CBSE Class 12 Business Studies Question Paper 2022 with Solution PDF-Set 66/3/2

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 2 hours **Maximum Marks: 40**

General Instructions

(i) This question paper contains **12** questions.

(ii) Question numbers **1 – 4** are of **2** marks. These are Short Answer Type Questions and are to be answered in **30-50** words.

(iii) Question numbers **5 – 8** are of **3** marks. These are Short Answer Type Questions and are to be answered in **50-80** words.

(iv) Question numbers **9 – 12** are of **5** marks. These are Long Answer Type Questions and are to be answered in **80-120** words.

(v) There is no over-all choice in the question paper. However internal-choice has been given in **1** question of **3** marks and **2** questions of **5** marks each.

(vi) This question paper contains Case/Source Based questions.

1. One of the functions of management completes one cycle of management process and improves planning in the next cycle in the light of the problems that were identified in the existing plans. Identify and state the function of management discussed above. [2 marks]

Solution:

Concept:

- Controlling is the management function that ensures actual performance conforms to the standards laid down in plans.
- Planning provides the standards for control, while information obtained through control helps improve future plans.

Step 1: Identify the function from the clue The function is **controlling**. The words "completes one cycle of management process" and "improves planning in the next cycle" indicate that performance is reviewed and the resulting information is fed back into planning.

Step 2: State its meaning Controlling means measuring actual performance, comparing it with predetermined standards, identifying deviations and taking corrective action. It ensures that organisational activities are performed according to plans. Problems revealed by this comparison help managers revise methods or standards and prepare more realistic plans for the next cycle.

Step 3: Conclusion The function is **controlling**: checking performance against planned standards and taking corrective action so that organisational objectives are achieved.

Quick Tip to Solve: Link "checking deviations" and "feedback for future plans" with controlling; planning itself sets the standards being checked.

2. Identify and state the step in the process of staffing which creates a pool of prospective job seekers for vacancies in the organisation. [2 marks]

Solution:

Concept:

- Recruitment is the staffing step concerned with searching for prospective employees and stimulating them to apply for jobs in an organisation.
- Its purpose is to create a pool of candidates from which suitable employees can subsequently be selected.

Step 1: Identify the staffing step The step is **recruitment**. The clue "creates a pool of prospective job seekers" refers to attracting applicants for the available vacancies. At this stage, the organisation seeks candidates rather than choosing the final employee.

Step 2: State what recruitment involves Recruitment is the process of searching for prospective employees and encouraging them to apply for jobs in the organisation. Management identifies suitable sources of manpower and attracts people with the required qualifications to apply. This provides a sufficiently wide pool of applicants for the next staffing step, selection, in which their suitability is assessed.

Step 3: Conclusion **Recruitment** is the required step: searching for prospective employees and

stimulating them to apply for organisational vacancies.

Quick Tip to Solve: Remember the sequence: recruitment attracts applicants and builds the pool; selection chooses suitable people from that pool.

3. Give the meaning of 'Democratic style of Leadership'. [2 marks]

Solution:

Concept:

- Leadership is the process of influencing people's behaviour so that they willingly work towards organisational objectives.
- Democratic or participative leadership involves subordinates in decision-making and encourages the exchange of ideas.

Step 1: Explain participation in decisions Under the **democratic style of leadership**, the leader develops action plans and makes decisions in consultation with subordinates. Employees are encouraged to express their opinions and offer suggestions before a course of action is decided. Their participation gives them a role in decisions affecting their work.

Step 2: Explain the leader's approach The leader respects employees' ideas, permits freedom of thought and action within agreed limits, and uses discussion and group participation to secure cooperation. Thus communication works in both directions. The leader guides and coordinates the group while involving members, rather than imposing every decision without consultation.

Step 3: Conclusion Democratic leadership means leading through consultation and participation, with subordinates encouraged to share ideas and take part in decision-making.

Quick Tip to Solve: Use "consultation", "participation" and "two-way communication" to distinguish democratic leadership from autocratic decision-making.

4. 'Gujarat Textiles Ltd.' needs to raise a fund of ₹ 80 crore. It cannot afford the cost of a public issue, so it was decided to allot its equity shares to institutional investors like LIC and some selected investors.

Identify and explain the method of floating new issues used by 'Gujarat Textiles Ltd'. [2 marks]

Solution:

Concept:

- Private placement is a method of raising capital in the primary market by allotting securities to institutional investors and selected individuals.
- It enables a company to obtain funds more quickly and at a lower cost than a public issue, whose issue-related expenses may be beyond its means.

Step 1: Identify the method from the investors selected The method used is **private placement**. Gujarat Textiles Ltd. decided to allot equity shares to "institutional investors like LIC and some

selected investors". This selective allotment, rather than an invitation to the public at large, identifies the method.

Step 2: Explain how the method meets the company's need Under private placement, a company raises funds by issuing securities directly to a selected group of institutional investors and individuals. Gujarat Textiles Ltd. needs Rs 80 crore but "cannot afford the cost of a public issue". Private placement allows it to raise this capital without incurring the high expenses of offering its shares to the general public, and it can access funds comparatively quickly.

Step 3: Conclusion Gujarat Textiles Ltd. uses private placement: an allotment of equity shares to institutional and selected investors that avoids the high cost of a public issue.

Quick Tip to Solve: An issue to selected investors or institutions points to private placement; an invitation to the general public points to a public issue.

5. State any three factors affecting dividend decision of a company. [3 marks]

Solution:

Concept:

- Dividend decision concerns the proportion of earnings distributed to shareholders as dividend and the proportion retained in the business for future needs.
- A company considers its earnings and financial needs while choosing a dividend that it can sustain. Profit and cash availability are related but distinct considerations.

Step 1: State the earnings factors

- **Amount of earnings:** Dividends are paid out of current and past earnings. Therefore, earnings are a major determinant of the amount of dividend. Other things remaining the same, a company with higher earnings has greater capacity to pay dividends.
- **Stability of earnings:** A company with stable earnings is in a better position to declare a higher dividend than one with unstable earnings. Stable earnings give management greater confidence that it can maintain the dividend in future years, whereas uncertainty makes it prudent to retain more funds.

Step 2: State the cash availability factor

- **Cash flow position:** Paying a cash dividend requires an outflow of cash. A company may be profitable but have insufficient cash because funds are tied up in assets or receivables. A sound cash flow position makes dividend payment easier; an inadequate cash position can restrict dividend even when the company reports profits.

Step 3: Conclusion Three factors affecting dividend decision are the amount of earnings, stability of earnings and cash flow position. The first determines the earnings available, the second their reliability, and the third the ability to make the actual payment.

Quick Tip to Solve: Keep earnings and cash flow separate: a profitable company can still lack the cash needed to pay a dividend.

6. Explain how controlling helps in 'making efficient use of resources' and 'improving employee motivation'. [3 marks]

Solution:

Concept:

- Controlling compares actual performance with predetermined standards, identifies deviations and initiates corrective action.
- Two aspects of its importance are efficient use of resources and improved employee motivation. Both arise when employees know the expected standard and performance is monitored fairly.

Step 1: Explain efficient use of resources **Making efficient use of resources:** Controlling measures actual performance against standards. Activities are therefore performed according to predetermined norms rather than without a clear direction. When waste or misuse of materials, money, time or effort is detected, management takes corrective action. This reduces wastage and spoilage and ensures that resources are used in the most effective and efficient manner. For example, a comparison of material consumption with the standard can reveal excessive wastage that needs correction.

Step 2: Explain the effect on employee motivation **Improving employee motivation:** Controlling makes employees aware of what they are expected to do and of the standards against which their performance will be appraised. When performance standards are clear and objectively communicated, employees can direct their efforts towards achieving them. They also know the basis on which good performance will be recognised. This clarity and objective appraisal encourage employees to improve their performance and work towards organisational goals.

Step 3: Conclusion Controlling promotes efficient resource use by detecting and correcting waste, and improves employee motivation by clarifying expected performance and the standards used for appraisal.

Quick Tip to Solve: Link resource efficiency to checking waste against standards, and motivation to employees knowing what is expected and how they will be appraised.

7. The Human Resource Department of 'Oberoi's Airlines Pvt. Ltd.' has recently selected 11 pilots. The new pilots have to handle sophisticated equipment. For this, the Human Resource Manager wants to design an off-the-job training programme which will help them to improve their performance on their jobs.

Identify and explain the method of training that can be used by the company in the given situation. [3 marks]

Solution:

Concept:

- Off-the-job training takes employees away from the actual workplace to learn the knowledge and skills required for their jobs.
- Vestibule training reproduces the working environment and equipment so that employees can learn to operate sophisticated machinery safely before performing their actual jobs.

Step 1: Identify the suitable training method The company should use **vestibule training**. The case states that the new pilots "have to handle sophisticated equipment" and that the manager wants an "off-the-job training programme". Vestibule training is suitable because it enables employees to acquire practical operating skills in an environment that closely resembles their actual workplace without training them during normal operations.

Step 2: Explain how vestibule training works In vestibule training, the actual work environment is created in a classroom or training facility and employees learn on equipment of the type they will use on the job. For the selected pilots, an aircraft cockpit simulator can reproduce the controls and operating conditions they need to handle. Under a trainer's guidance, they can practise procedures and responses before taking responsibility for a real flight. This method is used where employees must handle sophisticated machinery and equipment, allowing practice without exposing actual operations, expensive equipment or passengers to the risks of beginners' errors.

Step 3: Conclusion Vestibule training is the appropriate off-the-job method for Oberoi's Airlines Pvt. Ltd.; a simulated cockpit environment will help its 11 newly selected pilots learn to handle sophisticated equipment and improve their job performance.

Quick Tip to Solve: When a case combines sophisticated equipment with a replica of the workplace away from actual operations, identify vestibule training.

8(a). What is meant by financial incentives ? State any two financial incentives. [3 marks]

Solution:

Concept:

- Financial incentives are incentives expressed in monetary terms. They satisfy employees' financial needs and encourage them to improve their contribution to organisational goals.
- An incentive links a valued reward with work or performance. Financial incentives may be paid directly as money or provided indirectly through benefits that have a monetary value.

Step 1: State the meaning of financial incentives **Meaning:** Financial incentives are monetary rewards offered to motivate employees to work more effectively. They may be paid individually or to a group. By helping employees meet their economic needs, they encourage effort and better performance. The essential feature is that their value can be measured in money; recognition and status, by themselves, are non-financial incentives.

Step 2: State two financial incentives

- **Pay and allowances:** Salary is the basic monetary incentive for an employee. It includes basic pay and allowances, such as dearness allowance, along with other pay components. Regular increments in salary and suitable increases in allowances can motivate employees by improving their earnings.
- **Productivity-linked wage incentives:** Under these incentive plans, additional wages are linked to an increase in productivity. Employees who produce more or achieve the prescribed output receive higher earnings according to the plan. This gives them a direct financial reason to improve their performance.

Step 3: Conclusion Financial incentives are rewards measurable in money that motivate employees.

Two examples are **pay and allowances** and **productivity-linked wage incentives**.

Quick Tip to Solve: For a financial incentive, ask whether the reward can be valued in money. Name each incentive separately and explain how it benefits the employee.

OR

8(b). State any three benefits of training to employees. [3 marks]

Solution:

Concept:

- Training is the systematic process of increasing employees' knowledge and skills for a particular job. It improves their ability to perform the work assigned to them.
- Training benefits employees personally as well as helping the organisation. Its benefits to employees include career advancement, improved earnings, safer working and greater satisfaction.

Step 1: Explain the career and earning benefits

- **Better career opportunities:** Training improves an employee's skills and knowledge. These enhanced capabilities equip the employee for more responsible work and help in obtaining better career opportunities. An employee who can perform a wider range of tasks is better prepared to advance in a career.
- **Increased earnings:** Training improves employees' efficiency and performance. Better performance helps them earn more, for example where remuneration or incentives are linked to output or performance. Thus the employee gains an economic benefit from developing the skills needed to do the job well.

Step 2: Explain the safety benefit

- **Greater safety:** Training teaches employees the correct methods of operating machines, handling materials and carrying out their tasks. Employees learn to follow necessary safety practices and avoid unsafe actions. This makes them less prone to accidents and helps protect them from injury while working. Familiarity with the correct procedure is especially useful when the work involves equipment or other workplace hazards.

Step 3: Conclusion Three benefits of training to employees are **better career opportunities**, **increased earnings through improved performance** and **greater safety with fewer accidents**.

Quick Tip to Solve: Keep the answer focused on the employee: advancement, earnings and personal safety are employee benefits; reduced wastage is primarily an organisational benefit.

9(a). (i) Give the meaning of a 'Consumer' as per Consumer Protection Act, 2019.

(ii) As per Consumer Protection Act, 2019, for what value of defective goods or deficient services can a complaint be filed at the State Commission ?

(iii) Where can an appeal against the order of National Commission be made if aggrieved party is not satisfied by its order ? [5 marks]

Solution:

Concept:

- Consumer Protection concerns the protection of buyers of goods and users of services against unfair practices. Under the Consumer Protection Act, 2019, consumer status depends on obtaining goods or services for consideration, subject to the statutory exclusions.
- The consumer redressal machinery has District, State and National Commissions. Their original pecuniary jurisdiction and the route of appeal are distinct: the value determines the initial forum, whereas the order challenged determines the appellate forum.

Step 1: Define a consumer of goods and services **(i) Consumer:** A consumer is a person who buys goods or hires or avails of services for a consideration which has been paid or promised, partly paid and partly promised, or is payable under a system of deferred payment. The definition includes a user of the goods, or a beneficiary of the services, when such use or benefit is with the approval of the buyer or hirer.

It excludes a person obtaining goods for resale or goods or services for a commercial purpose. However, buying and personally using goods exclusively to earn one's livelihood by self-employment does not count as a commercial purpose for this exclusion. Purchases and services obtained through offline or online transactions, electronic means, teleshopping, direct selling and multi-level marketing are covered. Thus, neither immediate cash payment nor purchase from a physical shop is necessary for consumer status.

Step 2: State the State Commission's value limit **(ii) State Commission:** In the Consumer Protection Act, 2019 framework prescribed in the textbook for this paper, a complaint may be filed at the State Commission when the value of goods or services paid as consideration exceeds Rs 1 crore but does not exceed Rs 10 crore. The lower boundary is exclusive and the upper boundary is inclusive. The relevant value is the consideration paid for the goods or services, rather than merely the compensation demanded by the complainant.

Step 3: Identify the forum for an appeal **(iii) Appeal:** An aggrieved party may appeal against the National Commission's order to the **Supreme Court of India**. In the statutory appellate route, this refers to an order made by the National Commission in its original jurisdiction; the Act does not provide an automatic further appeal to the Supreme Court from every appellate or revisional order of the National Commission.

Step 4: Conclusion A consumer buys goods or avails of services for consideration, including approved users or beneficiaries, subject to the resale and commercial-purpose exclusions and the self-employment exception. The State Commission limit in the prescribed 2019 Act framework is above Rs 1 crore and up to Rs 10 crore. The appellate forum asked for is the Supreme Court of India.

Quick Tip to Solve: Separate the three demands: define who is protected, give both boundaries of the State Commission's value range, and then name the Supreme Court as the appellate forum.

OR

9(b). Explain the following rights of a consumer as per the Consumer Protection Act, 2019 :

(i) Right to be heard

(ii) Right to be informed [5 marks]

Solution:

Concept:

- Consumer protection recognises rights that safeguard a buyer against unfair practices and give the buyer a voice when goods or services are unsatisfactory.
- The right to be heard concerns representation of consumers' interests and consideration of their complaints. The right to be informed concerns access to complete and accurate product information before making a choice.

Step 1: Explain the right to be heard **(i) Right to be heard:** A consumer has the right to have a complaint heard and to be assured that the consumer's interests receive due consideration at appropriate forums. A business should therefore provide a channel through which buyers can communicate grievances, such as a consumer service or grievance cell. The buyer must have an opportunity to explain the problem with the goods or services rather than have the complaint ignored.

Consumer organisations also help consumers exercise this right: they take up grievances and represent consumers' interests in dealings with businesses and the appropriate authorities. For example, a buyer whose complaint about a defective appliance is repeatedly ignored can place the grievance before the appropriate consumer forum. The essential feature of this right is the opportunity for the consumer's voice and interests to be considered; it does not mean that every complaint automatically succeeds.

Step 2: Explain the right to be informed **(ii) Right to be informed:** A consumer has the right to obtain complete information about the goods or services being purchased, including their quality, quantity, potency, purity, standard and price. This information enables the consumer to compare alternatives, judge whether the product meets the intended need and make an informed buying decision. It also protects the consumer against misleading claims and unfair trade practices.

The label or other product information should disclose relevant details such as ingredients, net quantity, maximum retail price, date of manufacture, expiry date where applicable, and directions or precautions for safe use. For example, before buying a packaged food product, the buyer should be able to check its ingredients, quantity, price and expiry date. Concealing such material information prevents a proper choice and defeats this right. Accurate disclosure helps the consumer identify what is being offered before agreeing to buy it.

Step 3: Conclusion The **right to be heard** assures consideration of consumers' grievances and representation of their interests. The **right to be informed** assures access to complete and accurate details of goods or services so that the consumer can choose intelligently and avoid unfair practices.

Quick Tip to Solve: Link "heard" with complaints and representation, and "informed" with product details and informed choice. Explain each right separately and add a practical example.

10. Differentiate between 'Capital Market' and 'Money Market' on the basis of following :

(i) Participants

(ii) Instruments

(iii) Expected Return

(iv) Safety

(v) Duration [5 marks]

Solution:

Concept:

- The capital market provides a channel for raising medium-term and long-term funds, including funds obtained through equity and debt securities.
- The money market deals in short-term funds and monetary assets whose maturity is up to one year. Its instruments are generally highly liquid and meet temporary financing needs.

Step 1: Establish the basis of comparison Compare the two markets on the five bases specified in the question. Participants describe who supplies and obtains funds; instruments are the securities traded; expected return and safety concern the investor; duration refers to the period for which funds are raised. Capital-market investment carries a relatively longer commitment, whereas money-market investment meets short-term requirements.

Step 2: Present the five differences

Basis	Capital Market	Money Market
Participants	Financial institutions, banks, corporate entities, foreign investors and ordinary retail investors participate. Individuals can invest their savings in capital-market securities.	The main participants are the Reserve Bank of India, commercial banks, financial institutions and finance companies. Large institutions dominate because transactions generally involve large amounts.
Instruments	The principal instruments include equity shares, preference shares, debentures and bonds. These provide ownership capital or longer-term borrowed funds.	The principal instruments include Treasury bills, commercial paper, call money, certificates of deposit and commercial bills. These serve short-term financing needs.
Expected return	The expected return is generally higher because investors commit funds for longer periods and bear greater risk. There may also be capital gains on shares.	The expected return is generally lower because funds are invested for shorter periods and the instruments usually carry relatively low risk.
Safety	Investment is relatively less safe: the return and repayment may be affected by changes in the issuing business and market conditions. Securities are therefore generally riskier than money-market instruments.	Instruments are comparatively safer because their maturities are short and issuers generally have strong credit standing. Short maturity limits exposure to default and adverse changes.

Duration	It deals in medium-term and long-term funds, generally for periods exceeding one year. Equity capital does not have a fixed maturity date.	It deals in short-term funds, with maturities of up to one year. Call money can be borrowed for a very short period.

Step 3: Conclusion The capital market provides longer-term finance through shares and debt securities, with relatively higher expected returns and risk. The money market provides short-term finance through monetary instruments and is comparatively safer, with generally lower expected returns.

Quick Tip to Solve: Use the same five row headings as the question and compare each market directly in that row; link longer duration with higher expected return and greater risk.

11(a). NB Ltd. is India's largest manufacturer of cement. Its operations are spread throughout the country with 17 modern cement factories. It has a work force of 9,000 persons.

Since its inception, the company has been a trendsetter for the cement industry. The company is planning to grow in the long-run and wants to double its capacity in the next 3 years.

For this the Finance Manager has to decide about the quantum of finance to be raised from various long-term sources. For this he needs to identify various available sources of funds and the proportion of funds from each source.

(i) Identify the financial decision to be taken by the Finance Manager.

(ii) State any four factors which would affect the decision identified in (i) above. [5 marks]

Solution:

Concept:

- Financial management involves deciding how much finance is needed and selecting the sources from which it will be raised.
- A financing decision determines the amount of funds to be raised from various long-term sources and their relative proportions, particularly the mix of owners' funds and borrowed funds.

Step 1: Identify the financial decision from the case The decision is the **financing decision**. The Finance Manager must choose the sources and the proportion of funds from each source for NB Ltd.'s expansion. The words "quantum of finance to be raised from various long-term sources" and "the proportion of funds from each source" establish this identification. The proposed doubling of capacity explains the need for finance; the specific decision described concerns how that finance is to be obtained.

Step 2: State four factors affecting the financing decision

- **Cost:** The cost of raising finance differs among sources. The Finance Manager should compare these costs and prefer an economical source or combination of sources, while also considering the other financing requirements of the company.
- **Risk:** Different sources carry different financial risks. Borrowed funds require fixed interest payments and repayment of principal, irrespective of the company's earnings; owners' funds do not create the same compulsory payment burden. The risk associated with a source must therefore

be assessed.

- **Floatation costs:** These are the costs of raising funds, such as brokerage, underwriting commission, fees and other issue expenses. Higher floatation costs make a source less attractive and must be considered when choosing the method of financing.
- **Cash flow position of the company:** A stronger cash flow position permits greater use of debt because the company can meet interest and repayment commitments when due. A weak cash flow position makes such fixed obligations harder to service and calls for greater caution in using borrowed funds.

Step 3: Conclusion NB Ltd.'s Finance Manager is taking a **financing decision**. Four factors affecting it are the cost of finance, risk, floatation costs and the company's cash flow position.

Quick Tip to Solve: When a case asks for the sources of funds and their proportions, identify a financing decision; then state the factors that influence the choice between those sources.

OR

11(b). Myra Ltd., manufacturing televisions, is planning to expand its business and requires ₹ 250 crore for the same. A number of projects are available to the company to invest in and each project has to be evaluated carefully. The Finance Manager of the company, has assessed the projects in terms of the rate of return from each project and wanted to select the one with the higher rate of return. But before selecting the project he has to take into consideration other factors also.

(i) Identify and state the financial decision discussed in the above para graph.

(ii) Explain two other factors that the Finance Manager should consider before selecting the project.

[5 marks]

Solution:

Concept:

- **Investment decision:** Financial Management concerns the allocation of a firm's funds among different assets and investment proposals. A long-term investment decision is also called a capital budgeting decision.
- **Evaluation of capital investment:** The cash flows of a project, its rate of return and the investment criteria involved affect the choice. The highest rate of return should not be considered in isolation from the other relevant factors.

Step 1: Identify and state the financial decision The financial decision discussed is the **investment decision**, specifically a **long-term investment or capital budgeting decision**. It involves deciding how the firm's funds are to be invested in different assets so as to earn the highest possible return for investors.

Myra Ltd. is "planning to expand its business" and "a number of projects are available to the company to invest in". These lines show that its Finance Manager is selecting the project in which the required Rs 250 crore should be invested. The focus is the use of funds for expansion, rather than the choice of sources from which to raise those funds. Since this expansion commits a substantial sum for future benefits, it is a long-term investment decision.

Step 2: Explain the cash flows of the project **Cash flows of the project:** An investment proposal generally involves an initial cash outflow, followed by a series of cash inflows and outflows over its life. The Finance Manager must carefully analyse the expected amounts and timing of these cash flows before selecting the project.

For Myra Ltd., a favourable rate of return alone does not describe when the expansion will generate cash or how much cash it will require at different stages. The company must estimate the investment and subsequent receipts and payments to judge the benefits expected from each proposal. The estimates should cover the life of the investment so that proposals can be compared meaningfully.

Step 3: Explain the investment criteria involved **Investment criteria involved:** The Finance Manager must apply suitable capital budgeting techniques to evaluate the proposals. Investment evaluation requires calculations relating to the amount of investment, the interest rate, the cash flows and the rate of return. The techniques used to assess a proposal help determine whether it is acceptable and which proposal should be selected.

Myra Ltd. should therefore evaluate each available expansion project using appropriate investment criteria, rather than select it merely because its stated rate of return is higher. These criteria provide an organised basis for comparing the costs and expected benefits of the competing long-term commitments.

Step 4: Conclusion Myra Ltd. is making an **investment decision (capital budgeting decision)** concerning the allocation of funds to its expansion project. Besides the rate of return already assessed, the Finance Manager should consider **the cash flows of the project** and **the investment criteria involved** before making the selection.

Quick Tip to Solve: In a project-selection case, recall the three NCERT investment factors: cash flows, rate of return and investment criteria. When the case already discusses one, explain the other two.

12. The Human Resource Manager of Alfa Ltd., a leading air-conditioner manufacturer requires employees for various posts. He wanted to opt for a source of recruitment where background of potential candidates is sufficiently known. He knew that applicants introduced by present employees or their friends and relatives may prove to be a good source of recruitment.

(i) Identify the external source of recruitment discussed in the above paragraph.

(ii) State any four advantages of external sources of recruitment. [5 marks]

Solution:

Concept:

- Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in an organisation. External recruitment brings applicants from outside the existing workforce.
- Recommendations of employees are an external source: present employees, or their friends and relatives, introduce potential candidates whose background can be known sufficiently well.

Step 1: Identify the source from the case The source is **recommendations of employees**. The decisive words are "applicants introduced by present employees or their friends and relatives". These introductions provide information about the applicants, meeting the manager's preference for

candidates whose "background ... is sufficiently known". The candidates are being brought into Alfa Ltd. from outside; this is therefore an external source, even though existing employees recommend them.

Step 2: State the advantages of external recruitment

- **Qualified personnel:** External sources enable management to attract qualified and trained people to apply for vacant jobs. The organisation can seek the education, experience and skills required for its posts instead of restricting recruitment to the qualifications already available within it.
- **Wider choice:** A large number of applicants from outside the organisation can apply. Management consequently has a wider pool from which to select suitable candidates, increasing the possibility of matching each job with the right person.
- **Fresh talent:** New entrants bring fresh ideas, knowledge and experience into the organisation. This helps it benefit from approaches and skills that may not be available among its existing employees.
- **Competitive spirit:** Recruitment from outside introduces competition for positions. Existing employees may be encouraged to improve their performance, work harder and become more competent because they know that suitable outside candidates can also be appointed.

Step 3: Conclusion Alfa Ltd. is considering **recommendations of employees**. Four advantages of external recruitment are access to qualified personnel, a wider choice of applicants, fresh talent and the development of a competitive spirit among employees.

Quick Tip to Solve: Identify employee recommendations from the words "introduced by present employees". Then keep the four advantages focused on external recruitment as a whole, as the question asks.