CBSE Class 12 Business Studies Question Paper 2019 with Solution PDF-Set 66/5/3

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. Vivek purchased a bike from Sarnath Automobiles with a written guarantee to repair or replace, if necessary, within six months or 5,000 kms of distance travelled whichever is earlier. After covering the distance of 400 kms in two months, the gears of the bike started giving problems. Vivek took the bike to the dealer who refused to listen to his complaint. He was confused about what he should do. Suggest the rights that Vivek may exercise in the above case. [1 mark]

Solution:

Concept:

- Consumers have a right to be heard: their complaints must receive due consideration at appropriate forums.
- The right to seek redressal provides relief against unfair trade practices and defective goods or deficient services.

Step 1: Identify the denial of a hearing The dealer 'refused to listen to his complaint'. Vivek may exercise his **right to be heard** by having his grievance considered by the appropriate consumer forum.

Step 2: Seek a remedy for the defect The gears developed problems after only '400 kms in two months', within the written guarantee. Vivek may exercise his **right to seek redressal**, seeking repair, replacement or appropriate compensation for the defective bike and deficient service.

Step 3: Conclusion Vivek can exercise the right to be heard and the right to seek redressal.

Quick Tip to Solve: Link refusal to hear a complaint with the right to be heard; link the remedy sought with redressal.

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2. 'XY Ltd.' is registered with an authorised capital of ₹ 10 crore. The paid-up capital of the company is ₹ 6 crore. The company was facing shortage of funds. The management of the company decided to raise funds by issue of 1,00,000 equity shares of ₹ 100 each. The issue was fully subscribed. After this it was realised that the funds raised were in excess of the actual requirement.

Identify and define the concept which was not considered by the company before deciding the amount of funds to be raised. [1 mark]

Solution:

Concept:

- Financial planning estimates an enterprise's financial requirements and determines the sources from which those requirements will be met.
- It aims to make adequate funds available at the right time while avoiding unnecessary surplus funds.

Step 1: Identify the omitted exercise The statement that 'funds raised were in excess of the actual requirement' shows that XY Ltd. did not properly undertake **financial planning** before deciding how much money to raise.

Step 2: Define the concept Financial planning is the process of estimating the financial requirements

of a business and specifying the sources of funds. It involves estimating both the amount and timing of funds needed, so that neither a shortage nor wasteful excess arises.

Step 3: Conclusion The concept overlooked was financial planning: estimating financial requirements and specifying the sources of funds.

Quick Tip to Solve: A case about deciding the amount of finance needed points to financial planning, rather than merely the choice of securities.

3. Various input resources are required by management to complete a task effectively and efficiently. Name any two. [1 mark]

Solution:

Concept:

- Management coordinates human and other resources to achieve organisational objectives.
- Inputs are the resources employed in carrying out work; effective and efficient management combines them purposefully.

Step 1: Name a human input **People (human resources)** are an input resource. Employees and managers contribute their effort, skills and knowledge to perform the organisation's tasks.

Step 2: Name a physical input **Materials** are another input resource. Raw materials and other supplies are used in producing goods or providing services. Management arranges and uses these inputs to achieve the required output with minimum waste.

Step 3: Conclusion Any two input resources are people and materials.

Quick Tip to Solve: Name resources used to perform work, such as people and materials; effectiveness and efficiency are outcomes of managing them.

4. 'Nayan Medicare Equipment Ltd.' manufactures equipment for surgeons having a unique laser technique. The equipment can be used by the surgeons only after proper training. Even their maintenance requires guidance of specialised engineers. Because of this, the equipment is used in a limited number of hospitals. The company wants to increase the sale of the equipment.

Suggest the promotion tool to be used by the company giving reason in support of your answer.

[1 mark]

Solution:

Concept:

- Personal selling is personal communication with prospective buyers to persuade them to purchase a product.
- It suits complex technical products because a salesperson can explain features, demonstrate use and answer individual queries.

Step 1: Choose the promotion tool Nayan Medicare Equipment Ltd. should use **personal selling**.

The equipment uses a 'unique laser technique' and requires 'proper training', so prospective hospital buyers need detailed technical explanations.

Step 2: Connect the reason to the buyers A trained sales representative can demonstrate the equipment, clarify its operation and explain maintenance support. The 'limited number of hospitals' also makes direct contact practical. Personal interaction allows the seller to adapt the explanation to each hospital's needs and resolve doubts immediately.

Step 3: Conclusion Personal selling is suitable because this specialised technical equipment requires demonstrations, training and individual guidance.

Quick Tip to Solve: For a complex technical product with few institutional buyers, connect personal selling to demonstration and immediate clarification.

5. All business firms would like to increase their sales and earn profits to be successful. All managers dream of these. To turn their dreams into reality, managers need to work hard in thinking about the future, in making business predictions and achieving targets.

The above lines describe one of the functions of management. Identify and define this function.

[1 mark]

Solution:

Concept:

- Planning is deciding in advance what to do and how to do it.
- It sets objectives and selects an appropriate course of action from available alternatives to achieve those objectives.

Step 1: Recognise the function The references to 'thinking about the future', 'making business predictions' and 'achieving targets' identify the management function as **planning**. Managers first consider the desired future results and the actions needed to reach them.

Step 2: State its meaning Planning means setting objectives for a given period, formulating alternative courses of action and choosing the best course to achieve them. It bridges the gap between the organisation's present position and the position it wants to reach by deciding in advance what should be done and how.

Step 3: Conclusion The function is planning: setting objectives and deciding in advance the most appropriate course of action for achieving them.

Quick Tip to Solve: Look for future targets and advance decisions about actions; these are the defining clues for planning.

6(a). Give the meaning of 'Functional Structure'. [1 mark]

Solution:

Concept:

- An organisational structure specifies how tasks are grouped and authority relationships are arranged.
- A functional structure groups activities according to the specialised functions performed.

Step 1: Identify the basis of grouping In a **functional structure**, activities of a similar nature are grouped into separate departments. The grouping follows the kind of work performed, rather than individual product lines.

Step 2: Explain the arrangement For example, production activities are placed in the production department, marketing activities in marketing, and financial activities in finance. Each department brings together employees with the relevant functional expertise and is headed by a specialist responsible for that function.

Step 3: Conclusion Functional structure is an organisational structure that groups jobs and activities according to specialised functions such as production, marketing and finance.

Quick Tip to Solve: Remember that the grouping basis is the function performed, such as production or finance.

OR

6(b). Give the meaning of 'Divisional Structure'. [1 mark]

Solution:

Concept:

- An organisational structure groups activities and defines reporting relationships within an enterprise.
- A divisional structure groups activities by products or product lines, with separate divisions responsible for their respective products.

Step 1: Identify the basis of grouping In a **divisional structure**, the activities connected with each major product or product line are grouped together in a separate division. Each division focuses on the operations and results of its own product.

Step 2: Explain the arrangement Within a product division there may be its own functional activities, such as production, marketing and finance. Thus, the division has the resources and functions needed to manage that product, while the organisation as a whole contains several such product-based divisions.

Step 3: Conclusion Divisional structure is an organisational structure in which activities related to a product or product line are grouped into a separate division.

Quick Tip to Solve: Identify the primary grouping basis: a separate division for each product indicates divisional structure.

7(a). Differentiate between a 'Trade Test' and an 'Interest Test'. [1 mark]

Solution:

Concept:

- Selection tests assess different attributes of a candidate before appointment.
- A trade test measures existing occupational skills; an interest test discovers the activities or occupations a person prefers.

Step 1: Identify the basis of distinction The distinction is between the ability to perform a particular job and the preference for a particular kind of work. Being interested in a trade does not by itself establish competence in it.

Step 2: Compare the tests

Basis	Trade Test	Interest Test
Attribute tested	Measures the candidate's existing level of knowledge and proficiency in a particular occupation or trade.	Identifies the candidate's pattern of interests and the occupations or activities liked.

Step 3: Conclusion A trade test checks what a candidate can do in a trade, whereas an interest test checks the kinds of work the candidate likes.

Quick Tip to Solve: Distinguish skill from preference: trade means proficiency; interest means liking.

OR

7(b). Differentiate between 'Placement' and 'Orientation'. [1 mark]

Solution:

Concept:

- Placement and orientation take place after a candidate has been selected for employment.
- Placement assigns a job; orientation introduces the new employee to the organisation and its people.

Step 1: Identify the purpose of each activity Once a person is selected, the organisation must both allot suitable duties and help the person become familiar with the work environment. These are related but different staffing activities.

Step 2: Present the distinction

Basis	Placement	Orientation
Meaning	Refers to assigning the selected employee to the post for which the employee has been selected.	Refers to introducing the new employee to other employees and familiarising the person with the organisation's rules and policies.

Step 3: Conclusion Placement puts the selected person in a particular job; orientation familiarises

that person with the organisation, its rules and colleagues.

Quick Tip to Solve: Remember the sequence: allot the job through placement, then help the employee settle in through orientation.

8(a). How does 'Cash Flow Position' affect capital structure of an enterprise ? [1 mark]

Solution:

Concept:

- Capital structure is the relative proportion of debt and equity used for long-term financing.
- Debt creates obligatory payments of interest and repayment of principal, which require adequate cash inflows.

Step 1: Assess the cash available for debt payments An enterprise must examine its cash flow position before raising debt. Accounting profit alone is insufficient: the business needs cash at the dates on which interest and principal fall due.

Step 2: Relate cash flows to the financing mix A strong and steady cash flow position enables an enterprise to use more debt because it can meet the associated fixed cash commitments. Weak or uncertain cash flows favour greater reliance on equity, which has no compulsory fixed dividend payment.

Step 3: Conclusion Strong and stable cash flows favour a higher proportion of debt; weak or unstable cash flows favour equity in the capital structure.

Quick Tip to Solve: For a cash-flow question, link debt to both interest payments and repayment of principal.

OR

8(b). How does 'Return on Investment' affect capital structure of an enterprise ? [1 mark]

Solution:

Concept:

- Return on investment measures the return earned on the funds invested in the business.
- Trading on equity can increase equity shareholders' earnings when the return on investment exceeds the cost of debt.

Step 1: Compare the return with the borrowing cost The enterprise should compare its return on investment with the rate of interest payable on debt. Borrowing is financially favourable only when the funds earn more than their debt cost, subject to the associated financial risk.

Step 2: Choose the suitable debt-equity mix When return on investment is higher than the cost of debt, using more debt can improve earnings per share through trading on equity. If return on investment is lower than the debt cost, debt reduces the return available to equity shareholders and greater reliance on equity is preferable.

Step 3: Conclusion An ROI above the cost of debt favours using more debt; an ROI below that cost

discourages debt and favours equity financing.

Quick Tip to Solve: Compare ROI with the cost of debt; a high ROI by itself is not the decisive comparison.

Section B (15 marks)

9. 'Financial markets are classified on the basis of the maturity of financial instruments traded in them.' Name the market in which the instruments with more than one year maturity are traded. Also state any two features of this market. [3 marks]

Solution:

Concept:

- Financial markets are classified by the maturity of the financial instruments traded in them.
- The capital market deals in medium- and long-term funds, including securities with maturity exceeding one year.

Step 1: Name the market from the maturity clue The market is the **capital market**. The phrase "more than one year maturity identifies medium- and long-term finance. The money market instead deals in short-term funds with maturity up to one year.

Step 2: Explain two features of the capital market

- **Long-term securities:** The capital market provides an institutional mechanism for trading medium- and long-term securities such as shares, debentures and bonds. It channels savings into funds required for investment and expansion, rather than merely meeting short-term liquidity needs.
- **Two segments:** It consists of the primary market and the secondary market. The primary market deals in newly issued securities and enables issuers to raise fresh funds. The secondary market deals in the purchase and sale of existing securities, giving investors liquidity and an opportunity to transfer their investments.

Step 3: Conclusion The required market is the capital market. Two features are that it deals in medium- and long-term securities and comprises the primary and secondary markets.

Quick Tip to Solve: Use maturity to identify the market first, then explain two distinct features rather than just listing examples of securities.

10. Shiv has recently joined an industrial unit manufacturing low cost LED bulbs. He has five workers working under him. He gives them instructions to ensure optimum utilization of resources and achievement of work targets. He provides good on-the-job training to the workers to build an efficient team. He also analyses the work performed by them and gives feedback.

The work performed by Shiv may be described as an important element of directing. Name the element and state two other functions which may be performed by Shiv in addition to those highlighted above. [3 marks]

Solution:

Concept:

- Supervision is the element of directing that involves overseeing subordinates' efforts and guiding them towards the effective use of resources and the achievement of work targets.
- A supervisor maintains direct contact with workers and links them with management. Besides guidance, training and feedback, supervision supports communication and group unity.

Step 1: Identify the element from Shiv's activities The element is **supervision**. Shiv has five workers under him and "gives them instructions to ensure optimum utilization of resources and achievement of work targets". His direct oversight, on-the-job training and performance feedback establish that he is working as a supervisor.

Step 2: State two additional functions

- **Acting as a link between workers and management:** Shiv can convey management's plans and policies to workers and communicate workers' problems, grievances and suggestions to management. This helps both sides understand each other and reduces misunderstanding.
- **Maintaining group unity:** Shiv can identify differences and conflicts among workers and settle them through discussion. By encouraging cooperation and preventing personal disputes from disrupting work, he can build a united group working towards common goals.

Step 3: Conclusion Shiv performs **supervision**. Two other functions he can perform are linking workers with management and maintaining group unity by resolving differences among workers.

Quick Tip to Solve: When asked for other functions, exclude the training, instructions and feedback already given in the case; choose communication and group unity.

11. Gopal, Mohan and Shyam are three friends having their separate small manufacturing units in an industrial estate. They are hard-working and honest and undertake their respective production activities following the good practices of business. They use good quality raw materials and adopt standardised process. They fix the prices of their products with a reasonable profit margin. But all of them are worried about the malpractices like manufacturing sub-standard, duplicate, and defective goods by the fellow manufacturers. Therefore, they decided to form an organisation with a constitution of its own which is free from government interference. This organisation would encourage consumers to strongly protest and take action against unscrupulous, exploitative and unfair trade practices of sellers.

State three other functions which may be performed by this organisation in addition to those mentioned above. [3 marks]

Solution:

Concept:

- Consumer organisations and non-governmental organisations protect consumers' interests through education, product testing, advice and legal assistance.
- An organisation with its own constitution, "free from government interference", corresponds to a non-governmental organisation. Its role extends beyond encouraging consumers to protest against unfair trade practices.

Step 1: Recognise the organisation's consumer-protection role The organisation formed by the three friends is a **consumer organisation or NGO**. The case says it would encourage consumers to "strongly protest and take action" against exploitative practices. Since this function is already stated, three additional functions should be given.

Step 2: State three other functions

- **Educating the public:** It can organise training programmes, seminars and workshops to explain consumer rights, responsibilities and available remedies. Informed consumers can make sound purchase decisions and recognise exploitation.
- **Publishing useful information:** It can publish periodicals and other material on consumer problems, legal developments and reliefs available to consumers. Such publications help consumers understand how to seek redressal and keep them informed of issues affecting their interests.
- **Testing consumer products:** It can conduct comparative tests of products in accredited laboratories and publish the results. This supplies evidence about relative quality and safety, helping consumers distinguish satisfactory products from the sub-standard or defective goods mentioned in the case.

Step 3: Conclusion Three additional functions are educating consumers, publishing information on consumer issues and remedies, and conducting comparative product tests through accredited laboratories.

Quick Tip to Solve: Use three distinct NGO functions: educate consumers, publish consumer information, and test products; do not repeat the protest function already stated.

12(a). Explain the three essential elements of 'delegation'. [3 marks]

Solution:

Concept:

- Delegation is the transfer of authority from a superior to a subordinate to carry out assigned work. Its three essential elements are authority, responsibility and accountability.
- Authority provides the right to act, responsibility creates the obligation to perform, and accountability requires an explanation of the results. These elements must work together for effective delegation.

Step 1: Explain authority and responsibility

- **Authority:** It is the right of an individual to command subordinates and take decisions within the scope of the position. It includes the right to use resources and obtain compliance with instructions. Authority originates in the formal position and flows downwards from superior to subordinate.
- **Responsibility:** It is the obligation of a subordinate to properly perform the duty assigned by the superior. It arises from the superior-subordinate relationship when work is assigned. Responsibility flows upwards: the subordinate is responsible to the superior for performing the assigned task. Authority should be commensurate with responsibility so that the employee has sufficient power to fulfil the duty.

Step 2: Explain accountability for the outcome **Accountability** is answerability for the final outcome of an assigned task. A subordinate must explain to the superior how the duty was performed and what results were achieved; accountability therefore flows upwards. It cannot be delegated. Even after assigning work and authority to a subordinate, the superior remains accountable to the superior's own boss for its successful completion.

Step 3: Conclusion The three essential elements are **authority** (the right to act), **responsibility** (the obligation to perform) and **accountability** (answerability for results). Delegation does not remove the superior's ultimate accountability.

Quick Tip to Solve: Remember the sequence: assign the duty, grant the right to act, and require an account of results. Authority goes down; responsibility and accountability go up.

OR

12(b). Explain how effective delegation leads to : (i) Effective management; (ii) Employee development; and (iii) Better co-ordination. [3 marks]

Solution:

Concept:

- Delegation means entrusting responsibility and authority to subordinates, while the superior retains ultimate accountability for the result.
- Effective delegation distributes work and decision-making so that managerial effort, employee capabilities and reporting relationships contribute to organisational objectives.

Step 1: Explain effective management **Effective management:** By delegating routine work, a manager reduces personal workload and obtains time to concentrate on important matters such as planning, policy decisions and supervision. Subordinates exercise the authority given to them instead of referring every small matter upwards. Thus managers can apply their attention where it is most useful and both superior and subordinate perform their duties more effectively.

Step 2: Explain employee development **Employee development:** Delegation gives subordinates opportunities to use their abilities, take decisions and accept responsibility for outcomes. In performing assigned work, they learn new skills, gain experience and develop confidence and initiative. This practical training prepares them to handle greater responsibility and more challenging managerial positions in the future.

Step 3: Explain better co-ordination **Better co-ordination:** Delegation clearly specifies the work assigned, the authority to do it and the person to whom the subordinate is answerable. These established authority–responsibility relationships clarify reporting and communication. Employees know their own duties and the contribution expected from others, reducing overlap, duplication and confusion and helping their efforts fit together.

Step 4: Conclusion Effective delegation improves management through workload sharing, develops employees through responsible decision-making, and improves co-ordination through clear duties and reporting relationships.

Quick Tip to Solve: Link the three benefits to three mechanisms: free the manager's time, give employees decision-making practice, and clarify who does what and reports to whom.

13(a). Explain the following points of importance of 'controlling' :

(i) Improving employee motivation;

(ii) Ensuring order and discipline; and

(iii) Facilitating co-ordination in action. [3 marks]

Solution:

Concept:

- Controlling compares actual performance with predetermined standards, identifies significant deviations and initiates corrective action.
- Its importance includes motivating employees through clear performance expectations, maintaining order and discipline, and co-ordinating activities towards organisational goals.

Step 1: Explain improved employee motivation **Improving employee motivation:** A sound control system tells employees clearly what they are expected to achieve and the standards against which their work will be assessed. They therefore know the basis of performance appraisal and the rewards associated with good performance. This clarity reduces uncertainty and encourages employees to improve their work and strive for the desired results.

Step 2: Explain order and discipline **Ensuring order and discipline:** Controlling creates an atmosphere of order by monitoring whether work follows prescribed rules, procedures and standards. Employees understand that their activities and results are checked. This helps minimise dishonest

behaviour, misuse of resources and other undesirable practices. Deviations are detected and corrected, encouraging responsible conduct throughout the organisation.

Step 3: Explain co-ordination in action **Facilitating co-ordination in action:** Each department and employee is governed by predetermined standards that relate to the organisation's objectives. Controlling checks performance against these standards and directs corrective action where efforts depart from the plan. Consequently, the activities of different units are brought into harmony, and their combined efforts remain focused on achieving common goals rather than conflicting departmental ends.

Step 4: Conclusion Controlling motivates employees by clarifying expectations, promotes orderly and disciplined conduct through monitoring, and integrates departmental action through standards linked to common objectives.

Quick Tip to Solve: Explain each benefit through the control process: clear standards motivate, monitoring discourages misconduct, and corrective action aligns departments.

OR

13(b). Explain the relationship between 'planning' and 'controlling' functions of management.

[3 marks]

Solution:

Concept:

- Planning decides in advance what is to be done and establishes objectives and standards; controlling checks actual performance against those standards and corrects deviations.
- Planning and controlling are interdependent and inseparable: plans give control its basis, while control supplies feedback that makes present and future plans effective.

Step 1: Show how planning provides the basis for control **Planning is a prerequisite for controlling:** Plans specify the desired results and standards of performance. These standards are the yardsticks used to judge actual work. Without plans, a manager would have no objective basis for deciding whether performance is satisfactory or whether corrective action is required. Thus controlling is meaningful only when objectives and standards have first been established through planning.

Step 2: Show how controlling gives effect to plans **Controlling completes planning:** Merely making a plan does not ensure its achievement. Managers must measure actual performance, compare it with planned standards, analyse deviations and take corrective action. Without controlling, plans may remain on paper and departures may continue unnoticed. Control therefore helps translate planned objectives into actual results.

Step 3: Explain the link between past performance and future action **Both are forward-looking and backward-looking:** Planning looks ahead to decide future action, but also uses past experience. Controlling looks back to assess completed performance, yet its corrective action prevents the recurrence of errors and improves future performance. Information obtained through control may reveal unrealistic standards or changed conditions and is used to revise subsequent plans. The two functions

therefore form a continuous cycle.

Step 4: Conclusion Planning sets the standards that controlling uses, and controlling ensures implementation while providing feedback for better planning. Each function supports the other in achieving organisational objectives.

Quick Tip to Solve: Use the sequence: plans set standards, control compares results and corrects deviations, and feedback improves the next plan.

Section C (24 marks)

14. Nayar is working as a P.G.T. Commerce in a CBSE affiliated school of Kerala. One day he was teaching about capital market in the class. He informed the class that during 1980's the capital market in India witnessed a tremendous growth because of increasing participation of the public.

This ever increasing investors' population and market capitalisation led to a variety of malpractices on the part of the companies, brokers, merchant bankers, investment consultants and others involved in the securities market. These malpractices and unfair trading practices eroded investors' confidence and multiplied investors' grievances. The Government of India and the stock exchanges were helpless in redressing the investors' problems because of lack of proper penalty provisions in the existing legislation. In view of this the Government of India decided to set up a regulatory body.

(a) Name the regulatory body which the Government of India decided to set up.

(b) Also state any three objectives of the regulatory body identified in part (a) above. [4 marks]

Solution:

Concept:

- SEBI is the Securities and Exchange Board of India, the regulatory body for India's securities market.
- Its objectives connect investor protection with orderly securities trading: a growing market needs safeguards against unfair practices as well as regulation of its participants.

Step 1: Identify the regulatory body from the case The body in part (a) is the **Securities and Exchange Board of India (SEBI)**. The case explains that "malpractices and unfair trading practices eroded investors' confidence and multiplied investors' grievances". It also points to the "lack of proper penalty provisions in the existing legislation". These statements explain the need for a securities-market regulator capable of protecting investors and overseeing market participants.

Step 2: State three objectives of SEBI

- **Regulate the securities market:** SEBI aims to regulate stock exchanges and the securities industry so as to promote their orderly functioning. Trading and the activities of market intermediaries must take place within an appropriate regulatory framework.
- **Protect investors:** It aims to protect the rights and interests of investors and ensure the safety of their investment. This addresses the loss of confidence and investor grievances described in the case.
- **Prevent trading malpractices:** It aims to prevent unfair practices and achieve a balance between

self-regulation by the securities industry and statutory regulation. This helps ensure fair dealing rather than allowing intermediaries to exploit investors.

Step 3: Conclusion The regulatory body is **SEBI**. Three of its objectives are orderly regulation of the securities market, protection of investors' rights and interests, and prevention of trading malpractices through an appropriate balance of self-regulation and statutory regulation.

Quick Tip to Solve: Link SEBI's objectives to three needs: an orderly market, safe investors and fair trading. State the objectives rather than merely listing activities such as inspections.

15. Ganesh was concerned about the sedentary lifestyle people are leading nowadays. Their dependency on outside food is also increasing because corporate work culture demands working till late night at offices. So, he decided to start a restaurant, 'Healthy Eating Point' to provide healthy food options to customers. After completing planning and organising functions, he identified the various job positions that are required to be filled i.e. a General Manager, an Accountant, two Chefs, two boys for serving the food in the restaurant and three boys for home delivery of food. He decided that his father, Karan, would be the General Manager of the restaurant. He would be paid ₹ 50,000 per month for his services. His father requested him to appoint his friend's son, Prem, as an accountant who is well qualified for this post. Ganesh agreed to this proposal. Earlier, Prem had a business of providing unskilled workers to different organisations from remote areas of the country. Prem took permission from Ganesh to continue with the old business. Ganesh happily agreed and asked him to provide five boys for serving and delivering the food. For the appointment of the two Chefs, Ganesh approached a renowned Hotel Management Institute and was satisfied with the Chefs provided by the institute.

(a) Quoting the lines from the above paragraph, explain the two sources of recruitment being used by Ganesh for filling up the various job positions.

(b) Also, give the meaning of the function of management discussed in the above case. [4 marks]

Solution:

Concept:

- Staffing is the managerial function of filling and keeping filled positions in the organisation structure by obtaining suitable people for the jobs.
- External recruitment obtains candidates from outside the organisation. Labour contractors and campus recruitment are two such sources illustrated by the restaurant's appointments.

Step 1: Explain recruitment through labour contractors **Labour contractors:** These contractors maintain contacts with workers and supply the required workforce to organisations. This source is particularly useful for obtaining unskilled workers at short notice, since the contractor can bring together people available for such work.

The supporting lines are: "Earlier, Prem had a business of providing unskilled workers to different organisations from remote areas of the country" and "Ganesh happily agreed and asked him to provide five boys for serving and delivering the food." Prem's supply of workers through this business illustrates recruitment through a labour contractor.

Step 2: Explain campus recruitment **Campus recruitment:** Organisations approach educational

institutions, such as universities, professional colleges and management or technical institutes, to obtain candidates with the required qualifications and training. Such institutions are an important source for recruiting people for specialised jobs.

The relevant line is: "For the appointment of the two Chefs, Ganesh approached a renowned Hotel Management Institute and was satisfied with the Chefs provided by the institute." The institute supplies trained candidates for the chefs' jobs, making this campus recruitment.

Step 3: Define the management function The function in part (b) is **staffing**. It means finding the right people for the right jobs and filling and keeping filled the positions in the organisation structure. It involves estimating manpower requirements, recruitment, selection, placement and orientation, training and development, and other activities that maintain a competent workforce. The case's identification of vacant positions and recruitment of people to fill them are staffing activities.

Step 4: Conclusion Two sources explained with case evidence are **labour contractors**, through Prem's supply of serving and delivery workers, and **campus recruitment**, through the Hotel Management Institute's provision of chefs. The management function is **staffing**: filling and keeping filled organisational positions with suitable people.

Quick Tip to Solve: Match the route to the source: workers supplied by a contractor indicate labour contractors; trained candidates obtained from an institute indicate campus recruitment.

16. One of the questions that needs to be answered in the organizing function is 'At what level are decisions made' ? Decision making authority in an organization can be pushed down to the lower levels or it may lie with the top management. However it is not an 'either or' concept.

When an organization grows in size or complexity, there is a tendency towards sharing decision making authority with the lower levels. This is because in large organizations, employees who are closely involved with certain operations tend to have more knowledge about them than the top management.

An important concept of organizing function is discussed above. Identify the concept and state any three points of its importance. [4 marks]

Solution:

Concept:

- Decentralisation is the systematic dispersal of decision-making authority to lower levels of management, except authority that must be retained at the centre.
- It extends delegation throughout the organisation. The degree of decentralisation depends on how much authority is shared; centralisation and decentralisation represent relative tendencies.

Step 1: Identify the organising concept from the case The concept is **decentralisation**. The words "sharing decision making authority with the lower levels" show that authority is being dispersed through the organisation. The observation that employees closely involved with operations have more knowledge explains why decisions can be entrusted to those levels. The statement that it is not an "either or" concept means that an organisation can retain some decisions at the top while decentralising others.

Step 2: State three points of its importance

- **Develops initiative among subordinates:** Giving lower-level managers freedom to take decisions encourages them to use their judgement, develop solutions and accept responsibility for results. They gain confidence instead of depending on instructions for every matter.
- **Develops managerial talent for the future:** Independent decision-making gives subordinates practical experience of handling managerial problems. This prepares capable employees for greater responsibilities and provides a pool of trained managers for future needs.
- **Quick decision-making:** Decisions are made near the point of action by people familiar with the operation. Since routine matters need not be referred repeatedly to senior management, delays in obtaining approval are reduced and timely action becomes possible.

Step 3: Conclusion The case describes decentralisation. Its importance includes developing initiative, developing future managerial talent and enabling quick decisions by distributing decision-making authority to appropriate lower levels.

Quick Tip to Solve: Look for systematic sharing of decision authority across levels to identify decentralisation; link its benefits to the confidence, experience and speed gained by lower-level managers.

17(a). Define 'Management'. Explain how management is a multidimensional activity. [4 marks]

Solution:

Concept:

- Management is the process of getting things done with the aim of achieving organisational goals effectively and efficiently.
- Effectiveness concerns achieving the intended goals, whereas efficiency concerns completing the work with minimum cost and wastage of resources.
- Management is multidimensional because it involves the management of work, people and operations. These dimensions are interdependent rather than separate alternatives.

Step 1: Define management **Management** is the process of getting things done with the aim of achieving goals effectively and efficiently. It coordinates the efforts of people and the use of resources so that the organisation attains its objectives while avoiding unnecessary waste. Thus, attaining a target and using resources economically are both part of sound management.

Step 2: Explain its three dimensions

- **Management of work:** Every organisation exists to perform some work, such as manufacturing a product or providing a service. Management translates this work into goals, assigns the tasks necessary to achieve them and identifies the means of completing those tasks. It ensures that the basic purpose of the organisation is fulfilled.
- **Management of people:** People perform the work of an organisation. Management deals with employees as individuals with different needs and behaviour, and also as members of a group. It makes their strengths effective, addresses their weaknesses and directs their combined efforts towards organisational goals while recognising individual needs.
- **Management of operations:** Producing goods or services requires an operating process in which

inputs are transformed into desired outputs. Management organises and coordinates this process, including the flow of materials, equipment, technology and work methods, to obtain the required goods or services efficiently and effectively.

Step 3: Conclusion Management seeks effective and efficient goal achievement. It is multidimensional because it simultaneously manages the work to be done, the people who do it and the operations through which resources become goods or services.

Quick Tip to Solve: Recall the three dimensions as work, people and operations; explain the purpose, human effort and transformation process separately instead of listing management functions.

OR

17(b). Give the meaning of 'Business Environment'. Explain any three features of Business Environment.

[4 marks]

Solution:

Concept:

- Business environment means the sum total of individuals, institutions and other forces outside a business enterprise that affect its performance, although the enterprise has little or no control over them.
- The environment includes economic, social, technological, political and legal conditions. Its features explain the nature of these external influences, rather than the internal resources of the enterprise.

Step 1: State the meaning of business environment Business environment is the totality of external forces that influence a firm's functioning and performance. These forces include customers, suppliers, competitors, government policies, social trends and technological developments. For example, a change in consumer preferences can affect sales even though the firm cannot dictate what consumers prefer. Managers therefore study the environment to understand the conditions within which business decisions must be made.

Step 2: Explain three features of the environment

- **Totality of external forces:** The business environment is the aggregate of all forces external to an enterprise. It covers both influences directly connected with a particular firm and broader conditions affecting businesses generally. Thus, it must be understood as a whole rather than as a single isolated factor.
- **Specific and general forces:** Specific forces, such as customers, investors, competitors and suppliers, affect individual enterprises directly and immediately in their day-to-day working. General forces, such as social, political, legal, economic and technological conditions, affect business enterprises more broadly and indirectly. Both categories form part of the business environment.
- **Interrelatedness:** Different elements of the business environment are closely linked. A change in one element can create changes in others. For example, increased health consciousness is a social

change that can increase demand for healthier food products and influence firms' production and marketing decisions. Managers should therefore consider the connections between environmental forces.

Step 3: Conclusion Business environment is the sum total of external individuals, institutions and forces affecting business performance. Three of its features are totality of external forces, the presence of specific and general forces, and interrelatedness among its elements.

Quick Tip to Solve: Define the environment as external forces first; then use distinct feature headings and explain what each heading means for a business.

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18. Jay is working as the Chief Executive Officer of a soft drinks company. The company is doing its business in collaboration with a soft drinks company of France. Jay's friend, Swami, a teacher of Business Studies in a reputed college was discussing the 'Marketing' chapter with his students. He wanted clarity from Jay about the factors which affect the marketing decisions. Jay explained that there were a large number of factors affecting marketing decisions which may be divided into two categories : (i) controllable factors, and (ii) non-controllable factors.

Jay further explained that controllable factors became marketing tools that can be constantly shaped and reshaped by marketing managers, to achieve marketing success.

Identify and explain the set of marketing tools that can be constantly shaped and reshaped by marketing managers. [4 marks]

Solution:

Concept:

- Marketing mix is the set of marketing tools that a firm uses to pursue its marketing objectives in a target market. Its four main elements are product, price, place and promotion, commonly called the four Ps.
- Managers can combine and adjust these controllable tools to satisfy customers. Decisions about the four elements must support one another and suit the target market.

Step 1: Identify the tools described in the case The set of tools is the **marketing mix**. Jay says that the controllable factors become "marketing tools that can be constantly shaped and reshaped by marketing managers, to achieve marketing success." This directly describes the marketing mix: the company can decide what to offer, its price, how it reaches customers and how to communicate its benefits. The collaboration with a French company does not itself name this set of tools; the decisive clue is managerial control over the marketing variables.

Step 2: Explain the four elements of the marketing mix

- **Product:** Product means the goods or services offered to the target customers. Product decisions include quality, features, design, branding, packaging and labelling, as well as supporting services. For a soft drinks company, decisions about flavours, bottle sizes and packaging form part of this element.
- **Price:** Price is the amount customers pay to obtain the product. The company determines the price level and related decisions such as discounts and payment terms, considering costs, demand and

competition. An appropriate price should suit customer perceptions of value while helping the firm achieve its objectives.

- **Place:** Place concerns making the product available to customers at the right location and time. It includes choosing channels of distribution and decisions about physical distribution, such as transportation, warehousing and inventory. A soft drinks company needs suitable wholesalers and retailers and timely supplies so customers can obtain its drinks conveniently.
- **Promotion:** Promotion means activities that communicate the product's availability and benefits and persuade target customers to purchase it. Its tools include advertising, personal selling, sales promotion and public relations. Managers choose an appropriate combination to inform customers and encourage demand.

Step 3: Conclusion The tools described by Jay constitute the marketing mix: product, price, place and promotion. By adjusting these four elements together, marketing managers develop an offer suited to their target customers and marketing objectives.

Quick Tip to Solve: When a case mentions controllable marketing tools, identify the marketing mix and explain all four Ps: the offer, payment, availability and communication.

19(a). State any four benefits of internal sources of recruitment. [4 marks]

Solution:

Concept:

- Internal recruitment fills vacancies from the organisation's existing employees, principally through transfers and promotions.
- A promotion moves an employee to a position involving greater responsibility and usually higher status and pay; a transfer shifts an employee without a substantial change in responsibility or status.

Step 1: State the benefits for employee motivation and selection

- **Motivates employees:** Promotion opportunities give existing employees a reason to improve their performance. They can see a career path within the organisation, which strengthens their commitment and encourages them to develop the competence required for higher positions.
- **Simplifies selection and placement:** Management already knows the abilities, experience and work record of existing employees. It can therefore judge their suitability more reliably, making selection and placement simpler than when choosing an unfamiliar outside applicant.

Step 2: State the benefits for future managers and staffing balance

- **Develops future managers:** Transfers allow employees to gain experience in different jobs and departments. This broadens their understanding of the organisation, helps them acquire new skills and prepares them to take up managerial responsibilities in the future.
- **Adjusts surplus staff:** Employees can be transferred from departments with surplus personnel to departments facing shortages. This uses the existing workforce more effectively and helps meet staffing requirements without immediately recruiting additional employees from outside.

Step 3: Conclusion Four benefits of internal recruitment are employee motivation, simpler selection and placement, development of future managers, and adjustment of surplus staff between departments.

Quick Tip to Solve: Link internal recruitment to what the firm already has: known employees, career opportunities and staff who can be transferred to where they are needed.

OR

19(b). State any four limitations of internal sources of recruitment. [4 marks]

Solution:

Concept:

- Internal recruitment fills vacancies from within the organisation through transfers and promotions, rather than by inviting candidates from outside.
- Relying entirely on existing employees restricts the choice of candidates and may reduce the competitive pressure that encourages employees to improve their performance.

Step 1: Explain the limitations concerning talent and employee effort

- **Reduces the scope for fresh talent:** When vacancies are filled only from within, competent outsiders do not get an opportunity to join. The organisation may consequently miss new ideas, different experiences and specialised skills that an external candidate could bring.
- **May make employees lethargic:** If employees feel that promotion is assured merely because they are already working in the organisation, they may become complacent. The incentive to work harder, acquire new skills and demonstrate superior performance can then weaken.

Step 2: Explain the limitations concerning new firms and competition

- **Unsuitable for a new enterprise:** A newly established organisation has no existing pool of employees from which to recruit. Internal sources cannot meet its initial staffing needs, so it must obtain employees from outside before internal movement becomes possible.
- **Reduces competitive spirit:** If employees do not have to compete with capable outside applicants for higher positions, their competitive spirit may decline. The absence of external competition can reduce the pressure to improve efficiency and prove their suitability for advancement.

Step 3: Conclusion Four limitations of internal recruitment are restricted entry of fresh talent, possible employee lethargy, unsuitability for a new enterprise, and reduced competitive spirit among employees.

Quick Tip to Solve: Recall the limits of choosing only insiders: fewer new ideas, assured advancement, no pool in a new firm and less competition from outsiders.

Section D (15 marks)

20. 'Scientific Management means knowing exactly what you want men to do and seeing that they do it in the best and the cheapest way.' Taylor developed various techniques for application of Scientific Management principles and was able to achieve a three-fold increase in productivity in Bethlehem Steel Company, where he worked. One of the techniques helps to determine the number of workers to be employed; frame suitable incentive schemes and determine labour costs. Another technique recognises those workers who are able to accomplish/exceed the fair day's work and is based on the premise that efficiency is the result of the joint efforts of the managers and the workers.

Quoting the lines from the above paragraph, identify and explain the two techniques of Scientific Management. [5 marks]

Solution:

Concept:

- Taylor's Scientific Management replaces rule-of-thumb decisions with scientifically determined standards of work and methods of rewarding performance.
- Time study determines the standard time for a well-defined job; differential piece wage system links the wage rate to achievement of the prescribed output standard.

Step 1: Identify and explain time study **Time study:** The identifying line is: "One of the techniques helps to determine the number of workers to be employed; frame suitable incentive schemes and determine labour costs."

- **Determine standard time:** Time study determines the standard time taken to perform a well-defined job. Repeated time measurements are taken for the elements of the job under specified working conditions, commonly using a stopwatch. These observations establish the time a worker should require to complete the task.
- **Plan labour and incentives:** Once the standard time per job is known, management can estimate how many workers are needed for the planned production, frame suitable incentive schemes and determine labour costs. Thus, the technique provides an objective basis for these decisions instead of arbitrary estimates.

Step 2: Identify and explain differential piece wage system **Differential piece wage system:** The identifying line is: "Another technique recognises those workers who are able to accomplish/exceed the fair day's work and is based on the premise that efficiency is the result of the joint efforts of the managers and the workers."

- **Separate efficient and less efficient performance:** Taylor advocated different piece wage rates for workers according to whether they attain the prescribed standard of output. A worker achieving or exceeding the standard receives the higher rate per unit; a worker producing below the standard receives the lower rate per unit.
- **Reward higher output:** The difference in rates rewards efficient workers and motivates others to achieve the standard. Remuneration is linked to output rather than merely to time spent at work, so improved performance brings a clear financial benefit.
- **Recognise joint responsibility:** Scientific standards and suitable working conditions must be supplied by management, while workers apply the prescribed method. The incentive system

encourages cooperation towards the fair day's output and recognises workers who attain it.

Step 3: Conclusion The two techniques are **time study**, which establishes standard time and helps plan labour requirements and costs, and **differential piece wage system**, which rewards attainment or exceedance of standard output through a higher piece rate.

Quick Tip to Solve: Link standard time, labour requirements and labour cost to time study; link different wage rates for meeting an output standard to differential piece wages.

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21. Matta Auto Ltd. is manufacturing different types of commercial vehicles. Their sales were rupees two hundred crores in the previous year. The company decided to increase sales by 20% during the current year. It conducted internal as well as external audits for the same. Through internal audit, they analysed the strengths and weaknesses of the business across all departments. External audit focused on the opportunities and the threats in the constantly changing business environment. Thus, a comprehensive plan was prepared taking into consideration the business environment and the necessary resources were allocated to achieve the target. The company directed its offices throughout the country to follow the plan. The company's commitment to develop effective plans to achieve a consistent increase in sales has ensured its continual growth over the past one decade.

Identify and explain the two types of plans discussed above. [5 marks]

Solution:

Concept:

- An objective specifies the desired future result of an activity. Objectives provide the end points towards which managerial efforts are directed.
- A strategy is a comprehensive plan for accomplishing organisational objectives. It defines the long-term objectives, adopts a course of action and allocates resources, taking the business environment into account.

Step 1: Identify the sales objective **Objectives:** The case states: "The company decided to increase sales by 20% during the current year." This specifies both the result sought and the period for achieving it, so it is an objective.

- **State the desired result:** Objectives describe what the organisation wants to achieve. Here, the desired result is a specified increase in annual sales; it is the end towards which the company's plans and efforts are directed.
- **Provide direction:** Objectives form the starting point of planning. Departmental activities and supporting plans should contribute to the sales target, providing a common direction rather than allowing departments to pursue unrelated ends.
- **Enable assessment:** The measurable target and defined time period allow management to compare actual sales with the desired result. The objective tells the company what is to be achieved; by itself it does not explain the detailed course of action.

Step 2: Identify the comprehensive strategy **Strategy:** The case states: "Thus, a comprehensive plan was prepared taking into consideration the business environment and the necessary resources were allocated to achieve the target." This is a strategy, supported by the internal and external audits

described in the case.

- **Assess the environment:** A strategy considers the organisation's strengths and weaknesses along with external opportunities and threats. Matta Auto's internal audit examines the former, while its external audit examines the latter. This helps management select a course suited to its capabilities and business environment.
- **Choose a course of action:** Strategy provides a broad, integrated plan for achieving organisational objectives. In this case, the comprehensive plan guides the offices throughout the country towards the company's sales target, rather than treating each office's decisions in isolation.
- **Allocate resources:** A strategy includes the allocation of the resources needed to carry out the chosen course. The case expressly says resources were allocated to achieve the target. Linking objectives, action and resources gives the organisation an overall framework within which more detailed plans can be prepared.

Step 3: Conclusion The two plans are **objectives**, shown by the target of increasing sales by 20% in the current year, and **strategy**, shown by the comprehensive, environment-based plan and allocation of resources to achieve that target.

Quick Tip to Solve: A quantified result with a deadline signals an objective; a comprehensive course of action based on environmental analysis and resource allocation signals strategy.

22(a). Define 'Directing' as a function of management. Explain its features. [5 marks]

Solution:

Concept:

- Directing is the management function concerned with guiding employees and influencing their behaviour so that their efforts contribute to organisational objectives.
- It brings plans and organisational arrangements into action through instruction, supervision, motivation and leadership. Its features explain where, when and in which direction this influence operates.

Step 1: Define directing Directing refers to the process of instructing, guiding, counselling, motivating and leading people in an organisation to achieve its objectives. It deals with people at work and helps them understand what they must do, how they should do it and why their contribution matters. For example, assigning a task alone does not ensure performance: the manager must also explain it and guide the employee during its execution.

Step 2: Explain the features of directing

- **Directing initiates action:** Planning sets objectives, organising creates the structure and staffing places people in jobs. Directing starts actual performance by instructing and motivating those people to carry out the work. It converts preparation into purposeful action.
- **Directing takes place at every level of management:** Every manager, from the chief executive to the supervisor, directs the subordinates reporting to that manager. The scope of the task differs at different levels, but guiding people towards assigned objectives remains necessary throughout the organisation.

- **Directing is a continuous process:** Guidance and motivation are needed throughout the life of an organisation. A manager cannot give instructions once and assume that all subsequent work will automatically be completed properly. New tasks, changing conditions and employee difficulties require continuing direction.
- **Directing flows from top to bottom:** It originates with managers and passes to their subordinates through the organisational hierarchy. Each manager directs the immediate subordinates, who may in turn direct people below them. Thus, the direction of this managerial influence is downward.

Step 3: Conclusion Directing is the process of instructing, guiding, counselling, motivating and leading people towards organisational objectives. It initiates action, operates at every management level, continues throughout organisational life and flows from superior to subordinate.

Quick Tip to Solve: Recall the four features through four questions: What does directing start? Where does it occur? How long does it continue? In which direction does it flow?

OR

22(b). Define 'Training'. Explain the following methods of training :
(i) Induction Training;
(ii) Vestibule Training;
(iii) Apprenticeship Training; and
(iv) Internship Training. [5 marks]

Solution:

Concept:

- Training is a systematic effort to improve an employee's knowledge and skills for a particular job. It focuses on the abilities needed for effective performance of assigned work.
- Training methods differ in their purpose and setting: induction introduces a new employee to the organisation, vestibule training simulates the workplace, apprenticeship develops skilled trades and internship links education with practical work.

Step 1: Define training Training is the process by which employees' knowledge, skills and aptitudes to perform specific jobs are increased. It enables an employee to understand the work and acquire the ability to do it correctly and efficiently. It is job-oriented: its immediate purpose is improved performance of particular duties, whereas development has a broader concern with an individual's overall growth and future responsibilities.

Step 2: Explain the four methods

- **Induction training:** This introduces a newly appointed employee to the organisation, its rules, policies, working conditions and fellow employees. The employee is familiarised with the workplace and the job, reducing uncertainty and helping the newcomer settle into the organisation. It is also called orientation training.
- **Vestibule training:** Employees learn their jobs in a training area in which the actual work

environment is reproduced. Equipment and materials similar to those used at the workplace are provided, but training takes place away from the actual production floor. This allows employees to learn to operate equipment without disrupting normal production, particularly where machinery is sophisticated or costly.

- **Apprenticeship training:** A trainee works under the guidance of a master worker for a prescribed period in order to acquire a high level of skill in a trade. Practical instruction and experience are obtained through supervised work, often together with relevant theoretical learning. This method is appropriate for trades such as plumbing, electrical work and machine operation that demand substantial skill and practice.
- **Internship training:** Educational institutions and business firms cooperate to provide students with practical work experience alongside their formal studies. Students spend a period working in an organisation, applying classroom learning to actual tasks under guidance. For example, medical students gain practical experience in hospitals. This connects theoretical knowledge with the realities of professional work.

Step 3: Conclusion Training increases the knowledge, skills and aptitudes required for specific jobs. Induction familiarises new employees with the organisation; vestibule training reproduces the work environment away from production; apprenticeship teaches a skilled trade under a master worker; and internship combines formal education with practical experience.

Quick Tip to Solve: Match each name to its distinguishing clue: induction means introduction, vestibule means a simulated workplace, apprenticeship means a master worker, and internship means education linked with practice.

Section E (18 marks)

23. Chintamani is the Production Manager of 'Global India Ltd.' manufacturing and exporting steel. During the year 2017 – 18, the company could not meet its production targets. The Chief Executive Officer of the company constituted a committee of experts to find out the reasons and give its recommendation so that the production target could be met in the future. The company analysed the production related records and found out that there were problems due to communication. 'Global India Ltd.' had rigid rules and would insist on communication through prescribed channels, which led to delays. The company also had a number of managerial levels causing further delay and distorted communication.

Moreover, the Production Manager, Chintamani, was using a tone that quite often offended the sentiments of the workers. Also, Chintamani and the workers did not believe in each other and so could not understand each other's messages in the original sense.

(a) Identify and give the meaning of the types of communication barriers discussed above.

(b) Quoting lines from the above, state two communication barriers under each of the types identified in part (a) because of which 'Global India Ltd.' could not meet its production targets.

(c) State any two recommendations that might have been given by the committee to improve communication effectiveness. [6 marks]

Solution:

Concept:

- Effective communication requires the receiver to understand the message in the sense intended by the sender. Organisational arrangements and the mental state of the parties can obstruct this understanding.
- Organisational barriers arise from the structure, rules, regulations and relationships within an organisation. Psychological barriers arise from emotional or psychological factors affecting the sender or receiver.

Step 1: Identify the organisational barriers and their evidence

- **Organisational rules and regulations:** The case says the company "had rigid rules and would insist on communication through prescribed channels, which led to delays." Insistence on a fixed communication route restricts the free and speedy flow of information, even when an urgent production problem needs a prompt response.
- **Complexity in organisation structure:** It had "a number of managerial levels causing further delay and distorted communication." When a message passes through many levels, transmission takes longer and its meaning can change before it reaches the person who must act.

Step 2: Identify the psychological barriers and their evidence

- **Emotional barriers:** Chintamani was "using a tone that quite often offended the sentiments of the workers." Hurt feelings and an unfavourable emotional state prevent workers from receiving and interpreting his messages objectively. The problem concerns the emotional response to the tone, rather than merely the physical delivery of a message.
- **Distrust:** "Chintamani and the workers did not believe in each other and so could not understand each other's messages in the original sense." When sender and receiver distrust one another, they

attach suspicious meanings to messages instead of accepting their intended meaning.

Step 3: Recommend two ways to improve communication

- **Be aware of language, tone and content:** Chintamani should use clear, respectful language and a tone suited to the workers' understanding and feelings. Avoiding an offensive tone makes the message easier to accept and reduces emotional resistance.
- **Ensure proper feedback:** The manager should encourage workers to respond, ask questions and explain what they have understood. He should listen to their responses and clarify doubts. This two-way process checks whether the message has been understood correctly and creates opportunities to improve mutual confidence.

Step 4: Conclusion The case illustrates organisational barriers through rigid rules and numerous managerial levels, and psychological barriers through offended sentiments and distrust. A suitable tone and proper feedback can improve communication effectiveness and support the achievement of production targets.

Quick Tip to Solve: Link each barrier to its own quoted clue: prescribed channels to rules, many levels to complexity, hurt sentiments to emotions, and disbelief to distrust.

24. 'Monisha Consumer Goods' is a leading consumer goods chain with a network of 46 stores primarily across Mumbai, Delhi and Pune. It was started by Monisha Gupta in 1987. It has a large market share in Mumbai, Delhi and Pune. Looking for an opportunity to expand, it has decided to open a new branch in Kerala. It has to decide on what new resources it will invest in so that it is able to earn the highest possible return for its investors. Once the company believes that it will be able to generate higher revenues and profits, it also has to decide on how this project will get funded. The finance manager, Atul was told to have an optimal capital structure by striking a balance between various sources of getting the project funded so as to increase shareholders' wealth. Atul, after assessing the cash flow position of the company, evaluated the cost of different sources of finance and compared the risk associated with each source as well as the cost of raising funds.

(a) State the two financial decisions discussed in the above situation.

(b) Explain any two factors affecting each of the decisions that still have to be considered by the finance manager. [6 marks]

Solution:

Concept:

- An investment decision concerns the allocation of a firm's funds to assets and projects. A long-term investment decision, such as establishing a new branch, is a capital budgeting decision.
- A financing decision concerns the amount of finance to raise from different long-term sources, especially owners' funds and borrowed funds. An appropriate combination forms the firm's capital structure.

Step 1: Identify the two decisions from the case

- **Investment decision:** The company has to decide "what new resources it will invest in" for its Kerala branch. Allocating funds to the branch's long-term assets is a capital budgeting decision

because it commits substantial resources and affects future earnings.

- **Financing decision:** The company must decide "how this project will get funded." Atul must strike "a balance between various sources" to obtain an optimal capital structure. This is the decision about the mix of sources used to finance the investment.

Step 2: Explain two factors for the investment decision

- **Cash flows of the project:** Atul must estimate the series of cash inflows and outflows over the useful life of the Kerala project. Their amount and timing determine whether the project can generate cash benefits sufficient to justify the initial investment. The company's existing cash flow position, mentioned in the case while considering financing, is different from the future cash flows of the proposed project.
- **Investment criteria involved:** He must apply suitable capital budgeting techniques to compare the proposal with alternatives. These criteria consider the investment required, expected returns, cash flows and risks. A proposal should be accepted only after evaluating these relevant considerations together, rather than merely hoping for higher sales or profits.

Step 3: Explain two further factors for the financing decision The case already mentions assessment of the cash flow position, cost of finance, risk and the cost of raising funds. Two other factors are:

- **Control considerations:** Raising equity may dilute the voting control of existing shareholders, whereas borrowing normally does not give lenders voting rights. If retaining control is important, this consideration can favour debt, subject to the firm's ability to bear the associated financial obligations.
- **State of the capital market:** During a rising or buoyant market, investors may readily subscribe to equity, making a share issue easier. During a depressed market, raising equity may be difficult, and the company may rely more on debt or other suitable sources. The prevailing market conditions therefore influence the feasible financing mix.

Step 4: Conclusion The decisions are the investment decision and the financing decision. Project cash flows and investment criteria must be considered for the former; control considerations and the state of the capital market are two further factors for the latter. Together, these evaluations support the objective of increasing shareholders' wealth.

Quick Tip to Solve: Separate where funds will be invested from where funds will come from; for additional factors, first exclude those the case says Atul has already assessed.

25(a). Explain the following principles of management :

(i) Division of work;

(ii) Unity of command; and

(iii) Scalar chain. [6 marks]

Solution:

Concept:

- Fayol's principles are general guidelines for managerial action. They help managers organise work and relationships, but must be applied with regard to the situation.
- Division of work concerns specialisation, unity of command concerns the source of instructions, and scalar chain concerns the formal line of authority and communication.

Step 1: Explain division of work **Meaning:** Work should be divided into small, specialised tasks and each task assigned to a trained specialist. Repeated performance of the same kind of work develops skill and expertise, rather than requiring everyone to perform every activity.

Effect and application: Specialisation increases efficiency and leads to more and better work with the same effort. It applies to technical as well as managerial work. For example, allocating purchasing, production and sales to people with the relevant expertise enables each to concentrate on a particular function and improve performance.

Step 2: Explain unity of command **Meaning:** Every employee should receive orders from, and be accountable to, only one superior. This establishes a clear reporting relationship for each subordinate.

Effect and application: If two superiors issue conflicting instructions to the same employee, the employee may be confused about priorities and responsibility. Dual subordination can undermine authority and discipline. A single reporting superior avoids this conflict and makes it clear who gives instructions and evaluates the employee's work. This principle concerns one boss for an employee, rather than one plan for a group of activities.

Step 3: Explain scalar chain **Meaning:** The scalar chain is the formal line of authority and communication running from the highest to the lowest rank. Official communication should normally follow this chain so that the relevant levels remain informed and authority relationships are respected.

Exception for urgent communication: Following every link can sometimes cause harmful delay. Fayol therefore permitted a **gang plank**: direct communication between employees at the same level in different departments in an emergency, with their superiors informed. It shortens the route while preserving the chain's purpose. For example, two departmental supervisors can communicate directly to resolve an urgent production difficulty instead of routing the message through every intervening level.

Step 4: Conclusion Division of work improves performance through specialisation; unity of command prevents conflicting orders by giving each employee one superior; and scalar chain establishes the formal communication route, with a gang plank available for urgent contact.

Quick Tip to Solve: Remember the three ideas as specialised task, single boss and formal route. In scalar chain, explain both the normal hierarchy and the emergency gang plank.

OR

25(b). Explain the following scientific principles of management :

(i) Science, Not Rule of Thumb;

(ii) Harmony, Not Discord; and

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

Solution:

Concept:

- Taylor's scientific management applies systematic study and scientific methods to work in order to improve efficiency and secure prosperity for both employers and employees.
- Its principles replace arbitrary methods, conflict and neglect of workers' development with tested methods, cooperation and training suited to each worker's abilities.

Step 1: Explain science, not rule of thumb **Meaning:** Decisions about methods of work should be based on scientific investigation rather than personal judgement, guesswork or the traditional practices of individual managers. Rule of thumb means using such experience-based, untested methods.

Application and benefit: Management should study the various ways of performing a job, test them and develop the best method for the circumstances. Scientific study includes the operations, tools and time required. Establishing a tested standard method reduces waste of effort and resources and improves productivity. For example, motion study identifies unnecessary movements for elimination.

Step 2: Explain harmony, not discord **Meaning:** Management and workers should maintain harmony instead of regarding one another as opponents. Their interests are interdependent: the enterprise's prosperity is needed for the prosperity of both groups.

Mental revolution and benefit: Taylor called for a complete change in the attitude of both sides, known as a **mental revolution**. Workers should avoid conflict and work sincerely for increased output, while management should share the gains of improved productivity with workers and attend to their welfare. Both should focus on increasing the surplus instead of merely disputing its division. Mutual trust reduces disputes and encourages joint efforts towards organisational success.

Step 3: Explain development of every person **Meaning:** Each employee should be developed to his or her greatest efficiency and prosperity. Efficiency begins with scientific selection: the organisation should identify a person's capabilities and assign work suited to those capabilities rather than making arbitrary placements.

Training and benefit: Employees should receive the instruction and training needed to perform their jobs by the scientifically developed method. Suitable placement and training help people use their potential, work efficiently and improve their earnings. The enterprise also gains from greater output and better performance. Thus, developing workers is a responsibility of management and supports the prosperity of both the individual and the business.

Step 4: Conclusion Scientific study provides efficient working methods; harmony creates a shared commitment to prosperity; and scientific selection, suitable placement and training develop each worker's capabilities. Together, these principles improve productivity while benefiting employers and employees.

Quick Tip to Solve: Link each principle to its action: investigate the method, change both sides' attitudes, and select and train the worker. Explain mental revolution under harmony.