CBSE Class 12 Business Studies Question Paper 2020 with Solution PDF-Set 66/C/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 comprises **five** sections — **A, B, C, D and E**. There are **34** questions in the question paper. **All questions are compulsory.**

(ii) **Section A** – Question nos. **1 to 20** are very short answer type questions, carrying **1 mark** each.

(iii) **Section B** – Question nos. **21 to 25** are short answer type I questions, carrying **3 marks** each.

(iv) **Section C** – Question nos. **26 to 28** are short answer type II questions, carrying **4 marks** each.

(v) **Section D** – Question nos. **29 to 31** are long answer type I questions, carrying **5 marks** each.

(vi) **Section E** – Question nos. **32 to 34** are long answer type II questions, carrying **6 marks** each.

(vii) Answers should be brief and to the point.

(viii) There is no overall choice in the question paper. However, an internal choice has been provided in **one** question of **3 marks**, **one** question of **4 marks**, **three** questions of **5 marks** and **two** questions of **6 marks**. Only one of the choices in such questions have to be attempted.

Section A (20 marks)

1. State, giving reason, whether the following statement is true or false :

"A rule is the prescribed way or manner in which a task has to be performed considering the objective."

[1 mark]

Solution:

Concept:

- A method specifies the prescribed way or manner of performing a task, keeping its objective in view.
- A rule states exactly what action must or must not be taken and allows no discretion.

Step 1: Identify the plan described The statement describes how a task is to be performed. This is the defining feature of a method, which provides a standard technique for carrying out an activity efficiently.

Step 2: Compare it with a rule A rule prescribes a specific action or prohibition, such as a prohibition on smoking at the workplace. It does not describe the manner of doing a task. Therefore, calling the stated plan a rule confuses two different types of plans.

Step 3: Conclusion The statement is false. The prescribed way or manner of performing a task considering its objective is a method, not a rule.

Quick Tip to Solve: Link a method with how to do a task; link a rule with what must or must not be done.

2. Which of the following is not a step in the process of planning ? [1 mark]

(A) Making assumptions about the future.

(B) Evaluating different proposals in light of the objectives to be achieved.

(C) Allocation of jobs to members of each department.

(D) Seeing whether activities are performed as per schedule or not.

Correct Answer: (C) Allocation of jobs to members of each department.

Solution:

Concept:

- Planning involves setting objectives, developing premises, identifying and evaluating alternatives, selecting an alternative, implementation and follow-up.
- Allocating specific jobs to departmental members is assignment of duties under organising.

Step 1: Locate the activity outside planning Allocation of jobs to members of each department assigns duties after work has been divided and grouped. It is a step in organising, so option (C) does not belong to the planning process.

Step 2: Check the other alternatives Making assumptions about the future means developing planning premises, so (A) is a planning step. Evaluating proposals against objectives is evaluation of alternatives, so (B) belongs to planning. Checking whether activities follow the schedule is follow-up action in

planning, so (D) is also included.

Step 3: Conclusion Allocation of jobs is part of organising. Hence, the correct option is (C).

Quick Tip to Solve: Do not confuse planning follow-up with assignment of duties: job allocation signals organising.

3. The objective of management which consistently creates economic value for various constituents of society is : [1 mark]

(A) Organisational objective

(B) Social objective

(C) Personal objective

(D) Both Social and Personal objective

Correct Answer: (B) Social objective

Solution:

Concept:

- Social objectives require management to create benefits for society and consistently create economic value for its various constituents.
- Organisational objectives concern the enterprise's survival, profit and growth; personal objectives concern the needs of employees.

Step 1: Identify the societal objective The phrase "economic value for various constituents of society expresses the social obligation of an organisation. In NCERT terminology, this is a social objective: business should create benefits for society, for example through employment, environmentally responsible production and provision of amenities.

Step 2: Distinguish the other objectives Option (A) refers to the organisation's own survival, profit and growth. The word economic alone must not distract from the explicit emphasis on constituents of society. Option (C) concerns employees' personal needs, such as salary, recognition and development. Option (D) incorrectly adds personal objectives to a statement describing social obligations alone.

Step 3: Conclusion The objective described is the social objective of management. Hence, the correct option is (B).

Quick Tip to Solve: Read the beneficiary as well as the word economic: value for constituents of society signals social objectives.

4. Which of the following is a component of economic environment ? [1 mark]

(A) Concern with quality of life

(B) Rates of saving and investment

(C) Extent of government intervention in business

(D) Birth and death rates

Correct Answer: (B) Rates of saving and investment

Solution:

Concept:

- The economic environment includes economic conditions and factors that affect business activity.
- Saving and investment influence the availability of capital and the level of economic activity.

Step 1: Select the economic factor Rates of saving and investment determine how much income is saved and how much is directed towards productive assets. They affect capital formation and business opportunities, making them components of the economic environment.

Step 2: Reject the other dimensions Concern with quality of life in (A) belongs to the social environment. The extent of government intervention in (C) reflects the political environment. Birth and death rates in (D) are demographic factors associated with the social environment. These do not provide the direct economic indicator asked for.

Step 3: Conclusion Rates of saving and investment are components of the economic environment. Hence, the correct option is (B).

Quick Tip to Solve: Classify saving, investment, interest and income as economic indicators; demographic trends belong to the social dimension.

5. The principles of management are said to be flexible as : [1 mark]

(A) they aim at influencing behaviour of human beings.

(B) they are general guidelines to action, but do not provide readymade solutions to management problems.

(C) they can be modified by the manager when the situation so demands.

(D) their application is dependent upon the prevailing situation at a particular point of time.

Correct Answer: (C) they can be modified by the manager when the situation so demands.

Solution:

Concept:

- Management principles are flexible guides whose application can be adapted to circumstances.
- Flexibility is different from being general guidelines, behaviour-based or contingent.

Step 1: Recognise the meaning of flexibility Flexibility means that a manager can modify a principle when the situation requires it. Principles are not rigid prescriptions applied mechanically; the manager adapts their use to the needs of the organisation.

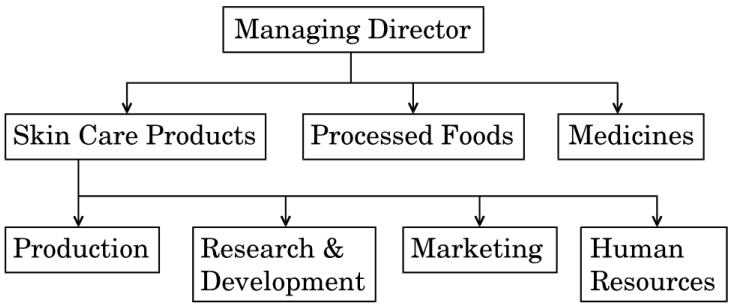
Step 2: Separate the other characteristics Option (A) describes the behavioural nature of principles.

Option (B) describes their general-guideline character. Option (D) describes their contingent application, which depends on the prevailing situation. Although related to judgement, these descriptions do not state flexibility as directly as modification by the manager in (C).

Step 3: Conclusion Management principles are flexible because managers may modify them when the situation demands. Hence, the correct option is (C).

Quick Tip to Solve: In nature-of-principles questions, match flexibility with modification and contingency with dependence on circumstances.

6. Identify the type of organisation structure from the organisational chart given below of Swastika Industries Ltd. located in Uttarakhand : [1 mark]



Solution:

Concept:

- A divisional structure groups activities around different products or product lines.
- Each product division can contain its own functional departments, such as production and marketing.

Step 1: Read the first level below management Under the Managing Director, the chart separates "Skin Care Products, "Processed Foods and "Medicines. These are product categories rather than functional departments, so the principal grouping is by product.

Step 2: Confirm the internal arrangement The Skin Care Products division contains Production, Research and Development, Marketing and Human Resources. The presence of functions within a product division confirms a divisional structure. A functional structure would instead group the main organisation directly by functions such as production and marketing.

Step 3: Conclusion Swastika Industries Ltd. has a divisional organisation structure, with divisions based on its product lines.

Quick Tip to Solve: Look immediately below top management: product groups indicate divisional structure even when functions appear within each division.

7. For delegation to be effective, it is necessary that authority granted must be commensurate with assigned _____ . [1 mark]

Solution:

Concept:

- Responsibility is the obligation to perform the assigned task satisfactorily.
- Authority is the right to give orders and use resources; it must match the responsibility assigned.

Step 1: Identify what authority must support An employee who receives a task needs sufficient authority to carry it out. The obligation attached to the task is responsibility. Without corresponding decision-making power, the subordinate cannot discharge that responsibility effectively.

Step 2: Complete the relationship Effective delegation therefore requires parity between authority and responsibility. Too little authority prevents task completion, while excessive authority can be misused. Accountability means being answerable for results; the specific standard here is that authority must be commensurate with assigned responsibility.

Step 3: Conclusion The missing word is responsibility. Authority granted must be commensurate with assigned responsibility.

Quick Tip to Solve: Remember parity of authority and responsibility: enough power must accompany the duty assigned.

8. _____ test is a measure of an individual's potential for learning new skills. [1 mark]

(A) Personality

(B) Aptitude

(C) Intelligence

(D) Interest

Correct Answer: (B) Aptitude

Solution:

Concept:

- An aptitude test measures an individual's potential for learning new skills.
- Different selection tests assess different qualities; ability to learn is distinct from present interests or personality.

Step 1: Identify the quality being measured The question uses the words potential for learning new skills. These indicate future capacity to acquire proficiency, which is the purpose of an aptitude test.

Step 2: Eliminate the other tests A personality test assesses traits such as temperament and emotional balance. An intelligence test assesses intellectual abilities such as memory and reasoning. An interest test identifies preferences for particular activities. None is the specific test of potential to learn a new skill.

Step 3: Conclusion The blank is Aptitude. Hence, the correct option is (B).

Quick Tip to Solve: Link aptitude with the capacity to acquire skills; link interest with what a person likes doing.

9. Which statement is not correct, with respect to 'Organisation Structure' ? [1 mark]

(A) Ensures coordination among human and physical resources.

(B) Ensures smooth flow of communication.

(C) Specifies relationship between people, work and resources.

(D) Establishes standards for controlling.

Correct Answer: (D) Establishes standards for controlling.

Solution:

Concept:

- Organisation structure is the framework within which managerial and operating tasks are performed.
- It specifies jobs, reporting relationships and communication channels so that resources can be coordinated.

Step 1: Identify what structure provides An organisation structure specifies relationships between people, work and resources. Clear authority and responsibility support coordination and a smooth flow of communication. Thus statements (A), (B) and (C) correctly describe the role of structure.

Step 2: Locate the unrelated statement Establishing standards for controlling belongs to the controlling process: standards are the benchmarks against which actual performance is measured. It is not a description of organisation structure. Since the question asks for the statement that is not correct, select this statement.

Step 3: Conclusion Establishes standards for controlling is not correct with respect to organisation structure. Hence, the correct option is (D).

Quick Tip to Solve: Underline not correct before evaluating the options; eliminate the genuine features of structure first.

10. Using external sources for filling vacant positions :

(i) Gives a wider choice.

(ii) Simplifies the process of selection.

(iii) Instils a competitive spirit among the existing employees.

(iv) Does not infuse fresh talent in the organisation. Choose the correct option from the following :

[1 mark]

(A) (i) and (ii)

(B) (i) and (iii)

(C) (i), (iii) and (iv)

(D) (ii) and (iv)

Correct Answer: (B) (i) and (iii)

Solution:

Concept:

- External recruitment attracts applicants from outside the organisation and offers a wider pool of talent.
- The prospect of competing with outside candidates can encourage existing employees to improve their performance.

Step 1: Check the true statements Statement (i) is true because candidates can be drawn from a large outside pool. Statement (iii) is also true: recruitment from outside instils a competitive spirit among existing employees, who recognise that vacancies need not be filled internally.

Step 2: Reject the false statements Statement (ii) is false because screening a wider pool normally makes selection more lengthy and costly rather than simpler. Statement (iv) is false because external recruitment does infuse fresh talent. Options (A), (C) and (D) each include at least one of these false statements; only (B) includes just (i) and (iii).

Step 3: Conclusion The correct statements are (i) and (iii). Hence, the correct option is (B).

Quick Tip to Solve: External recruitment means wider choice, fresh talent and competition, but usually a longer selection process.

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11. Organisations which choose to diversify their operations require _____ fixed capital. (more/-less)

[1 mark]

Solution:

Concept:

- Fixed capital is invested in long-term assets used in the operations of a business.
- Diversification means extending operations into additional products or activities and generally increases the investment needed in fixed assets.

Step 1: Connect diversification with asset needs An organisation diversifying its operations may need additional plant, machinery, premises or other long-term facilities to support the new activities. The

existing assets may not be sufficient or suitable for the additional line of business.

Step 2: Choose the appropriate word Because diversification adds to the scale or range of operations, the organisation generally needs a larger investment in long-term assets. Therefore its fixed capital requirement rises, and the word more correctly completes the statement.

Step 3: Conclusion Organisations which choose to diversify their operations require more fixed capital.

Quick Tip to Solve: For diversification, focus on the additional long-term assets needed for the new activities.

12. The process of classification of products into different groups on the basis of their important characteristics refers to which of the following marketing functions ? [1 mark]

(A) Grading

(B) Standardisation

(C) Product designing

(D) Marketing planning

Correct Answer: (A) Grading

Solution:

Concept:

- Grading classifies products into different groups on the basis of important characteristics such as quality, size or weight.
- Standardisation establishes predetermined specifications for a product; grading sorts products according to their characteristics.

Step 1: Match the definition The question describes classification of products into different groups according to their important characteristics. This is precisely the marketing function of grading, which groups products of similar quality or other characteristics together.

Step 2: Distinguish the other functions Standardisation sets specifications rather than classifying output into groups. Product designing concerns the form, appearance and features of a product. Marketing planning determines marketing objectives and the programme for achieving them. These functions do not match the stated classification process, so options (B), (C) and (D) are excluded.

Step 3: Conclusion The marketing function is grading. Hence, the correct option is (A).

Quick Tip to Solve: Remember: standardisation sets a standard; grading sorts products into groups.

13. State the objective of financial management. [1 mark]

Solution:

Concept:

- The primary objective of financial management is maximisation of shareholders' wealth.
- For a company, shareholders' wealth is reflected in the market price of its equity shares.

Step 1: Identify whose wealth is maximised Financial management aims to make decisions that increase the wealth of the owners, namely the equity shareholders. It therefore evaluates investment, financing and dividend decisions in terms of their effect on shareholders' wealth.

Step 2: Express the objective precisely The objective is wealth maximisation, which means maximising the current market price of the company's equity shares. Merely increasing a short-term accounting profit is not an adequate statement of this objective because financial decisions must also consider their timing and risk.

Step 3: Conclusion The objective of financial management is to maximise shareholders' wealth, reflected in the maximisation of the market price of the company's equity shares.

Quick Tip to Solve: State both the NCERT term shareholders' wealth maximisation and its share-price meaning.

14. While the product _____ sets the lower limit of the price, the utility provided by the product sets the upper limit of price, which a buyer would be prepared to pay. [1 mark]

Solution:

Concept:

- Product cost sets the lower limit of price, while the utility perceived by buyers sets its upper limit.
- A business considers the cost of producing and selling a product when deciding a sustainable price.

Step 1: Identify the seller's lower boundary The seller needs to consider the cost incurred in producing, distributing and selling the product. A price that does not recover these costs cannot normally be sustained in the long run. Thus product cost provides the lower limit of price.

Step 2: Separate cost from buyer utility Utility is the satisfaction or value the buyer expects from the product and affects the maximum price the buyer is willing to pay. The question already assigns this upper-limit role to utility. The missing term must therefore be cost, which supplies the seller-side lower limit.

Step 3: Conclusion The blank is cost: product cost sets the lower limit of the price.

Quick Tip to Solve: Associate the price floor with cost recovery and the price ceiling with the buyer's perceived utility.

15. 'Temptations' is a food joint in Imperial Mall in Bengaluru. It is becoming popular among students and working people due to healthy, on-the-go dishes on its menu like 'Paneer Wrap', 'Chickpeas Salad', 'Grilled Sandwiches', etc.

It has now decided to open two new branches in other parts of Bengaluru.

Which financial decision has been discussed in the above case ? [1 mark]

(A) Long-term investment decision

(B) Short-term investment decision

(C) Dividend decision

(D) Financing decision

Correct Answer: (A) Long-term investment decision

Solution:

Concept:

- An investment decision concerns how the funds of a business are invested in assets. Long-term investment decisions are also called capital budgeting decisions.
- Opening branches commits funds to facilities and other assets whose benefits extend over several years.

Step 1: Identify the commitment of funds The words 'open two new branches' show that Temptations plans to expand its operating capacity. This requires investment in assets and facilities that will support business over a long period, rather than merely funding its daily stock or expenses.

Step 2: Compare the decisions A short-term investment decision concerns current assets and working capital. A financing decision concerns where funds will come from, which the case does not discuss. A dividend decision determines the distribution of profits to owners. None describes the expansion itself.

Step 3: Conclusion The decision to open two new branches is a long-term investment decision. Hence, the correct option is (A).

Quick Tip to Solve: Ask whether the decision acquires lasting business capacity or merely meets daily operating needs; a new branch indicates capital budgeting.

16. Who among the following is not considered a consumer under the Consumer Protection Act, 1986 ? [1 mark]

(A) A person who buys any goods for a consideration which has been paid.

(B) A person who avails of any service for a consideration which has been promised.

(C) A person who avails of a service for a commercial purpose.

(D) Any user of goods when such use is made with the approval of the buyer.

Correct Answer: (C) A person who avails of a service for a commercial purpose.

Solution:

Concept:

- The question uses the Consumer Protection Act, 1986. A consumer includes a buyer of goods or a person hiring or availing services for consideration, subject to the statutory exclusions.
- Consideration may be paid or promised; approved users of purchased goods are also covered. Services availed for a commercial purpose fall outside the consumer definition in this question.

Step 1: Identify the excluded purpose Option (C) expressly states that the service is availed for a commercial purpose. It therefore describes the excluded category rather than an ordinary consumer transaction.

Step 2: Check the remaining descriptions Option (A) is a buyer paying consideration. Option (B) is a service recipient for promised consideration; immediate payment is not essential. Option (D) is an authorised user using goods with the buyer's approval. These are included descriptions, so they do not answer the negative question.

Step 3: Conclusion A person who avails of a service for a commercial purpose is not considered a consumer in the case described. Hence, the correct option is (C).

Quick Tip to Solve: For a negative-definition question, distinguish the purpose of purchase from the timing of payment; promised consideration can still qualify.

17. State, giving reason, whether the following statement is true or false :

"Advertising refers to short term incentives which are designed to encourage the buyers to make immediate purchase of a product." [1 mark]

Solution:

Concept:

- Promotion includes advertising, personal selling, sales promotion and public relations. Each tool communicates with buyers but uses a different method.
- Sales promotion means short-term incentives designed to encourage immediate purchase. Advertising is paid, non-personal presentation and promotion by an identified sponsor.

Step 1: Recognise the definition given The phrase 'short term incentives' designed to encourage 'immediate purchase' is the defining feature of sales promotion. Examples include a limited-period discount, a coupon or an extra quantity offered with a purchase.

Step 2: Correct the statement The statement incorrectly labels these incentives as advertising. Advertising communicates information or persuades an audience through a paid, non-personal message; it is not the name for the temporary incentive itself. Replacing Advertising with Sales promotion makes the definition correct.

Step 3: Conclusion The statement is false. It defines sales promotion, not advertising, because it refers to short-term incentives encouraging immediate purchase.

Quick Tip to Solve: Look for the method: a paid non-personal message is advertising, while a temporary incentive such as a discount is sales promotion.

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18. The package of KRM Rawa Idli Mix describes the procedure of cooking idlis in three easy steps. It also specifies its ingredients, instructions for storage and serving.

The function performed by the label in the above case is : [1 mark]

(A) Describing the product and specifies its contents.

(B) Identification of the product or brand.

(C) Helping in promotion of products.

(D) Providing information required by law.

Correct Answer: (A) Describing the product and specifies its contents.

Solution:

Concept:

- A label describes a product and specifies its contents, including ingredients and directions for use. It enables the buyer to understand and use the product properly.
- Other labelling functions include identification, promotion and providing information required by law; the facts of the case decide which function is highlighted.

Step 1: Link the label details to the function The label 'describes the procedure of cooking idlis in three easy steps' and specifies 'ingredients, instructions for storage and serving'. These details explain what the product contains and how to prepare, store and use it.

Step 2: Rule out the other functions Identification would emphasise the product or brand name. Promotion would emphasise attractive or persuasive labelling. Although labels can carry legally required information, this case highlights practical product description and use rather than any specified legal disclosure.

Step 3: Conclusion The label describes the product and specifies its contents. Hence, the correct option is (A).

Quick Tip to Solve: Cooking directions, ingredients and storage details point to the descriptive function of a label; a brand name alone points to identification.

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19. Arnav has recently started a business to sell computers. He hired a shop in Nehru Place in New Delhi, where he assembles various components to make computers and supplies them as per order. He performs a series of composite but separate functions simultaneously and ensures that computers are delivered in time as per orders. These functions are performed by all managers at all times.

The feature of management highlighted above is : [1 mark]

(A) Management is a continuous process.

(B) Management is pervasive.

(C) Management is dynamic.

(D) Management is a group activity.

Correct Answer: (A) Management is a continuous process.

Solution:

Concept:

- Management is a continuous process consisting of interrelated functions such as planning, organising, staffing, directing and controlling.
- These functions are performed repeatedly and simultaneously as the situation requires; management does not end after a single activity.

Step 1: Locate the evidence of continuity Arnav performs 'a series of composite but separate functions simultaneously'. The statement that these functions are performed 'by all managers at all times' stresses the continuing nature of managerial work as he ensures timely delivery of computers.

Step 2: Distinguish the alternatives Pervasiveness means management is required in different organisations and at different levels. Dynamic management adapts to changes in the environment. Group activity concerns coordinating people towards common goals. The case instead emphasises recurring and simultaneous managerial functions.

Step 3: Conclusion The highlighted feature is that management is a continuous process. Hence, the correct option is (A).

Quick Tip to Solve: Use the case wording: functions performed continually or simultaneously indicate continuity; management across organisations indicates pervasiveness.

20. Aarushi purchased a pack of biscuits. When she opened it, she felt the biscuits were stale. She carefully read the label on the pack of biscuits which mentioned :

"If you are not satisfied with the product quality, write to our Customer Care Cell at

Bell Foods Pvt. Ltd.

B/321, Jalandhar, Punjab."

The biscuit company has set up its own consumer service and grievance cell to promote and protect the following right : [1 mark]

(A) Right to Safety

(B) Right to be Heard

(C) Right to be Informed

(D) Right to Consumer Education

Correct Answer: (B) Right to be Heard

Solution:

Concept:

- The right to be heard gives consumers an opportunity to present complaints and have their interests receive due consideration.
- A business can support this right through a consumer service or grievance cell that receives complaints about product quality.

Step 1: Connect the invitation to the right The label says, 'If you are not satisfied with the product quality, write to our Customer Care Cell'. The company thus provides Aarushi a channel to communicate dissatisfaction about the stale biscuits and bring her grievance to its attention.

Step 2: Distinguish the other rights The right to safety protects against hazardous goods and services. The right to be informed concerns adequate product information, while consumer education concerns acquiring knowledge and skills about consumer protection. The particular action here is inviting and hearing complaints, rather than any of those other functions.

Step 3: Conclusion The consumer service and grievance cell promotes and protects the right to be heard. Hence, the correct option is (B).

Quick Tip to Solve: A complaints address or grievance cell signals the right to be heard; information about contents or price signals the right to be informed.

Section B (15 marks)

21. Currently, the banking sector in the Indian economy is facing lots of problems. The rates of interest that banks are paying on deposits have sharply decreased; as a result banks are able to collect lesser amounts of deposits.

Due to the policies of the Reserve Bank of India, lending rates have also decreased. The automobile industry is also facing a lot of problems and thus they have also reduced the prices of cars. This has encouraged people to take car loans from banks as the interest rates on loans, along with prices of cars in the automobile sector are declining.

Due to this position of tight liquidity, 'The Oberoi Bank Ltd.' decided to raise funds by issuing an unsecured, short-term instrument which could be purchased by corporations, companies and individuals.

(a) Identify and explain the money market instrument used by 'The Oberoi Bank Ltd.' to raise funds.

(b) Also explain the money market instrument used by the banks to maintain Cash Reserve Ratio.

[3 marks]

Solution:

Concept:

- The money market deals in short-term funds and financial assets with a maturity of up to one year. Its instruments help institutions meet temporary liquidity requirements.
- A certificate of deposit enables banks to mobilise short-term funds, whereas call money enables banks to borrow from one another to meet reserve requirements.

Step 1: Identify and explain the instrument issued by Oberoi Bank **(a) Certificate of deposit:** The instrument is a certificate of deposit. The clues are that the issuer is a bank and the instrument is an "unsecured, short-term instrument" that can be purchased by "corporations, companies and individuals." Certificates of deposit are unsecured, negotiable instruments issued in bearer form by commercial banks and development financial institutions. They are issued against funds deposited with the institution for a specified period. Banks use them when deposit growth is slow but demand for credit is high. This matches the case: deposits have fallen while demand for car loans has increased, producing tight liquidity. Commercial paper is associated with companies raising short-term funds, rather than this bank-deposit instrument.

Step 2: Explain the instrument used to maintain the Cash Reserve Ratio **(b) Call money:** Banks use call money to meet a temporary shortage of funds needed to maintain the Cash Reserve Ratio, the prescribed cash balance maintained with the Reserve Bank of India. It is short-term finance, repayable on demand, with a maturity of one day to fifteen days. Banks with surplus funds lend to banks facing a temporary shortage. The interest paid on these interbank loans is called the call rate, which changes with the demand for and supply of short-term funds. It therefore helps banks adjust their immediate reserve position without arranging a long-term source of finance.

Step 3: Conclusion Oberoi Bank raises the stated funds through a **certificate of deposit**; banks use **call money** for short-term interbank borrowing to maintain the Cash Reserve Ratio.

Quick Tip to Solve: Look at both the issuer and the purpose: a bank mobilising fixed-period deposits points to a certificate of deposit; interbank borrowing for CRR points to call money.

22(a). Explain the following as limitations of planning :

(a) Planning leads to rigidity.

(b) Planning involves huge costs.

(c) Planning does not guarantee success. [3 marks]

Solution:

Concept:

- Planning decides in advance what is to be done and how it is to be done. It provides direction, but its benefits depend on the quality of plans and their implementation.
- Plans cannot remove all uncertainty. Their preparation consumes resources, and excessive dependence on a predetermined course can restrict adjustment to changing circumstances.

Step 1: Explain rigidity and the cost of preparing plans **(a) Planning leads to rigidity:** A specific plan lays down objectives, methods and a course of action. Managers may then be bound by these predetermined decisions even when circumstances change. They may be unwilling or unable to alter an approved plan, leaving little scope for individual initiative and flexibility. Blindly following it in a changed business environment can harm the organisation.

(b) Planning involves huge costs: Preparing plans requires the collection and analysis of information, research, forecasting and evaluation of alternatives. It may require specialists, surveys and considerable managerial time. These activities involve substantial expenditure before the plan produces any result. If the benefits obtained are smaller than these costs, planning becomes an economic burden rather than an advantage.

Step 2: Explain why a plan cannot ensure success **(c) Planning does not guarantee success:** Success depends on implementing a sound plan effectively, not merely preparing it. Managers may rely on a plan that worked in the past and assume that it will work again. However, business conditions, competition and customer preferences can change, so past success does not ensure future success. A plan must therefore be realistic, adapted to present circumstances and supported by proper action; having a formal planning system alone cannot produce the desired results.

Step 3: Conclusion Planning may create rigidity, incur substantial preparation costs and still fail to ensure success. Managers must recognise these limits while preparing and implementing plans.

Quick Tip to Solve: Explain each limitation through its cause and consequence: fixed decisions restrict flexibility, research consumes resources, and a written plan still needs effective implementation.

OR

22(b). Explain the following points as importance of delegation of authority :

(a) Motivation of employees (b) Employee development (c) Basis of management hierarchy [3 marks]

Solution:

Concept:

- Delegation is the transfer of authority from a superior to a subordinate to carry out assigned duties. It involves responsibility, authority and accountability.
- Delegation improves organisational functioning by empowering employees and defining reporting relationships. The superior retains ultimate accountability for the delegated work.

Step 1: Explain motivation and employee development **(a) Motivation of employees:** When a superior entrusts a subordinate with responsibility and sufficient authority, it shows confidence in the subordinate's ability. Employees feel recognised, trusted and important to the organisation. This recognition satisfies their higher-order needs, improves morale and encourages them to take initiative and perform their duties more effectively. Authority gives them a meaningful opportunity to contribute rather than merely carry out routine instructions.

(b) Employee development: Delegation gives employees opportunities to use their abilities, make decisions and handle new tasks. Through practical experience they learn to analyse situations, exercise judgement and solve problems. These challenges develop their managerial skills and confidence, preparing them to accept greater responsibilities and occupy more senior positions in the future.

Step 2: Explain how delegation establishes the hierarchy **(c) Basis of management hierarchy:** Delegation establishes superior-subordinate relationships throughout the organisation. The authority delegated to a person determines the scope of that person's decisions and the responsibilities assigned to that position. It also makes clear who reports to whom and who is accountable to whom. These relationships connect different levels of management and form the framework of the organisational hierarchy, supporting orderly communication and coordination of work.

Step 3: Conclusion Delegation motivates employees through trust and recognition, develops their capabilities through experience and provides the authority relationships on which the management hierarchy rests.

Quick Tip to Solve: Link the three benefits to different outcomes: trust raises motivation, decision-making experience develops people, and reporting relationships establish the hierarchy.

23. Vaibhav Sharma was working as the Production Manager in Crescent Pharmaceuticals Pvt. Ltd. To get his son admitted in school he wanted to take leave from the office but on the same day, an important meeting with the Chief Executive Officer (CEO) of the company was scheduled to discuss about some new medicines to be manufactured. Considering the significance of the meeting, he did not take leave. The CEO appreciated his exemplary behaviour as he gave priority to the organisational interest over his personal interest.

Name and explain the principle of management being followed by Vaibhav Sharma in the above case. [3 marks]

Solution:

Concept:

- Fayol's principle of subordination of individual interest to general interest gives priority to the interests of the organisation over those of an individual employee.
- Employees and managers have personal objectives, but their decisions at work should support the common organisational objectives when the two interests conflict.

Step 1: Identify the principle from the conflict **Subordination of individual interest to general interest:** Vaibhav wanted leave for his son's school admission, but an important meeting about new medicines was scheduled on the same day. The decisive words are that he "gave priority to the organisational interest over his personal interest." They directly identify Fayol's principle.

Step 2: Explain the priority required **Give precedence to the common interest:** According to this principle, the interests of the organisation as a whole must prevail over the interests of any one employee or group. If everyone pursues personal interests at the cost of the enterprise, coordinated efforts towards its objectives will suffer. Managers should therefore reconcile individual interests with the general interest wherever possible.

Step 3: Apply the principle to Vaibhav's decision **Support organisational objectives:** By not taking leave and attending the significant meeting, Vaibhav placed the company's decision about medicines before his immediate personal requirement. The CEO's appreciation recognises this choice. The principle concerns the priority in a conflict; it does not mean that employees can never have personal needs or take leave.

Step 4: Conclusion Vaibhav followed **subordination of individual interest to general interest**, because he placed the company's important meeting ahead of his personal requirement of securing his son's admission.

Quick Tip to Solve: When a case contrasts a personal need with the organisation's need, identify whose interest received priority before naming Fayol's principle.

24. Explain the following steps in the process of staffing :

(a) Performance Appraisal (b) Promotion and Career Planning (c) Compensation [3 marks]

Solution:

Concept:

- Staffing includes developing employees, evaluating their contribution and providing suitable rewards, in addition to recruiting and selecting them.
- Performance appraisal, promotion and career planning, and compensation help retain capable employees and encourage their continued contribution to organisational objectives.

Step 1: Explain performance appraisal **(a) Performance Appraisal:** This means evaluating an employee's current or past performance against predetermined standards. The organisation specifies the job and expected performance, assesses the employee's actual performance and provides feedback. It thus identifies strengths and shortcomings, suggests improvements and gives a basis for decisions about training, rewards and advancement. The assessment concerns performance on the job rather than arbitrary personal preferences.

Step 2: Explain promotion and career planning **(b) Promotion and Career Planning:** Promotion is movement to a higher position involving greater responsibilities, status and usually higher pay. Managers must address employees' career aspirations by providing opportunities for advancement and growth. Career planning maps suitable future positions and the development needed to reach them, encouraging employees to improve their competence and remain with the organisation.

Step 3: Explain compensation **(c) Compensation:** Compensation refers to all forms of pay or rewards given to employees for their work. It includes direct financial payments such as wages, salaries, incentives, commissions and bonuses, as well as indirect payments such as employer-paid insurance or benefits. A fair compensation system recognises the work performed, helps attract and retain suitable staff and motivates effective performance.

Step 4: Conclusion Appraisal evaluates performance and provides feedback; promotion and career planning provide advancement and growth; compensation rewards employees for the services they render.

Quick Tip to Solve: Keep the purposes distinct: appraisal evaluates, career planning develops advancement opportunities, and compensation pays and rewards.

25. 'Stay Fit', a probiotic drink was launched in the market by Dabal India Ltd. and is available in various cities across the country. Doctors are recommending it as it is very useful for the stomach. The company is also using various tools to inform and persuade customers about its product.

It has recently started free distribution of its samples to encourage the customers to know about its benefits to buy this probiotic drink in future.

The company has also appointed a large number of salespersons, who contact the prospective buyers and communicate with them to make sales. This way, the company is able to develop personal rapport with its customers.

In order to create awareness and to increase its popularity among school children, it also organises workshops for students and teachers. It also arranged visits of students and teachers to the factory to create awareness about the standards of hygiene adopted in processing and packaging, etc. This helps the company to build a positive image of its product in the society. This way the company is using a combination of communication tools to inform and persuade customers about their firm's product.

Identify and explain these tools. [3 marks]

Solution:

Concept:

- Promotion mix is the combination of communication tools used to inform and persuade customers about a firm's products.
- Sales promotion encourages immediate trial or purchase, personal selling uses direct interaction, and public relations builds a favourable public image.

Step 1: Identify and explain sales promotion **Sales promotion:** The words "free distribution of its samples" identify this tool. Sales promotion consists of short-term incentives designed to encourage buyers to purchase a product. Here, free samples allow prospective customers to try the probiotic drink, experience its benefits and become more willing to buy it subsequently. Sampling is especially useful when introducing a new product because customers can test it before paying for it.

Step 2: Identify and explain personal selling **Personal selling:** The company appointed salespersons who "contact the prospective buyers and communicate with them to make sales." Personal selling involves personal interaction between a seller and prospective buyer for making a sale. It permits the salesperson to explain the drink, answer questions, obtain immediate feedback and adapt the presentation to the buyer. The personal rapport mentioned in the case is a characteristic advantage of this tool.

Step 3: Identify and explain public relations **Public relations:** The workshops and factory visits help "build a positive image of its product in the society." Public relations involves activities aimed at promoting or protecting the image of a company and its products among its various publics. By showing students and teachers the hygiene standards in processing and packaging, the company creates awareness, trust and goodwill. These organised relations with the public go beyond an immediate individual sales transaction.

Step 4: Conclusion The three tools are **sales promotion** through free samples, **personal selling** through salespersons, and **public relations** through workshops and factory visits that build goodwill.

Quick Tip to Solve: Match each action to its purpose: free trial is sales promotion, direct seller interaction is personal selling, and goodwill-building visits are public relations.

Section C (12 marks)

26(a). Explain any four regulatory functions of Securities and Exchange Board of India (SEBI).

[4 marks]

Solution:

Concept:

- SEBI regulates the securities market to promote orderly functioning and ensure that market participants follow prescribed rules.
- Regulatory functions establish rules for securities-market institutions and intermediaries and provide for supervision. They differ from developmental functions such as training intermediaries.

Step 1: Explain regulation of markets and intermediaries

- **Regulating stock exchanges and securities markets:** SEBI regulates the business conducted in stock exchanges and other securities markets. It frames rules and a code of conduct so that trading takes place in an orderly manner and participants comply with the prescribed framework.
- **Registering and regulating intermediaries:** SEBI registers and regulates stockbrokers, sub-brokers and other intermediaries associated with the securities market. Registration brings these participants within its supervision; regulation requires them to observe the conditions and standards governing their activities.

Step 2: Explain regulation of investment schemes and takeovers

- **Registering and regulating collective investment schemes:** SEBI registers and regulates the working of collective investment schemes, including mutual funds. Such schemes pool investors' money, and regulatory supervision ensures that their operations remain within the applicable rules.
- **Regulating takeovers:** SEBI regulates substantial acquisition of shares and takeover of companies. These transactions can change corporate control, so they must follow prescribed procedures rather than take place outside the regulatory framework.

Step 3: Conclusion Four regulatory functions are regulation of stock exchanges and other securities markets, registration and regulation of intermediaries, registration and regulation of collective investment schemes including mutual funds, and regulation of substantial acquisition of shares and company takeovers.

Quick Tip to Solve: Choose functions involving registration, rules or supervision; training intermediaries is a developmental function.

OR

26(b). Explain 'Commercial Paper' and 'Treasury Bill' as money market instruments. [4 marks]

Solution:

Concept:

- The money market deals in short-term funds and financial assets with maturity up to one year. Its instruments help borrowers meet temporary fund requirements and investors employ short-term surplus funds.
- Commercial paper is a corporate borrowing instrument, whereas a Treasury bill is a short-term instrument issued by the Government of India. Both are issued at a discount and redeemed at face value.

Step 1: Explain commercial paper

- **Meaning and issuer:** Commercial paper is an unsecured promissory note issued by large and creditworthy companies to raise short-term funds. Since it is unsecured, no specific asset is pledged as security, and the issuer's creditworthiness is especially important.
- **Features and purpose:** It is a negotiable instrument issued at a discount and redeemed at par. Its maturity generally ranges from 15 days to one year. Companies use it to meet short-term requirements, such as seasonal working-capital needs; it may also serve as bridge finance pending the raising of longer-term funds.

Step 2: Explain Treasury bills

- **Meaning and issuer:** A Treasury bill is a short-term borrowing instrument issued by the Reserve Bank of India on behalf of the Government of India. It meets the government's short-term requirement of funds and has a maturity of less than one year.
- **Features and return:** It is issued as a promissory note at a price below its face value and redeemed at par on maturity. The difference between purchase price and face value is the investor's return, so it is also called a zero-coupon bond. Government backing makes Treasury bills highly safe, and their ready market makes them highly liquid.

Step 3: Conclusion Commercial paper enables creditworthy companies to borrow short-term funds without collateral, while Treasury bills enable the government to borrow short-term funds through the RBI. In both, the discount on issue provides the investor's return when repayment is made at face value.

Quick Tip to Solve: Identify the borrower first: commercial paper is corporate borrowing; a Treasury bill is government borrowing through the RBI.

27. The Government of India, in an effort to eliminate plastic waste, imposed a nationwide ban on single-use plastic. The ban would most likely target plastic cutlery, straws, cups and glasses.

As a result of this ban, the businesses have been forced to change their practices. 'Viman Airlines' decided to stop giving small water bottles on its flights.

Various firms have come up in the country that are making biodegradable plastic out of starch, wheat hay or petrochemicals. Thus competition in this upcoming industry is immense.

Businesses are also focusing on developing techniques to produce alternatives for plastic bags. 'Carlos Technologies Ltd.', a leading engineering company, has planned to design and deliver hi-tech machines that can scale up production of bags made from newspaper to replace plastic bags. Many companies are placing orders for such machines. This has added challenges before smaller firms making paper bags.

In various enterprises, employees are being trained to operate such hi-tech machines. This will provide human resource with higher competence.

Customers have also become more demanding due to increased awareness and are forcing sellers to adopt bags which are not made of plastic.

Identify and explain the impact of the above Government policy on Business and Industry. [4 marks]

Solution:

Concept:

- Government policy is part of the business environment. A policy change creates opportunities and threats and requires enterprises to adapt their operations.
- The NCERT impacts illustrated here include necessity for change, increasing competition, rapidly changing technological environment, need for developing human resources and more demanding customers.

Step 1: Identify the operational and competitive effects

- **Necessity for change:** Firms must modify established products and practices to remain effective in the changed environment. The case says businesses were "forced to change their practices", and Viman Airlines "decided to stop giving small water bottles on its flights". The ban therefore makes continuation of the old practice unsuitable and requires an alternative.
- **Increasing competition:** New producers enter the market for substitutes, making competition more intense. The passage states that "various firms have come up" making biodegradable plastic and that "competition in this upcoming industry is immense". Existing and new firms must improve their offerings to compete for these customers.

Step 2: Explain the technological and human resource effects

- **Rapidly changing technological environment:** Enterprises must adopt improved technology to remain competitive. Carlos Technologies plans "hi-tech machines that can scale up production of bags made from newspaper". Orders for these machines create challenges for smaller paper-bag firms, which must respond to the greater productive capacity of competitors.
- **Need for developing human resources:** New technology requires employees with suitable skills and competence. The case says "employees are being trained to operate such hi-tech machines". Training develops the abilities needed to use the new production methods effectively.

Step 3: Relate the change to customers' expectations

- **More demanding customers:** Better awareness makes buyers insist on products and practices that meet their expectations. Here, customers have "become more demanding due to increased awareness" and force sellers to use bags "not made of plastic". Firms must respond by supplying acceptable alternatives rather than relying on previous buying habits.

Step 4: Conclusion The ban requires changes in business practices, intensifies competition, encourages technological change, creates a need for employee development and makes customers more demanding. Each effect is supported by a specific response described in the case.

Quick Tip to Solve: Match each case clue to an NCERT impact: changed practices, new rivals, new machines, employee training and aware customers.

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28. Alka is working in the Accounts Department of 'Modern Locks Ltd'. Her mother is not well and to attend to her she wanted to take leave for one week.

For this, she went to the Senior Accountant, Manoj and discussed her problem. At that time Manoj was simultaneously checking the Balance Sheet of the company. Since his mind was preoccupied in some work, he did not listen to Alka attentively and could not understand her problem.

Alka was quite disappointed with the behaviour of Manoj.

(a) Identify the type of communication barrier discussed above.

(b) Also explain any three barriers of the same type. [4 marks]

Solution:

Concept:

- Psychological barriers arise from the emotional or mental state of the sender or receiver. They can prevent a message from being properly received, understood or accepted.
- Lack of attention, premature evaluation, loss by transmission and poor retention, and distrust are psychological barriers discussed in communication.

Step 1: Identify the barrier illustrated in the case **(a) Psychological barrier – lack of attention:** Manoj is checking the Balance Sheet while Alka explains her need for leave. The case states that "his mind was preoccupied in some work" and that he "did not listen to Alka attentively". His preoccupation prevents him from understanding her problem. The obstacle comes from the receiver's mental state, rather than the wording of the message or the formal structure of the organisation.

Step 2: Explain three other psychological barriers **(b)** Any three barriers of the same type are:

- **Premature evaluation:** The receiver judges the meaning or value of a message before the sender completes it. Conclusions based on preconceived ideas or incomplete information may differ from what the sender intends. Listening to the complete message is necessary for accurate understanding.
- **Loss by transmission and poor retention:** When a message passes through several persons, successive transmissions may omit or distort information. Moreover, people may not remember all the information received, especially when they are inattentive or uninterested. The message finally acted upon may therefore be incomplete or inaccurate.
- **Distrust:** Lack of mutual confidence between sender and receiver obstructs communication. A

receiver who does not trust the sender may doubt, reject or misinterpret even an accurate message. Communication is more effective when both parties have confidence in each other's intentions.

Step 3: Conclusion Manoj's lack of attention is a psychological barrier. Three other psychological barriers are premature evaluation, loss by transmission and poor retention, and distrust.

Quick Tip to Solve: A preoccupied listener signals lack of attention. Identify its psychological category, then explain three other barriers from that same category.

Section D (15 marks)

29(a). Sun Industries Ltd. is a leading company in India which manufactures steel. Its plants are located in Jamshedpur and Bokaro.

Currently it produces about three million tonnes of saleable steel. As the demand for steel is growing, it is planning to expand the capacity of the existing steel plants. It is estimated that it will require ₹ 1,800 crore of fixed capital and ₹ 200 crore of working capital.

To raise the funds, the company is considering whether it should issue equity shares or 7% debentures of ₹ 2,000 crore. Presently the capital structure is comprising of equity only. The Finance Manager of the company suggested that since the stock markets are undergoing a bearish phase, it should issue debentures.

(a) Is it justified to raise funds by issuing debentures ? Give reason in support of your answer.

(b) Explain the impact of issue of debentures on the risk faced by the company.

(c) Explain the impact of 'cost of debt' and 'cost of equity' on the capital structure of the company.

[5 marks]

Solution:

Concept:

- Capital structure is the proportion of debt and equity used to finance a business. The choice must balance the cost of funds with the financial risk created by fixed payment commitments.
- Stock-market conditions influence the timing of financing. Debt ordinarily costs less than equity, but excessive debt increases the risk borne by both the company and its equity shareholders.

Step 1: Justify the proposed financing in the stated market **(a) Stock-market conditions:** Yes, issuing debentures is justified in the circumstances stated. The case says that "the stock markets are undergoing a bearish phase". During a depressed market, investors are less willing to invest in equity, and a fresh equity issue may have to be made at an unattractive price. Consequently, a company may prefer debt financing in such a situation. The proposal to raise Rs 2,000 crore through debentures therefore matches this financing consideration; the company must also ensure that it can service the debt.

Step 2: Explain the additional financial risk **(b) Fixed payment obligations:** The existing capital structure is "comprising of equity only". Introducing 7% debentures adds a compulsory interest payment that must be met even when profits are low or absent. The principal must also be repaid according to the terms of issue. Failure to meet these commitments can cause default and threaten the

company's solvency. Thus the issue increases financial risk and reduces the flexibility available when cash earnings fall. These are financing risks; issuing debentures does not itself change the business risk arising from manufacturing steel.

Step 3: Relate the costs of debt and equity to the financing mix **(c) Cost of debt:** A company can generally borrow at a lower cost than the return expected by equity shareholders. Lenders bear relatively less risk, and interest is deductible in calculating taxable profits, which lowers the effective cost of debt. A lower borrowing cost makes debt a more attractive component of the capital structure, subject to the company's repayment capacity.

Cost of equity: Equity shareholders expect a return for bearing the residual risk of the business. As the proportion of debt increases, fixed interest commitments make their residual earnings more uncertain, so their required return, or cost of equity, increases. Debt should therefore be used only up to a suitable level: its lower direct cost must be weighed against the higher financial risk and the resulting increase in the cost of equity.

Step 4: Conclusion The bearish stock market supports Sun Industries Ltd.'s choice of debentures, but the issue introduces compulsory interest and repayment commitments. The company should choose a prudent debt-equity mix after balancing the relatively low after-tax cost of debt against the rising financial risk and cost of equity.

Quick Tip to Solve: For a capital-structure case, separate the market reason for choosing a source from its fixed-payment risk and its effect on the costs of debt and equity.

OR

29(b). From last many years, in the month of November, due to sudden rise in the pollution levels in Delhi and other parts of northern India, there has been an increase in the demand for air purifiers. Inderprastha Technologies Ltd., a manufacturer of air purifiers wants to encash this opportunity and wants to raise its investment in stock. It is expected that this decision would increase the rate of profitability of the business. Due to this many competitors have recently entered in this industry. In order to increase the sales, the company has started selling air purifiers on liberal credit terms. It is not affecting the profits of the company since the production cycle of the product is short.

Identify and state any two factors that 'Inderprastha Technologies Ltd.' will keep in mind before deciding its working capital requirements. Also state three other factors which should be kept in mind while deciding the working capital requirements of a company. [5 marks]

Solution:

Concept:

- Working capital finances day-to-day operations and current assets such as inventories and receivables. Its requirement depends on how much money is tied up in the operating cycle before sales are converted into cash.
- Seasonal demand and the credit allowed to customers are two factors illustrated in this case. Nature of business, scale of operations and operating efficiency are three other factors that influence the amount needed.

Step 1: Identify two factors from the case **1. Seasonal factors:** The case specifies that "in the month of November" rising pollution causes "an increase in the demand for air purifiers". During the peak season the company needs more inventory and a higher level of production to meet this demand, so it requires more working capital. In the lean season, lower production and inventory levels reduce this requirement. The proposed increase in stock is therefore linked to the seasonal rise in demand.

2. Credit allowed: The company has "started selling air purifiers on liberal credit terms". When customers are given more time to pay, sales proceeds remain tied up in receivables for longer. The company must still pay for materials, wages and other current expenses while awaiting collection. Liberal credit therefore increases working capital requirements compared with cash sales or stricter credit terms. A short production cycle does not remove the need to finance outstanding customer balances.

Step 2: State three other determinants of working capital **3. Nature of business:** A trading business generally needs less working capital than a manufacturing business because it does not process raw materials through successive production stages. A service business may need still less inventory. Manufacturing firms must finance raw materials, work in progress and finished goods.

4. Scale of operations: A company operating on a large scale normally needs a greater absolute investment in inventories, receivables and other current assets. A smaller scale of operation generally involves a lower absolute working capital requirement, other things remaining the same.

5. Operating efficiency: Efficient utilisation of materials and other resources, prompt collection of receivables and effective inventory management reduce the amount of money tied up in current assets. Greater operating efficiency therefore lowers working capital needs; avoidable delays and waste increase them.

Step 3: Conclusion The two case-based factors selected are seasonal demand and credit allowed to customers, both of which increase the funds needed in the circumstances described. Three other relevant factors are the nature of business, scale of operations and operating efficiency.

Quick Tip to Solve: Link each selected case factor to a quoted clue, then explain whether it keeps cash tied up for longer or changes the volume of current assets required.

30(a). State any five limitations of internal sources of recruitment. [5 marks]

Solution:

Concept:

- Internal recruitment fills vacancies from within the organisation, mainly through transfers and promotions of existing employees.
- Although it is economical and motivates employees through advancement, exclusive dependence on internal sources restricts the organisation's access to people and skills outside its existing workforce.

Step 1: State the limitations concerning people and vacancies

- **Incomplete recruitment:** Internal sources cannot meet all staffing requirements. An organisation must recruit employees from outside for certain vacancies because suitable people may not be

available within it.

- **Lack of fresh talent:** Restricting recruitment to existing employees prevents new people with fresh ideas, different experience and additional capabilities from entering the organisation. Existing employees may not bring the new outlook needed for growth.
- **Unsuitable for a new enterprise:** A newly established organisation has no existing workforce from which to recruit. It must therefore depend on external sources to obtain its initial employees.

Step 2: State the limitations concerning employee behaviour and output

- **Reduced competitive spirit:** Employees may become lethargic if they are certain of promotion merely because they already work in the organisation. The absence of competition from outside candidates can reduce the incentive to improve performance.
- **Reduced productivity due to frequent transfers:** Frequent transfers can disturb employees' settled working arrangements. Employees need time to adjust to their new jobs or workplaces, and this repeated adjustment can lower productivity.

Step 3: Conclusion Five limitations are incomplete recruitment, lack of fresh talent, unsuitability for a new enterprise, reduced competitive spirit, and reduced productivity due to frequent transfers. Thus, internal sources are useful but cannot by themselves satisfy every staffing need.

Quick Tip to Solve: Recall internal recruitment's limits through five cues: vacancies, fresh talent, a new enterprise, competition and frequent transfers.

OR

30(b). State any five measures that can be adopted by organisations to improve effectiveness of communication. [5 marks]

Solution:

Concept:

- Communication is effective when the receiver understands a message in the sense intended by its sender. Merely sending a message does not establish that it has been understood.
- Organisations can improve communication by making messages clear, adapting them to receivers, consulting others, obtaining feedback and listening carefully. These measures reduce misunderstanding and encourage a proper exchange of information.

Step 1: Prepare a clear and suitable message

- **Clarify ideas before communication:** The sender should analyse the subject and be clear about the purpose and content of the message. A clear idea in the sender's mind is necessary for a clear message to reach the receiver.
- **Communicate according to the receiver's needs:** The sender should consider the receiver's understanding, education and experience. The language and explanation should be suited to that person so that the intended meaning is easily understood.
- **Consult others before communicating:** While developing a communication plan, the sender should consult other people concerned. Their participation helps to identify difficulties, improve

the message and secure cooperation in carrying out what is communicated.

Step 2: Check understanding and encourage a two-way exchange

- **Ensure proper feedback:** The sender should give the receiver an opportunity to respond and should check that the message has been understood correctly. Feedback identifies misunderstandings and enables timely clarification instead of allowing incorrect assumptions to continue.
- **Be a good listener:** Both parties should listen patiently and attentively without interrupting or making premature judgements. Listening to the whole message and seeking clarification when necessary improves understanding and makes communication more effective.

Step 3: Conclusion Organisations can improve communication by clarifying ideas beforehand, adapting messages to receivers' needs, consulting others, ensuring proper feedback and practising good listening. Together, these five measures help the intended meaning pass accurately between sender and receiver.

Quick Tip to Solve: Organise the five measures around preparation and response: clear ideas, suitable language, consultation, feedback and attentive listening.

31(a). Explain any five characteristics of coordination. [5 marks]

Solution:

Concept:

- Coordination is the process by which a manager synchronises the activities of different departments and individuals to achieve organisational goals.
- It binds the other functions of management together. It is the essence of management because planning, organising, staffing, directing and controlling all require coordinated effort.

Step 1: Explain how coordination combines effort

- **Integrates group efforts:** Coordination brings together the individual efforts of employees and the activities of different departments. It reconciles their differing interests and gives the group a common focus, so that each person's contribution supports the organisation's goals.
- **Ensures unity of action:** Coordination provides a common direction to all activities. It links the timing and sequence of interdependent tasks so that one department's work supports the work of another, rather than conflicting with it. Thus, departmental activities become parts of a purposeful whole.

Step 2: Explain its continuity, scope and responsibility

- **Is a continuous process:** Coordination begins at the planning stage and continues through organising, staffing, directing and controlling. Managers must repeatedly align activities as work proceeds and conditions change; coordination is not completed by a single meeting or decision.
- **Is an all-pervasive function:** Coordination is needed in every department and at every level of management because organisational activities depend on one another. Production, marketing and finance, for example, must work in harmony to achieve the same objectives.
- **Is the responsibility of all managers:** Top managers coordinate the organisation's overall

plans, middle managers coordinate departmental efforts, and supervisors coordinate the work of individual employees. Responsibility for coordination therefore belongs to managers at all levels, rather than to one specialist department alone.

Step 3: Conclusion The five characteristics are integration of group efforts, unity of action, continuity, all-pervasiveness and the responsibility of all managers. Together they explain how coordination unifies separate activities into a coherent organisational effort.

Quick Tip to Solve: Link each characteristic to a different question: whose efforts are combined, what direction they follow, when coordination occurs, where it is needed and who performs it.

OR

31(b). Is management a profession ? Explain. [5 marks]

Solution:

Concept:

- A profession is an occupation requiring specialised knowledge and training, with entry, conduct and service guided by professional standards.
- Management has some features of a profession, but it does not satisfy all of them fully. Each professional criterion must therefore be tested before reaching a conclusion.

Step 1: Examine knowledge and entry requirements

- **Well-defined body of knowledge:** A profession rests on a systematic body of knowledge acquired through instruction. Management satisfies this feature: its principles and techniques are taught in business schools and institutions, and can be studied through organised courses.
- **Restricted entry:** Entry into a profession normally requires a prescribed qualification or examination. Management does not fully satisfy this condition. A management degree is desirable and can improve competence, but it is not a compulsory legal qualification for becoming a manager. A person may manage a business without holding such a degree.

Step 2: Examine regulation, ethics and service

- **Professional association:** A profession has an association that regulates entry, grants recognition and lays down standards. Management associations, such as the All India Management Association, exist, but membership is not compulsory for managers. They therefore do not regulate entry in the manner of fully established professions.
- **Ethical code of conduct:** Professional conduct is governed by a binding ethical code. Management associations prescribe ethical guidelines, and managers are expected to act responsibly. However, these association codes are not universally binding on everyone who works as a manager, so this feature is not fully met.
- **Service motive:** A profession places service to clients and society at its core. Business management seeks organisational goals, including profit, but effective management increasingly emphasises serving consumers, employees and society. This service orientation is developing, although it does not universally displace the profit objective.

Step 3: Conclusion Management cannot yet be regarded as a full-fledged profession. It has a well-defined body of knowledge and is moving towards professionalisation, but compulsory qualifications, restricted entry, compulsory association membership and a universally binding professional code are not fully established.

Quick Tip to Solve: Test management against knowledge, restricted entry, association, ethics and service; distinguish a desirable management qualification from a compulsory entry qualification.

Section E (18 marks)

32(a). InfoMed Ltd. is a growing IT firm with rapidly increasing market share. It has recently been awarded 'The Best Organisation to Work in India – 2019' and is the most sought after by job-seekers.

In this company, rules and procedures to be followed by employees have been clearly laid down by the top management. There is no ambiguity in the role that each member has to play, as the duties are specified.

During lunch time, all employees of the organisation get together in the canteen. This time is much awaited by every employee as it allows them to share their feelings with others. This leads to the success of the organisation.

(a) Identify and explain the types of organisation being discussed in the above case.

(b) State two advantages of each type of the organisation identified in (a) above which have not been discussed in the above para. [6 marks]

Solution:

Concept:

- Formal organisation is the structure of authority and responsibility deliberately created by management to achieve organisational objectives. It specifies jobs, reporting relationships, rules and procedures.
- Informal organisation is the network of social relationships that arises spontaneously as employees interact. It develops from personal contact, friendship and common interests rather than a managerial plan.

Step 1: Identify and explain formal organisation **(a) Formal organisation:** The case says that "rules and procedures to be followed by employees have been clearly laid down by the top management" and that "the duties are specified". These statements show a deliberately designed structure in which each employee has an assigned role. Authority, responsibility and official relationships are prescribed to coordinate work towards the company's objectives. Thus the absence of ambiguity mentioned in the case is a benefit of formal organisation.

Step 2: Identify and explain informal organisation **Informal organisation:** The statement that employees "get together in the canteen" and "share their feelings with others" shows relationships developing through social interaction. These personal relationships arise spontaneously alongside the formal structure; management does not prescribe them as official reporting relationships. The satisfaction of social needs is already described in the case and therefore is not repeated among the

additional advantages below.

Step 3: State two additional advantages of formal organisation **(b) Fixation of responsibility:** Because official authority and responsibility are specified, it becomes easier to identify who is accountable for the performance of a particular task. This helps management locate responsibility when work is not performed as required.

Stability of the organisation: Formal organisation places emphasis on defined positions, rules and procedures rather than on particular individuals. Work can continue through the established structure even when the people occupying positions change, giving the enterprise continuity and stability.

Step 4: State two additional advantages of informal organisation **Faster communication:** Informal communication does not have to follow the prescribed scalar chain. Information can spread quickly through personal contacts, enabling employees to obtain feedback and exchange information promptly.

Support for formal organisation: Informal groups can help employees cooperate, resolve difficulties and overcome inadequacies in the formal structure. When their efforts support organisational goals, they supplement formal arrangements and improve the achievement of objectives.

Step 5: Conclusion InfoMed Ltd. has both a formal organisation, evidenced by prescribed rules and duties, and an informal organisation, evidenced by spontaneous canteen interaction. The additional advantages are fixation of responsibility and stability for the formal structure, and faster communication and support for formal organisation for the informal network.

Quick Tip to Solve: Match prescribed duties with formal organisation and spontaneous social contact with informal organisation. When asked for advantages not in the case, exclude role clarity and satisfaction of social needs here.

OR

32(b). 'Good Looks Ltd.' are the manufacturers of cosmetics. The company enjoyed a pre-eminent position in the business and has grown in size. Till recently the company had been doing good business; but after the entry of competitors the market share of 'Good Looks Ltd.' has declined. One of the reasons for this was that all decisions were taken by the higher management. This has resulted in the concentration of all decision-making process at the apex of the management hierarchy. Worried about the decline in market share and profit, the company appointed 'Structures Consultants India Ltd.' as a consultant to suggest improvements in the organisation's decision-making process. The consultant suggested that the decision-making responsibilities may be divided among hierarchical levels. They said that if decision-making authority will be shared with the lowest levels and is consequently placed near the point of action, it will help in quick decision-making and this will help the company in adapting itself to the dynamic operating conditions. They stated that the philosophy of dispersal of authority propagates the belief that people are competent, capable and resourceful and can assume the responsibility of effective implementation of their decisions.

(a) Identify and give the meaning of the concept based on which 'Structures Consultants India Ltd.' gave their recommendations to 'Good Looks Ltd.'.

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

Solution:

Concept:

- Decentralisation means the systematic delegation of authority throughout all levels of management, including the lower levels. Decision-making authority is dispersed and placed closer to the point of action.
- It is an organisational philosophy based on confidence in employees' competence and willingness to accept responsibility. Top management retains authority over major policy matters while lower levels gain authority to make appropriate operational decisions.

Step 1: Identify the recommended concept and its meaning **(a) Decentralisation:** The consultant recommends that "decision-making responsibilities may be divided among hierarchical levels" and that authority be "shared with the lowest levels". These statements identify decentralisation: systematic delegation of decision-making authority throughout the organisation, extending to the lower levels. The belief that people are "competent, capable and resourceful" supports this philosophy. It contrasts with the company's earlier concentration of decisions at the apex of the hierarchy.

Step 2: Explain how decentralisation develops employees **(b) Develops initiative among subordinates:** When employees receive authority to decide matters within their work area, they must use their own judgement rather than merely wait for instructions. This encourages self-reliance, confidence and initiative. They learn to accept responsibility for the consequences of their decisions.

Develops managerial talent for the future: Lower-level managers gain practical experience in analysing problems, choosing a course of action and implementing it. This experience develops their decision-making ability and prepares a pool of capable managers for more demanding positions in the future.

Step 3: Explain how decentralisation improves organisational functioning **Quick decision-making:** Decisions can be taken by managers close to the actual problem instead of being referred repeatedly through the hierarchy. They possess relevant local information and can respond promptly. This directly matches the consultant's recommendation to place authority "near the point of action", helping Good Looks Ltd. respond to changing operating conditions.

Relief to top management: Delegating authority for routine and operational decisions reduces the burden on senior managers. They can devote more attention to important policy matters, planning and strategic decisions while lower-level managers handle decisions within the authority assigned to them. This makes better use of managerial time across the hierarchy.

Step 4: Conclusion The recommendation is decentralisation, or systematic delegation of authority down the management hierarchy. Its importance includes developing initiative, preparing future managerial talent, enabling quick decisions and relieving top management of routine decision-making work.

Quick Tip to Solve: Authority dispersed throughout the hierarchy signals decentralisation. Explain each benefit through its cause: authority creates initiative and experience, local decisions save time, and routine delegation frees senior managers.

33(a). Explain the relationship of planning and controlling. [6 marks]

Solution:

Concept:

- Planning decides objectives and the course of action in advance; controlling compares actual performance with planned standards and initiates corrective action.
- Planning and controlling are inseparable, interdependent functions: plans provide the basis for control, while control makes future planning more effective.

Step 1: Explain how planning provides the basis for control

- **Planning is a prerequisite for controlling:** Plans establish the objectives and standards against which actual performance is assessed. For example, a planned production target becomes the standard used to judge actual output. Without a predetermined target, a manager cannot identify a deviation meaningfully.
- **Controlling is blind without planning:** A control exercise needs a clear direction and a criterion for judging results. In the absence of plans, managers may measure activities but cannot determine whether the organisation is achieving what it intended to achieve.

Step 2: Explain how controlling completes the planning process

- **Planning is meaningless without controlling:** Making a plan does not ensure that it will be carried out. Controlling checks execution, detects deviations and provides for corrective action so that the desired results can actually be achieved.
- **Control improves subsequent plans:** Analysis of deviations reveals problems in performance and may also expose unrealistic standards or assumptions. This feedback enables managers to revise plans and set more realistic standards for the next period. Thus planning and controlling reinforce each other in a continuing cycle.

Step 3: Relate both functions to the past and the future

- **Both are forward-looking:** Planning looks ahead to decide future action. Controlling also looks ahead because its ultimate purpose is to take corrective action and prevent future deviations; it is not merely a record of past errors.
- **Both are backward-looking:** Controlling examines performance already achieved and compares it with standards. Planning also draws on past experience and the feedback generated by control when framing future courses of action. Therefore it is incomplete to describe planning as exclusively forward-looking and controlling as exclusively backward-looking.

Step 4: Conclusion Planning supplies the standards for controlling, and controlling ensures that plans are implemented and supplies feedback for better future plans. They are the inseparable twins of management, linked through standards, performance evaluation and corrective action.

Quick Tip to Solve: Organise this relationship around standards, corrective action and feedback; then explain why both functions look to the future and learn from the past.

OR

33(b). Explain the steps involved in the process of selection after 'preliminary screening' and 'selection tests'. [6 marks]

Solution:

Concept:

- Selection is the process of choosing the most suitable candidate for a job from the applicants. Each stage helps assess suitability before the organisation makes an appointment.
- After preliminary screening and selection tests, the remaining stages are employment interview, reference and background checks, selection decision, medical examination, job offer and contract of employment.

Step 1: Assess the candidate through interview and verification

- **Employment interview:** The employer conducts a formal, detailed conversation with the applicant to assess suitability for the post. The interview helps evaluate qualities that tests may not fully reveal and allows the candidate to obtain information about the organisation and the job.
- **Reference and background checks:** The employer contacts the referees named by the applicant, such as previous employers, teachers or other reliable persons. Their information helps verify the applicant's background, experience, character and suitability, and confirms important claims made in the application.

Step 2: Decide whom to select and establish medical fitness

- **Selection decision:** The employer makes the final choice from among the candidates who have passed the tests, interview and reference checks. The managers responsible for the new employee's performance should have an important role in this decision, since the selected person will work under their supervision.
- **Medical examination:** After the selection decision and before the job offer, the candidate undergoes a medical fitness examination. It establishes whether the person is medically fit to perform the duties of the post. An offer is made subject to the candidate being declared fit for the job.

Step 3: Communicate the appointment and formalise employment

- **Job offer:** The organisation communicates the offer through a letter of appointment. The letter specifies the date by which the appointee must report for duty. It also gives the candidate a reasonable time to accept the offer and make necessary arrangements before joining.
- **Contract of employment:** Once the offer is accepted, the candidate and employer execute the necessary employment documents. The contract records the agreed terms, including the job title and duties, remuneration, working hours, leave entitlement, rules, notice period and other conditions. It makes the rights and obligations of both parties clear.

Step 4: Conclusion The six stages following preliminary screening and selection tests are employment interview, reference and background checks, selection decision, medical examination, job offer and contract of employment, in that order. Together they establish suitability and fitness and formalise the appointment.

Quick Tip to Solve: Remember the sequence as interview, verify, decide, examine, offer and contract; do not repeat the two preliminary stages already excluded by the question.

34. Arnav had a garments business specialising in jackets for all seasons. Though the jackets were available at an affordable price, the business was not doing well.

Aman, his eldest son, suggested that they should undertake aggressive selling and promotional efforts to make customers buy the products. He believed that customers buy only when they are adequately convinced and motivated for the same. Aditya, his second son, believed that availability, low price and aggressive selling techniques cannot ensure increased sales. He felt that customers looked for products which were superior in quality and do not mind paying a high price for it. So, he decided to manufacture good quality jackets at a separate production unit. He also opened a separate outlet on the first floor of the showroom for the same. Very soon, the business started flourishing.

Identify and explain the marketing philosophies guiding the marketing efforts of Arnav, Aman and Aditya. [6 marks]

Solution:

Concept:

- Marketing Management: a marketing philosophy guides the firm's assumptions about what customers value and how it should achieve sales.
- The production concept stresses availability and affordability; the selling concept stresses persuasion; the product concept stresses quality, performance and features.

Step 1: Identify and explain Arnav's production concept

- **Identification and evidence:** Arnav follows the **production concept**. The case says that his jackets were "available at an affordable price". He relies on making the product available at a price customers can afford.
- **Explanation:** This philosophy assumes that consumers favour products which are widely available and inexpensive. Management therefore concentrates on improving production and distribution efficiency, producing on a large scale and reducing costs so that prices can be kept low. Availability and affordability are its central concerns. The fact that Arnav's sales remain poor shows that these factors alone may not satisfy what customers want.

Step 2: Identify and explain Aman's selling concept

- **Identification and evidence:** Aman follows the **selling concept**. He suggests "aggressive selling and promotional efforts" and believes customers buy only when "adequately convinced and motivated".
- **Explanation:** This philosophy assumes that customers will not buy enough of the firm's products unless the firm undertakes substantial selling and promotional efforts. The focus is on persuading customers to purchase the existing product through advertising, personal selling and other promotional methods. Its means of earning profits is increasing sales volume through persuasion, rather than first designing the offering around researched customer needs.

Step 3: Identify and explain Aditya's product concept

- **Identification and evidence:** Aditya follows the **product concept**. He believes customers seek products "superior in quality" and "do not mind paying a high price for it". Accordingly, he manufactures good-quality jackets in a separate unit.
- **Explanation:** This philosophy assumes that consumers favour products offering the best quality,

performance and innovative features. Management therefore concentrates on making superior products and improving them continuously. Aditya's emphasis is the quality of the jacket itself; his separate outlet supports selling that superior offering. It is not the marketing concept merely because sales flourish: the stated guiding belief is product superiority, rather than beginning with a study of target customers' needs.

Step 4: Conclusion Arnav is guided by the **production concept**, Aman by the **selling concept**, and Aditya by the **product concept**. Their respective emphases are affordable availability, persuasive promotion, and superior quality.

Quick Tip to Solve: Match the case's deciding words: availability and low price indicate production; convincing buyers indicates selling; superior quality indicates product.