors around four questions: What does it cost, what will buyers pay, what do rivals charge, and what objective is the firm pursuing?

Section D (15 marks)

20(a). Explain any five points of importance of principles of management. [5 marks]

Solution:

Concept:

- Principles of management are broad and general guidelines for managerial decision-making and behaviour. They are flexible guides, rather than rigid rules, and must be applied according to the situation.
- Their importance lies in improving the quality of decisions, the use of resources and the ability of managers to respond responsibly to changing business conditions.

Step 1: Explain their contribution to managerial understanding and resource use

- **Providing managers with useful insights into reality:** Principles are based on observation and experience. They increase a manager's knowledge of managerial situations and help the manager understand the likely consequences of decisions. For example, unity of command explains why receiving orders from one superior reduces confusion and conflicting instructions.
- **Optimum utilisation of resources and effective administration:** Principles help managers organise human and material resources economically and avoid waste. Division of work develops specialisation, while an appropriate balance of authority and responsibility helps employees perform their duties effectively. Clear guidelines also reduce the need for arbitrary decisions in administration.

Step 2: Explain their contribution to decisions, change and responsibility

- **Scientific decisions:** Principles encourage decisions based on facts, logic and thoughtful assessment of a situation, rather than personal prejudice, guesswork or trial and error alone. Managers can explain and justify their decisions because they use an established body of knowledge while considering the particular circumstances.
- **Meeting changing environment requirements:** Principles are general and flexible, so managers can modify their application as technology, competition and employee expectations change. For instance, an appropriate degree of centralisation can vary with the size and needs of the organisation; a principle guides adaptation rather than forcing a fixed arrangement.
- **Fulfilling social responsibility:** Principles help managers recognise their obligations towards employees and society. Equity encourages fair treatment of employees, and fair remuneration supports their welfare. Thus, management can pursue organisational goals while taking account of the interests of those affected by business activity.

Step 3: Conclusion The five points are useful insights into reality, optimum utilisation of resources and effective administration, scientific decisions, meeting changing environment requirements, and

fulfilling social responsibility. Together, these make managerial action more informed, efficient, adaptable and responsible.

Quick Tip to Solve: Write the NCERT heading first and then explain how it improves managerial action; a short example makes each point clearer.

OR

20(b). Explain management as a profession. [5 marks]

Solution:

Concept:

- A profession is an occupation requiring specialised knowledge and training, restricted entry, a professional association, an ethical code and a service motive.
- Management has some characteristics of a profession, but it does not satisfy all of them fully. Its professional character must be assessed against each of these features.

Step 1: Examine knowledge and entry requirements

- **Well-defined body of knowledge:** Management is based on a systematic body of knowledge consisting of principles and theories. This knowledge can be acquired through instruction in colleges and specialised management institutions. In this respect, management has a characteristic of a profession.
- **Restricted entry:** Entry into an established profession usually requires a prescribed educational qualification or an examination. In management, no specific qualification or professional licence is legally compulsory for becoming a manager. Management education is desirable and increasingly valued by employers, but an unqualified person is not automatically barred from managerial work. This feature is therefore not fully present.

Step 2: Examine association, ethics and service

- **Professional association:** Professions have associations that regulate entry, grant recognition and lay down standards of conduct. Management associations, such as the All India Management Association, exist and promote professional standards. However, membership is not compulsory for managers, and these associations do not regulate entry into management as statutory professional bodies do.
- **Ethical code of conduct:** A profession normally binds its members to an enforceable code of conduct. Management associations have prescribed ethical codes, but their membership is voluntary and the codes are not universally binding on every manager. Thus, management does not fully meet this condition either.
- **Service motive:** A profession seeks to serve its clients and society. Management aims to help an organisation achieve its objectives effectively and efficiently. Although profit is an important objective of a business, good management also recognises responsibilities towards employees, consumers and society. The growing emphasis on service and social responsibility strengthens its professional character.

Step 3: Conclusion Management is moving towards becoming a profession, but it is not a full-fledged profession. It has a specialised body of knowledge and an increasing service orientation, while compulsory qualifications, mandatory association membership and a universally enforceable ethical code are still lacking.

Quick Tip to Solve: Use the five tests of a profession and assess management against each; do not conclude that an MBA is compulsory for becoming a manager.

21. Vikas was the Chief Operating Officer of 'Yalet Ltd.', a company providing advanced software solutions to Indian Defence Services. They had been carrying on business successfully for the last twelve years and earning enough profits. But from the last one year, they realised that though the business is getting big orders which are being fulfilled in time, even then the revenues kept on decreasing. Vikas was not able to find out where the problem was. He started keeping a close check on the progress of activities as he could sense that something was wrong. He wanted to take some action before any major damage could be done to the business. Vikas appointed a cyber security expert who monitored the company's processes and found out that the computer operator was deleting the entries from the computers and pocketing the revenues. He was caught and handed over to the police. This created an atmosphere of order and discipline in the organisation and helped in minimising dishonest behaviour on the part of the employees.

(a) Identify the function of management highlighted in the above paragraph.

(b) Explain any four other ways in which this function of management may help the organisation.

[5 marks]

Solution:

Concept:

- Controlling is the management function of comparing actual performance with planned standards, identifying deviations and taking corrective action so that organisational goals are achieved.
- Control is useful throughout an organisation: it keeps activities directed towards goals and provides information for improving standards, resource use and employee performance.

Step 1: Identify the function from the case The function is **controlling**. Vikas "started keeping a close check on the progress of activities" and appointed an expert who "monitored the company's processes". The monitoring disclosed the cause of declining revenue despite timely fulfilment of orders: the operator was deleting entries and pocketing revenue. Detecting this deviation and taking corrective action illustrate controlling. The case already highlights its role in ensuring order and discipline, so that benefit should not be repeated as one of the four other ways.

Step 2: Explain four other benefits of controlling

- **Accomplishing organisational goals:** Controlling measures progress towards goals and brings deviations to light. Corrective action keeps activities on the planned course, helping Yalet Ltd. translate completed orders into the intended business results.
- **Judging the accuracy of standards:** A sound control system checks whether the standards used to judge performance remain accurate and objective. In light of changes in the business and

its environment, management can review and revise unsuitable standards instead of judging performance against unrealistic targets.

- **Making efficient use of resources:** Employees perform activities according to predetermined standards. This reduces wastage and spoilage and ensures effective use of human, physical and financial resources; avoidable losses can be detected and corrected.
- **Improving employee motivation:** Clear standards tell employees what is expected of them and how their performance will be appraised. When performance and rewards are linked fairly to those standards, employees are encouraged to perform better and work towards the organisation's objectives.

Step 3: Conclusion Vikas is performing controlling. Besides ensuring order and discipline, this function helps accomplish organisational goals, judge the accuracy of standards, use resources efficiently and improve employee motivation.

Quick Tip to Solve: When asked for "other" benefits, exclude the benefit explicitly described in the case; here, do not count order and discipline again.

22. 'Pushpanjali Ltd.', is manufacturing chocolates, biscuits, cakes and other similar products. The company is not generating enough profits. Saurabh, the Marketing manager of the company got a survey conducted to find out the reasons. The findings of the survey revealed that in spite of better quality, the customers were not able to distinguish the products of the company from its competitors. Though the customers wanted to buy the products of 'Pushpanjali Ltd.' again and again because of its good quality, but they were not able to identify its products in the market. Because of this, the sales of the company could not pick up resulting in inadequate profits. Saurabh, the Marketing manager now realised that 'Pushpanjali Ltd.' had forgotten to take one of the most important decisions related to the product.

What decision should 'Pushpanjali Ltd.' take so that its customers are able to identify its products in the market ? Explain the benefits that may result to 'Pushpanjali Ltd.' and its customers if the above decision is taken. [5 marks]

Solution:

Concept:

- Branding is the process of giving a product a name, sign, symbol or design, or a combination of these, to identify the seller's products and distinguish them from competing products.
- A brand connects the seller's quality and promotional efforts with an identity that customers can recognise. It provides benefits both to the marketer and to consumers.

Step 1: Identify the product decision Pushpanjali Ltd. should take the decision of **branding**: it should give its products a distinctive brand name and suitable identifying sign or symbol. The case states that customers "were not able to distinguish the products of the company from its competitors" and "were not able to identify its products in the market". These lines point directly to the absence of an identifiable brand, rather than a need to improve the already good quality. The identity should let satisfied customers recognise the company's products on later purchases.

Step 2: Explain benefits to Pushpanjali Ltd.

- **Product differentiation:** Branding distinguishes the company's chocolates, biscuits and cakes from competing offerings and allows customers to ask for them by name.
- **Advertising and display programmes:** An identifiable brand makes advertising and sales promotion effective because customers can connect the message with the particular products available in shops.
- **Differential pricing:** An established, preferred brand can help the company charge a price different from competing products. Customers may accept it because they value the brand's quality; this is a possible advantage, not a guarantee of higher profits.
- **Ease of introducing new products:** Once customers trust the brand, the company can use that reputation to introduce additional products, reducing the difficulty of gaining initial recognition and acceptance.

Step 3: Explain benefits to customers

- **Identification and repeat purchase:** A brand helps customers recognise and buy the products they liked again, directly solving the difficulty described in the case.
- **Assurance of quality:** A brand represents a certain level of quality. Customers can expect consistency and can approach the identified seller if that expectation is not met, reducing the risk of buying an unfamiliar offering each time.
- **Status symbol:** Some brands become status symbols because of their reputation and the esteem associated with owning or using them. If the company builds such a reputation, consumers may also receive this psychological benefit.

Step 4: Conclusion The missing decision is branding. A distinctive brand will enable customers to identify Pushpanjali Ltd.'s products and repeat purchases, while supporting the company's differentiation, promotion, pricing and future product introductions.

Quick Tip to Solve: "Good quality but customers cannot identify it" points to branding. Organise its benefits separately for the marketer and the consumer.

Section E (18 marks)

23(a). Explain the following principles of general management :

(a) Scalar Chain;

(b) Equity; and

(c) Initiative. [6 marks]

Solution:

Concept:

- Fayol's principles of general management guide managers in coordinating people and activities. Scalar chain concerns authority and communication, equity concerns fair treatment, and initiative concerns employees' willingness to propose and execute plans.
- These principles are flexible guidelines: managers apply them according to the situation while

maintaining discipline and the organisation's objectives.

Step 1: Explain scalar chain and its communication route **Scalar chain:** It is the formal line of authority running from the highest rank to the lowest rank in an organisation. Fayol recommends that the chain should normally be followed in giving orders and communicating information, so that each superior knows what is happening and responsibility remains clear. For example, a worker ordinarily communicates a matter through the immediate supervisor rather than bypassing the intervening levels.

Gang plank in an emergency: Following every link can sometimes delay an urgent decision. Fayol permits a gang plank, a direct contact between employees at the same level in different departments, when the situation demands speedy communication. The concerned superiors should be informed. Thus the normal chain is respected while an authorised shortcut prevents avoidable delay.

Step 2: Explain equity in dealing with employees **Equity:** Managers should treat employees with kindness and justice. There should be no discrimination on grounds such as sex, religion, language, caste or nationality. Comparable treatment and fair decisions build loyalty and devotion among employees. Equity does not mean that poor performance must be ignored or that every employee receives identical treatment regardless of merit: discipline may be necessary, but it must be applied fairly and without personal prejudice.

Step 3: Explain initiative and how managers encourage it **Initiative:** Employees should be encouraged to think out and execute plans within the prescribed limits of authority and discipline. It means taking the first step with self-motivation, rather than merely waiting for instructions. A manager can invite suggestions for improving work, consider them seriously and suitably reward useful ideas. Allowing employees to participate in planning and implementation develops confidence, enthusiasm and a sense of belonging. Managers should therefore avoid unnecessarily suppressing a subordinate's ideas merely to display their own authority.

Step 4: Conclusion Scalar chain establishes an orderly authority and communication route with a gang plank for urgent cases; equity requires kind and just treatment; initiative encourages employees to propose and carry out useful plans within organisational discipline.

Quick Tip to Solve: Link the three names to three questions: Who communicates through whom? How are people treated? Who is encouraged to suggest and act?

OR

23(b). Explain any three principles of scientific management. [6 marks]

Solution:

Concept:

- Scientific management, developed by F.W. Taylor, applies systematic study and analysis to the performance of work instead of relying only on personal judgement and traditional practices.
- Taylor's principles seek greater efficiency and prosperity for both employers and workers. Any three principles may be explained; the following answer discusses science, harmony and cooperation.

Step 1: Explain science, not rule of thumb **Science, not rule of thumb:** A manager should replace methods based on habit, intuition or individual experience with methods established through scientific investigation. Each element of a job should be studied to discover the best method of performing it. For example, the sequence of operations, tools and time needed for a task can be examined and standardised rather than being left to each worker's personal preference. Scientific analysis improves efficiency and helps avoid waste of time, effort and materials. The method chosen should reflect the organisation's resources and requirements, rather than an untested customary practice.

Step 2: Explain harmony, not discord **Harmony, not discord:** Management and workers should recognise that their interests are linked and develop harmonious relations instead of treating one another as opponents. Taylor advocated a **mental revolution**: a complete change in the attitudes of both sides towards each other. Management should share gains in productivity with workers, while workers should work sincerely for the organisation's prosperity. Instead of quarrelling over the distribution of an unchanged surplus, both should try to increase that surplus. Mutual trust and respect reduce conflict and support the common goal of organisational success.

Step 3: Explain cooperation, not individualism **Cooperation, not individualism:** There should be close cooperation between management and workers in place of competition or isolated efforts. Management should consult workers, welcome constructive suggestions and suitably reward suggestions that reduce costs or improve work. Workers should cooperate in introducing scientific methods instead of obstructing them. There should be an appropriate division of work and responsibility: management undertakes scientific planning and guidance, and workers perform the assigned work with management's assistance. In this way both sides contribute their knowledge and effort to achieving organisational objectives.

Step 4: Conclusion The three principles are science, not rule of thumb; harmony, not discord; and cooperation, not individualism. They combine scientifically determined work methods with changed attitudes and joint effort by management and workers.

Quick Tip to Solve: For each Taylor principle, state both sides of its name and explain the practical change it demands: scientific study, mutual trust or joint effort.

24. 'E-Solutions Ltd.' started its operations in the year 2000. At the time of its inception, the company had only ten employees with two departments, a Production department and an Administration department. The products supplied and the services provided by the company started gaining popularity over the years. The management had faith in the abilities of the employees and thus they allowed them freedom of action. The management recognised that the decision-makers at different levels of the organisation need to be given more autonomy. They took a policy decision that there will be less control of superiors over subordinates. This increased the role of the subordinates in the organisation and now they were in a position to take numerous as well as important decisions. As a result, its business has diversified into many areas. Presently, it has its operations throughout the country with seven branches overseas. Its organisational structure has now changed into divisional structure and ten thousand people are working with the company.

(a) Identify the concept of management which helped the company to diversify into many areas and branches abroad.

(b) Explain five points of importance of the concept identified in (a) above. [6 marks]

Solution:

Concept:

- Decentralisation means systematic delegation of authority throughout the organisation, extending decision-making to lower levels, except for matters necessarily reserved for top management.
- Unlike an individual act of delegation, decentralisation is an organisation-wide policy reflecting management's confidence in subordinates and their capacity to exercise judgement.

Step 1: Identify decentralisation from the policy (a) The concept is **decentralisation**. Management recognised that decision-makers at different levels needed 'more autonomy' and decided that there would be 'less control of superiors over subordinates'. Subordinates could consequently take 'numerous as well as important decisions'. These statements show a deliberate dispersal of decision-making authority across levels, rather than merely a change in the grouping of activities.

Step 2: Explain five points of importance (b) The importance of decentralisation is explained below:

- **Develops initiative among subordinates:** Freedom to take decisions encourages employees to rely on their own judgement and develop solutions. Since they accept responsibility for their decisions, they become more confident, self-reliant and willing to take initiative.
- **Develops managerial talent for the future:** Lower-level managers gain practical experience in making decisions and handling their consequences. This acts as training for positions of greater responsibility and helps the organisation build a pool of capable future managers.
- **Quick decision-making:** Decisions can be taken near the point of action without referring every matter up a lengthy chain of command. Fewer approvals reduce delays, and local managers can respond promptly to the needs of their units.
- **Relief to top management:** Dispersal of routine decision-making reduces the burden on senior managers. They can devote more attention to major policy matters, strategy and coordination instead of being occupied with every operational detail.
- **Facilitates growth:** Greater autonomy equips departmental and divisional managers to deal with the challenges of expansion. Different units can operate with suitable freedom while working towards common objectives, making it easier for a large enterprise to diversify and expand

geographically.

Step 3: Conclusion E-Solutions Ltd. adopted decentralisation. By building initiative and managerial talent, speeding decisions, relieving top management and facilitating growth, decentralisation supported its expansion into different businesses and overseas branches.

Quick Tip to Solve: Look for an organisation-wide policy of autonomy at lower levels to identify decentralisation; a divisional structure describes how activities are grouped, rather than how authority is dispersed.

25. 'Entertainment India Ltd.' has been incorporated with the objective of entertaining people by organising festivals, programmes and other similar events depicting the rich cultural heritage of the country. The company management has renowned personalities from the field of art, literature and culture. They decided to give a platform to young budding musicians, poets and artists. The company decided its organisational structure by grouping similar jobs together. Thereafter, the heads of different departments were also appointed. Nisha, one of the heads, did an analysis of the number, type and qualification necessary for people to be appointed. The information generated in the process of writing the job description and the candidate profile was used to develop 'Situations vacant' advertisement. This was published in print media and flashed in electronic media. This brought in a flood of response.

Explain the other steps which Nisha has to perform to complete the process being discussed above.

[6 marks]

Solution:

Concept:

- Staffing is the managerial function of obtaining, utilising and maintaining a competent workforce to fill positions in the organisation structure.
- Estimating manpower requirements and recruitment precede selection. Once applications arrive, the remaining staffing steps extend from choosing suitable candidates to rewarding and developing employees.

Step 1: Locate the stage already completed Nisha's analysis of the 'number, type and qualification necessary for people to be appointed' is **estimating manpower requirements**. The 'Situations vacant' advertisement that brought a 'flood of response' is **recruitment**, which attracts prospective employees. The process being discussed is therefore the staffing process. Receiving applications does not complete staffing: Nisha must now choose suitable people and ensure that they perform and develop effectively.

Step 2: Explain the remaining staffing steps

- **Selection:** From the applicants attracted by recruitment, choose the candidates best suited to the jobs. Screening, appropriate employment tests and interviews, reference checks and other relevant selection procedures help compare candidates with job requirements before an employment offer is made.
- **Placement and orientation:** Assign each selected employee to the position for which the person has been selected. Introduce the employee to the organisation, its rules, colleagues and immediate superior so that the newcomer understands the workplace and can settle into the job.

- **Training and development:** Provide opportunities to acquire the knowledge and skills needed for efficient job performance. Training improves competence for the present job, while development prepares employees for broader responsibilities and future positions.
- **Performance appraisal:** Evaluate employees' performance against predetermined standards. Communicating the assessment helps employees understand their strengths and areas needing improvement; it also provides information for personnel decisions.
- **Promotion and career planning:** Provide opportunities for advancement to positions carrying greater responsibility and authority. Plan employees' careers and encourage their growth so that they can meet future organisational requirements and remain motivated to contribute.
- **Compensation:** Determine and pay the remuneration due to employees, including wages or salary and appropriate benefits or incentives. A fair remuneration system should reflect job demands and organisational policy, helping attract, retain and motivate capable employees.

Step 3: Conclusion After manpower estimation and recruitment, Nisha must undertake selection, placement and orientation, training and development, performance appraisal, promotion and career planning, and compensation to complete the staffing process.

Quick Tip to Solve: When a staffing case ends with responses to a vacancy advertisement, recruitment is complete. Start the remaining steps with selection and continue through compensation.