

CONTENTS

| S.No | Topic | Page No |
|------|---|---------|
| I | Rationale, General Objectives, Methodology , Syllabus and Design of the paper and Mark distribution for topics. | 2 |
| II | Chapter wise Chapter Summary | |
| | 1. Introduction to Management | 12 |
| | 2. Principles of Management | 20 |
| | 3. Management and Business Environment | 39 |
| | 4. Planning | 50 |
| | 5. Organizing | 63 |
| | 6. Staffing | 81 |
| | 7. Directing | 95 |
| | 8. Controlling | 112 |
| | 9. Financial Management | 119 |
| | 10. Financial Markets | 133 |
| | 11. Marketing Management | 147 |
| | 12. Consumer Protection | 170 |
| III | PROJECT WORK | 178 |
| IV | GUIDELINES FOR PRACTICALS, THEORY PAPER AND HOW TO STUDY BUSINESS STUDIES | |
| V | CBSE Sample papers- 2015-16 | 200 |
| | CBSE Sample Paper - 2016-17 | 210 |
| | CBSE Sample paper- 2017-18 | 228 |
| | CBSE Sample paper- 2018-19 | 241 |
| | CBSE Sample paper- 2019-20 | 253 |

**RATIONALE, GENERAL LEARNING OBJECTIVES, METHODOLOGY
AND SYLLABUS FOR THE ACADEMIC YEAR 2020-21: BUSINESS STUDIES**

The courses in Business Studies and Accountancy are introduced at + 2 stage of Senior Secondary Education as formal commerce education is provided after first ten years of schooling. Therefore, it becomes necessary that instructions in these subjects are given in such a manner that students have a good understanding of the principles and practices bearing in business (trade and industry) as well as their relationship with the society.

Business is a dynamic process that brings together technology, natural resources and human initiative in a constantly changing global environment. To understand the framework in which a business operates, a detailed study of the organisation and management of business processes and its interaction with the environment is required. Globalization has changed the way firms transact their business.

Information Technology is becoming a part of business operations in more and more organisations. Computerised systems are fast replacing other systems. E-business and other related concepts are picking up fast which need to be emphasized in the curriculum.

The course in Business Studies will prepare students to analyse, manage, evaluate and respond to changes which affect business. It provides a way of looking at and interacting with the business environment. It recognizes the fact that business influences and is influenced by social, political, legal and economic forces. It allows students to appreciate that business is an integral component of society and develops an understanding of many social and ethical issues.

Therefore, to acquire basic knowledge of the business world, a course in Business Studies would be useful. It also informs students of a range of study and work options and bridges the gap between school and work.

General Learning Objectives of the Subject:

- ✓ To develop in students an understanding of the processes of business and its environment;
- ✓ To acquaint students with the dynamic nature and inter-dependent aspects of business;
- ✓ To develop an interest in the theory and practice of business, trade and industry;
- ✓ To familiarize students with theoretical foundations of organizing, managing and handling operations of a business firm;
- ✓ To help students appreciate the economic and social significance of business activity and the social cost and benefits arising there from;
- ✓ To acquaint students with the practice of managing the operations and resources of business;
- ✓ To prepare students to function more effectively and responsibly as consumers, employers, employees and citizens;
- ✓ To help students in making the transition from school to the world of work including self-employment;
- ✓ To develop in students a business attitude and skills to be precise and articulate.

Project Work in Business Studies:

After doing the Project Work in Business Studies, the students will be able to do the following:

- develop a practical approach by using modern technologies in the field of business and management;;
- get an opportunity for exposure to the operational environment in the field of business management and related services;
- inculcate important skills of team work, problem solving, time management, information collection;
- process, analyze and synthesize relevant information to derive meaningful conclusions;
- get involved in the process of research work;
- demonstrate his or her capabilities while working independently; and
- enjoy studying Business Studies.

Methodology

- ✓ Topics will be discussed in class.
- ✓ A handout to cover topics not given adequately in the text will be given wherever required.
- ✓ Flow charts to facilitate quick recap will be used for revision.
- ✓ Assignments to cover previous year Board questions will be given for writing practice.
- ✓ Extra question covering HOTS questions for the chapter will be discussed in class.
- ✓ A monthly class test will be given to assess learning of students.

| DESIGN OF 80 MARK QUESTION PAPER-Choice will be given | | | | | | Total Marks |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|--------------------|
| Marks per Question | Section A 1 | Section B 3 | Section C 4 | Section D 5 | Section E 6 | |
| Number Of Questions/Choice questions | 20 | 5/1 | 3/1 | 3/2 | 3/2 | |
| Total Marks | 20 | 15 | 24 | 15 | 18 | 80 marks |

Typology of Questions for the 80 marks Paper

| Marks Allocated | Total Mks | 1 Mk | 3 Mks | 4 Mks | 5 Mks | 6 Mks | No Of Ques |
|------------------------|------------------|-------------|--------------|--------------|--------------|--------------|-------------------|
| Remembering | 23 | 5 | 1 | 1 | 1 | 1 | 09 |
| Understanding | 21 | 5 | 2 | 1 | - | 1 | 09 |
| Application | 19 | 5 | 1 | - | 1 | 1 | 08 |
| Analysing & Evaluation | 17 | 5 | 1 | 1 | 1 | - | 08 |
| Total | 80 | 20 | 15 | 12 | 15 | 18 | 34 Ques |
| Marks | | | | | | | |

- ▶ **Remembering:** (knowledge based simple recall questions to know specific facts, terms, concepts, principles of theories. Identify, define recite or information.)
- ▶ **Understanding:** (comprehension based - to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase or interpret information)
- ▶ **Application:** (use abstract information in concrete situation, to apply knowledge to new situations, use given content to interpret a situation, provide an example or solve a problem)
- ▶ (analysis and syntheses – classify, compare, contrast or differentiate between different pieces of information. Organize and / or integrate unique pieces of information from a variety of sources.)
- ▶ **Analysing and Evaluation:** (analysis and syntheses – classify, compare, contrast or differentiate between different pieces of information. Organize and / or integrate unique pieces of information from a variety of sources.) (appraise, judge and/or justify the value or worth of a decision or outcome or to predict outcomes based on values)

Syllabus for Annual Paper 3 Hours 80 Marks

| <u>Part A Principles and Functions of Management</u> | Marks: 50 | Periods |
|--|-----------|-------------|
| 1. Introduction to Management | 16 | 12 |
| 2. Principles of Management | | 14 |
| 3. Business Environment | | 12 |
| 4. Planning | 14 | 14 |
| 5. Organizing | | 15 |
| 6. Staffing | 20 | 16 |
| 7. Directing | | 15 |
| 8. Controlling | | 12 |
| | Marks:50 | 110 |
| <u>Part B: Business Finance and Marketing</u> | Marks: | Periods |
| 9. Financial Management | 15 | 20 |
| 10. Financial Markets | | 18 |
| 11. Marketing Management | 15 | 30 |
| 12. Consumer Protection | | 12 |
| <u>Part C: Project</u> | 20 | 30 |
| | Marks:50 | Periods:120 |

Part A: Principles and Functions of Management

Concept includes meaning and features

Unit 1: Nature and Significance of Management

| | |
|--|---|
| Management-concept, objectives, and importance Concept includes meaning and features | After going through this unit, the student/ learner would be able to: <ul style="list-style-type: none"> • Understand the concept of management. • Explain the meaning of 'Effectiveness and Efficiency. • Discuss the objectives of management. • Describe the importance of management. |
| Management as Science, Art and Profession | <ul style="list-style-type: none"> • Examine the nature of management as a science, art and profession. |
| Levels of Management | <ul style="list-style-type: none"> • Understand the role of top, middle and lower levels of management |
| Management functions-planning, organizing, staffing, directing and controlling | <ul style="list-style-type: none"> • Explain the functions of management |
| Coordination- concept and importance | <ul style="list-style-type: none"> • Discuss the concept and characteristics of coordination. • Explain the importance of coordination. |

Unit 2: Principles of Management

| | |
|---|---|
| Principles of Management- concept and significance | After going through this unit, the student/ learner would be able to: <ul style="list-style-type: none"> • Understand the concept of principles of management. • Explain the significance of management principles. |
| Fayol's principles of management | <ul style="list-style-type: none"> • Discuss the principles of management developed by Fayol. |
| Taylor's Scientific management- principles and techniques | <ul style="list-style-type: none"> • Explain the principles and techniques of 'Scientific Management'. • Compare the contributions of Fayol and Taylor. |

Unit 3: Business Environment

| | |
|--|--|
| Business Environment- concept and importance | After going through this unit, the student/ learner would be able to: <ul style="list-style-type: none"> • Understand the concept of 'Business Environment'. • Describe the importance of business environment |
|--|--|

| | |
|--|---|
| Dimensions of Business Environment- Economic, Social, Technological, Political and Legal | <ul style="list-style-type: none"> Describe the various dimensions of 'Business Environment'. Understand the concept of Demonetization. |
| Demonetization- Concept and features | |

Unit 4: Planning

| | |
|---|--|
| Concept, importance and limitation | <p>After going through this unit, the student/ learner would be able to:</p> <ul style="list-style-type: none"> Understand the concept of planning. Describe the importance of planning. Understand the limitations of planning |
| Planning process | <ul style="list-style-type: none"> Describe the steps in the process of planning. |
| Single use and standing plans. Objectives, Strategy, Policy, Procedure, method Rule, budget and Programme | <ul style="list-style-type: none"> Develop an understanding of single use and standing plans Describe objectives, policies, strategy, procedure, method, rule, budget and programme as types of plans. |

Unit 5: Organising

| | |
|---|---|
| Concept and importance | <p>After going through this unit, the student/ learner would be able to:</p> <ul style="list-style-type: none"> Understand the concept of organizing as a structure and as a process. Explain the importance of organizing. |
| Organising Process | <ul style="list-style-type: none"> Describe the steps in the process of organising |
| Structure of organisation- functional and divisional concept. Formal and informal organisation- concept | <ul style="list-style-type: none"> Describe functional and divisional structures of organisation. Explain the advantages, disadvantages and suitability of functional and divisional structure. Understand the concept of formal and informal organisation. Discuss the advantages, disadvantages of formal and informal organisation. |
| Delegation: concept, elements and importance | <ul style="list-style-type: none"> Understand the concept of delegation. Describe the elements of delegation. |

| | |
|--|---|
| Decentralization: concept and importance | <ul style="list-style-type: none"> • Appreciate the importance of Delegation • Understand the concept of decentralisation. • Explain the importance of decentralisation. • Differentiate between delegation and decentralisation. |
|--|---|

Unit 6: Staffing

| | |
|--|---|
| Concept and importance of staffing | After going through this unit, the student/ learner would be able to: <ul style="list-style-type: none"> • Understand the concept of staffing. • Explain the importance of staffing. |
| Staffing as a part of Human Resource Management - concept | <ul style="list-style-type: none"> • Understand the specialized duties and activities performed by Human Resource Management |
| Staffing process | <ul style="list-style-type: none"> • Describe the steps in the process of staffing |
| Recruitment process | <ul style="list-style-type: none"> • Understand the meaning of recruitment. • Discuss the sources of recruitment. • Explain the merits and demerits of internal and external sources of recruitment |
| Selection- process | <ul style="list-style-type: none"> • Understand the meaning of selection. Describe the steps involved in the process of selection. |
| Training and Development- Concept and importance, Methods of training- on the job and off the job- Induction training, vestibule training, apprenticeship training and internship training | <ul style="list-style-type: none"> • Understand the concept of training and development. • Appreciate the importance of training to the organisation and to the employees. • Discuss the meaning of induction training, vestibule training, apprenticeship training and internship training. • Differentiate between training and development. • Discuss on the job and off the job methods of training. |

Unit 7: Directing

| | |
|--|---|
| Concept and importance | After going through this unit, the student/ learner would be able to: <ul style="list-style-type: none"> • Describe the concept of directing. • Discuss the importance of directing |
| Elements of Directing | <ul style="list-style-type: none"> • Describe the four elements of directing |
| Supervision -concept, function of a supervisor | <ul style="list-style-type: none"> • Understand the concept of supervision. • Discuss the functions performed by a supervisor. |

| | |
|--|---|
| Motivation-concept, Maslow's hierarchy of needs, Financial and non financial incentives | <ul style="list-style-type: none"> Understand the concept of motivation. Develop an understanding of Maslow's Hierarchy of needs. Discuss the various financial and non-financial incentives. |
| Leadership- concept, styles- authoritative, democratic and laissez faire | <ul style="list-style-type: none"> Understand the concept of leadership. Understand the various styles of leadership. |
| Communication- concept, formal and informal communication; barriers to effective communication, how to overcome the barriers | <ul style="list-style-type: none"> Understand the concept of communication Understand the elements of the communication process. Discuss the concept, merits and demerits of formal and informal communication. Discuss the various barriers to effective communication. Suggest measures to overcome barriers to communication. |

Unit 8: Controlling

| | |
|---|--|
| Concept and importance | After going through this unit, the student/ learner would be able to: <ul style="list-style-type: none"> Understand the concept of controlling. Explain the importance of controlling. |
| Relationship between planning and controlling | <ul style="list-style-type: none"> Describe the relationship between planning and controlling |
| Steps in process of control | <ul style="list-style-type: none"> Discuss the steps in the process of controlling. |

Part B: Business Finance and Marketing

Unit 9: Financial Management

| | |
|--|---|
| Concept, role and objectives of Financial Management | After going through this unit, the student/ learner would be able to: <ul style="list-style-type: none"> Understand the concept of financial management. Explain the role of financial management in an organisation. Discuss the objectives of financial management |
| Financial decisions: investment, financing and dividend- Meaning and factors affecting | <ul style="list-style-type: none"> Discuss the three financial decisions and the factors affecting them. |
| Financial Planning- concept and importance | <ul style="list-style-type: none"> Describe the concept of financial planning and its objectives. Explain the importance of financial planning |

| | |
|---|---|
| Capital Structure- Concept | <ul style="list-style-type: none"> Understand the concept of capital structure. Describe the factors determining the choice of an appropriate capital structure of a company. |
| Fixed and Working Capital- Concept and factors affecting their requirements | <ul style="list-style-type: none"> Understand the concept of fixed and working capital. Describe the factors determining the requirements of fixed and working capital. |

Unit 10: Financial Markets

| | |
|---|--|
| Financial Markets: Concept, Functions and types | After going through this unit, the student/ learner would be able to: <ul style="list-style-type: none"> Understand the concept of financial market. Explain the functions of financial market. Understand capital market and money market as types of financial markets. |
| Money market and its instruments | <ul style="list-style-type: none"> Understand the concept of money market. Describe the various money market instruments. |
| Capital market and its types (primary and secondary), methods of floatation in the primary market | <ul style="list-style-type: none"> Discuss the concept of capital market. Explain primary and secondary markets as types of capital market. Differentiate between capital market and money market. Discuss the methods of floating new issues in the primary market. Distinguish between primary and secondary markets. |
| Stock Exchange- Functions and trading procedure | <ul style="list-style-type: none"> Give the meaning of a stock exchange. Explain the functions of a stock exchange. Discuss the trading procedure in a stock exchange. Give the meaning of depository services and demat account as used in the trading procedure of securities. |
| Securities and Exchange Board of India (SEBI) - objectives and functions | <ul style="list-style-type: none"> State the objectives of SEBI. Explain the functions of SEBI. |

Unit 11: Marketing Management

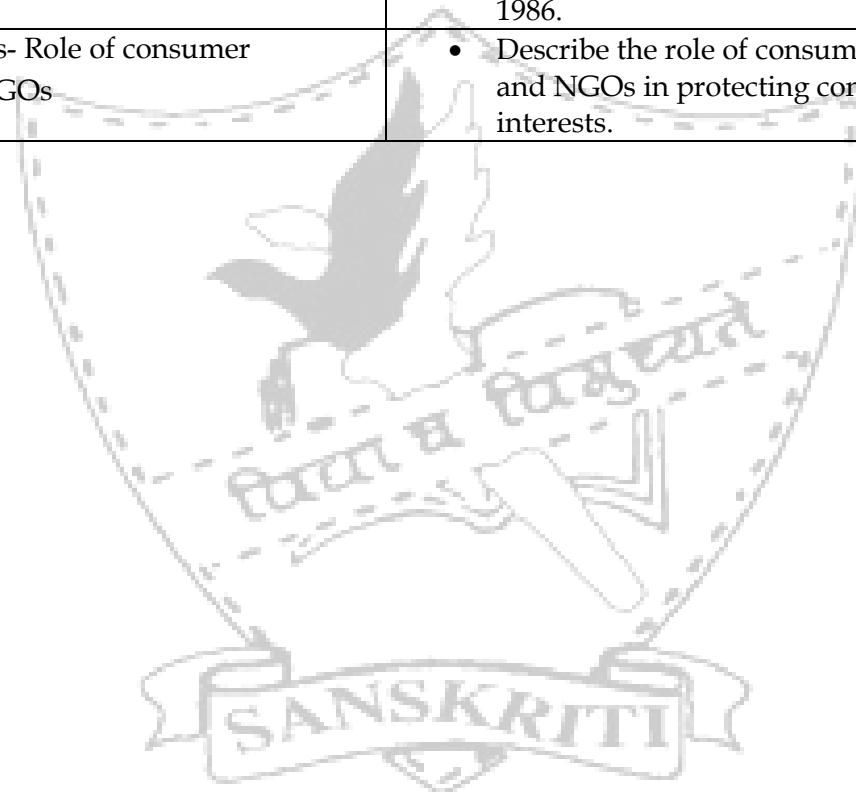
| | |
|--------------------------------|---|
| Selling and Marketing- Concept | After going through this unit, the student/ learner would be able to: <p>Understand the concept of selling, marketing.</p> <ul style="list-style-type: none"> Explain the features of marketing. Distinguish between marketing and selling. |
|--------------------------------|---|

| | |
|---|--|
| Marketing Management- Concept | <ul style="list-style-type: none"> Describe the concept of marketing management. |
| Marketing Functions | <ul style="list-style-type: none"> Discuss the functions of marketing. |
| Marketing management philosophies | <ul style="list-style-type: none"> Explain marketing management philosophies. |
| Marketing Mix - Concept and elements | <ul style="list-style-type: none"> Understand the concept of marketing mix Describe the elements of marketing mix. |
| Product - branding, labelling and packaging - Concept | <ul style="list-style-type: none"> Understand the concept of product as an element of marketing mix. Understand the concept of branding, labelling and packaging. |
| Price- Concept, Factors determining price | <ul style="list-style-type: none"> Understand the concept of price as an element of marketing mix. Describe the factors determining price of a product. |
| Physical Distribution - concept and components, channels of distribution: types, choice of channels. | <p>Understand the concept of physical distribution</p> <ul style="list-style-type: none"> Explain the components of physical distribution. Describe the various channels of distribution. Discuss the factors determining the choice of channels of distribution. |
| Promotion – Concept and elements; advertising concept, role, objections against advertising, personal selling-concept and qualities of a good salesman, sales promotion- concept and techniques, public relations- concept and role | <p>Understand the concept of promotion as an element of marketing mix.</p> <ul style="list-style-type: none"> Describe the elements of promotion mix. Understand the concept of advertising. Describe the role of advertising. Examine the objections to advertising. Understand the concept of personal selling. Discuss the qualities of a good salesman. <p>Understand the concept of sales promotion.</p> <p>Explain the commonly used techniques of sales promotion.</p> <ul style="list-style-type: none"> Discuss the concept and role of public relations |

Unit 12: Consumer Protection

| | |
|---|--|
| Concept and importance of consumer protection | <p>After going through this unit, the student/ learner would be able to:</p> <ul style="list-style-type: none"> Understand the concept of consumer protection. Describe the importance of consumer protection. Discuss the scope of Consumer Protection |
|---|--|

| | Act, 1986 |
|---|---|
| Consumer Protection Act 1986: Meaning of consumer Rights and responsibilities of consumers Who can file a complaint against whom? Redressal machinery Remedies available | Understand the concept of a consumer according to the Consumer protection Act 1986. <ul style="list-style-type: none"> • Explain the consumer rights • Understand the responsibilities of consumers • Understand who can file a complaint and against whom? • Discuss the legal redressal machinery under Consumer protection Act 1986. • Examine the remedies available to the consumer under Consumer protection Act 1986. |
| Consumer awareness- Role of consumer organizations and NGOs | <ul style="list-style-type: none"> • Describe the role of consumer organizations and NGOs in protecting consumers' interests. |



Nature and Significance of management

(Introduction To Management)

Definition

- According to Koontz and O'Donnell," *Management is creating an internal environment of an enterprise where individuals working together in groups perform efficiently and effectively towards achievement of group goals.*"
- Management, has therefore, been defined as a process of getting things done with the aim of achieving goals effectively and efficiently.

There are certain terms which require elaboration. These are:

- **Process:** means the primary functions or activities that management performs to get things done. These functions are planning, organising, staffing, directing and controlling
- **Effectively:** Being effective or doing work effectively basically means finishing the given task. Effectiveness in management is concerned with doing the right task, completing activities and achieving goals. In other words, it is concerned with the end result.
- **Efficiently:** means doing the task correctly and with minimum cost. There is a kind of cost-benefit analysis involved and the relationship between inputs and outputs.
- Suppose, a company's target production is 5000 units in a year and the budgeted expenses was Rs 20,00,000. If the firm is able to achieve the target of 5,000 units but spends Rs 27,00,000 then the firm is effective but not efficient. On the other hand, if the firm is able to achieve the target of 5,000 units and spends Rs 20,00,000 to do but takes on year and 3 months, then the firm is efficient but not effective.

Features/Characteristics of Management

1. **Goal oriented process:** goals should be simple and clearly stated. Management unites the efforts of different individuals in the organisation towards achieving these goals
2. **All pervasive:** all types of organizations, all levels and all departments.
3. **Multi dimensional:** complex activity with 3 dimensions
 - **Management of work:** Management translates work in terms of goals to be achieved and assigns the means to achieve it. This is done in terms of problems to be solved, decisions to be made, plans to be established, budgets to be prepared, responsibilities to be assigned and authority to be delegated.
 - **Management of people:** Has two dimensions - employees as individuals with diverse needs and behavior + individuals as a group of people. Management makes people work towards achieving the organization's goals, by making their strengths effective and their weaknesses irrelevant.
 - **Management of operations:** every organization has some basic product or service that requires a production process → flow of input material + technology for transforming this input into the desired output for consumption. This is interlinked with both the management of work and the management of people.
4. **Continuous process:** mgt. is an ongoing series of continuous, composite, but separate functions

(planning, organising, directing, staffing and controlling) simultaneously performed .

5. **Group activity:** a firm is a collection of individuals with different needs, different purpose for joining the organization but they work towards fulfilling the common organizational goal. Team work and coordination of individual effort in a common direction enables all its members to grow and develop as needs and opportunities change.
6. **Dynamic function:** Management adapts itself to the changing environment. External environment consists of various social, economic and political factors and, an organisation must change itself and its goals according to the needs of the environment.
7. **Intangible force:** cannot be seen but its presence can be felt → targets are met according to plans, employees are happy and satisfied, and there is orderliness instead of chaos.

Objectives of Management

Objectives are

- 1 Ends towards which activities of an organization are directed
- 2 Standards against which performance is assessed.

| Organisational Obj | Social Objectives | Personal/ Individual Obj |
|--|---|---|
| Setting and achieving objectives for the organisation. | It involves the creation of benefit for society. | Objectives seeking to reconcile personal goals of employees with organisational objectives for harmony in the organisation. |
| 1. Survival (earn enough revenue to cover costs) 2. Profit (covers costs+risks) 3. Growth (in the long run in terms of ↑in sales, no. of employees, variety of products, capital investment etc) 4. Optimum utilization of resources | 1. Giving <u>employment opportunities</u> to disadvantaged sections of society. 2. Providing <u>basic amenities</u> like schools and crèches to for employee's children. 3. Providing good <u>quality goods at fair prices</u> 4. Using <u>environmental friendly methods of production</u> 5. Avoidance of unfair trade practices 6. Conducting business in a <u>lawful manner</u> 7. Paying <u>taxes</u> promptly | 1. Fair remuneration 2. Good working conditions 3. Opportunities for training and development and personal growth 4. Participation in management 5. Recognition and satisfaction. |

Nature of Management

| I Management as an Art | II Management as a Science | III Management as a Profession |
|---|---|--|
| <i>Art implies personal application of knowledge with ingenuity, skill and creativity to achieve desired results</i> | <i>Science can be defined as a systematic body of knowledge pertaining to a specific field of study. It contains principles and facts which explain a phenomenon</i> | <i>Profession can be defined as an occupation backed by specialized knowledge and training.</i> |
| Features of Art: <ol style="list-style-type: none"> Existence of theoretical knowledge Personalized Application: (use of basic knowledge varies from individual to individual.) Based on practice and Creativity:(involves creative practice of existing theoretical knowledge) <ul style="list-style-type: none"> There is a lot of literature available w.r.t various areas of mgt such as mkt, finance etc . Managers apply these management theories in their unique manner depending on their practice, imagination, initiative and innovation. Manager applies this acquired knowledge in a personalized and skillful manner in the light of the realities of a given situation giving rise to different styles of management. | Features of science: <ol style="list-style-type: none"> Systematic body of knowledge: (that establish cause and effect relationship.) Principles based on experiments: (under controlled conditions) Principles have universal validity Principles establish cause and effect relationship. <ul style="list-style-type: none"> There is a lot of literature available w.r.t various areas of mgt such as mkt, finance etc . Principles of management are based on repeated experiments and observations. But since management deals with human behavior, outcomes may not always be accurately predicted/replicated. Principles ≠ exact so not universal. They have to be modified according to situations. | Features of a Profession <ol style="list-style-type: none"> Body of knowledge: Restricted entry thro examination or education) Professional association Ethical code of conduct (that guides the behavior of its members) Service motive (by rendering dedicated and committed services) <ul style="list-style-type: none"> There is a lot of literature available w.r.t various areas of mgt such as mkt, finance etc . No restriction on appointment of managers. But professional knowledge and training is desirable There are associations such as AIMA and they lay down a code of conduct but membership is not compulsory. Stated goal of organisations and management is profit maximization but effective and efficient management also serve society by providing quality goods at reasonable prices. |
| Conclusion: All the features of art are present in management and are broadly fulfilled, so we can say that management is an art. <ul style="list-style-type: none"> It is the art of getting work done by others. It is, however not a Fine Art like painting or music | Conclusion: Management satisfies some of the features of science but not all. <ul style="list-style-type: none"> <i>Inexact/social/soft/behavioral science.</i> Concerned with human behavior which can't be studied under controlled experiments and can't be predicted with absolute | Conclusion: Management satisfies some of the features of profession but not all. <ul style="list-style-type: none"> So, management is not regarded as a full fledged profession like medicine/law etc but management is fast moving in that direction |

| | | |
|--|-----------|--|
| | accuracy. | |
|--|-----------|--|

Importance of Management

1. **Management helps in achieving group goals:** The task of a manager is to give a common direction to the individual effort in achieving the overall goal of the organisation.
2. **Management increases efficiency:** The aim of a manager is to reduce costs and increase productivity through better planning, organising, directing, staffing and controlling the activities of the organisation.
3. **Management creates a dynamic organisation:** Environment is constantly changing. Individuals resist change as it often means moving from a familiar, secure environment into a newer and more challenging one. Management helps people adapt to these changes →organisation →maintain its competitive edge.
4. **Management helps in achieving personal objectives:** So that individual members are able to achieve personal goals while contributing to the overall organisational objective. Motivation and leadership → individuals to develop team spirit, cooperation and commitment to group success.
5. **Management helps in the development of society:** It helps to provide good quality products and services, creates employment opportunities, adopts new technology for the greater good of the people and leads the path towards growth and development.

- o Levels of Management - Top, Middle, Supervisory

- *The Chain of superiors and subordinates from the highest level to the lowest* is known as chain of command or management hierarchy or scalar chain.
- *It is an authority-responsibility relationship that binds individuals as superiors and subordinates and gives rise to different levels in an organization.*
- *Generally this chain is divided into three categories. These are called 'levels of management'*

| Top Level | Middle Level | Lower Level |
|--|--|--|
| <p>Functions:</p> <ol style="list-style-type: none"> 1. Integrate diverse elements and coordinate activities of different departments in one direction. 2. Responsible for welfare and survival of the organization. 3. Determining overall objectives and strategies for their achievements. 4. Responsible for business activities and its impact on society. 5. Organizing activities to be performed by persons working at the middle level 6. Assembling all resources. 7. Liaison with the outside world | <p>Functions:</p> <ol style="list-style-type: none"> 1. Link between top and lower levels of management. 2. Implementing and controlling plans and strategies formulated by top management. 3. Interpretation of the policies of the top level management. 4. Ensure that their department has necessary personnel. 5. Assign duties and responsibilities to the personnel in their departments. 6. Motivating persons to achieve desired objectives. 7. Co-operate with other departments. 8. Responsible for first line | <p>Functions:</p> <ol style="list-style-type: none"> 1. Interact with actual workforce and develop healthy relations with the workers 2. Pass on instructions of middle level management to the workers. 3. Maintain standards of quality, minimize wastage and ensure steady flow of output. 4. Maintain safety standards. 5. Motivate the employees. 6. Represent problems/grievances of workers before middle level management. 7. Help middle level management in recruiting, selecting and appointing the |

| | managers. | workers. |
|---|---|--|
| Top Level | Middle Level | Lower Level |
| Designations: Chief Executive Officer, Chief Operating Officer, president, Vice-President/Managers with highest authority from different functional levels. | Designations: Divisional heads, Operations manager, Executive officers, Plant Superintendent Etc. | Designations: Supervisors, Foremen, Clerk (Also called Supervisory Level/ Operational Level Management) |

- **Management Functions or Steps in the Process of Management**

Management is described as the process of planning, organising, directing and controlling the efforts of organisational members and of using organisational resources to achieve specific goals.

- **Planning, Organizing, Staffing, Directing & Controlling**

1. Planning

- It refers to “deciding in advance what to do, how to do, when to do and who is going to do it. It bridges the gap between where we are and where we want to go.”
- Cannot prevent problems but can predict it and prepare contingency plans to deal with them.
- It involves the following decisions:
 - 1 *Establishing objectives*
 - 2 *Making forecasts*
 - 3 *Formulating policies, procedures*
 - 4 *Drawing programmes, schedules etc.*

2. Organising

- Organizing the activities and resources and establish the organization structure to execute the plan.
- It involves assigning duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan.
- Proper organisational techniques help in the accomplishment of work and promote both the efficiency of operations and the effectiveness of results.
- Organizing process involves the following steps:
 - 1 *Identifying the activities necessary to achieve the objectives*
 - 2 *Grouping similar activities into manageable units or departments*
 - 3 *Assigning duties and responsibilities*
 - 4 *Delegating necessary authority to carry on the assigned task*
 - 5 *Defining working relationships among individuals*

3. Staffing

1. Staffing refers to the manning of the organization and aims at putting the right person at the right job.
2. It also refers to the human resources function of management and involves the following activities:
 - 1 *Manpower planning. i.e. determining the number and quality of employees required in the organization*
 - 2 *Recruitment, Selection and Placement of right persons*
 - 3 *Training and development*
 - 4 *Appraisal, transfer and promotion*

5 Employee remuneration

4. Directing

- Once the employees are appointed, there is need to instruct them and get the work done.
- Directing refers to giving directions or instructions to employees. Managers act as friends, counselors, leaders to guide the employees.
- So the important elements of Directing are:
 - 1 *Supervision-overseeing employees at work*
 - 2 *Motivation-giving them incentives*
 - 3 *Leadership-ability to influence employees*
 - 4 *Communication-to create mutual understanding and team work*

5. Controlling

- Controlling involves monitoring organizational performance and comparing it with the organizational objectives.
- It involves finding out the deviations if any and finding out corrective measures to come on the path of the plan.
- It involves the following steps:
 - 1 *Setting standards for desired performance*
 - 2 *Measuring actual performance*
 - 3 *Comparing actual performance with the set standards*
 - 4 *Finding out deviations*
 - 5 *Analyzing deviations and taking corrective actions.*

Co-ordination

- According to Mooney, " *Co-ordination may be defined as the orderly arrangement of group effort to provide unity of action in pursuit of a common purpose.*"
- Force that binds all other forces of management.
- Runs through all activities such as production, sales finance etc to ensure continuity in the working of the firm.
- Implicit and inherent in all management functions.

Characteristics of Coordination:

1. **Coordination integrates group efforts:** unifies unrelated or diverse interests into purposeful work activity +gives a common focus to group effort +ensure that performance is as it was scheduled.
2. **Coordination ensures unity of action:** binding force between departments and ensures that all action is aimed at achieving the goals of the organisation.
3. **Coordination is a continuous process:** begins at the planning stage and continues till controlling.
4. **Coordination is an all pervasive function:** all levels , all departments.
5. **Coordination is the responsibility of all managers:**
 - Top level managers→coordinate with their subordinates to ensure that the overall policies for the organisation are duly carried out.

- Middle level management→with both the top level and first line managers.
 - Operational level management→activities of its workers to ensure that work proceeds according to plans.
6. **Coordination is a deliberate function:** coordination must be a conscious and deliberate effort. Cooperation in the absence of coordination may lead to wasted effort and coordination without cooperation may lead to dissatisfaction among employees. Coordination, therefore, is not a separate function of management, but its very essence.

Need For Coordination:

Advantages/Need of Co-ordination

(These are the situations when a firm will require co-ordination)

1) **Growth in size:**

- The need of co-ordination increases with the size of the organization, because in large organizations there are more number of people working, each individual having his own needs, objectives, beliefs and style of working. Co-ordination therefore brings harmony.

2) **Functional differentiation:**

- Generally functions of an organization are divided into different departments, sections or divisions and each department has its own objectives, policies, style of working and may try to work in isolation and independently.
- So, there is more need to relate and bring together activities of different sections as they are a part of one organization only as all depts.
- And individuals are interdependent and depend on each other to perform their activities.

3) **Specialization:**

- Specialists tend to focus on their area of specialization and may tend to overlook the overall picture of the organization. Therefore co-ordination is required between efforts of various specialists as also between specialists and others in the organization.
- This will help reconcile the differences in approach, interest or opinions of experts.

• **Managing inter- dependencies:**

- In the organization the performance of each employee affects the performance of others and working of one department affects the working of others. Therefore it is necessary to co-ordinate them so that the organization can achieve its goals.
-

IMPORTANCE OF COORDINATION

- Ensures unity of action
- Erases interdepartmental conflicts
- Promotes harmonious implementation of plans
- Helps in maintaining a high degree of morale amongst employees

| Nature of co-ordination | Co-ordination is required at all the levels: |
|---|---|
| <ol style="list-style-type: none"> 1. Co-ordination integrates group efforts 2. Co-ordination ensures unity of action 3. Co-ordination is a continuous process 4. Co-ordination is an all pervasive function 5. Co-ordination is the responsibility of all managers 6. Co-ordination is a deliberate function 7. Essence of management | <ul style="list-style-type: none"> • Needed in all departments as well as at all levels of management. • Not the responsibility of the top management only. But of managers at all levels. • The top management <ul style="list-style-type: none"> ◦ efforts of all departments and individuals are there in one direction ◦ Co-ordination between organizational goals and the goals of their respective departments and units. • The middle level management <ul style="list-style-type: none"> ◦ Co-ordinate their departmental plans with the plans of the other departments. • Lower level <ul style="list-style-type: none"> ◦ Integrate the activities of workers towards achievement of organizational objectives. |

Co-Ordination As The Essence Of Management

Co-ordination plays a vital role in all the functions of management. It is not a separate function rather it is the essence of management i.e. it is required in all the functions of management.

| | |
|--|---|
| Co-ordination and Planning In 'planning' co-ordination is required between 1 Master plan of the enterprise and the plans of different departments or divisions 2 Objectives and the available resources 3 Different functional managers | Co-ordination and Organizing In 'Organizing' co-ordination is required between 1 Authority, responsibility and Accountability of an individual 2 Different resources of an organization and activities to be performed |
| Co-ordination and Staffing In 'Staffing' co-ordination is required between: 1 Skills and abilities of employees and jobs assigned to them 2 Performance and rewards/compensation 3 Between technique of production and training | Co-ordination and Directing In 'Directing' co-ordination is required between: 1 Between superiors and subordinates 2 Among orders, instructions, guidelines and suggestions 3 Between situations and leadership styles, communication media etc. |
| Co-ordination and Controlling In 'Controlling' co-ordination is required between: 1 Standards fixed and actual performance | |

- | | |
|---|--|
| 2 | Type of deviation and corrective measures |
| 3 | Correction of deviation and achievement of objectives. |

Principles of Management

Principle

A principle is a fundamental statement of truth that provides guidance to thought and action.

Principles of Management

Principles of management are broad and general guidelines for managerial decision making and behavior (i.e. they guide the practice of management).

Management principles Vs. Pure science principles

| <i>Basis</i> | <i>Management Principles</i> | <i>Pure Science Principles</i> |
|-------------------------|---|-----------------------------------|
| 1. Nature | Flexible | Rigid |
| 2. Applicability | Applied with creativity as they influence human behaviour | Applied in absolute/static manner |
| 3.Change | Have to keep pace with the changing business environment | Do not change with time. |

| <u>Principles</u> | <u>Techniques</u> | <u>Values</u> |
|--|---|---|
| <ul style="list-style-type: none"> They are guidelines to take decisions or actions while practicing techniques. They are formed after a lot of research in work situations. | They are <u>procedures or methods</u> which involve a <u>series of steps</u> to be taken to accomplish desired goals. | <ul style="list-style-type: none"> They are rules of behaviour which are <u>acceptable or desirable</u>. They are ethical in nature and have moral connotations. They are formed through common practice. |
| Nature of Management Principles: | | Significance of Management Principles: |
| 1. Universal Applicability: 2. General Guidelines: 3. Formed By Practice And Experimentation: 4. Flexible: 5. Mainly Behavioral: 6. Cause And Effect Relationship: 7. Contingent/Relative: | | 1. Providing Useful Insights To Managers: 2. Optimum Utilization Of Resources: 3. Scientific Decisions: 4. Meeting Changing Environmental Requirements: 5. Fulfilling Social Responsibilities: 6. Management Training, Education And Research 7. Effective Management |

Nature of Management Principles:

- Universal Applicability: Apply to all types of business organizations but extent of their applicability varies with nature of firm, scale of operations etc.
- General Guidelines: Do not provide readymade solutions to all managerial operations but as a guideline to managerial action as business principles are complex, dynamic and are a result of many factors..
- Formed By Practice And Experimentation: By experimentation and the collective wisdom and experience of managers.
- Flexible: give enough discretion to managers + Can be modified under different conditions by managers, depending upon the requirement of the company and type of employees.
- Mainly Behavioral: Aimed at influencing human behavior + Enable a better understanding of the relationship between human and material relationships in achieving organizational goals + help to improve working relationships
- Cause and Effect Relationship: Tell us that if a particular principle is applied in a situation, what might be the effect.
- Contingent/Relative: The application of management principles is contingent or dependent upon situations prevailing in the organization at different points of time.

Significance of Management Principles:

- Providing Useful Insights To Managers: Improve knowledge, ability and understanding of managers under managerial situations + Enables managers to learn from their mistakes and conserve time
- Optimum Utilization Of Resources: Firm has limited resources and have to be used in a manner that they give maximum benefit with minimum cost + Principles of management provide guidance for optimum utilization of resources.
- Scientific Decisions: Advocates taking thoughtful decisions that are based on facts and justifiable in terms of intended purpose. They must be objective decisions, free from bias + Emphasize on logic rather than blind faith and help managers to settle problems systematically.
- Meeting Changing Environmental Requirements: Modern principles act as flexible guidelines that can be modified to meet the needs of changing environment in which the business operates.
- Fulfilling Social Responsibilities: Direct businessmen to discharge their social responsibilities towards various groups.
- Management Training, Education And Research: Management principles are the base for further research and development for already existing management practices.
- (refer to examples given in pages 35-40 as you may be given these examples and asked to identify the feature/importance)

F. W.TAYLOR (1856-1915)

Major contributions of Taylor

- Introduced scientific methods in management, as opposed to the rule of thumb.

- Emphasised on scientifically analysis of work and proposed to find, 'one best way' to do work, by conducting time, motion and method studies.
- Sought to increase the efficiency of workers by eliminating wastage of all types.
- Emphasised on the need to have mental revolution - a complete change in the outlook for both workers and management.
- Wrote a book on 'shop floor' and an article, on' *principles of Scientific Management*', based on his findings and experiments.

Taylor coined the term 'Scientific Management' and gave a new thinking to management. For his contributions ,he came to be known as '*The Father of Scientific Management*'.

Scientific Management

According to Taylor, 'Scientific Management is knowing exactly what you want your men to do and seeing that they do it in the best and the cheapest way'. It includes finding the most efficient methods of production, scientific selection and training of workers, proper allotment of duties and work and achieving cooperation between workers and management.

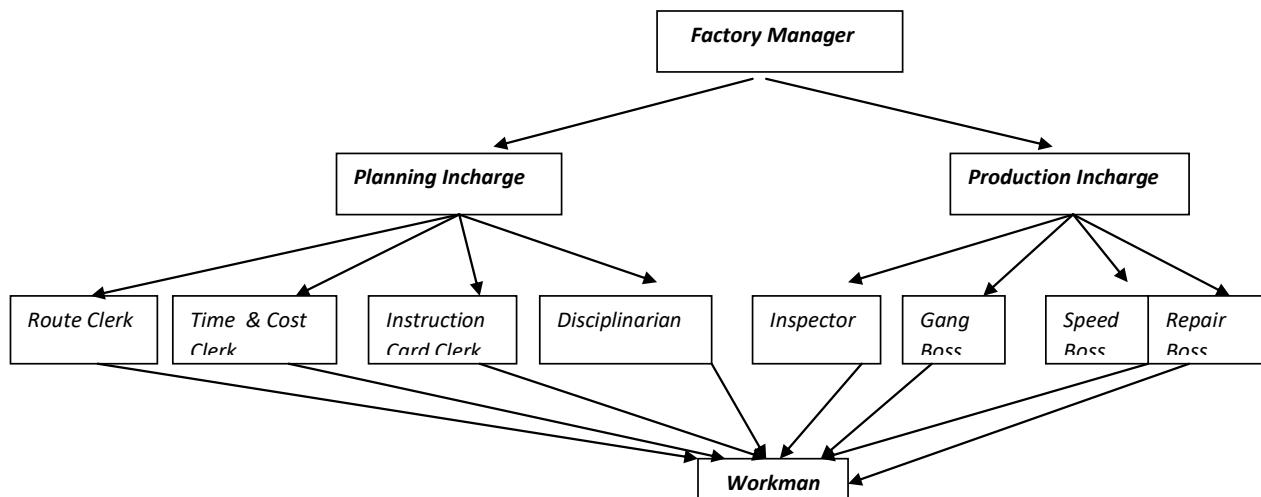
| Principles of Scientific Management | Techniques of Scientific Management |
|--|--|
| <ul style="list-style-type: none"> a. Science and not rule of thumb b. Harmony and not discord c. Co-operation and not individualism d. Development of each and every person to his/her greatest efficiency and prosperity | <ul style="list-style-type: none"> 1. Functional foremanship 2. Standardization and simplification of work 3. Method study 4. Motion study 5. Time study 6. Fatigue study 7. Differential piece rate system |

Principles of Scientific Management:

- ✓ **Science and not rule of thumb:**
 - Each job must be performed on the basis of scientific enquiry and not on the basis of intuition or hit and trial method.
 - One best method of doing a job must be developed to maximize efficiency.
 - ✓ **Harmony and not discord:**
 - Between management and workers.
 - Management should be willing to share gains of the firm with the workers and workers should work hard and accept change for the good of the firm and not go on strikes.
 - There should be 'Mental Revolution' = both should transform their way of thinking – interest of the two are the same and long term prosperity of management cannot be at the cost of management and vice versa.(eg -Japanese culture) (*Similar to Principle of Esprit De Corps given by Fayol*)
 - ✓ **Co-operation and not individualism:**
 - Extension of harmony and not discord.
 - Both should develop understanding and secure mutual co-operation.
 - Management should give importance to suggestions made by the workers and workers must desist from going on strikes and making unreasonable demands.
- (*Similar to Principle of Esprit De Corps given by Fayol*)

- ✓ **Development of each and every person to his/her greatest efficiency and prosperity:**
- Industrial efficiency depends upon efficiency and competency of workers.
 - Efficiency should be built in right from the process of employee selection, assignment of work on the basis of their capabilities, giving training when needed.

Techniques of Scientific Management: 1. Functional Foremanship



Taylor suggested division of work of the factory manager into two sub-departments: planning department and production department.

- He realized that, a single foreman/supervisor cannot be expected to be an expert in all aspects of work and therefore he suggested appointment of eight supervisors to give instructions to a single worker.
- Out of them, four would work under the planning incharge and would be responsible for planning and the other four would work under the production incharge and would be responsible for execution.

Specialists under the Planning In charge:

1. **Route Clerk:** would specify route/sequence production operations
2. **Instruction Card Clerk:** would draft instructions for workers, in handling their jobs.
3. **Time and Cost Clerk:** would fix
 - Dates for starting and completing work as per schedule.
 - Cost sheet to determine expenses for material, labour and other overheads.
4. **Disciplinarian:** would ensure systematic performance of jobs by enforcing rules and regulations.

Specialists under the Production In charge:

1. **Gang Boss:** would do all preliminary work – keeps materials, machines, tools etc. ready for workers.
2. **Speed Boss:** would ensure timely and accurate completion of jobs.
3. **Inspector:** would check quality of work done by workers.
4. **Repair Boss:** would ensure that machines and tools are kept in proper working conditions and are maintained and repaired properly.

Standardization and Simplification of Work

- Methods of production should be analyzed scientifically and the best method should be developed by conducting various work studies (time, method, motion and fatigue). Then it should be used as the standard, throughout the organization.
- Standardization refers to the process of setting standards for every business activity. It can be standardization of process, raw materials, time, product, machinery, methods, working conditions. It is done with a view to:
 - i. To reduce a given line or product to fixed types, sizes and characteristics.
 - ii. To establish interchange ability of manufactured parts and products.
 - iii. To establish standards of excellence and quality in materials.
 - iv. To establish standards of performance of men and machines.
- Therefore standardization ensures:
 - i. The product is according to a predetermined type, form, design, size, weight, quality etc.
 - ii. Manufacture of identical parts and components which are interchangeable with one another.
 - iii. Standards are established as regards quality of manufactured goods.
 - iv. Standards are established for workers and machines at all levels.
- Simplification aims to eliminate unnecessary diversity in products as more varieties would mean more inventory, more machinery, more labour cost etc.
- Simplification would lead to savings in cost of labour, machines and tools.

3. Work Study

- Work study means a comprehensive and objective assessment and analysis of all the operations involved in performing the various jobs in the organization.
- This is done with a purpose of producing maximum possible output of the best quality at minimum costs.
- It has 4 components: time study, motion study, method study and fatigue study.

a. Time Study

- It is a technique used to measure the time that may be taken by an average worker of reasonable skill and efficiency to perform a job well defined job.
- To conduct time study, the job is broken into a number of elements and the time taken to complete each element is noted with the help of a stopwatch. After adding necessary time for rest periods, the standard time of each element of the job and the standard time for performing the complete job

is determined. Many techniques such as process charts, operation research etc are used for this purpose.

- Purpose of time study is that it helps to determine:
 - i. Standard time required to do a job and number of workers to be employed.
 - ii. A standard task/fair day's work for the workman
 - iii. To determine the number of employees to be employed
 - iv. To determine labour costs and to frame suitable incentive schemes.
 - v.

b. Motion Study

- It is a technique to closely observe movements of body of a worker involved in performing a job in order to eliminate unnecessary movements.
- Aim is to identify:
 - Motions that are productive
 - Motions that are incidental and
 - Motions that are unproductive.
- The study is generally conducted with the help of a movie camera. Experts observe how the worker moves, and determine his productive movements, incidental movements and unproductive movements. Then they instruct and educate workers how to eliminate the unnecessary/ unproductive movements so that the workers get to know the best way of doing a job.
- Purpose of motion study is :
 - i. Finding the best method of doing work by developing the ideal sequence of motions.
 - ii. Identifying and eliminating unnecessary movements.
 - iii. Increase efficiency and reduce labour costs.
 - iv. Reduce human fatigue.

c. Method Study

- There may a number of possible methods of performing a job with different cost requirements. Taylor suggests finding 'One best way' of performing a job. The purpose of method study is to minimize production costs and use organization's resources such as land, labour, capital etc. for better results.
- Methods of production should not be decided by 'rule of thumb' but after trying all methods and the method that maximizes benefits with minimum cost must be selected.
- For example, Taylor devised the concept of assembly line by using the method study. This technique was used successfully by Ford Motor company and is used by the auto companies even today.

d. Fatigue Study

- This technique is conducted to find out:
 1. frequency of rest intervals
 2. duration of rest intervals
 3. and the number of rest intervals, in completing a job.

- If an employee keeps working without rest pauses, physical and mental fatigue affects the health and efficiency of workers. Excessive specialization and poor working conditions may also cause monotony and boredom resulting in more accidents, spoilage, absenteeism and labour turnover.
- Taylor suggested that the time and frequency of the rest intervals should not be decided by manager's wish/ experience.
- To do it scientifically, fatigue study should be conducted, by noting down:
 1. Duration, after which, an average worker starts getting tired and his efficiency starts decreasing.
 2. Duration within which the worker gets refreshed to resume working.

Difference between Time Study and Motion Study

| Basis | Time Study | Motion Study |
|--|--|--|
| 1. Meaning | Time study is a technique used to measure the time taken by a workman of reasonable skill and efficiency to perform a job. | Motion study is a technique used to study close movements of body of worker, involved in performing a job. |
| 2. Purpose | 1. To determine standard time required to do a job. 2. To determine fair day's job | 1. To identify and eliminate unnecessary movements 2. Reduce human fatigue 3. To Improve efficiency. |
| *3. Method of conducting (not the main diff:) | It is conducted with the help of a stopwatch. | It is conducted with the help of a movie camera which keeps an eye on workers movements. |

4. Differential Piece Rate Plan

- Taylor was a strong advocate of differential piece rate plan. To bring about a differentiation between efficient and inefficient workers, he introduced the concept of **Standard Output/fair day's work'. This is the amount of work which an average worker working under proper working conditions can perform during a working day.**
- According to Taylor, two wage rates would be used; one for efficient workers producing standard output or more, and the other for inefficient workers producing less than standard output.
- E.g Suppose Standard Output = 10 units. Workers producing Standard output or more, would get Rs. 50 per unit while those producing less than standard output get only Rs.40 per unit.
- If worker A produces 11 units and worker B produces 9 units, their respective wage payments would be as follows:
 - A = 11 * Rs. 50 = Rs.550
 - B = 9 * Rs. 40 = Rs. 360

- According to Taylor, a difference of Rs. 190 would be enough to motivate the inefficient worker to perform better.
- *Conclusion:* This system rewards efficient workers and puts pressure on inefficient workers to improve their efficiency. Also when the payment is given according to the number of units produced, automatically the production will be maximized.

(if a question asks for 6 techniques of management, the components of work study can be given individually)

Taylor's Techniques of Scientific Management Are Not Universally Applicable

Scientific management consists of scientific observation and experimentation to determine standard task, scientific selection and training and ensuring that work is done in the most efficient manner.

Taylor gave the following techniques to apply for scientific management:

- Time Study + Motion Study +Method Study + Fatigue Study
- Standardisation and Simplification
- Functional Foremanship
- Differential Piece Rate Plan

But it was realized that some of the techniques are not universally applicable. They are:

1. Functional Foremanship - This technique involves supervision of workers by 8 specialist foremen. This type of organization structure is not applicable to many organizations because it contradicts Unity of command and can lead to confusion for employees and overall chaos.

2. Differential Piece Rate Plan - This technique involves application of two wage rates, one for efficient workers, who are able to produce output more than or equal to standard output, and the other for inefficient workers who produce an output less than standard output.

This system of wage payment is also not universally applied. The purpose of motivating workers for higher efficiency may be achieved by other methods of incentive wage payment. Also when products are not homogeneous and require special care for quality, this method is not suitable. e.g can't be applied in works of arts and craftsmanship. Also it is against the principle of equity.

3. Standardisation and Simplification - Standardization means establishing standards for inputs, outputs, processes, quality etc. to enhance efficiency, while Simplification means eliminating unnecessary diversity in products.

Standardisation may not universally applicable because it is not possible to set standards for all kinds of jobs. E.g art work requires creativity and not standards. Similarly simplification may not suitable for organizations having the objective of wider diversification and expansion of line of products and varieties.

Conclusion - Techniques of Scientific Management advocate the determination of the best way of production, to achieve maximum efficiency. However

- Firstly, some of the techniques are not universally applicable.

- Secondly, they would be useful only in industrial enterprises and factories. They may not be suitable for the overall management of all kinds of enterprises.

- **'Mental Revolution'**

- ✓ There should be 'Mental Revolution' = both should transform their way of thinking – interest of the two are the same and long term prosperity of management cannot be at the cost of management and vice versa.
- ✓ Management should share a part of the profits or surplus with the workers.
- ✓ Workers should work hard to make the company profitable.
- The latest development in scientific management is 'LEAN MANUFACTURING'. Now a days robotics and computers are being used in production and other business activities.

HENRY FAYOL(1841-1925)

His career profile and his achievements:

- Started working as an engineer in coal mining company in France in 1860
- Became the managing director of the company in 1888.
- Was considered to be the father of General management.

Major contributions of Fayol

- Fayol was the first one to identify four functions of management: Planning, Organizing, Directing and Controlling. Although his version was a bit different: Plan, Organise, Comand, Co-ordinate and Control.
- He also suggested that activities of a firm should be divided into Technical; Commercial; Financial; Security; Accounting and Managerial.
- He also suggested that qualities a manager must possess should be – Physical, Moral, Education, Knowledge and experience.
- Based on his own experience, Fayol developed his concept of administration and propounded 14 principles of management, which act as guidelines for managers to perform managerial activities. He is known as the '*Father of General Management*'.

1. Division of work

- ✓ The whole work should be divided into small tasks or units and each unit of work should be assigned to one person according to his capability , qualifications and experience.
- ✓ This will lead to specialization, improvement in performance, and speed and accuracy in doing the jobs.
- ✓ *Division of work produces more and better work for the same effort and leads to specialization that is the most useful way to use human effort.*

| Positive effects of following the principle | Adverse effect of violation of this principle |
|---|--|
| <ul style="list-style-type: none"> • Improves efficiency of work • Facilitates specialization • Increases output • Increases speed, accuracy and quality of work. | <ul style="list-style-type: none"> • Lesser efficiency and productivity in work • Would lead to more wastage of time caused by change from one work process to another. • No specialization |

- ✓ **Example:** In a company, we have separate departments for finance, marketing, production and Human resource development. This leads to specialization and efficiency.

2. Authority And Responsibility

- Authority refers to the right to issue orders and ensure compliance of the same. Authority may be official(formal and positional) or personal (informal).
- Responsibility means obligation of an employee to complete the job assigned, on time.
- There should be a balance between the authority and responsibility granted to a personality.
- If there is excess authority, it may be misused and if there is insufficient authority, the employee will be ineffective.

| Positive effects of following the principle of Parity Of Authority And Responsibility | Adverse effect of violation of the principle of Parity Of Authority And Responsibility |
|---|--|
| <ul style="list-style-type: none"> • Achieving targets on time • No misuse of authority. • Increase in confidence in employees | <ul style="list-style-type: none"> • Misuse of authority due to excess authority. • Difficulty in achieving target/Delay in work due to less authority • Difficulty in fixing responsibility • Decline in confidence of employees. |

Example: (Parity of authority and responsibility): The CEO tells sales manager to increase sales by 10%. The sales manager should also have the authority to appoint sales representatives to achieve the requisite sales target. If he is not given requisite authority and he is not able to fulfill the target, he cannot be blamed for not completing the work on time.

3. Discipline

- Observance of rules and regulations and judicious application of penalties.
- *According to Fayol, discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties.*

| Positive effects of following the principle of discipline | Adverse effect of violation of the principle of discipline |
|---|---|
| <ul style="list-style-type: none"> • Systematic work and smooth functioning of the enterprise • Accomplishment of targets on time • Improved efficiency • Enhanced goodwill | <ul style="list-style-type: none"> • Chaos and disorder in the organization • Non achievement of targets in time. • Decline in reputation of the organization and efficiency of employees. |

Example: The employees must honor their commitments towards the organization by working effectively and efficiently. On the other hand superiors must also meet their commitments by meeting their promises of increments, promotions and wage revisions etc.

4. Unity Of Command

- ✓ According to Fayol there should be one and only one boss for every individual employee. Employees should receive orders from one superior only. He felt that if this principle is violated "authority is undermined, discipline is in jeopardy, order disturbed and stability threatened".
- ✓ Dual subordination should be avoided to avoid confusion in the mind of employees and possibility of conflicts between superiors, and it will be easy to fix responsibility for non performance of work.
- ✓ This principle resembles a military organization.

| Positive effects of following the principle of Unity of Command | Adverse effect of violation of the principle of Unity of Command |
|---|---|
| <ul style="list-style-type: none"> • Clarity of instructions avoids confusion in the mind of employees • Enhanced efficiency • Easy to fix responsibility for non performance of work. • No ego clashes between superiors/ cordial working environment. | <ul style="list-style-type: none"> • Confusion in the mind of the employees • Lesser efficiency of subordinates • Difficult to fix responsibility • Conflicts among superiors |

Example: Salesman gets instructions from the production department to go slow in selling products because of power cut, while he gets instructions from sales department to increase sales to fulfill sales target. In this situation the employee will get confused as to whose instructions must be followed by him.

5. Unity Of Direction

- One head one plan- one manager and one plan for all operations having the same objective.

| Positive effects of following the principle of Unity of Direction | Adverse effect of violation of the principle of Unity of Direction |
|---|---|
| <ul style="list-style-type: none"> • Achievement of organizational goals. • Better co-ordination and control because managers supervises all activities of the group. • Increased efficiency. • Specialization. | <ul style="list-style-type: none"> • Difficulty in achieving organizational objectives • Lack of co-ordination • More wastage of efforts and resources by working in different directions • Lesser efficiency |

Example: If an organization is producing different lines of products-cosmetics, medicines, confectionery items, each product will have its own market and business environment. Each division

must plan its target and every employee of that division must put his efforts towards the achievement of plan of their division under the direction of one head only.

6. Subordination Of Individual Interest To General Interest

- Management and employees must reconcile the interest of the individuals and general interest of the firm.
- In case such reconciliation is not possible, then the interest of the firm shall prevail over individual interest.

| <u>Positive effects of following the principle of Subordination Of Individual Interest To General Interest</u> | <u>Adverse effect of violation of the principle of Subordination Of Individual Interest To General Interest</u> |
|---|---|
| <ul style="list-style-type: none"> • Organization benefits, and all benefit equally, so it leads to everyone's welfare • Organization's objectives are fulfilled on time. • Co-ordination between individual and organization's objectives. • Mutual understanding and co-ordination. | <ul style="list-style-type: none"> • Organization suffers at the cost of each person's personal interest • Lack of co-ordination between individual and organization's objectives. • Conflicts and jealousy among members. |

Example: If the individual's objective is to earn more remuneration and the organization is going through the situation of financial crisis and has the objective of cutting down the expenses; in such a situation individual must sacrifice his interest as when the organization will come out from this financial crisis, then he can achieve his objective.

7. Remuneration Of Employees

- Remuneration to employees must be just and fair both to employees and employer.
- That is, it must enable employees to maintain a reasonable standard of living and must be within the paying capacity of employer, be as per the minimum wages Act of the government and comparable to average wage rate for similar work in the industry.

| <u>Positive effects of following the principle of Remuneration of Employees</u> | <u>Adverse effect of violation of the principle of Remuneration of Employees</u> |
|--|---|
| <ul style="list-style-type: none"> • More satisfied and motivated workforce • More sense of belongingness, loyalty and dedication. • Enhanced efficiency. | <ul style="list-style-type: none"> • Dis-satisfaction and frustration among employees • Increase in absenteeism and labour turnover. • Encouragement to dishonesty |

Example: If in a particular year the organization has earned more profit, then apart from giving extra profit to shareholders and owners, some part of the profit must also be given to employees in the form of bonus. This will motivate them to put extra efforts and increase the profit of the organization.

8. Centralisation and Decentralisation

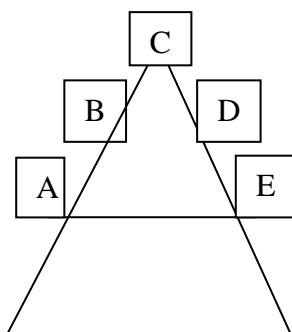
- According to Fayol, "There is a need to balance subordinate involvement through decentralisation with managers' retention of final authority through centralisation." The degree of centralisation will depend upon the circumstances in which the company is working.
- Concentration of authority at the top level = centralization.
- Systematic delegation of authority across all levels in the firm = decentralization.
- Firm must adjust between the two based on the nature of its organisation structure.

| Positive effects of following the Principle Of Centralisation And Decentralisation | Adverse effect of violation of the Principle Of Centralisation And Decentralisation |
|---|--|
| <ul style="list-style-type: none"> • Reduced workload of superiors • Better and quick decision making • Trains employees to be future managers • Enhances confidence of employees | <ul style="list-style-type: none"> • Complete centralization would lead to unnecessary increase in workload of superiors, would discourage initiative on the part of workers and reduce their confidence level. • Complete decentralization—wrong decisions can be made by employees, misuse of authority by them. |

Example: Determination of overall objectives and formulation of policies and procedures should be centralized, while activities of routine work like purchase of raw materials, carrying out production can be decentralized.

9. Scalar Chain

- According to Fayol, "Organisations should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates."
- In case of emergencies, the concept of 'Gang Plank' can be used.



Ordinarily, communication should flow from A to B to C to D to E. but in case of an emergency, A and E can communicate directly with E after informing their superior B and D respectively.

| Positive effects of following Scalar Chain | Adverse effect of violation of Scalar Chain |
|--|---|
|--|---|

- | | |
|--|---|
| <ul style="list-style-type: none"> • Orderly flow of information • Systematic functioning and no communication gap. • Better superior subordinate relationships because of respect of authority | <ul style="list-style-type: none"> • Disorderly flow of information leading to communication gap • Problems in superior subordinate relationships if the management hierarchy is not followed. • Chaos and indiscipline in the organization. |
|--|---|

Example: All orders and instructions issued by heads of departments should reach the supervisors through intermediate managers. Similarly reports on results achieved should be passed from lower to higher levels through intermediate managers.

10. Order

According to Fayol, "People and materials must be in suitable places at appropriate time for maximum efficiency." "The principle of order states that 'A place for everything (everyone) and everything (everyone) in its (her/his) place'."

Order refers to orderly arrangement of men and materials i.e

- Material order = right place for everything and Social order = specified place for employees

| Positive effects of following the Principle Of Order | Adverse effect of violation of the Principle Of Order |
|--|---|
| <ul style="list-style-type: none"> • Better utilization of material and human resources. • No loss of time in finding and obtaining resources. • Better discipline and systematic functioning | <ul style="list-style-type: none"> • Misuse of resources • Lot of time wastage in tracing and obtaining resources • Chaos and disorder |

Example: Head of the production may be allotted an office room, typist a particular table etc. Also toolkit for keeping tools should be kept in the factory/shop because of its easy approach for workers. This will prevent any wastage of time and efforts to look for them.

11. Equity

Good sense and experience are needed to ensure fairness to all employees, who should be treated as fairly as possible," according to Fayol. This principle emphasizes kindness and justice in the behaviour of managers towards workers. This will ensure loyalty and devotion.

- Equal, kind, fair and just treatment of subordinates by superiors and no discrimination on any basis – religion, language, caste etc..
- Equity does not mean absence of force. It is in fact necessary to maintain discipline.

| Positive effects of following the <u>Principle Of Equity</u> | Adverse effect of violation of the <u>Principle Of Equity</u> |
|--|---|
| <ul style="list-style-type: none"> • Happy and satisfied workforce. • Employees will get motivated, and it will enhance their loyalty and devotion. • Better performance and increase in efficiency | <ul style="list-style-type: none"> • Dissatisfaction and frustration among the workforce. • Increase in absenteeism and labour turnover • Decline in efficiency of good workers. |

Example: Workers performing similar jobs should be paid same wage rate and should be given similar working conditions and equal opportunity of growth. There should be same rules for availing medical leave and the performance of the employees should be appraised on the same basis.

12. Stability Of Personnel

"Employee turnover should be minimized to maintain organizational efficiency", according to Fayol.

- Personnel should be selected carefully and once they are selected, they should not be moved around very frequently and the firm must make an effort to retain the personnel.

| .Positive effects of following the principle of <u>Stability Of Tenure Of Personnel</u> | Adverse effect of violation of the principle of <u>Stability Of Tenure Of Personnel</u> |
|---|--|
| <ul style="list-style-type: none"> • Improves the efficiency level of employees. • Increase their confidence and job satisfaction • Helps in retaining good employees in the organisation. | <ul style="list-style-type: none"> • Generates insecurity among employees. • Atmosphere of mistrust in the organization. • High employee turnover because of lack of job satisfaction. • Heavy recruitment expenses to replace staff. • Downfall in the reputation. |

Example: A typist is shifted from production department to purchase department and then to another department within a span of 4 months. This would lead to frustration or insecurity in his mind.

13. Initiative

Workers should been encouraged to develop and carry out their plans for improvements according to Fayol. Initiative means taking the first step with self-motivation.

- 'Initiative' means eagerness to initiate action without being asked to do so. According to Fayol, employees should be allowed to think and execute plans, to bring about improvements in work related matters.
- However initiative does not imply freedom to do whatever people like. They must observe discipline. So once the decisions are taken by management, every employee must follow it whether it is according to his suggestions or not.

| Positive effects of following the Principle Of Initiative | Adverse effect of violation of the Principle Of Initiative |
|---|---|
| <ul style="list-style-type: none"> • Enhances creativity and motivation • Leads to enhanced sense of belongingness and participation • Ensures co-operation from employees in implementation targets | <ul style="list-style-type: none"> • It suppresses creativity on the part of employees. • Reduces their morale and inclination to work. |

Example: Before setting up the plan, the manager must welcome the suggestions and ideas of employees to allow maximum participation. But once the plan is made every employee must follow and implement it.

14. Esprit De Corps

- 'Esprit de corps' means 'union is strength'. Fayol emphasized on team work and harmony among employees. He suggested that every employee in the organization must consider himself as a part or member of a team and try to achieve the team goal.
- A manger should replace I with we in organizational communication.

| Positive effects of following the principle of Esprit De Corps | Adverse effect of violation of the principle of Esprit De Corps |
|---|---|
| <ul style="list-style-type: none"> • Achievement of objectives on time • Mutual understanding and rapport building • Team spirit, co-operation and co-ordination in working • Higher efficiency • Minimizes use of penalties | <ul style="list-style-type: none"> • Kills team spirit • Difficulty in achieving objectives • Can lead to conflicts and atmosphere of mistrust and suspicion |

Example: Suppose target of production department was to manufacture 100 units and there are 10 members, so each was expected to produce 10 units. If two report sick, then rest of the 8 should co-operate and achieve the target on time.

Difference between Unity of command and Unity of Direction

| Basis | Unity of Command | Unity of Direction |
|-------|------------------|--------------------|
|-------|------------------|--------------------|

| | | |
|----------------------|---|---|
| 1. Meaning | It means that a subordinate should receive orders and instructions from one boss only. | It advocates 'one head, and one plan' for a group of activities having the same objectives. The activities should be directed towards the common goals. |
| 2. Scope | This principle is related to the functioning of personnel. | This principle is related to the functioning of a department or the organization as a whole |
| 3. Purpose | The main purpose of unity of command is to avoid confusion and fix up the responsibility of the employee. | The purpose of unity of direction is to direct the efforts of employees of one department in achieving the main objective of that department. |
| 4. Results in | Systematic working and improved efficiency by removing confusion and chaotic conditions. | Co-ordination within a particular department and overall; by preventing overlapping of various activities. |

Taylor Vs. Fayol

| Points of distinction | Taylor | Fayol |
|------------------------------|--|---|
| 1. Concern | Task, workers and supervisors. | Concerned more with efficiency of administration or managers. |
| 2. Level/ perspective | Shop floor level of a factory. Started from the lowest level in the organization and then he moved upwards, while formulating principles of scientific management. | Started his studies and approach from the <u>top level</u> and then proceeded downward with emphasis on unity of command, unity of direction and co-ordination. |
| 3. Emphasis | On standardization of work and tools. His principles were more applicable at the shop level. | He laid emphasis on principles of general management and functions of managers. |
| 4. Focus | Improve productivity of workers and eliminate all kinds of wastes. | Develop principles to ensure better management overall. |
| 5. Major contribution | Development of scientific techniques and principles to enhance production at the shop(factory) level. | Development of 14 principles. They can be applied in all functional areas like purchase, personnel, and marketing. Etc. |
| 6. Personality | That of a scientist | That of a researcher and practitioner |
| 7. Applicability | Applicable to specialized situations. | Universally applicable |

| | | |
|-----------------------------------|--|--|
| 8. Unity of command | Functional foremanship, which contradicts Unity of command. | Strong supporter of Unity of command. |
| 9. Stress on human element | Taylor focused more on increasing productivity rather than human resources. | Fayol showed more regard for human element by advocating principles such as stability of tenure, initiative etc. |
| 10. Expression | General Theory of Administration | Scientific Management |
| 11. Basis of formation | Observation and experiments | Personal experience |
| 12. Expression | He was called 'Father of Scientific Management'. | He was called 'The Father of General Management' and he wrote the General Theory of Administration. |
| 13. Unity of Command | Did not feel that it is important as under functional foremanship a worker received orders from eight specialists. | Staunch proponent |

| PRINCIPLE | THEN | NOW |
|---|--|---|
| 1. Division of Work | Specialisation in workers Job design | Generalisation in workers' Job design |
| 2. Authority & Responsibility | Managers are empowered | Employees are empowered |
| 3. Discipline | Formalised Controls | Informal, Peer pressure controls |
| 4. Unity of Command | Subordinates report to only one boss | Subordinates report to multiple bosses |
| 5. Unity of Direction | Functions have only one plan and one boss | Functions have multiple plans and multiple bosses |
| 6. Subordination of individual interest to common good | Employees are committed to the organization | Organisation is committed to the employees and vice versa |
| 7. Remuneration of personnel | Reasonable Pay reward system | Performance based reward system |
| 8. Centralisation | Trickle down decision making | Task relevant ad hoc decision making |
| 9. Scalar Chain | Hierarchical, formalised communication channel | Less formalised, flatter communication structure. |
| 10. Order | Internal information system for control purposes | Internal information system for coordination purposes. |
| 11. Equity | Commitment obtained through | Commitment obtained through a sense of |

| | kindness | ownership |
|---|---|--|
| 12. Stability of tenure of personnel | Train employees and encourage them to remain | On-going employee training and development |
| 13. Initiative | Managers conceive and implement new ideas | Workers conceive and implement new ideas |
| 14. Esprit de corps | Maintaining high morale among employees is imperative | Maintaining high morale among employees is not an imperative |

Fayol was a French industrialist who rose from the position of an engineer to that of a Managing Director. He developed 'The General Theory of management'. **Taylor**, was an American machinist who rose to the position of chief Engineer. He developed 'Scientific Management'.

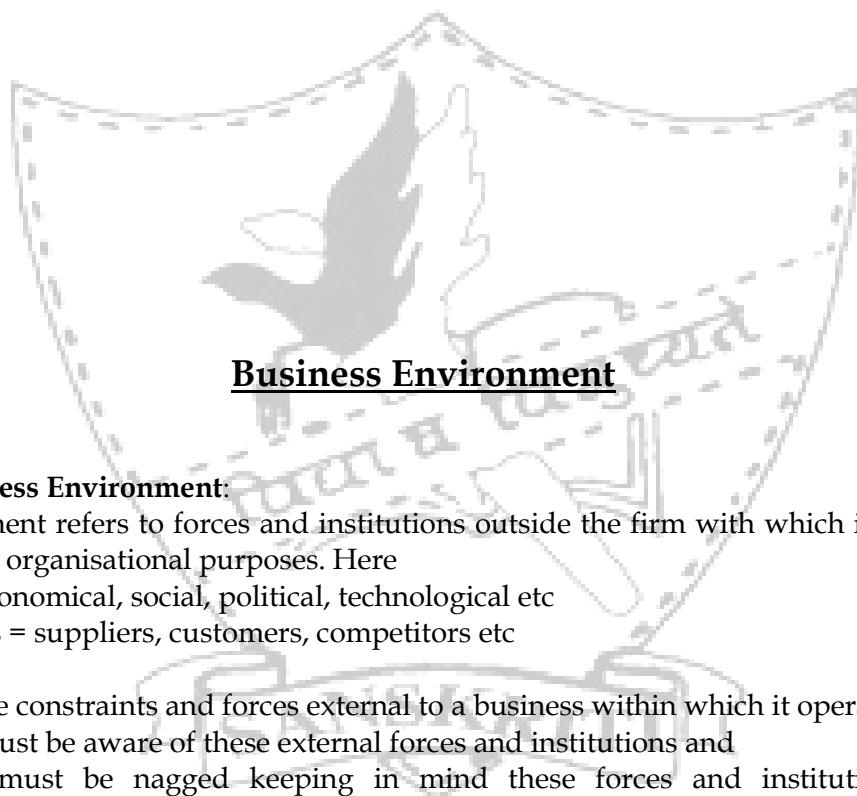
If we compare their works and personality, we see that both:

- Were practicing executives in the Industry.
- Realized that problem of personnel and its management is the key to industrial progress.
- Sought to develop rational and systematic basis of management.
- Developed their ideas through practical experience and experiments and expressed them through their books.
- Emphasized on training and development of personnel in management principles and techniques.

Conclusion

Thus we see that Taylor and Fayol belonged to different schools of thought, but their approaches are mutually complementary. That Taylor worked primarily at the operative level, from bottom of Industrial hierarchy upwards, while Fayol concentrated on managing and worked downwards, was merely a reflection of their different careers.

Thus works of Taylor and Fayol are important and complement each other since no organization can function effectively without mutual help and co-operation of managers and employees.



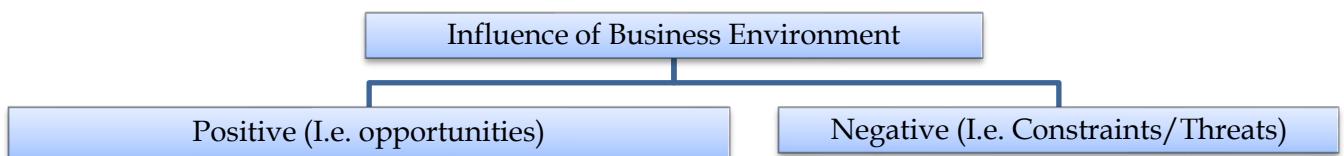
Meaning of Business Environment:

Business environment refers to forces and institutions outside the firm with which its members must deal to achieve the organisational purposes. Here

- ✓ Forces = economical, social, political, technological etc
- ✓ Institutions = suppliers, customers, competitors etc

It includes all those constraints and forces external to a business within which it operates. therefore,

- ✓ The firm must be aware of these external forces and institutions and
- ✓ The firm must be nagged keeping in mind these forces and institutions so that the organisational objectives are achieved.



| | |
|--|--|
| Features of Business Environment: | Importance of Business Environment: |
|--|--|

| | |
|---|--|
| <ol style="list-style-type: none"> 1. Totality of External Forces 2. Specific and General Forces 3. Inter-Relatedness 4. Dynamic Nature 5. Uncertainty 6. Complexity 7. Relativity | <ol style="list-style-type: none"> 1. Enables The Firm To Identify Opportunities And Getting First Mover Advantage 2. Helps Firms To Identify Threats And Early Warning Signals For Adverse Conditions 3. Helps In Tapping Useful Resources 4. Helps In Coping With Rapid Changes 5. Helps In Assisting In Planning And Policy Formulation 6. Helps In Improving Performance |
|---|--|

Features of Business Environment:

1. **Totality of External Forces:**
 - Business environment is the sum total of ALL factors external to the business.
2. **Specific and General Forces:**
 - Specific forces affect the business directly and immediately in their day to day working.
 - General forces have an indirect effect on the business (*Explained in detail later*)
3. **Inter-Relatedness:**
 - Different aspects of the business are inter-related. For example, increase in consumer awareness has led to more stringent laws and redressal system, demand for environment friendly products etc.
4. **Dynamic Nature:**
 - It keeps changing- for example, technology used, consumers' tastes and preferences keeps changing and the firms need to change their operations to suit these changing conditions.
5. **Uncertainty:**
 - It is very difficult to predict the environmental changes that will take place.
6. **Complexity:**
 - Environment is a complex phenomenon as it consists of numerous components which are inter-related and have an influence on each other.
 - It becomes very difficult to comprehend the exact effect that different components have on a particular factor.
7. **Relativity:**
 - That is, it differs from country to country and region to region.

Importance of Business Environment:

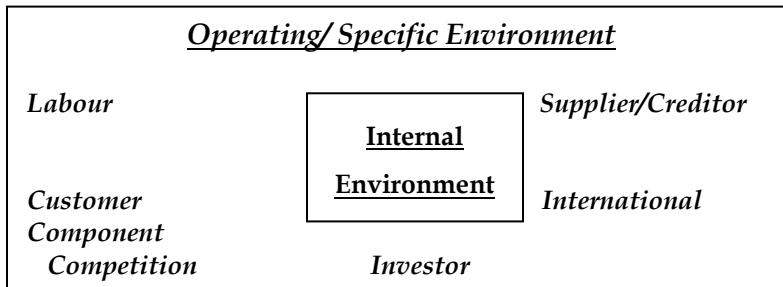
Environmental conditions must be forecasted before establishing goals or strategic plans. The process by which firms monitor their relevant environment to identify opportunities and threats affecting their business is called **Environment Scanning**. The **benefits of environment scanning** are:

1. Enables The Firm To Identify Opportunities And Getting First Mover Advantage:
 - ✓ Helps the firm to capitalize on early opportunities.
 - ✓ Eg: marutiUdyog in the small car market.
2. Helps Firms To Identify Threats And Early Warning Signals For Adverse Conditions:
 - ✓ Environment analysis provides a base of information about possible future conditions that can be used to the firm's advantage.
 - ✓ E.g. MNCs introducing new products to compete with Indian firms.
3. Helps In Tapping Useful Resources:
 - ✓ The business needs several inputs such as finance, raw materials, labour etc to carry out its activities.
 - ✓ These inputs are available from its environment, and the business , in turn, supplies goods and services to customers, taxes to govt, returns to investors etc.
 - ✓ Business depends on the environment for its inputs and as an outlet for its outputs.
 - ✓ The enterprise, thus should design policies that allows it to get the resources it needs so that it can convert them into outputs that the environment desires.
4. Helps In Coping With Rapid Changes:
 - ✓ Environmental factors such as market conditions, competition etc are changing very rapidly and more importantly at a very fast pace.
 - ✓ In order to cope with the pace at which environment is changing, managers must understand the environment and develop suitable courses of action.
5. Helps In Assisting In Planning And Policy Formulation:
 - ✓ Since environment is a source of both opportunities and threats, its understanding is the basis of planning and policy formulation.
 - ✓ E.g: if the firm is anticipating an increase in competition, it will plan its policies accordingly..
6. Helps In Improving Performance:
 - ✓ Enterprises that monitor and adapt to changes happening in the environment not only improve its present performance but also continue to succeed in the long run.

Dimensions of Business Environment

GENERAL ENVIRONMENT

SOCIAL ECONOMIC



The environment of a business is divided into three levels

The Internal Environment:

- ✓ These relate to the organisational aspects such as marketing, finance, personnel, production etc.
- ✓ The firm can alter or modify these factors to suit the requirements of specific situations and therefore these are referred to as controllable variables.

The External Environment:

These factors are beyond the control of the firm and therefore are generally regarded as uncontrollable factors. The firm's success depends, to a large extent, on its adaptability to the environment and its ability to properly design and adjust controllable variables to suit the business environment.

The external environment can further be classified into

General environment

These components are broad in scope and are least influenced by the management of an organisation. They include:

1. Economic Environment
2. Social Environment
3. Political Environment
4. Legal Environment
5. Technological Environment

Specific/Operating Environment

Specific factors of external environment affecting the industry of which the firm is a part. They include:

1. Customers
2. Competitors
3. Investors
4. Creditors
5. Labour

The External Environment:

These factors are beyond the control of the firm and therefore are generally regarded as uncontrollable factors. The firm's success depends, to a large extent, on its adaptability to the environment and its ability to properly design and adjust controllable variables to suit the business environment.

General Environment

| | |
|---|---|
| <p>1. <u>Economic Environment:</u></p> <ul style="list-style-type: none"> ✓ Economic environment of a business include economic conditions, economic policies and economic systems prevailing in the external environment of a business. ✓ For example: With a rise in income level, demand for products especially luxury goods like TV, radio etc increases. | <p>2. <u>Political Environment</u></p> <ul style="list-style-type: none"> ✓ The kind of government that exists and the policies formulated by it are the political factors affecting a business enterprise. ✓ Examples: Andhra Pradesh promoted the IT sector and it emerged as the IT capital of the country. |
| <p>3. <u>Legal Environment:</u></p> <ul style="list-style-type: none"> ✓ It includes various legislations passed by the parliament and State Legislatures and prescribes rules that have to be followed by all members of the business community. ✓ Examples: <i>Essential Commodities Act 1955</i>=to control production, supply and distribution of and trading in commodities essential for human beings. | <p>4. <u>Social Environment</u></p> <ul style="list-style-type: none"> ✓ Describes the characteristics of the society in which the organisation exists. ✓ Examples: ↑ in employment of women => ↑in demand for consumer durables such as refrigerators and other household items. |
| <p>5. <u>Technological Environment</u></p> <ul style="list-style-type: none"> ✓ Includes new approaches to producing of goods and services e.g. new procedures/ equipments etc. ✓ Examples: Colour TV took away the share of Black and white TVs. | |

General Environment

1. **Economic Environment:** Economic environment of a business include economic conditions, economic policies and economic systems prevailing in the external environment of a business.
- ✓ **Economic Conditions**= inflation rate, level of income, distribution of income and wealth, consumers' income, debt and spending, employment rate, balance of payment, stage of development of economy etc.
- ✓ **Economic Policies**= E.g. EXIM policy, Fiscal policy, Monetary policy, Industrial Policy, Foreign Investment Policy etc.
- ✓ **Economic Systems**= influences freedom of operations or openness of business. Can be of three types- Capitalist, Social or Mixed Economic System.

Therefore we see that the business influences freedom of operations or openness of business environment consists of a large number of factors that exercise a strong influence on firms' policies and actions. For example:

- With a rise in income level, demand for products especially luxury goods like TV, radio etc increases.
- India is a mixed economy and so Public and Private sectors Coexists. But gradually, with the initiation of the NEP 91, private sector was freed from a number of regulations and it assumed a vital role. Except for industries of national significance (e.g. defense) the private sector was allowed to invest in all industries.
- An increase in interest rates will discourage borrowing and therefore will curtail growth of industries.

- ✓ **Social Environment:** Describes the characteristics of the society in which the organisation exists. The demand of the firm's product and its operations depends on factors such as literacy rate, people's attitudes, customs, beliefs and values, composition of working population, consumers' awareness etc the social environment.
 - ✓ Examples:
 - ↑ in employment of women => ↑in demand for consumer durables such as refrigerators and other household items.
 - Because of a change in the attitude of people, there has been a ↑food processing and garment manufacturing industries.
 - As awareness of society and focus on environment ↑, business focuses on environment friendly production techniques and avoiding unethical business practices.
 - ✓ **Political Environment:** The kind of government that exists and the policies formulated by it are the political factors affecting a business enterprise. The ideology of the government in existence, the governments attitude to industries, lobbying efforts of interest groups etc are all examples of the factors in the political environment.
 - ✓ Examples:
 - Andhra Pradesh promoted the IT sector and it emerged as the IT capital of the country.
 - A number of MNCs wound up operations in the '70s because of the Janta party's policy of restricting growth of MNCs in the country but with the opening up of the economy in the '90s, there has been a boost to foreign investment and entry of MNCs in the country has seen a renewal.
- 2. Legal Environment:**
- ✓ It includes various legislations passed by the parliament and State Legislatures and prescribes rules that have to be followed by all members of the business community.
 - ✓ Examples:
 - **Essential Commodities Act 1955**=to control production, supply and distribution of and trading in commodities essential for human beings.
 - **The Standards of Weight and Measurement Act, 1976** = Applicable for those goods that are sold or distributed by weight or measure or number. It is used to provide for use of standard weights and measures throughout the country.
 - **Consumers Protection Act, 1986** =it provides for better protection of consumers' interests. It has made provision for establishing consumer councils at district, state and national levels and provides for redressal for complaints w.r.t unfair trade practices, defective goods, excess price charged etc.
 - **Industries (Development and Regulation) Act, 1951** = to control the volume and quantity of production and distribution. It includes rules about registration and licensing of industries.
 - **Foreign Exchange Management Act** = regulates stock and flow of foreign exchange in India.
 - **Monopolies and Restrictive Trade Practices Act, 1969** = prevents concentration of economic power to control monopolies, prohibit monopolies and restrictive trade practices that are prejudicial to public interest.

3. Technological Environment

- ✓ Includes new approaches to producing of goods and services e.g. new procedures/ equipments etc.
- ✓ These factors bring about improvement in techniques of production and may lead to economy in cost, time etc or better quality products. A firm needs to keep track of technological advancements because otherwise it will be forced out of the market.
- ✓ Examples :
 - Colour TV took away the share of Black and white TVs.
 - Constant innovations in mobile handsets etc.

Demonetisation:

- ✓ The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, Rs. 500 Rs.1,000, were 'demonetised' with immediate effect.
- ✓ This led to eighty six per cent of the money in circulation invalid.

Aim

- ✓ Curb corruption
- ✓ Counterfeiting the use of high denomination notes for illegal activities
- ✓ To bring out the accumulation of 'black money' generated by income that has not been declared to the tax authorities.

Features

- ✓ Viewed as a tax administration measure.
- ✓ Shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.
- ✓ Led to tax administration channelizing savings into the formal financial system.
- ✓ Create a less-cash or cash-lite economy

Impact of Demonetisation

| | |
|----------------------|--|
| Money/Interest rates | i. Decline in cash transactions ii. Bank deposits increased iii. Increase in financial savings |
| Private wealth | Declined since some high demonetised notes were not returned and real estate prices fell |
| Public sector wealth | No effect |
| Digitisation | Digital transactions amongst new users (RuPay/AEPS) increased |
| Real estate Prices | Declined |

| | |
|----------------|---|
| Tax collection | Rise in income tax collection because of increased disclosure |
|----------------|---|

Features of NEP (New Economic Policy) 1991:

Since '91, India has been following a threefold strategy of Globalization, Liberalisation and Privatization. The aims of these reforms are:

- ✓ To modernize the country's industrial system
- ✓ To remove unproductive controls
- ✓ To encourage private investment(including foreign investment)
- ✓ Integrating the Indian economy with the global economy.

The three main strategies adopted for the above may be defined as follows:

1. Globalisation:

- ✓ Integrating the economy of a country with the economies of other countries to facilitate freer flow of trade, capital, persons and technology across borders. It leads to the emergence of a cohesive global economy.
- ✓ Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to (a) licensing of imports, (b) tariff restrictions and (c) quantitative restrictions.
- ✓ NEP '91 advocated rapid advancement in technology and directed trade liberalization towards:
 - a. Import Liberalisation
 - b. Export promotion towards rationalization of the tariff structure and
 - c. Reforms w.r.t foreign exchange

2. Liberalisation:

= 'Liberalising the Indian business and industry from all unnecessary controls and restrictions. That is relaxing rules and regulations which restrict the growth of the private sector and allowing the private sector to take part in economic activities that were earlier reserved for the government sector.'

The steps taken for this were:

- a. Abolishing licensing
- b. Freedom in deciding the scale of operations
- c. Removal of restrictions on movement of goods and services.
- d. Freedom in fixing prices.
- e. Reduction in tax rates and unnecessary controls
- f. Simplifying procedures for import and exports
- g. Making it easy to attract foreign capital.

3. Privatization:

- ✓ Refers to the reduction of the role of the public sector in the economy of a country.

- ✓ Transfer of ownership and control from the private to the public sector (disinvestment) can be done by :
 - a. Sale of all/some assets of the public sector enterprises.
 - b. Leasing of public enterprises to the private sector.
 - c. Transfer of management of the public enterprise to the private sector.
- ✓ To achieve privatization in India, the government redefined the role of the public sector and :
 - a. Adopted a policy of planned disinvestment of the public sector
 - b. Refer the loss making and sick units to the Board of Industrial and Financial Reconstruction (BIFR)

Components of the NEP '91: New Industrial Policy:

This policy aimed to:

- Liberate the industry from the shackles of the licensing system - **Liberalisation**
- Reduce the role of the public sector - **Privatisation**
- Encourage foreign private participation in India's industrial development - **Globalisation**
- Remove Obstacles in the way of growth and expansion of industrial units of large industrial houses.
- Small -scale sector accorded due recognition and assured of all help

The broad features of this Policy are:

- a. Industrial Licensing Abolished for all items except of a list of 6 industries related to security, strategic and environmental concerns.
- b. Industries reserved for public sector were limited to 4 core industries – arms and ammunition, atomic energy, railways etc.
- c. Disinvestment was carried out
- d. Policy towards foreign capital investment and technology import was liberalized – the share of foreign equity participation was increased and in many activities 100% FDI was permitted.
 - ✓ Foreign investment up to 51% allowed in 34 high priority industries without prior approval of the government
 - ✓ FDI up to 74% allowed in 9 industries.
 - ✓ Automatic approval for technology agreements for priority industries allowed within specified parameters (lump sum payment not exceeding \$20 lakhs and royalty up to 5% on domestic sales and 8% on imports)
- e. Foreign Investment Promotion Board (FIPB) set up to promote and channelised foreign investment in India.

Very Important: Impact of Changes in Government Policy on Business and Industry

1. Increasing Competition:

- ✓ As a result of NEP '91, competition increased specially in sectors that were earlier reserved for the public sector such as airlines, insurance etc.

- ✓ This competition is from MNCs, imports, existing firms and new entrants to the industry.
 - Positive = quality ↑
 - Negative = firms that could not compete were wiped out.

2. More Demanding Customers:

- ✓ Not only are the customers more demanding and better informed, they also buyers have access to a wider choice and better quality goods and services. Thus now the business is faced with more demanding consumers.
 - Positive = customers rights and choices have been given due importance
 - Negative = firms investment in R&D

3. Rapidly Changing Technological Environment:

- ✓ Because of protected environment, earlier the Indian firms' expense on research and development was much lower than the world average. For example, pharmaceutical companies in India on an average, invested 2% in R & D where as in developed countries, this goes up to 21%.
- ✓ But increased competition forced the firms to focus on competitive advantage and core competencies and therefore, investment in R & D and innovation have become inescapable for Indian firms.
- ✓ This has led to an improvement in machinery and equipment, processes, products and services but has also created tough challenges for smaller firms.
 - Positive = innovation and changes in products + saving in production costs
 - Negative = firms investment ↑+ tough challenges for smaller firm

4. Necessity For Change:

- ✓ In the regulated environment of the pre-91 era, firms could have relatively stable policies and practices.
- ✓ But post 91, the conditions have now changed drastically and the firms can no longer use the lessons learnt from their past mistakes to act as a guide to future decision making. Rather, new approaches, new structures, systems and new leadership is required to meet future challenges. The market forces also are now more turbulent as a result of which enterprises have to constantly modify their operations.
 - Negative = enterprises have to constantly modify their operations

5. Need For Developing Human Resources:

- ✓ Indian enterprises have always faced a shortage of trained staff. Now, with the dynamic environment that they have to work in, there is a need felt for having a work force with higher competence and greater commitment.
 - Positive = better qualified and more efficient employees + higher salary structures
 - Negative = firms investment ↑

6. Market Orientation:

- ✓ Before '91 because of licensed capacity and administered pricing, there were shortages in every sector- consumer goods, industrial goods and services. The market was a sellers' market with little emphasis on cost reduction, improvement in quality, up gradation of technology consumers' convenience etc. The firms used to produce first and then go to the market later.
- ✓ After '91, the government removed restrictions investment takes place in areas of demand and there has been a shift from shortages in the various sectors to surplus and therefore it has now become a buyers' market and now firms have to analyse the market first and then produce goods accordingly.

7. Loss Of Budgetary Support To The Public Sector:

- ✓ The public sector has realized that in order to be more effective, they have to be more efficient and raise their own resources and the central government's budgetary outlay has gone down over the years.

Managerial Response to Changes in Business Environment

To cope with the changes taking place in the Indian Economy, firms felt the need to bring about the following changes in their operations:

1. Develop new insights into understanding their customers.
2. Design, develop and produce new and more customer friendly products at reduced costs and improve their quality.
3. Focus on Branding- that is develop exclusive position in the minds of the consumers so that they do not switch to other products.
4. Develop processes, techniques and technologies to ensure that costs are continuously reduced and customers are not made to pay higher prices with rising input costs.
5. Structuring the organisation so that trained and talented people stay on and put in their best efforts.
6. Investing funds in new technologies, people and on marketing to build brand franchise in the market.

The concrete steps taken by the firms to give effect to the above were as follows:

a. Acquisitions and Mergers:

Merger is external growth strategy where two or more firms combine together. Acquisition/ takeovers = purchase of one company by another company by acquiring the whole or part of the shares or other assets in exchange for payment in cash/ other assets/ equity of the acquiring company. The acquired company continues to exist as a separate entity. These are done with a view to achieve market domination, ease market entry, expand a firm's product range and attain core competencies or to have access to better technology.

b. Diversification Spree:

Diversification is the process of entering into a field of business which is new to the enterprise i.e, exploring new markets or use of new technology.

c. Consolidation of MNCs:

Joint venture is when two or more firms establish a new enterprise by contributing to total equity capital and participating in business operations. Eg., Ford and Mahindra

d. Brand Building:

It helps in building the brand name of the company.

e. Distribution and Selling:

Companies now have taken new initiative in distribution such as exploring rural markets or direct marketing Eg., Amway.

f. Capital Structure:

Capital Structure is the proportion of debt and equity used to finance the operations of a business. Companies are looking into various options to finance their business propositions

even exploring the idea of procuring capital not only from the national market but also from international markets.

g. Customer Focus:

The shift towards satisfying growing customer needs have ensured that the companies need to come up with innovative products.

h. Production Capacity:

The easing of licensing and various taxes has led to increase in the manufacturing capacity of companies. This has led the firms to achieve global scale of operations making use of the latest technology.

i. Compensation Level:

Compensation level for specialized managerial and technical staff improved and incentive schemes related to performance are being implemented very commonly now.

j. Labour:

The changes brought about in response to business environment led to the following benefits to the employees in the form of higher wages, training to upgrade their skills, job enrichment and other facilities.

Planning

Meaning:

- Deciding in advance what to do& how to do it. It is one of the basic managerial functions.
 - It involves 2 aspects: Setting of aims and objectives of the organization +Selecting and developing an appropriate course of action to achieve these objectives.
- Koontz and O'Donnell - “**Planning is deciding in advance what to do, how to do, when to do, and who to do it. Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen.**”
- Involves setting of objectives & developing an appropriate course of action to achieve these objectives

Importance of Planning:

Planning is certainly important as it tells us where to go; it provides direction and reduces the risk of uncertainty by preparing forecasts.

1. Provides Direction:

- Objectives are clearly stated → act as a guide for deciding what action should be taken and in which direction.

- If goals are well defined, employees are aware of what the org. has to do & what they must do to achieve those goals.
- Departments and individuals in the org. are able to work in coordination.

2. Reduces Risks Of Uncertainty

- Biz operates in an uncertain environment & faces several types of risks.
- Planning pre-assesses the future uncertainties + enables the firm to face these uncertainties with minimum wastage of resources.
- Changes/ events can't be eliminated but can be anticipated & managerial responses can be developed.

3. Reduces Overlapping And Wasteful Activities

- Provides the basis for coordinating activities of diff. depts. & Individuals.
- Avoid misunderstandings, eliminates useless activities & provides clarity of thought & action so work is carried out smoothly w/o interruption.

4. Promotes Innovative Ideas

- Planning is an intellectual process – looks for scope for finding better ideas, methods and procedures to perform particular job.
- Forces managers to think differently & assume future conditions → makes managers creative and innovative.

5. Facilitates Decision Making

- No need for planning if only one possible course.
- Involves choice among various alternatives & activities → examining & evaluating each alternative & choosing the most appropriate one.
- Helps in taking rational decisions.

6. Establishes Standards Of Control

- Objectives of the org. determines the 'what', 'why' and 'how' of everything.
- Standards are prescribed in context of their work, time and cost.
- By comparing actual work performance with standards, deviations are found and corrective action is taken.

- **Features:**

1. Focuses On Achieving Objectives:

- Not an end in itself but means towards achievement of an objective.
- Specifies the objectives to be attained in the future and steps necessary to achieve them.
- Act as guide for deciding what action should be taken & in which direction.
- Thus **planning is purposeful**. No meaning unless it contributes to achievement of pre-determined org. goals.

2. Primary Function Of Management:

- Precedes all other functions & all other functions are done within framework of the plans drawn.
- W/o planning, there is nothing to organize, no one to direct & no need of control.

3. Pervasive:

- Not an exclusive function of top-level management- reqd. in all organization, all levels & all depts.
- However, the scope, nature & extent of planning differ & go on ↓ as we move towards lower level:
 - Top M → Plans for org. as a whole
 - Middle M → Prepares dept. plans
 - Lower M → Supervisors formulate day-to-day operational plans.

4. Continuous:

- Once a plan is framed, it is implemented & then followed by another plan & so on since conditions & requirements change.
- Prepared for specific time period, after which, new plans have to be prepared.

5. Futuristic:

- Considered to be forward looking, as it requires looking ahead & forecasting future events (customers' demand, competition, government policies etc.).
- Involves looking ahead & preparing for future opportunities/ threats so as to take advantage of them or deal with them effectively.

6. Involves Decision Making:

- No need if only one possible course of action.
- It involves choosing the best course among various alternative courses of action available.
- It evaluates each alternative & chooses the most appropriate one.

7. Mental Exercise:

- as it requires application of mind and sound judgment.
- Intellectual activity that requires logical & systematic thinking rather than empty guesswork.
- Thus, closely related w/ creativity & innovation & based on proper analysis.

Limitations of Planning:**1. Leads To Rigidity:**

- Plan is drawn up w/ specific goals to be achieved within a specific time frame.
- But circumstances may change & following the plan may actually turn out to be detrimental to the org if there is no scope for flexibility.
- Also once policies, procedures, rules & methods are designed & employees start following them, it becomes difficult to make changes in them. This leads to rigidity.

2. May Not Work In A Dynamic Environment

- The environment consists of a no. of dimensions (Economic, political, physical, legal & social).
- External dynamic factors (govt. policies, political factor, industrial or trade policy) are not constant. They keep changing and disturb the functioning of the org.
- It becomes difficult to accurately assess future trends in the environment & this poses obstacles to effective planning.

3. Reduces Creativity

- Plans, policies & procedures are determined by the top mgt. Middle M & others only follow & carry out the orders in a manner laid down in the plan.
- So planning may suppress the spirit to take initiative among the employees & compel them to work in a rigid manner, leaving no scope for creativity among employees.

4. Involves Huge Costs

- Expensive process → Money, time and effort have to be spent in forecasting, collection of info, verifying accuracy of facts, evaluating alternatives etc.
- Also there may be incidental costs (e.g. expenses on boardroom meetings, discussions w/ experts etc.)
- Planning should be economical i.e. cost of planning should not exceed the gains expected from it.

5. Time Consuming

- Considerable time is reqd. for collection, analysis & interpretation of info for planning.
- Any delay caused by planning may deprive the biz of a profitable opportunity.
- May become impractical during emergencies & crisis when on the spot & quick decisions are necessary.
- In such situations the existing plans may have to be abandoned.

6. Does Not Guarantee Success

- Firstly, Planning will be successful only when plans are implemented properly.
- Secondly, Planning provides a base for analyzing future courses of action. But it is not a solution for all problems. So even previously tried & tested successful plans may not work again because of change in circumstances.
- This kind of complacency and false sense of security may actually lead to failure instead of success.

CONCLUSION:

- Above points show that performing the function of planning does not automatically ensure success for an org.
- This is due to changing situations & because of other aspects related to planning.
- But that does not mean that managers should stop planning.
- Rather, it means that they should plan with more caution, taking into considerations various possibilities related to the future & should make their plans more flexible to overcome these limitations.

External limitations of planning are:

Planning sometimes fails despite the best efforts of managers. This is because of the external limitations of planning that are beyond the control of the firm. These are:

- Natural calamities
- Changes in economic policy
- Changes in technology
- Changes in fashion, tastes etc.
- Strategies of competitors
- Changes in political climate/government.

Planning Process (Steps of Planning)

1. Setting Objectives:

- Objectives specify what the organization wants to achieve.
- Objectives can be set for the entire org. & stated to each dept. within the org. very clearly, to determine how all depts. would contribute towards overall objectives.
- Then these have to percolate down to all employees at all levels so that they understand how their actions contribute to achieving objectives.
- E.g. Objective could be to achieve sales, expansion of business etc.

2. Developing Premises:

- Plans are made on the basis of some assumptions.
- These assumptions, which provide the basis for planning, are called premises.
- All managers involved in planning should be familiar w/ them, cuz plans are expected to operate & reach their destination subject to these. They can be:
 - Internal premises: Cost of products, capital, machinery, profitability etc.
 - External premises: Changes in technology, population growth, competition, govt. policies etc

3. Identifying Alternative Courses Of Action:

- After setting the objectives, managers make a list of alternatives through which the org. can achieve its objectives as there can be many ways to achieve the objectives & managers must know all of them.
- E.g. Sales could be increased through any of the following ways:
 - By enhancing advertising expenditure
 - Appointing salesmen for door-to-door sales
 - By offering discounts
 - By adding more product lines.

4. Evaluating Alternative Courses Of Action

- Positive & negative aspects of each & every proposal need to be evaluated to determine their feasibility and consequences in the light of each objective to be achieved.
- E.g. In financial plans, risk-return trade-off are imp. Riskier the investment, higher the returns it is likely to give. To evaluate such proposals, detailed calc. of earnings, taxes, earnings per share etc. should be done.

5. Selecting The Best Alternative

- Real point of decision-making → Best plan has to be adopted and implemented.
- The ideal plan = most feasible, profitable and with least negative consequences.
- Most plans may not be subjected to mathematical analysis. In such cases, subjectivity & manager's experience, judgment and intuition are important to select the most viable alternative.
- Sometimes a combination of plans may be selected instead of one best course.

6. Implementing The Plan

- Concerned with putting the plan into action.
- For implementing the plans, managers start organizing & assembling resources for it.
- E.g. If there is a plan to ↑ production, then more labour, more machinery will be reqd. This step would also involve organizing for more labour and purchase of machinery.

7. Follow Up Action

- This involves monitoring the plans and ensuring that activities are performed according to the schedule.

- Whenever there are deviations from plans, immediate action has to be taken to bring implementation according to the plan or make changes in the plan.

Types of Plans:

Single-use and standing plans are part of the operational planning process.

- Single use plans apply to activities that do not recur or repeat.
 - ✓ It is a one-time plan specifically designed to achieve particular goal that, once achieved will not recur in the future. Such Plan is developed to meet the needs of a unique situation.
 - ✓ The length of a single-use plan differs greatly depending on the project in question, as a single event plan may only last one day while a single project may last weeks or months.
 - ✓ Examples : budgets, programmes.
- Standing plans are used over and over again because they focus on organizational situations that occur repeatedly.
 - ✓ They are usually made once and retain their value over a period of years while undergoing revisions and updates. That is why they are also called repeated use plans.
 - ✓ Include policies, procedures, methods and rules.
- There are other types of plans which usually are not classified as single-use or standing plans.
 - ✓ Strategy, Objective

| Objectives: | Strategy: |
|--|---|
| <ul style="list-style-type: none"> • Desired future position that the firm wants to reach. • All managerial functions are directed towards achieving them. • They are given in quantitative term • Are generally written • Contain a time deadline • Should be challenging but achievable • E.g. earn 20% profits in the next financial year. | <ul style="list-style-type: none"> • Provides broad contours of a firm's business. • Defines firm's direction and scope in the long run. • Includes 3 dimensions: <ul style="list-style-type: none"> ◦ Determining long term objectives ◦ Adopting a particular course of action ◦ Allocation of resources necessary to achieve the objective. • Takes the business environment into consideration • Forms firms' identity. • E.g. whether firm will diversify in the future or continue in the same line of business. • |

| | |
|---|--|
| Policy | Procedure |
| <ul style="list-style-type: none"> Guide to a managerial thinking and action. Define boundaries within which decisions can be made. Exist at all levels and are related to all functions of a firm. Define broad parameters and managers use their discretion in applying a policy. E.g. promoting from within, shipping orders quickly. | <ul style="list-style-type: none"> Set of sequential steps determined in advance for handling (that is initiating, carrying thro and completing) future activities Are given in a chronological order. Generally meant for insiders to follow. Enforce a policy and to attain pre-determined objectives E.g. selection procedure. Purchase procedures |
| Method | Rule |
| <ul style="list-style-type: none"> Formalized and standardized ways of accomplishing repetitive and routine jobs. Specifies the best way to perform one step of a procedure. Helpful in simplification, standardization and systematization of work specially where alternatives exist Saves time, money and effort and increases efficiency. E.g written down or straight line method of recording depreciation | <ul style="list-style-type: none"> Specific statements of what should/ should not be done in certain situations. Serve as guides and leave no scope for discretion. Indicate limits of acceptable behavior and help in maintaining discipline. Guide action without specifying a time sequence E.g. no smoking in the factory premises |
| Budget | Programme |
| <ul style="list-style-type: none"> Statement of expected result expressed in numerical terms It is a single use plan that deals with allocation of resources and expected results. It is a control device that helps in identifying deviations and taking corrective action thereof. E.g. Cash budget | <ul style="list-style-type: none"> Detailed statement of a project that outlines the objectives, policies, procedures, task assignment, resource flows and budges to implement any course of action. It is a single use plan containing a concrete scheme of action worked out by the management to accomplish certain specific objectives. |

Types of Plans

A) OBJECTIVES:

- Objectives are the ends towards which the physical & human energies of the enterprise are channelized.
- All individuals, groups, and depts. are integrated, coordinated and directed to achieve this end.
- Objectives can be major, minor, collateral. They are set by the top level management.

| <u>Features</u> | <u>Examples</u> |
|--|---|
| <ul style="list-style-type: none"> Related to a single activity Related to result & not the activity to be performed Measurable, should be stated in quantitative terms Must have a time limit for achievement of objectives (time deadline) | <ul style="list-style-type: none"> - Reduce quality rejects to 2% - Increase sales by 10% - Cross the 30,000 crore mark turnover - To improve the communication system to hold regular staff meetings and publish a newsletter. |

- | | |
|---|--|
| • Should be challenging but achievable. | |
|---|--|

B) STRATEGY:

- Strategy is a comprehensive plan for accomplishing an organization's objectives.
- This comprehensive plan will include (3 dimensions):
 - a. Determining long term objectives
 - b. Adopting a particular course of action
 - c. Allocating resources necessary to achieve objectives.

| <u>Features</u> | <u>Examples</u> |
|---|--|
| <ul style="list-style-type: none"> • Plans are made in view of the competitors and other environmental factors (economic, political, social, legal) that affect the organization. • Formulated by the top management. • It is action oriented • It is flexible and dynamic. | <ol style="list-style-type: none"> 1. A company's marketing strategy has to address certain questions like: <ol style="list-style-type: none"> a) Who are the customers b) What is the demand for the product/ c) What is the pricing policy/ d) How do we advertise the product? 2. Similarly if an Indian firm anticipates entry of an MNC into the Indian market with new substitutes it may decide one of the following strategies to make the entry of the rivals difficult. <ol style="list-style-type: none"> a) Improve existing product quality b) Add more product lines c) Do aggressive advertising d) To beat competition |

C) POLICY:

- Org.'s general response to a particular problem/ situation.
- These are general statements/ understandings, which guide thinking & decision-making. A policy is an org.'s intention to act in certain ways when specific types of circumstances arise.
- Policies define the boundaries within which decisions can be made and they direct decisions towards accomplishment of objectives.

Features

- General response to particular problem: guide managers in view of the repeated appearance of similar problems/situations
- Basis for objectives: Policies provide the routes to objectives.
- Provide guidelines to thinking/ action.
- Discretionary: provide scope for executive judgment.
- Top management's intention: generally formulated by top management. For operational purposes, managers at all levels also formulate their own policies

Examples: Recruitment policy, Pricing policy (for elite segment); 'We don't sell on credit' is a policy of the sales dept.

D) PROCEDURE:

- A procedure is a series of related tasks that make up the chronological sequence & the established way of performing work to be accomplished.
- It gives a series of actions directed towards a goal.

- It specifies tasks to be performed /done sequentially for completing a piece of work

Features:

- Defines steps of doing different jobs/methods in regular routine. So it saves time.
- Helps to improve efficiency by providing standard and the best manner of doing work.
- Cuts across all dept. lines (e.g. execution of a sales order concerns sales, finance, production depts.)
- Help in implementation of policies

Examples

- Admission procedure, Selection procedure for employees, Passport/Visa, Procedure for placing an order.

E) METHOD:

- A method is a type of management plan that specifies the detailed and the best manner of performing a particular step, comprised in a procedure.

Features:

- Methods are formalized/-standardized ways of doing routine jobs
- These are standard ways of doing jobs, though there is no penalty for violation of methods
- These are defined to increase efficiency
- They are usually manual/ mechanical ways to perform an operation

Examples

- Depreciation methods: Straight line method, Written down value method
- Methods of stocktaking: LIFO, FIFO, Training methods (e.g. orientation programmes, lectures etc.)

F) PROGRAMME:

- It is a comprehensive plan designed to implement the policies and accomplish objectives.
- It is a combination of goals, policies, task assignments, resources flows etc.
- It is a concrete or well-designed scheme designed to accomplish a specific objective.
- It spells out clearly the steps to be taken, resources to be used and the time taken to complete the task.
- It also indicates who should do what and how?

Features

- Single use about comprehensive
- Action based
- Result oriented
- Designed to ensure smooth and efficient functioning of the organization
- Great risk of failure due to changes in the environment.

Example - Launching a new product. Training program. Advertising program. Expansion program.

G) RULE:

- A rule requires that a specific and definite action be taken with respect to a situation.
- Rules are prescriptive directives to people in the org. and elsewhere to do or not to do things, to behave or not to behave in particular ways.

Features

- Rules indicate limits of acceptable behavior to the members of the org.
- They help to improve efficiency
- Help in maintain discipline in the org.

Examples

- No smoking, No admission without permission

H) BUDGET:

- A budget as a plan is a statement of expected results expressed in numerical terms like rupees, production units or man-hours.

Features:

- Presents the objectives of the enterprise in financial/Quantitative terms.
- Helps in financial control: provides standards by which actual performance can be measured.
- Co-ordinates activities of various depts. of a big enterprise by adjusting the departmental budgets into the master plan.
- Since budgets specify measurable goals to be achieved within a specific period of time (usually a one year), they inject a sense of clarity in directing and performing the activities of the org.

Examples

- Cash budget determines cash inflows and outflows, so that management knows how much cash it should hold at all points of time for various purposes.

| Difference | Single Use Plans | Standing Plans |
|------------------|---|--|
| Meaning | A single-use plan in a business refers to plans developed for a one-time project or event that one-time project or event that has one specific objective. | A standing plan in a business refers to plans developed for using over and over again because they focus on organizational situations that occur repeatedly. |
| Period | Used for a short term and formulated again | Long term plans |
| Objective | Single use plan is developed to carry out a course of action that is not likely to be repeated in future time. It is used to solve a specific problem and is discarded once the purpose is achieved | Standing plan however is developed for activities that occur regularly over a period of time. Formulated to achieve uniformity and unity of efforts in meeting repetitive situations throughout the organisation. |

| | | | |
|----|--|--------------------|----------------|
| 1. | • Earning a reasonable rate of return on investment. | <u>Objective =</u> | not classified |
|----|--|--------------------|----------------|

| Scope | Single use plans generally encompass a narrow scope targeting a specific project or event | Standing plans generally encompass a wider scope involving more than one department or business function. |
|---------------------------|---|--|
| Stability | Single use plans are discarded when the situation, project or event is over. | Standing plans are relatively stable and used over and over again with necessary modifications or updations. |
| Based on | Based on the standing plans | Based on the primary objective of a firm. |
| Type of Situations | Designed to meet a particular situation | Designed to meet a situation that is of a recurring nature |
| Example | Programme and budget. Budget for Annual General Meeting of shareholders | policy, procedure, rule and method. Recruitment and selection procedure for a particular post in the company. |

| | | | |
|----|--|--|--|
| | <ul style="list-style-type: none"> Earn 20% profits from business in the next financial year. Reduce quality rejects from 6% to 2% Increase sales of a particular product by 10% in the next quarter Cross the 30,000 crore mark turnover Spending 12 crores towards building public library For a service, increase number of users by 10% To improve the communication system to hold regular staff meetings and publish a newsletter | Desired future position or end result that the firm wants to achieve within a given time period. | as single-use or standing plans |
| 2. | <ul style="list-style-type: none"> Whether firm will diversify in the future or continue in the same line of business. Coca cola and Pepsi are competitors in the soft drinks market. If one reduces the price of its products in the market, then the counter plan of the other to maintain its market share will be considered to be a strategy. Whether the firm will continue to be in the same line of business or will combine new lines with the existing business or seek to achieve dominant position in the same market. Pricing strategy Designing a marketing plan with a combination of decision w.r.t choice of channels of distribution, pricing strategy, use of advertising, sales promotion techniques etc. A company's marketing strategy has to address certain questions like: <ul style="list-style-type: none"> Who are the customers What is the demand for the product/ What is the pricing policy/ How do we advertise the product? Similarly if an Indian firm anticipates entry of an MNC into the Indian market with new substitutes it may decide one of the following strategies to make the entry of the rivals difficult. <ul style="list-style-type: none"> Improve existing product quality Add more product lines Do aggressive advertising To beat competition | <p>Strategy = Overall plan prepared for meeting challenges posed by environmental factors.</p> <p>The changes in the economic, political, social, legal and technological environment will affect an organisation's strategy.</p> | not classified as single-use or standing plans |
| | Example | Type of Plan | Single Use/ |

| | | | <u>Standing</u> |
|----|--|--|-----------------------|
| 3. | <ul style="list-style-type: none"> • Promoting from within, • Shipping orders quickly. • Recruitment policy, • Pricing policy (for elite segment); • ‘we don’t sell on credit’ is a policy of the sales dept. • For a school – to give admission only to those students who secure more than 85%. • McDonald’s does not give franchise to an individual who already owns another fast food restaurant. • Fill up 50% of vacancies from the existing employees. • Not to employ a minor. • To sell their products to wholesalers only. • Selling only on cash basis • Should a company make or buy its requirements of packages, transport services, printing of stationery, water and power supply and other items? • How to select vendors for procuring supplies? • How many suppliers to make purchases from? • What is the criteria for choosing suppliers. | <p><u>Policy =</u></p> <ul style="list-style-type: none"> • General statement that guides decision making. • Possibility of using discretion • Brings uniformity in decisions | <u>Standing plans</u> |
| 4. | <ul style="list-style-type: none"> • Selection procedure. • Purchase procedures • Procedure for reporting progress in production • Procedure for requisitioning supplies before production. • Admission procedure for a school: <ul style="list-style-type: none"> ◦ Set up a file for the applicants ◦ Ask for necessary documents ◦ File the documents ◦ Give the file to the admissions in charge • Selection procedure for employees, • Passport/Visa, Procedure for placing an order. | <p><u>Procedure =</u></p> <p>Sequence of doing any work for achieving objectives within policy framework.</p> | <u>Standing plans</u> |
| 5. | <ul style="list-style-type: none"> • Depreciation methods: Straight line method, Written down value method • Methods of stocktaking: LIFO, FIFO, • Training methods (e.g. orientation programmes, lectures seminars for higher level and job training methods and work oriented methods such as apprenticeship training, induction training etc for lower level) | <p><u>Method =</u></p> <p>Standardized way in which a task (one of the steps of a procedure) can be performed.</p> | <u>Standing plans</u> |

| | Example | Type of Plan | Single Use/ Standing |
|----|---|---|-------------------------|
| 6. | <ul style="list-style-type: none"> • no smoking in the factory premises • No admission without permission • Charge 15% interest on the amount of money payable on account of credit sale after 15 days. • No parking • School students are not allowed to carry mobile phones. • Retirement age for employees is 62 years. • Safety glasses are to be worn while using welding machines • Employees will not be allowed to enter the office premises after 10:00 am. • Stop when you see a red light. • Wear helmets while driving a two wheeler. | <p>Rule = Code of conduct. No scope of using discretion States what can or cannot be done</p> | Standing plans |
| 7. | <ul style="list-style-type: none"> • Cash budget determines cash inflows and outflows, so that management knows how much cash it should hold at all points of time for various purposes. • Sales Budget to forecast the sales of different products in each area for a particular month. • Number of workers required in the factory at peak production times. • • Budget for AGM of shareholders | <p>Budget = Results expressed in numerical terms (time, money or physical units) for a definite period</p> | Single use |
| 8. | <ul style="list-style-type: none"> • Launching a new product. • Training program. • Advertising program. • Expansion program • Programme to eradicate poverty • Programme to reduce unemployment • Programme to construct a shopping mall • Programme to develop a new product • Programme for starting a new department | <p>Programme = Combination of objective, Policy, procedure, rules, tasks, human and physical resources required and the budget to implement a course of action.</p> | Single use |

Organizing

Meaning

Once the objectives and plans are laid down, management has to identify and establish productive relationships between various activities and resources for implementing plans. In general words organising refers to arranging everything in orderly form and making the most efficient use of resources. The aim of organizing is to enable people to work together for a common purpose.

Definition

'Organising is the process of identifying and grouping various activities, bringing together physical, financial and other resources and establishing authority relationships among job positions.'

According to Louis Allen, 'Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.'

The term 'organisation' is used in two distinct meanings in management – as a process and as a Structure

| | |
|--|--|
| <p><u>Steps In The Process Of Organizing:</u></p> <ul style="list-style-type: none"> • Identification and division of work(identify functional areas→jobs→specialisation) • Departmentalization • Assignment of duties(to different job positions) • Establishing reporting relationship | <ul style="list-style-type: none"> ○ <u>Importance Of Organising</u> (Of creating a sound organisation structure) <ul style="list-style-type: none"> 1. Benefits of specialization 2. Clarity in working relationships 3. Optimum utilization of resources 4. Adaptation of change 5. Effective administration 6. Development of personnel 7. Expansion and growth |
|--|--|

IMPORTANCE (i.e. of creating a sound org. structure):

1. Benefits Of Specialization:

- The work is divided into different parts or 'Jobs' and competent persons are appointed to handle all the sub works.
- Job description = a written document that clearly defines the jobs and spells out what exactly has to be done in every job.
- Repetitive performance → worker to gain experience in that area →specialization.
- Maximum work performance in the minimum time →specialization.

2. Clarity In Working Relationships

- Clearly established working relationships clarifies lines of communication and specifies who is to report to whom.
- This removes ambiguity in transfer of information and instructions.
- The hierarchical order thus created enabling the fixation of responsibility and specification of the extent of authority to be exercised by an individual.

3. Optimum Utilization Of Resources

- Proper assignment of job avoids overlapping of work/duplication of work.
- This helps in preventing confusion and minimizing wastage of resources and efforts and leads to proper usage of material, financial and human resources.

4. Adaptation To Change

- A properly designed = flexible where working relationships can be modified to suit changing conditions in the environment and achieve smooth transition.
- Therefore movement of people in and out of jobs does not affect the work being done and the capacity of business to undertake more activities in order to grow and diversify.
- Provides much needed stability to the enterprise and it can survive and grow despite changes.

5. Effective Administration

- Organizing provides a clear description of jobs and working relationships.
- It helps to avoid confusion and duplication.
- Clarity in working relationships → proper execution of work → management becomes easy → effectiveness in administration.

6. Development Of Personnel

- Under the process of organizing, delegation of authority is practiced.
- By delegating routine jobs to their subordinates,
 - Managers can concentrate in developing new technologies and methods of ways of performing jobs,
 - While this becomes a good training ground for subordinates, because they get to handle responsibilities themselves.

7. Expansion And Growth

- A sound organization structure allows a business enterprise to add more job positions, departments and even diversify their product lines.
- New geographical territories can be used to increase the customer base, sales and profit.

CONCLUSION:

- A sound form of org is the answer to every business problem; a poor org can run even a good product into the ground; whereas a good org even with a poor product can run a good product out of the market.
- Koontz O'Donnell, "Organization is a process by which manager brings order out of chaos, removes conflicts b/w people over work or responsibility and establishes an environment suitable for teamwork."

Process of Organizing (Steps):

1. Identification & Division Of Work:

- The total work to be done should be divided into specific jobs as according to predetermined plans.
- Job = a set of related tasks that can be performed by an individual. It should have specific and definite tasks to be performed. As far as possible, it should define expected results along with the job.
- Division of work → specialization of efforts and skills + avoids duplication of work..
- Management must ensure that all the activities required to achieve organizational objectives are identified.

2. Departmentalization:

- Grouping similar and related jobs into larger units called departments, divisions or sections and placing them under a department head. It facilitates specialization.
- The departments are linked together and are interdependent.
- Aims at achieving co-ordination and facilitate unity of action. Departmentation can be done on the basis of:
 - Functions: marketing, personnel, finance etc.
 - Products: Textiles, chemical, power division etc.
 - Territories: Western, northern, central, eastern etc.

3. Assignment Of Duties:

- Define the work of different job positions and allocate work accordingly.
- Once departments are formed, the dept is placed under the charge of an individual.
- Jobs are assigned to an individual best suited to perform it.
- Qualifications, experience, ability and aptitudes of people should be matched with duties.
- E.g. activities of finance should be assigned to persons having qualifications and experience in finance e.g. C.A's.

4. Establishing Reporting Relationships:

- Granting requisite authority to enable employees to perform the job satisfactorily.
- Superior subordinate relations between different people and job positions created, so that everybody knows from whom he is to take orders and to whom he can issue orders.
- Creates management hierarchy = a chain of command from the top manager to the individual at the lowest level.
- This helps in coordination.

CONCLUSION: To sum up in the words of Koontz and O'Donnell, 'Organizing is the process by which manager brings order out of chaos, removes conflict between people over work and responsibility and establishes an environment suitable for teamwork.'

o Organisation Structure

- o System of job positions, roles assigned to them and authority-responsibility relationships among positions.
- o It is a framework within which managerial and operating tasks are performed.
- o It specifies relationships between people, work and resources.

- It may be vertical(authority responsibility relationships.) or horizontal(coordinating relationships)
- Ensures smooth flow of communication and better control over the operations.

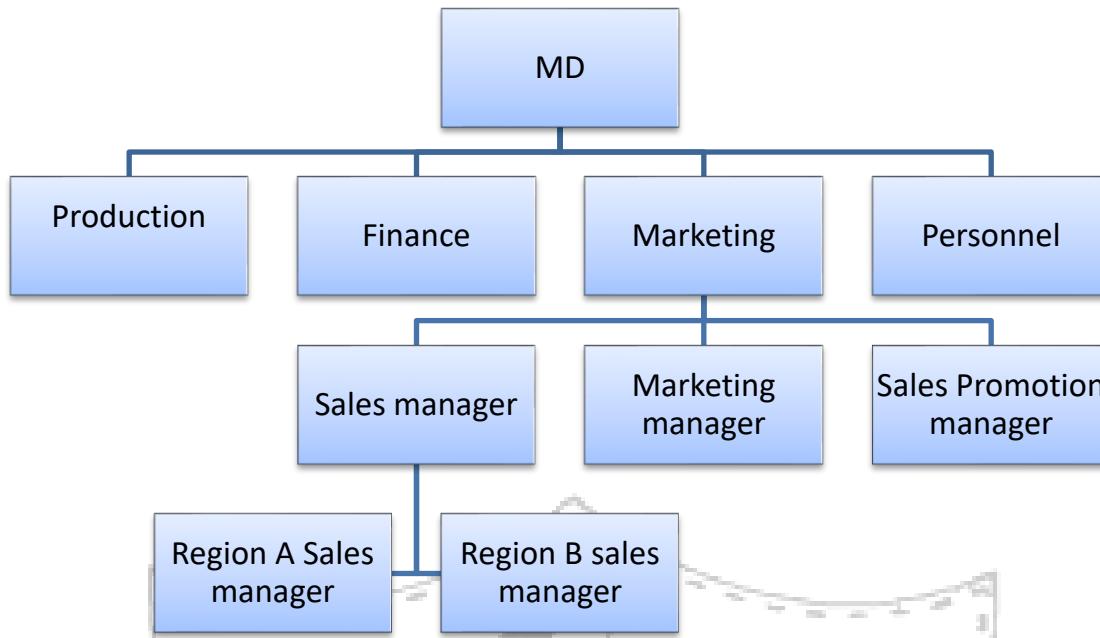
Types of Organisation Structure:

- **Functional Structure:**
- Activities are grouped according to the specific functions to be performed. It is the most widely used basis for organising activities.

Suitability

1. Where the size of the business is medium or large.
2. Where there is only one main product.
3. Where specialization is required, so functional areas are given due importance.
4. Where professional experts are required to head various functional departments for better performance and to bring about uniformity of operations in a functional area throughout the organization.

| <i>Advantages of Functional structure</i> | <i>Limitations of Functional structure</i> |
|--|--|
| <ol style="list-style-type: none"> 1. Benefits of specialization 2. Increases managerial and operational efficiency. 3. Facilitates control and coordination within a department 4. No duplication of efforts leading to economy of operations 5. Makes training of employees easier 6. Ensures that all functions get due attention | <ol style="list-style-type: none"> 1. Less emphasis on overall firm's objective 2. Problems in coordination 3. Conflict in interest if departments are not compatible 4. Inflexibility as narrow perspective may develop |



Advantages of Functional Structure:

1. Benefits Of Specialization:

- Activities are divided into depts. on the basis of major functions so leads to occupational specialization.
- This results in more and better work being accomplished in much lesser time.
- Promotes efficiency in utilization of manpower as employees perform similar tasks within a dept. & are able to improve performance.

2. Facilitates Coordination And Control Within The Department:

- There is similarity in the tasks performed.
- Also, all employees within the dept. know what is expected out of them & that leads to effective control over their activities.

3. Increases Managerial & Operational Efficiency:

- Similarity in the tasks being performed → specialization → improved operational efficiency.
- Specialists in functional areas supervise the operations → managerial efficiency improves.

4. No Duplication Of Efforts Leading To Economy Of Operations:

- In this type of org., unnecessary duplication of effort is eliminated.
- Human & other resources utilized more effectively and economically → economies of scale → lower cost.
- E.g. Function of finance is only carried by the finance dept. There is no need to establish 2 or more depts.

5. Makes Training Of Employees Easier:

- As they need to be trained in limited types of skills.
- E.g. employees of production department are given training of production techniques only.

6. Ensures That All Functional Areas Get Due Attention

Limitations of Functional Structure:

1. Less Emphasis On Overall Firm's Objective

- Each dept. head gives more weight to their departmental objectives → overall org. objectives suffer → functional empires wherein the importance of a particular function may be overemphasized.
- Pursuing dept. interests at the cost of org. interests can also hinder interaction b/w 2 or more depts.
- E.g. to make his image, production dept. may make a very high quality product going contrary to the org. objectives of selling it to the target market of middle income group.

2. Problems In Coordination:

- This structure facilitates co-ordination within the department but makes inter departmental co-ordination difficult as to facilitate coordination, info has to be exchanged across functionally differentiated depts.
- If dept. heads work as per according to their own wishes, sharing of info and inter-dept. coordination becomes difficult.

3. Conflict In Interest If Departments Are Not Compatible:

- Managers try to build their own functional empires & undermine the role of other depts., leading to inter departmental rivalry and conflicts.
- E.g.: Sales dept. insists on a customer friendly design which may cause production difficulties. Such dissension can prove to be harmful in terms of fulfillment of org. interest.
- Inter-departmental conflicts can also arise in the absence of clear separation of responsibility

4. Inflexibility as narrow perspective may develop

- As people with same skills & knowledge base may develop a narrow perspective and thus, have difficulty in appreciating any other POV.
- Functional heads do not get training for top management positions because they are unable to gather experience in diverse areas.

o Divisional Structure:

- o Activities are grouped into divisions either on the basis of products or on the basis of territories.

Suitability

1. Where the size of the concern is very large.
2. Where a large variety of products are manufactured
3. Where different productive resources, manufacturing technologies and marketing methods are required for different products.
4. Firms having wide coverage or wide geographical area or having different market segments.
5. Where an organization is in an expansions mode. i.e wants to grow, add more departments.

| <i>Advantages of Divisional Structure</i> | <i>Limitations of Divisional Structure</i> |
|---|--|
| <ol style="list-style-type: none"> 1. Development of generalist managers 2. Proper basis for performance evaluation and | <ol style="list-style-type: none"> 1. Conflicts among divisions |

| | |
|--|--|
| <p>ease in fixation of responsibilities for mistakes.</p> <p>3. Promotes flexibility and innovation and faster decision making</p> <p>4. Facilitates expansion and growth.</p> | <p>2. Increase in costs due to duplication</p> <p>3. Managers may ignore interests of the firm</p> <p>4. Underutilization of performance*</p> <p>5. Not suitable for medium or small scale operations*</p> |
|--|--|

*Advantages of Divisional Structure:***1. Development Of Generalist Managers**

- Product specialization helps in development of varied skills in a divisional head & prepares him for higher positions.
- This is because he gains experience in all the functions related to a particular product.

2. Proper Basis For Performance Evaluation And Ease In Fixation Of Responsibilities For Mistakes

- All the activities of each div. are carried out independently. Hence the divisional results (P/L) can be assessed easily. On this basis unprofitable division can be closed.
- Hence, in cases of poor performance of the division, appropriate remedial action can be taken.

3. Promotes Flexibility And Innovation And Faster Decision Making:

- As every div. is independent, the divisional manager can take any decision regarding his div. independently w/o consulting other divisional managers.
- Thus, division functions as an autonomous unit which leads to faster decision making

4. Facilitates Expansion And Growth.

- For every product a separate division is opened and if a company wants to introduce a new product, it can be introduced easily without disturbing the existing divisions

*Limitations of Divisional Structure:***1. Conflicts Among Divisions**

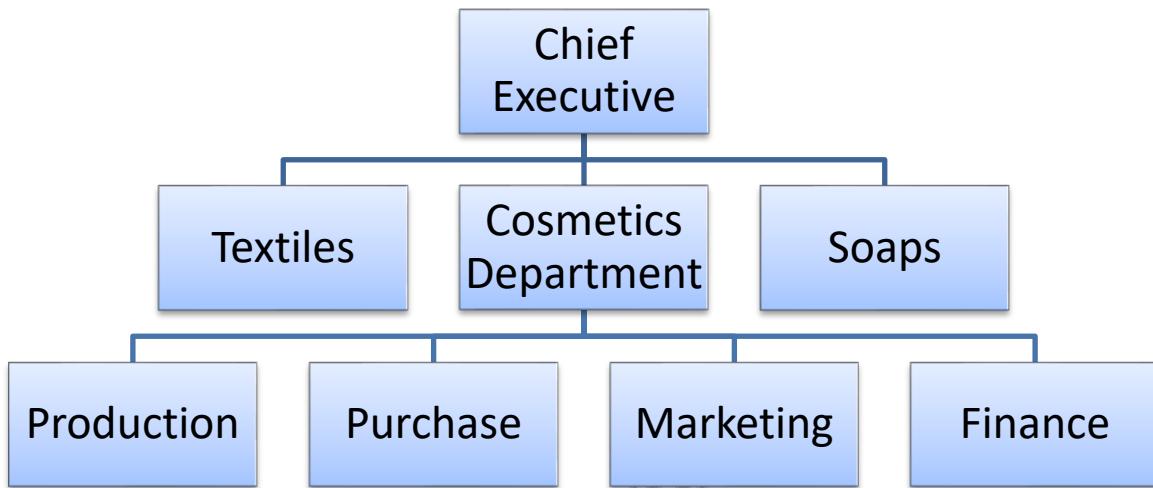
- Conflicts → specially w.r.t allocation of funds and between divisional heads.
- Every division tries to display better performance, sometimes even at the cost of other divisions. Consequently it hits the interest of the concern as a whole

2. Increase In Costs Due To Duplication

- The entire set of functions (e.g. production, marketing, finance, personnel etc.) is reqd. for all divisions.
- Gives rise to duplicity of efforts among divisions. ∵ Resources are misused & cost of ops unnecessarily.

3. MANAGERS MAY IGNORE INTERESTS OF THE FIRM

- Div. managers have a lot of autonomy & with time, gain a lot of power & may ignore org. interest.



▪ Basis of differences between functional and divisional structure:

| Basis | Functional structure | Divisional structure |
|--|---|--|
| 1. Specialization | Functional specialization. | Product specialization |
| 2. Basis of Formation/ organizational Units | Formation is based on functions | Formation is based on product lines and is supported by functions |
| 3. Responsibility (for profits) | Cannot be fixed on one department | Can be fixed on separate products |
| 4. Managerial Development/ development of general managers | Difficult, as each functional manager has to report to the top management. | Easier, autonomy as well as the chance to perform multiple functions helps in managerial development |
| 5. Cost | Functions are not duplicated hence economical | Duplication of resources in various departments, hence costly. |
| 6. Coordination | Difficult for a multi-product company. | Easy, because all functions related to a particular product are integrated in one department. |
| • Autonomy of operations | <i>Less because various functions are inter-dependent and inter related</i> | <i>More because each unit is autonomous and independent</i> |
| • Control | <i>Simple as authority is concentrated at the top level.</i> | <i>Difficult because of decentralization of authority at divisional level.</i> |

III. FORMAL ORGANIZATION:

- Refers to the org. structure that is designed by the management to accomplish organizational objectives..
- It specifies clearly the boundaries of authority & responsibility and there is a systematic coordination among the various activities to achieve organizational goals.
- Louis Allen - **System of well defined jobs, each bearing a definite measure of authority, responsibility & accountability.**

Features of Formal Organization:

1. Clarifies Authority Relationships:
 - Clearly explains the inter-relationship b/w jobs and thus, everybody knows his authority and responsibility. This clarifies who has to report to whom.
2. Means To Achieve Organizational Objectives
 - It is a means to achieve the objectives specified in the plans. It lays down the rules & procedures essential for their achievement.
3. Coordinate Efforts Of Various Departments:
 - Efforts of various depts. are coordinated, interlinked & integrated through the formal org.
4. Deliberately Designed By Top Management
 - The top management deliberately creates this org for successful achievement of objectives of org.
5. Emphasis On Work:
 - It places more emphasis on work to be performed than inter personal relationships among employees.

Importance/ Advantages of Formal Org

- a. **Easy To Fix Responsibilities:** Since mutual relationships are clearly defined.
- b. **Avoids Duplication Of Effort:** In FO, work is systematically divided among various depts. & employees. ∴ No chance of overlapping of work.
- c. **Maintains Chain Of Command :** FO clearly defines superior subordinate relationships, i.e. who reports to whom
- d. **Clarifies Roles Of Job Positions And So Facilitates Achievement Of Firm's Goals:** Leads to effective accomplishment of goals by providing a framework for the operations to be performed and ensuring that each employee knows the role he has to play.
- e. **Provides Stability To The Org:** As behavior of employees can be fairly predicted since there are specific rules to guide them. FO brings stability in the org. through policies, procedures & rules. Working continues in spite of old employees leaving and new employees joining.

Limitations Of Formal Org:

- A) **Procedural Delays**

Formal communication may lead to procedural delays as the established chain of command has to be followed which ↑s the time taken for decision-making.

Work is bound by rules & while following the scalar chain of command, decisions & actions get delayed

B) *Rigidity/Curbs Creativity*

In this org. the employees have to do what they are told to do & have no opportunity of thinking. Thus, their initiative gets slackened

Poor org. practices may not provide adequate recognition to creative talent, since it does not allow any deviations from rigidly laid down policies. Does not allow deviations from set policies.

C) *Does Not Give A Complete Picture Of How The Org. Works*

FO gives importance to work only. It ignores human relationships, creativity & talent.

Does not give a complete picture of how an org. works as it does not incorporate the human element so does not provide a complete picture of the functioning of the org.

IV. INFORMAL ORGANIZATION

- While working in the FO structure, individuals interact w/ each other & develop some social & friendly relationships in the org.
- This network of social & friendly groups forms another structure in the org. called informal org. structure.
- This may be based on common language, tastes, likes etc. & its main purpose is psychological satisfaction.
- IO has no written rules, is fluid in form and scope and does not have fixed lines of communication
- Depends upon FO structure & if there is no FO structure, there will be no jobs & people & thus, no IO.

Features of Informal Org:

1. *Arises Within The Formal Setup As A Result Of Personal Interactions B/W Members.*

- IO emerges to meet the social and psychological needs of the people

2. *Group Norms For Standards Of Behavior*

- No written rules & procedures to govern inter relationships. But there are group norms to be observed.
- E.g.: employees working in an org. and belonging to a particular community form a separate group in an informal way and gradually some norms emerge and all the members are bound to observe them.

3. *Independent Channels Of Communication*

- Info flows in all directions and it is very difficult to trace the source of information.

4. *Emerges Spontaneously*

- An IO is not deliberately created by management but comes into existence on the basis of personal interaction, relationships, common interest, tastes, languages, likes etc.

5. *No Definite Structure Or Form*

- It is a complex network of social relationships and it cannot be defined because an employee at the lowest level can have relationship at the top level.

Advantages of Informal Org

1. Faster Spread Of Communication And Quick Feedback

- IO cuts across formal channels of communication. May not follow scalar chain of command ∵ spreads faster.
- Through IO, the managers can get to know the real feedback on various policies and plans

2. Fulfill Natural Desires Of Members

- Members of an IO share their tensions, joys & frustrations w/ one another. They have an outlet to release all their emotions and feelings and provide relief from the monotony created by FO.
- It helps to fulfill the social needs of the members and allows them to find like-minded people.
- This enhances their job satisfaction since it gives them a sense of belongingness in the org.

3. Compensates For Inadequacies In The Formal Structure

- E.g.: Improper and arbitrary use of authority by managers can be challenged so managers act carefully.

Limitations of Informal Org

1. Spreads Rumors

- IO is a breeding ground for rumors esp. where there is ambiguity in the policies and programs of FO.
- An outbreak of rumor can cause serious harm to the enterprise and its management by carrying incorrect information throughout the organization.

2. Resistance To Change

- IO generally prefers status quo & the existing work routine. Changes are regarded as a threat to its beliefs & values.
- Thus, management has to face resistance to new work methods. This may delay/ restrict growth.

3. Pressurizes Members To Conform To Group Norms.

- An IO evolves its own norms.
- These norms may be harmful if norms are against firms' interests & are contrary to standards of behavior and performance in FO. In such a case it becomes very difficult to achieve the goals of the formal org.

| Basis | Formal Organization | Informal Organization |
|--------------|--|--|
| 1. Meaning | Structure of authority relationships created by the management | Network of social relationships arising out of interaction among employees |
| 2. Origin | Arises as a result of company rules and policies | Arises as a result of social interaction |
| 3. Authority | Arises by virtue of position in management | Arises out of personal qualities |
| 4. Behavior | It is directed by rules | There is no set behavior pattern |

| | | |
|--------------------------|--|--|
| 5. Flow of Communication | Communication takes place through the scalar chain | Flow of communication is not through a planned route. It can take place in any direction |
| 6. Nature | Rigid | Flexible |
| 7. Leadership | Managers are leaders. | Leaders may or may not be managers. The group chooses the leaders. |

Delegation

According to Louis Allen, '*Delegation is the process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organizational placement, can perform effectively and so that he can get others to help him with what remains*'. Delegation refers to systematic transfer of authority from superior to subordinates.

Delegation does not mean abdication

The manager, who assigns the job to the subordinates, shall still remain accountable for the performance of the assigned tasks. It means that accountability is absolute. It can never be passed or delegated. After creating accountability on subordinates, the superiors also remain accountable.

| | |
|---|---|
| <ul style="list-style-type: none"> ○ <u>Features of Delegation:</u> <ul style="list-style-type: none"> ○ Does not mean abdication of responsibility ○ Does not diminish authority of superior ○ Delegated from higher to lower level ○ Accountability retained by managers | <ul style="list-style-type: none"> ○ <u>Importance of Delegation:</u> <ol style="list-style-type: none"> 1. Effective management 2. Employee development 3. Motivation of employees 4. Facilitation of growth 5. Basis of management hierarchy 6. Better coordination 7. Increases managerial effectiveness |
|---|---|

Features of Delegation:

A) Does Not Mean Abdication Of Responsibility:

- The manager shall still be accountable for the performance of the assigned tasks.
- Moreover, the authority granted to a subordinate can be taken back and re-delegated to another person.
- Thus, irrespective of the extent of delegated authority, the manager shall still be accountable to the same extent as before delegation.

B) Delegated From Higher To Lower Level:

- Delegation refers to the downward transfer of authority from a superior to a subordinate.
- It is a pre-requisite to the efficient functioning of an org. because it enables a manager to use his time on high priority activities. However, his authority is not given up.
- It also satisfies the subordinate's need for recognition & provides them w/ opportunities to develop & exercise initiative

- o **Importance of Delegation:**

1. **Effective management:**

- permits a manager to share his workload with his subordinates.
- Thus, the manager is able to concentrate on more important aspects of his work.

2. **Employee development:**

- Subordinates are required to exercise their authority to handle situations and to solve managerial problems. This makes them better leaders and decision makers.
- Through the experience and competence acquired, they are prepared to take up higher responsibilities in course of time.

3. **Motivation of employees:**

- Delegation provides a feeling of status and importance to subordinates, builds their self-esteem and enhances their job satisfaction and confidence level. They become more willing to work hard and achieve targets laid down by higher authorities.

4. **Facilitation of growth:**

- Of an organization by providing a ready workforce to take up leading positions in new ventures.
- These trained and experienced employees are able to play significant roles in the launch of new projects.

5. **Basis of management hierarchy:**

- Delegation of authority establishes superior subordinate relationships, which are the basis of management hierarchy.
- It directs and regulates the flow of authority from top to bottom of the organization. It gives meaning and content to the managerial jobs.

6. **Better coordination:**

- Delegation helps to define the authority, responsibility and accountability related to the various positions in the organization.
- Such clarity in reporting relationships help to avoid duplication of work and facilitate effective co-ordination amongst departments, levels and functions of management.

Conclusion: From the above discussion it is clear that delegation of authority is necessary for the smooth functioning of work and facilitates higher efficiency levels in the organization. Infact, the success of managing is determined by the effectiveness of delegation of authority.

In the words of Allen,' *Once a man's job grows beyond his personal capacity, his success lies in his ability to multiply himself through his people.*

- o **Elements of delegation:**

There are three basic elements of delegation of Authority:

1. **Assignment of Work/ Responsibility** = obligation to perform certain activities.
2. **Delegation of Authority** = it is the right to decide, to direct others and to take action in achieving the organisational objectives.
3. **Creation of Accountability** = it is the obligation to carry out responsibilities and exercise authority in terms of established performance standards.

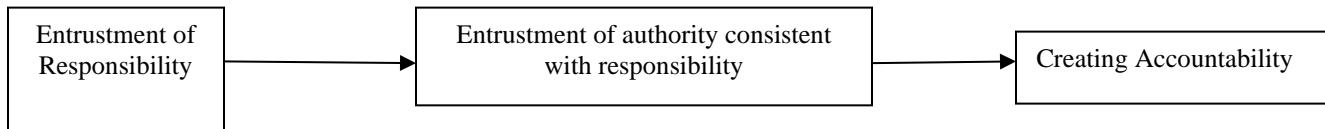
| Authority | Responsibility | Accountability |
|---|--|--|
| <ul style="list-style-type: none"> ▪ Right to <u>issue orders and instructions</u> and exact obedience ▪ Helps to <u>maintain order</u> in the firm ▪ Arises by <u>virtue of position in the scalar chain</u> of command and reduces successively as one goes down the organizational structure. ▪ Implies <u>right to use resources and control others</u> ▪ Is bound by limits imposed by laws and rules and regulations of the firm ▪ Can be <u>delegated</u> ▪ <u>Flows downwards.</u> | <ul style="list-style-type: none"> ▪ <u>Obligation</u> on the employee to <u>properly perform the assigned duties.</u> ▪ Includes all activities that must be performed to carry out a certain duty. ▪ Can be <u>delegated.</u> ▪ Flows <u>upwards</u> | <ul style="list-style-type: none"> ▪ Being <u>answerable</u> for the final outcome ▪ Created because of delegation of authority and responsibility. ▪ Enforced thro regular feedback on the extent of work completed. ▪ <u>Cannot be delegated</u> ▪ Flows <u>upwards</u> |

| Basis | Authority | Responsibility | Accountability |
|------------|--|--|---|
| Meaning | Right to command. | Obligation to perform an assigned task. | Answerability for outcome of the assigned task. |
| Delegation | Can be delegated. | Cannot be entirely delegated. | Cannot be delegated at all. |
| Origin | Arises from formal position . | Arises from delegated authority. | Arises from responsibility. |
| Flow | Flows downward from superior to subordinate. | Flows upward from subordinate to superior. | Flows upward from subordinate to superior |

Inter Relationship Between Authority, Responsibility And Accountability

- Authority is delegated, responsibility is created and accountability is imposed.
- Responsibility arises out of authority and accountability arises out of responsibility.
- Authority flows downwards whereas responsibility and accountability flow upwards.
- E.g when the MD authorizes the departmental heads to manage their respective departments, they become responsible to the MD for the due performance of their assigned jobs. They are also answerable for the results of their departments.

- *Essential Aspects/Process Of Delegation:*



1. *Entrustment Of Responsibility*

- In the process of delegation every superior has to define the jobs to be performed by his subordinates. He must also define the results expected. He has to further decide on the allocation of duties to his subordinates.

2. *Grant Of Authority*

- It is giving the right to subordinates to decide & act & use the necessary resources & report to superior.
- Every sub needs authority to carry out the tasks and perform the duties assigned to him.
- Managers at all levels derive authority granted by his superiors and confer a part of it on his subs.

3. *Creation Of Accountability*

- The subordinates are assigned responsibility that creates obligation to carry out the tasks assigned. They also have to give an account of the results achieved, in terms of the standards of performance laid down.

- *Decentralization*

- Decentralisation of authority means dispersal of authority to take decisions throughout the organization, upto the lower levels.
- It implies reservation of some authority with the top level management and transferring rest of the authority to the lower levels of the organization. This empowers lower levels to take decisions regarding problems faced by them without having to go to the upper levels.

According to Allen, 'Decentralisation refers to systematic efforts to delegate to the lowest level, all authority except the one which can be exercised at central points.'

Centralization = authority retained at top level and **Decentralization** = Systematic delegation of authority at all levels and in all departments of a firm. Firm needs to balance the two.

- In case of a decentralized firm, **Top level** retains authority for:
 - Policies and decisions w.r.t the whole firm
 - Overall control and coordination
- **Middle and lower levels** have authority to take decisions w.r.t tasks allocated to them.

Importance of Decentralization:

1. *Develops initiative among subordinates*

- Helps to promote self-reliance and confidence amongst the subordinates.

- Cause when lower managerial levels are given freedom to take their own decisions, they learn to depend on their own judgment & feel constantly challenged to develop solutions for the problems they encounter.

2. Develops managerial talent for the future

- Decentralisation gives the employees a chance to prove their abilities. They learn how to decide and develop managerial skills.
- It also helps to create a reservoir of qualified manpower who have the necessary potential to become dynamic leaders and who can be considered to fill up more challenging positions.

3. Quick decision making

- Under decentralisation, authority to make decisions is placed in the hands of those who are well aware of the realities of the situation and are responsible for executing the decisions.
- As a result more accurate and faster decisions can be taken. There are also lesser chances of information getting distorted because it does not have to go through long channels.

4. Relief to top management

- Decentralisation helps to reduce the workload of the top executives. They can devote greater time and attention to important policy matters by decentralizing authority for routine operational decisions.
- It reduces the need for direct supervision by the superior over the subordinates.

5. Facilitates growth

- Decentralisation facilitates the growth and diversification of the enterprise. Each department or product division is given sufficient autonomy for innovations and creativity.
- Also a sense of competition can be created among different departments or divisions and the top management can extend overall leadership over a giant enterprise.

6. Better control

- Managers at all levels have adequate authority to make changes in work assignment, to change production schedules, to recommend supervision and to take disciplinary actions. Therefore more effective supervision can be exercised.
- Control can be made effective by evaluating the performance of each decentralized unit in the light of clear and pre-determined standards.

As a conclusion, it must be noted that in spite of its benefits decentralisation should be applied with caution as it can lead to organisational disintegration if the departments start to operate on their own guidelines which may be contrary to the interest of the organisation. Decentralisation must always be balanced with centralisation in areas of major policy decisions.

| Basis | Delegation | Decentralisation |
|------------------------------|---|--|
| 1. Definition/ Nature | It refers to entrustment of responsibility and authority from a superior to his | It refers to systematic delegation of authority to the lower levels in the organization. This is |

| | | |
|---|--|---|
| | subordinate. This is individualistic. | totalistic. |
| 2.Relationship | Delegation establishes superior subordinate relationship | Decentralisation denotes relationship between the top management and various departments and divisions. |
| 3.Control | The person who delegates keeps the power to control with himself. | Control is exercised in a general manner. The authority to control may be delegated to the lower levels. |
| 4.Need | Delegation is essential, if an executive wants to get the help from others in getting things done. | Decentralisation is not compulsory. It is the top management which decides the introduction of decentralisation |
| 5.Purpose | To reduce the burden the burden of a manager. | To increase the role of subordinates and giving them more autonomy. |
| 6.Process | Delegation of authority is a process. | Decentralisation is not a process. It is the result policy decision taken by the top management. |
| 7.Parties involved | Involves two parties: the officer delegating the authority and the subordinate to whom the authority is delegated. | It involves the entire organization. It is concerned with all managerial levels. |
| 8. Responsibility and accountability | Full responsibility and accountability is not transferred. The executive remains liable to his superior even after delegation. | Full responsibility and accountability is transferred. The executives holding authority are held liable. |
| 9.Freedom of action | There is lesser freedom of action because there is a constant and continuous supervision by the manager. | There is more freedom of action. Once the authority is decentralized there is only periodic appraisal and no constant supervision. |
| 10.Withdrawal of authority | Delegated authority can be withdrawn by the delegator. It is the individual officer's will to continue or withdraw. | Decentralisation authority cannot be withdrawn easily. These authorities can be withdrawn only when the decision is taken to discontinue decentralization |

Span of control:

It refers to the number of subordinates placed under the manager's supervision and control.

According to the principle of span of control, there is a limit to the number of subordinates which a manager can supervise and control. Generally the span of control is narrow at higher levels of management and wider at lower levels.

Factors affecting span of control

1. Capacity and intelligence level of the managers: If the managers are smart and intelligent, they can have a wider span. i.e more number of subordinates can work under them.
2. Trust of the managers in their employees: The managers who have more trust in their employees can have a wider span.
3. Intelligence level of employees: If the employees are trained and professional, then there can be a wider span. On the contrary unskilled employees need more guidance, so narrow span of control is needed.
4. Nature of job: If routine jobs have to be performed, then there can be wide span, but for specialized and challenging jobs, a narrow span of control is preferred.



Staffing

Introduction:

- Managerial function of filling and keeping filled the positions in an organisation structure. This is achieved by identifying requirement of work force, followed by recruitment, selection, placement, promotion, appraisal and development of personnel to fill the roles designed into the organisation structure.
- It is the process of hiring and developing the required personnel to fill in various positions in the organisation.

Role Of Staffing Function In A New Enterprise

- **In a new enterprise**, the staffing function follows the planning and organising functions.
- After deciding what is to be done, how it is to be done and after creation of the organisation structure, the management is in a position to know the human resource requirements of the enterprise at different levels.
- Once the number and types of personnel to be selected is determined, management starts with the activities relating to recruiting, selecting and training people, to fulfill the requirements of the enterprise.

Role Of Staffing Function In An Existing Enterprise

- **In an existing enterprise**, staffing is a continuous process because new jobs may be created and some of the existing employees may leave the organisation.

Need for Staffing:

- (i.e. why is staffing function needed by a firm and is considered to be a field of study)
 1. The staffing function of management fulfils this requirement and finds the right people for the right job. Basically, staffing fills the positions as shown in the organisation structure.
 2. Emphasis on the Human element as qualities like the aptitude, attitude, commitment of employees: help in fitting the right person to the right job. The right people can help you take your business to the top; the wrong people can break your business. Hence, staffing is the most fundamental and critical drive of organisational performance. The staffing function has assumed greater importance these days because of rapid advancement of technology, increasing size of organisation and complicated behaviour of human beings. Human resources are the most important asset of an organisation.
 3. The ability of an organisation to achieve its goal depends upon the quality of its human resources. Therefore, staffing is a very important managerial function.
 4. Availability of knowledge and theory as a specialized area of study. Researches on various aspects of staffing i.e., recruitment, selection, compensation and incentives, training and development, can be utilised for better results.

Importance of Staffing:

- (i.e. proper staffing ensures the following benefits to a firm)
 - a. Helps in discovering and obtaining competent personnel for various jobs;
 - b. Makes for higher performance by putting right person on the right job;
 - c. Ensures the continuous survival and growth of the enterprise through the succession planning for managers;
 - d. Helps to ensure optimum utilisation of the human resources. By avoiding 'over manning', it prevents under-utilisation of personnel and high labour costs. At the same time it avoids disruption of work by indicating in advance the shortages of personnel; and
 - e. Improves job satisfaction and morale of employees through objective assessment and fair reward for their contribution.

What is the difference in the performance of staffing function in a small and a large organization?

When the manager performs the staffing function in a small organisation his role is slightly limited. Some of these responsibilities will include

- a. Placing the right person on the right job,
- b. Introducing new employees to the organisation,
- c. Training employees and improving their performance,
- d. Developing their abilities,
- e. Maintaining their morale and protecting their health and physical conditions.

In a large organization, as the number of persons employed increases, a separate department called the **human resource department** is formed which has specialists in managing people. The management of human resource is a specialised area which requires the expertise of many people. The number of human resource specialists and size of this department gives an indication of the size of the business as well. For a very large company, the Human Resources Department itself will contain specialists for each function of this department.

Their duties are:

- a. Recruitment i.e., search for qualified people
- b. Analysing jobs, collecting information about jobs to prepare job descriptions.
- c. Developing compensation and incentive plans.
- d. Training and development of employees for efficient performance and career growth.
- e. Maintaining labour relations and union management relations.
- f. Handling grievances and complaints.
- g. Providing for social security and welfare of employees.

Staffing As a Part of Human Resource Management

- **Staffing**
 - Function which all managers have to perform as all managers directly deal with people
 - Staffing refers to this kind of role played by all managers in small organizations.
- As organizations grow and number of people employed increases, a separate department called the human resource department is formed which consists of specialists who are experts in dealing with people.
- In fact early definitions of staffing focused narrowly on only hiring people for vacant positions. But today staffing is a part of HRM which encompasses not only staffing but also a number of other specialized services such as job evaluation, management of labour relations.

✓ **Human Resource Management**

- Involves procuring, developing, maintaining and appraising a competent and satisfied workforce to achieve the goals of the organization efficiently and effectively.
- Its purpose is to enable every human being working in the organization to make his best possible contribution.
- It includes many specialized activities performed by human resource personnel. These are:
 1. Human resource planning
 2. Recruitment
 3. Selection
 4. Developing compensation and incentive plans
 5. Training and development of employees (as a part of their career development)
 6. Performance Appraisal of employees
 7. Handling grievances and maintaining management labor relations
 8. Providing for social security and welfare of employees
- Thus we see that human resource management is a much broader concept and includes a wide range of activities and staffing is an integral part of human resource management.

Evolution of Human Resource management

Human Resource Management in its present form has evolved from a number of significant inter-related developments over a period of time.

- **Industrial Revolution**--- led to **trade unions**---**(Labour welfare Officer)**
- **Introduction of factory system** led to **employment of large number of labour under one roof**-- **(Personnel Officer/Manager)**
- **Human Relations Approach**--- **(Human Resource Manager)**

Staffing is both a function of management just like planning, organising, directing, and controlling as well as a distinct functional area of management just as marketing management and financial

management. Staffing, is therefore, referred to as both a line as well as a staff activity i.e., an essential function of the manager as well as an advisory role played by the Human Resource Department.

Steps in Staffing Process:

1. Estimate manpower requirement:
2. Recruitment:
3. Selection
4. Placement and orientation:
 - Placement = putting the right person on the right job. This would reduce turnover, absenteeism and accidents and increase the morale of employees.
 - Orientation = introduce employees to job, workgroup and organisation.
5. Training and Development:
- ✓ In most organisations there is a separate Human Resource Department, which takes care of the staffing function. But in small organisations the line manager is required to perform all the functions of management viz, planning, organising, staffing, directing and controlling.
6. Performance appraisal
7. Promotion and career planning
8. Compensation

STAFFING PROCESS

- (i) **Estimating the Manpower Requirements:** Operationally, understanding the manpower requirements would necessitate workload analysis on the one hand and workforce analysis on the other.
 - a. **Workload analysis** would enable an assessment of the number and types of human resources necessary for the performance of various jobs and accomplishment of organisational objectives.
 - b. **Workforce analysis** would reveal the number and type available. In fact such an exercise would reveal whether we are understaffed, overstaffed or optimally staffed.
 - c. Translate the manpower requirements into specific job description and the desirable profile of its occupant – the desired qualifications, experience, personality characteristics etc.
- (ii) **Recruitment:** Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. The information generated in the process of writing the job description and the candidate profile may be used for developing the 'situations vacant' advertisement. The essential objective is to create a pool of the prospective job candidates. Both internal and external sources of recruitment may be used.
- (iii) **Selection:** Selection is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment. The selection process serves two important purposes:
 - a. it ensures that the organisation gets the best among the available, and
 - b. it enhances the self-esteem and prestige of those selected and conveys to them the seriousness with which the things are done in the organisation.
 - **Placement and Orientation:** Placement = putting the right person on the right job. This would reduce turnover, absenteeism and accidents and increase the morale of employees.

Orientation is, thus, introducing the selected employee to other employees and familiarizing him with the rules and policies of the organization. The employee is given a brief presentation about the company and is introduced to his superiors, subordinates and the colleagues. He is taken around the workplace and given the charge of the job for which he has been selected. This process of familiarization is very crucial and may have a lasting impact on his decision to stay and on his job performance.

- ✓ **Training and Development:** By offering the opportunities for career advancement to their members, organisations are not only able to attract but also retain its talented people. In most organisations there is a separate Human Resource Department, which takes care of the staffing function. But in small organisations the line manager is required to perform all the functions of management viz, planning, organising, staffing, directing and controlling.

(iv) **Performance Appraisal:** After the employees have undergone a period of training and they have been on the job for some time, there is a need to evaluate their performance. **Performance appraisal means evaluating an employee's current and/or past performance as against certain predetermined standards.** The employee is expected to know what the standards are and the superior is to provide the employee feedback on his/her performance. The performance appraisal process, therefore, will provide feedback.

(v) **Promotion and career planning:** Promotions are an integral part of people's career. They refer to being placed in positions of increased responsibility. It usually means more pay, responsibility and job satisfaction.

(vi) **Compensation:** Compensation, therefore, refers to all forms of pay or rewards going to employees. It may be in the form of **direct financial payments** like wages, salaries.

Direct financial payments are of two types :

- a. time based: A time based plan means salary and wages are paid either daily, weekly or monthly or annually.
- b. performance based. A Performance based plan means salary/wages are paid according to piecework. For example, a worker may be paid according to the number of units produced by him/her. There are many methods to calculate the compensation under various incentive plans to reward performance.
- c. Certain pay plans can be created which are a combination of time based pay plus incentives for higher performance.
- d. Besides there are some other factors also which influence the design of any pay plan, like legal (labour laws), union, company policy and equity.

Primary/Major Aspects of Staffing

= Recruitment (identifying and attracting staff) + Selection(assessment, evaluation and final match) + Training(acquainting and skill development).

Recruitment - Meaning and Sources:

- Process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
- The various activities involved with the process of recruitment includes

- Identification of the different sources of labor supply,
 - Assessment of their validity,
 - Choosing the most suitable source or sources, and
 - Inviting applications from the prospective candidates, for the vacancies.
- Sources of recruitment of employees:

| Internal Sources | External Sources | |
|---|---|---|
| <ul style="list-style-type: none"> ○ Transfers ○ Promotions ○ Layoffs* | <ul style="list-style-type: none"> ○ Direct recruitment ○ Casual callers ○ Advertisements ○ Employment exchanges* ○ Placement agencies and management consultants* | <ul style="list-style-type: none"> ○ Campus recruitments* ○ Recommendation of employees* ○ Labour contractors ○ Advertisement on TV* ○ Web publishing* |

(* = specifically for managerial positions)

| Internal Sources | | External Sources | |
|---|---|---|--|
| Merits | Limitations | Merits | Limitations |
| <ol style="list-style-type: none"> 1. Motivated employees and higher morale of employees. 2. Simple and reliable 3. Induction training not required 4. Surplus staff can be moved to areas that have shortage 5. Cheaper | <ol style="list-style-type: none"> 1. inbreeding 2. Employees become lethargic 3. Filling all vacancies thro internal source is not possible 4. Competition hampered 5. Reduce productivity of employees | <ol style="list-style-type: none"> 1. Qualified personnel 2. Wider choice 3. Fresh talent 4. Competitive Spirit | <ol style="list-style-type: none"> 1. Dissatisfaction among existing staff 2. Lengthy process 3. Costly process |

Differences between internal external sources:

| | | | |
|---------------------------|------------------|---------------------|---------------------------------|
| 1. Economy | 2. Time involved | 3. Extent of choice | 4. Motivation to existing staff |
| 5. Quality of recruitment | | | |

Q. External sources are more expensive than internal sources, then why does an org opt for these?

Ans. An enterprise has to tap external sources for various positions because all the vacancies cannot be filled through internal recruitment. The existing staff may be insufficient or they may not fulfill the eligibility criteria of the jobs to be filled.

I. Internal Sources Of Recruitment:

i. Transfers:

- It involves shifting of an employee from one job/department/ shift to another, without a substantive change in the responsibilities and status of the employee.

- It may lead to changes in duties and responsibilities, working condition etc., but not necessarily salary.
- Shortage of suitable personnel in one branch may be filled through transfer from other over staffed branch or department.
- helpful in avoiding termination and in removing individual problems and grievances.
- Employees transferred from one job to another should be capable of performing it.
- Transfers can also be used for training of employees for learning different jobs.

ii. **Promotions:**

- Promotion leads to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay.
- Promotion is a vertical shifting of employees.
- Improves motivation, loyalty and satisfaction level of employees.

Merits - Internal Sources

1. Motivated employees and higher morale of employees.
 - Chain of promotions motivates employees to improve thro learning and practice.
 - Employees become committed, loyal and have job satisfaction => organizational peace.
2. Simple and reliable
 - Simplifies selection process = evaluation = accurate and economical.
 - Reliable as candidates are already known.
3. Tool of training for higher positions and Induction training not required
 - Transfers = tools of training for higher positions.
 - IndTr ≠ needed as candidates are already a part of the firm
4. Surplus staff can be moved to areas that have shortage
 - So helpful in avoiding terminations.
5. Cheaper:
 - As selection process is simplified +lesser requirement for tests and induction training.

Limitations - Internal Sources

1. Inbreeding
 - Scope for induction of fresh talent is reduced, therefore stopping infusion of 'new blood' into the organization.
2. Employees become lethargic
 - If they are sure of time bound promotions.
3. Filling all vacancies thro internal source is not possible
4. Competition hampered
5. Reduce productivity of employees

II. External Sources Of Recruitment:

1. Direct Recruitment:

- A notice is placed on the notice board of the enterprise specifying the details of the jobs available.
- Job seekers assemble outside the firm on the specified date & selection is done on spot.

- Followed usually for casual vacancies of unskilled/ semi-skilled jobs. Such workers are known as casual or 'badli' workers and they are paid remuneration on daily wage basis.

Benefits of Direct Recruitment:

- Very inexpensive, as it does not involve any cost of advertising the vacancies.
- Suitable for filling casual vacancies when there is a rush of work or when some permanent workers are absent.

2. Casual Callers:

- Many reputed biz orgs keep a database of unsolicited applicants in their offices. Such jobseekers can be a valuable source of manpower.
- A list of such job-seekers can be prepared & can be screened to fill the vacancies as they arise.

Benefits of casual Callers:

- It reduces the cost of recruiting workforce in comparison to other sources.

3. Advertisement:

- Advertisement in newspapers or trade & professional journals is generally used when a wider choice is required.
- Most of the senior positions of industry as well as commerce are filled by this method.

Benefits of Advertisements:

- More information about the org and job can be given in the advertisement.
- Advertisement gives the management a wider range of candidates from which to choose.

Disadvantages:

- It may bring in a flood of response, and many times, from quite unsuitable candidates.

4. Employment Exchange:

- Employment exchanges run by the Govt. are regarded as a good source of recruitment for unskilled and skilled operative jobs.
- In some cases, law requires compulsory notification of vacancies to employment exchange.

Benefits:

- Help to match personnel demand & supply by serving as link b/w employees and employers.

Disadvantages:

- The records of employment exchange are often not up to date.
- Many of the candidates referred by them may not be found suitable.

5. Placement Agencies & Management Consultants:

- Placement agencies provide a nationwide service in matching personnel demand and supply.
- Compile bio data of a large no. Of candidates & recommend suitable names to their clients.
- Such agencies charge fee for their services and they are useful where extensive screening is required.

Benefits:

- Management consultancy firms help the orgs to recruit technical, professional & managerial personnel.
- They specialize in middle level and top-level executive placements.

6. Campus Recruitment:

- Refers to Recruitment from educational institutions
- Colleges and institutes of management and technology have become popular source of recruitment for technical, professional and managerial jobs.

- Many big orgs maintain a close liaison with the universities, vocational schools and management institutes to recruit qualified personnel for various jobs.

7. Recommendation Of Employees:

- Applicants introduced by present employees, or their friends and relatives may prove to be a good source of recruitment.
- Such applicants are likely to be good employees because their background is sufficiently known.
- A type of preliminary screening takes place because the present employees know both the company and the candidates and they would try to satisfy both.

8. Labor Contractors:

- Labor contractors maintain close contacts with laborers and they can provide the reqd. no. Of unskilled workers at short notice.
- Workers are recruited through labor contractors who are themselves employees of the org.

Disadvantages:

- If the contractor himself decides to leave the org., all the workers employed through him will follow suit.

9. Advertising On Television:

- The practice of telecasting of vacant posts over TV is gaining importance these days.
- The detailed requirements of the job and the qualities required to do it are publicized along with the profile of the org where vacancy exists.

10. Web Publishing:

- Internet is becoming a common source of recruitment these days.
- There are certain websites specifically designed and dedicated for the purpose of providing information about both job seekers and job opening.
- In fact, websites such as www.naukri.com, www.jobstreet.com etc., are very commonly visited both by the prospective employees and the orgs searching for suitable people.

Merits - External Sources

1. Qualified personnel
 - Better access to qualified and trained personnel as compared to internal.
2. Wider choice
 - Because of larger number of applicants.
3. Fresh talent
 - Wider choice +infusion of 'new blood' into the firm.
4. Competitive Spirit
 - As existing staff will have to compete => work harder

Limitations - External Sources

1. Dissatisfaction among existing staff
 - As they feel that their chances of promotions reduce.
2. Lengthy process

- Time period for notifying vacancies, receiving applications and then starting the selection process.
3. Costly process
- Because of expenses on advertisements and processing of applications.

Selection - Meaning And Process:

- Process of screening candidates who offer themselves for appointment so as to choose the most appropriate one for the job.

PROCESS OF SELECTION

1. Preliminary Screening:

- Helps the manager eliminate unqualified/ unfit job seekers based on the info supplied in the application forms.
- Preliminary interviews help reject misfits.

2. Selection Tests:

- An employment test is a mechanism (either a paper & pencil test or an exercise) that attempts to measure certain characteristics of individuals.
- These characteristics range from aptitudes, such as manual dexterity, to intelligence to personality.
- Important Tests Used for Selection of Employees:

Intelligence Tests:

- This is one of the imp psychological tests used to measure the level of intelligence quotient of an individual.
- It is an indicator of a person's learning ability or the ability to make decisions and judgments.

Aptitude Test:

- It is a measure of individuals potential for learning new skills.
- It indicates the person's capacity to develop.
- Such tests are good indices of a person's future success score, potential to acquire skills and the later the actual skills possessed.

Personality Tests:

- Personality tests provide clues to a person's emotions, her reactions, maturity and value system etc.
- These tests probe the overall personality. Hence, these are difficult to design and implement.

Trade Test:

- These tests measure the existing skills of the individual.
- They measure the level of knowledge & proficiency in the area of professions or technical training.

Interest Tests:

- Every individual has fascination for some job than the other.
- Interest tests are used to know the pattern of interests/ involvement of a person

3. Employment Interview:

- It is a formal, in-depth conversation conducted to evaluate the applicant's suitability for the job.
- The role of the interviewer is to seek info and that of the interviewee is to provide the same.

- Though, in present times, the interviewee also seeks information from interviewer.
- 4. Reference and Background Checks:**
- Many employers request names, addresses, & telephone numbers of references for the purpose of verifying info and, gaining additional info on an applicant.
 - Previous employers, known persons, teachers and university professors can act as references.
- 5. Selection Decision:**
- The final decision has to be made from among the candidates who pass the tests, interviews and reference checks.
 - The views of the concerned manager will be generally considered in the final selection because it is he/she who is responsible for the performance of the new employee.
- 6. Medical Examination:**
- After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test.
 - The job offer is given to the candidate being declared fit after the medical examination.
- 7. Job Offer:**
- Job offer to those applicants who have passed all the previous hurdles.
 - Made through a letter of appointment/ confirms his acceptance.
 - Such a letter generally contains a date by which the appointee must report on duty.
- 8. Contract of Employment:**
- Certain documents need to be executed by the employer and the candidate.
 - One such doc = Attestation form.
 - This form contains certain vital details about the candidate, which are authenticated and attested by him or her. Attestation form will be a valid record for future reference.
 - There is also a need for preparing a contract of employment. Basic info that should be included in a written contract of employment will vary according to the level of the job, but the following checklists sets out the typical headings:
 - Job Title, Duties, Responsibilities, Date (when continuous employment starts) and the basis for calculating service, rates of pay, allowances, hours of work, leave rules, sickness, grievance procedure.

Training and Development

Training:

- The term training is used to indicate the process by which attitudes, skills & abilities of employees to perform specific jobs are increased.
- Training is a process of increasing knowledge & skills. It is to enable the employee to do the job better.
- It is a job-oriented process.

Development:

- Refers to the learning opportunities designed to help employees grow. It covers not only those activities that improve job performance but also those, which bring about growth of the personality,

help individuals in the progress towards maturity & actualization of their potential capacities so that they become not only good employees but also better men and women.

- The term development means growth of individual in all respects.
- Training is short-term process but development is an on going process.
- Also, development includes training.

Education:

- It is the process of increasing the knowledge.
- Imparts qualities of mind, character and understanding of the basic principles and develops the capacities of analysis, synthesis and objectivity.
- Broader in scope than training.

- Need for training:

| | |
|------------------------------|----------------------------------|
| Benefits to the firm: | Benefits to the employee: |
|------------------------------|----------------------------------|

1. Avoids wastage of time, effort and money involved in the hit and trial method.
2. ↑ productivity(quality + quantity)thereby leading to ↑ profits
3. Equips future managers(to take over in emergencies)
4. ↑ employee morale, ↓ absenteeism and turnover
5. response to fast changing environment
6. ↓ supervision, standardization of procedure and safety of operations

1. Improved skills and knowledge so better career opportunities
2. Better performance → higher earnings
3. Less accidents
4. ↑ satisfaction and morale of employees

- Methods Of Training:

| | |
|--------------------|--------------------|
| On the job: | Off the job |
|--------------------|--------------------|

- ✓ Employees are trained while they are performing the job in their workplace.
- ✓ Employees learn by doing. Suitable only for technical jobs and where a few employees are to be trained in the real job environment.
- ✓ Advantage =>employees can learn about practical problems while working on the job + promotes self-learning.
- ✓ Disadvantage =>results in wastage of resources and might disrupt normal functioning.

Types: Apprenticeship Program and Internship

- ✓ Training the employees by taking them away from work position =>employees are given a break from the job and sent for training. It emphasizes on learning rather than doing.
- ✓ The employer specifically arranges the training programme/ workshop by calling in experts.
- ✓ More suitable for managerial job positions or where large number of employees has to be trained.
- ✓ Advantage=> enables the trainees to concentrate better because they are free from job pressure.
- ✓ Disadvantage=> more expensive.

Types: Vestibule Training and Induction Training

| | |
|--|---|
| <p>Apprenticeship Programme/training:</p> <ul style="list-style-type: none"> ○ Persons who want to enter <u>skilled jobs</u> such as plumbing, iron smithy, electrician's job are sent for apprenticeship programme. ○ <u>Master worker /trainers</u> appointed who guides the worker or the learner regarding the skills of the job. ○ When the learner becomes an expert then he is given the full charge of the job position. ○ Generally <u>the time period</u> for such a programme may vary from 2 to 5 years | <p>Induction Training :</p> <ul style="list-style-type: none"> ○ Induction training is a type of training given to help a new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business. The duration of such type of training may be from a few hours to a few days |
| <p>Internship:</p> <ul style="list-style-type: none"> ○ An agreement between the <u>professional institutes and the corporate sector</u> whereby the professional Institutes send their students to various companies so that they can practice the theoretical knowledge acquired through these professional Institutes. ○ The <u>companies</u> prefer this arrangement because they <u>get people with fresh ideas and latest knowledge and because they can pay them nominal stipends</u>. On the other hand students get a chance to practice under the real work situation. ○ Thus we can say that under Internship the class room sessions are backed with Practical training. | <p>Vestibule Training:</p> <ul style="list-style-type: none"> ○ Employees learn their jobs <u>on the equipment</u> that they will be using, but the <u>training is conducted away from the workplace</u>. ○ A dummy model of the workplace/ machinery is prepared for this purpose and the employees are trained on it, using similar materials, files and equipment instead of the original work set-up. ○ This method is <u>suitable when the employees are required to handle sophisticated machinery</u> and equipment and it provides the benefit of the on the job methods. |



Situations in which training is required :

- a. Increase in labour turnover
- b. Inexperienced personnel
- c. As a tool for controlling
- d. industry is expanding
- e. economy recover after depression
- f. introduction of new technology

| Training | Development |
|---|---|
| It is a process of increasing knowledge and skills. | It is a process of learning and growth. |
| It is to enable the employee to do the job better. | It is to enable the overall growth of the employee. |
| It is a job oriented process. | It is a career oriented process |

Points of distinction Between Training and Development

- | | |
|--------------------------------|-------------------|
| 1. Concept/ Depth of knowledge | 5. Time/ duration |
| 2. Purpose | 6. Initiative |
| 3. Nature/ Scope of learning | 7. Suitability |
| 4. Methods used | |

Q. What should be done in case of over staffing or understaffing?

It may be pointed out that neither over-staffing nor under-staffing is a desirable situation.

- A situation of overstaffing somewhere would necessitate employee removal or transfer elsewhere.
- A situation of understaffing would necessitate the starting of the recruitment process.



Directing

MEANING OF DIRECTING:

According to Ernest Dale, " *Directing is telling people what to do and seeing that they do and seeing that they do it to the best of their ability.*" Directing is a complex managerial function that includes everything that a manager does to encourage subordinates to work effectively- instructing, guiding, counseling, supervising, motivating and leading them

| <u>Features Of Directing:</u> | <u>Importance Of Directing:</u> | <u>Elements Of Directing:</u> |
|--|---|--|
| <ol style="list-style-type: none"> 1. Initiates Action 2. Takes Place At Every Level Of Management 3. Continuous Process 4. Flows From Top To Bottom | <ol style="list-style-type: none"> 1. Initiates Action 2. Integrates Employees Efforts 3. Guides Employees To Realize Their Potential Fully 4. Facilitates Introduction Of Change 5. Balance In The Organisation | <ol style="list-style-type: none"> 1. Supervision 2. Motivation 3. Leadership 4. Communication |

Features of Directing:

1. *Initiates Action:*

- A manager has to perform this function along with planning, organizing, staffing and controlling while discharging his duties in the organization.
- While other functions prepare a setting for action, directing initiates action in the organization.

2. *Takes Place At Every Level Of Management:*

- Every manager, from top executive to supervisor performs this function.
- The directing takes place wherever superior – subordinate relations exist.

3. *Continuous Process:*

- It takes place throughout the life of the organization irrespective of people occupying managerial positions.

4. *Flows From Top To Bottom:*

- First initiated at top level& flows to the bottom through organizational hierarchy.
- It means that every manager can direct his immediate subordinate and take instructions from his immediate boss.

Importance of Directing:

1. *Initiates Action:*

- Directing initiates action towards attainment of desired objectives.

- E.g.: If a supervisor guides his subordinates & clarifies their doubts in performing a task, it will help the worker to achieve work targets given to him.

2. *Integrates Employees Efforts:*

- Directing ensures that every individual effort contributes to the organizational performance and work for organizational goals.
- E.g.: A manager with good leadership abilities will be in a position to convince the employees working under him that individual efforts and team effort will lead to achievement of organizational goals.

3. *Guides Employees To Realize Their Potential Fully:*

- Helps employees fully realize their potential and capabilities by motivating and providing effective leadership.
- A good leader can always identify the potential of his employees and motivate them to extract work up to their full potential.

4. *Facilitates Introduction Of Change:*

- Generally, people have a tendency to resist changes in the organization.
- Effective directing through motivation, communication & leadership helps to reduce such resistance & develop reqd. cooperation in introducing changes in the org.
- E.g.: A manager wants to introduce new system of accounting, there may be initial resistance from accounting staff. But, if manager explains the purpose, provides training and motivates with additional rewards, the employees may accept change and cooperate with manager.

5. *Stability & Balance In The Org:*

- Fosters cooperation & commitment among the people and helps to achieve balance among various groups, activities and the departments.

Supervision

| <u>Meaning:</u> | <u>Importance of Supervision:</u> (multiple roles performed by supervisor) |
|---|--|
| <p>Meaning:</p> <ol style="list-style-type: none"> 1. Supervision = element of directing + function performed by supervisors. 2. Supervision, as an element of directing: <ul style="list-style-type: none"> ▶ process of guiding the efforts of employees and other resources to accomplish desired objectives. ▶ Overseeing people at work ▶ Involves instructing, observing, monitoring and guiding employees. 3. Carried out at all levels but more important at the lower levels therefore the term 'Supervisor' is used at the operatives' level of management. | <p>Importance of Supervision:</p> <ul style="list-style-type: none"> 1. Acts as a counselor and guide 2. Links management and workers 3. Helps in maintaining group unity 4. Ensures performance of work as per standards 5. Trains personnel 6. Source of motivation and morale for workers 7. Gives feedback |

Difference between directing and supervision - Basis

=Meaning, scope, levels and face to face interaction

Importance of Supervision (Functions/ Role Of A Supervisor):**1. Acts As A Counsellor & Guide:**

- Supervisor maintains day-to-day contact and maintains friendly relations with workers.
- A good supervisor acts as a guide, friend and philosopher to the workers.

2. Links Management & Workers:

- Supervisor acts as a link between workers and management.
- He conveys management ideas to the workers & workers problems to the management.
- This helps to avoid misunderstandings & conflicts b/w management& workers/employees.

3. Gives Feedback:

- Good supervisor analyses the work performed & gives feedback to the workers.
- He suggests ways and means of developing work skills.

4. Helps In Maintaining Group Unity:

- Supervisor plays a key role in maintaining group unity among workers placed under his control.
- He sorts out internal differences & maintains harmony among workers.

5. Trains Personnel:

- Provides good on-the-job training to the workers and employees.
- A skilled & knowledgeable supervisor can build efficient team of workers.

6. Ensures Performance Of Work As Per Standards:

- Ensures performance of work according to the targets set.
- He takes responsibility for task achievement & motivates workers effectively.

7. Sources Of Motivation & Morale For Workers:

- Supervisory leadership plays a key role in influencing the workers in org.
- A supervisor with good leadership qualities can build up high morale among workers.

| BASIS | DIRECTING | SUPERVISION |
|---------|---|---|
| MEANING | Ernest Dale - Directing is telling people what to do and seeing that they do it to the best of their ability. | <u>Overseeing people at work</u> (what subordinates are doing) and <u>giving instructions to ensure optimum utilization of resources</u> & <u>achievement of work targets</u> . |
| SCOPE | Wider scope than supervision. Includes motivation, leadership and communication as well. | Supervision is an element of directing. Has lesser scope. |
| LEVELS | Important for all levels of management. | Very important activity at the operating level of m. |

| | | |
|--------------------------|---|---|
| FACE-TO-FACE INTERACTION | Can be done without face-to-face contact. | Involves face-to-face contact b/w supervisors & subordinates. |
|--------------------------|---|---|

- **Motivation**

| | |
|---|--|
| <u>Meaning:</u> | <u>Features of Motivation:</u> |
| <ul style="list-style-type: none"> i. Incitement or inducement to act/move. ii. Process of stimulating people to action to accomplish desired goals. • Three key terms = motive, motivation, motivators. | <ul style="list-style-type: none"> 1. Internal and personal <ul style="list-style-type: none"> • (urges/desires/drives aspirations etc of people that influence human behavior) 2. Produces goal directed behavior <ul style="list-style-type: none"> • Goal of employee = promotion => helps to produce a behavior in terms of improved performance . 3. Can be positive or negative <ul style="list-style-type: none"> • (positive=rewards; negative=punishments) 4. Is a complex process <ul style="list-style-type: none"> • (as people are heterogeneous & their expectations, perceptions and reactions are not uniform- Differs from individual to individual and from time to time -Can lead to different behaviour from same motive) |

- ▶ Motive :
 - inner state that energizes, activates and directs behaviour towards goals.
 - Arises out of unsatisfied needs =>causes restlessness.
- ▶ Motivation :
 - Process of stimulating people to action + Depend on satisfying needs of people.
- ▶ Motivators:
 - Technique used to motivate people. Egs. = pay, bonus, promotion, recognition etc.

Motivation Process:

Unsatisfied Need => Tension Drives=> Search Behavior => Satisfaction Of Need => Reduction Of Tension

Importance of Motivation:

1. ***Improves performance level of employees:***
 - Motivation satisfies employees needs=>satisfied employees have better performance.
2. ***Change negative/indifferent attitude to positive attitude :***
 - With suitable rewards, praise and encouragement, employees develop a positive attitude towards work.
3. ***Reduce employee turnover:***
 - By identifying motivational needs and providing suitable incentives.
 - So saves cost of recruitment and training and retains talented people in the firm.
4. ***Reduces absenteeism***
 - By avoiding bad working conditions, inadequate rewards, lack of recognition and poor relations with supervisors and colleagues.

5. Helps introduce change smoothly:
- Without much resistance from people.

Maslow's Hierarchy Of Needs:

Maslow's need hierarchy is considered to be fundamental to the understanding of motivation and plays an important role in motivation.

- People have a wide range of needs like physiological needs, social needs, safety needs, esteem needs and self actualisation needs which motivate them to work.
- The manager must understand the needs and wants of people in order to motivate them and improve their performance levels.
- For the satisfaction of these needs, managers must offer different incentives (monetary and non-monetary).

| NEED | Examples Of Need (Individual Example) | Management Can Satisfy This Need By (Organizational Example) |
|--------------------------------|--|---|
| 1. Basic Physiological Needs | Most basic in the hierarchy and corresponds to primary needs. <i>Hunger, thirst, shelter, sleep.</i> | Offer monetary incentives e.g. Good <i>salary/wages</i> and comfortable working conditions. |
| 2. Safety/Security Needs: | Security and protection from physical and emotional harm, <i>stability of Income</i> etc. | Offer job security, <i>pension</i> , insurance etc. |
| 3. Affiliation/Belonging Needs | Refer to affection, sense of belongingness, acceptance and <i>friendship</i> . | The firm can encourage team building and permit the workers to opportunity to interact socially and so develop <i>cordial relations with colleagues</i> . |
| 4. Esteem Needs | Include factors such as self-respect, autonomy <i>status</i> , recognition and attention. | Recognize good performance, provide opportunity for employees to feel a sense of accomplishment, provide important <i>job titles</i> etc |
| 5. Self Actualisation Needs | The drive to become what one is capable of becoming. These needs include growth, <i>self-fulfillment</i> and achievement of goals. | Offer the freedom to take decisions, providing them with opportunity to learn things, encouraging creativity, leading to <i>achievement of goals</i> etc. |

| | |
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| <p>Maslow's theory: Assumptions:</p> <ol style="list-style-type: none"> 1. People's behaviour is based on their needs. Satisfaction of such needs influences their behaviour. 2. People's needs are in hierarchical order, starting from basic needs to other higher level needs. 3. A satisfied need can no longer motivate a person; only next higher level need can motivate him. 4. A person moves to the next higher level of the hierarchy only when the lower need is satisfied. | <p>Merits of his theory:</p> <ul style="list-style-type: none"> ▪ Simple and easy to apply ▪ Indicates how to motivate employees <p>Demerits of his theory:</p> <ul style="list-style-type: none"> • Hierarchy is not necessarily followed in case of needs • Water-tight classification of needs is not possible |
|--|---|

Incentives = measures used to motivate employees to improve performance.

The process of fixing incentives =

- ✓ Determine standard time and expected performance
- ✓ Fix guaranteed minimum wages
- ✓ Add additional remuneration for time saves or cost reduced etc(bonus or premiums)

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|---|---|
| <p>Financial incentives = directly in money form or measurable in monetary terms.</p> <ol style="list-style-type: none"> 1. Pay and allowance 2. Productivity linked incentive schemes 3. Bonus 4. Profit sharing 5. Co-partnership/Stock options 6. Retirement benefits 7. Perquisites | <p>Non-financial incentives= main emphasis is to provide psychological and emotional satisfaction. Not measurable in monetary terms.</p> <ol style="list-style-type: none"> 1. Status 2. Organizational climate 3. Career advancement opportunities 4. Job enrichment 5. Employee recognition programmes 6. Job security 7. Employee participation 8. Employee empowerment |
|---|---|

iii. Differences between financial and non-financial incentives=

| | |
|---|--------------------------|
| a. Meaning b. Purpose c. Role/level at which it is used | d. Nature e. Examples |
|---|--------------------------|

Financial Incentives

1. Pay and allowances:

- It includes basic pay, dearness allowance(D A), and other allowances.
- Salary system consists of regular increments in the pay every year and enhancement of allowances every year.

2. Productivity linked wage incentives:

- include plans/schemes under which employees can be motivated by linking their productivity with their salary, that is increment in salary is according to increase in their productivity.

3.Bonus:

- A one-time extra reward offered to the employees for sharing high performance.
- Given over and above the wages/ salaries of the employees.
- Some companies offer bonus to their employees during the festival time (e.g at diwali). It could also be offered in the form of free trips to foreign countries, paid vacations etc.

4.Profit sharing:

- employees are given a share in surplus profits on the assumption that they contribute to profit earning. This serves to motivate them to improve their performance.

5.Co-partnership/ Stock option:

- Management offers shares to its employees at a set price which is lower than the market price. Such an allotment of shares creates a feeling of ownership to the employees and makes them to contribute towards the growth of the organization.
- This also empowers to participate in the management of the company. In Infosys, the scheme of the stock option has been implemented as a part of managerial compensation.

6.Retirement benefits:

- Several retirement benefits such as provident fund, pension and gratuity provide financial security to employees after their retirement. This acts as an incentive when they are in service in the organization.

7.Perquisites

- perquisites and fringe benefits are offered such as car allowance, housing and medical aid, education of the children etc. over and above the salary. They play an important part in motivating the employees.

Non-financial Incentives**1.Status:**

- means position of rank of a person in the organization. The rank of an employee is directly linked with prestige of the job, recognition, his authority, responsibility, rewards and perquisites attached to the job position.

2.Organisation Climate:

- It refers to the working system within the organization.
- It includes individual freedom to function, consideration to employees, reward orientation, risk taking etc.

3.Career Advancement opportunity:

- Within the organization they can rise at a higher level through promotions.
- Managers can facilitate this by providing opportunities to the employees to improve their skills, so that they can be promoted to the higher level jobs. This can be done through employee development programmes and appropriate promotion policies.

4.Job Enrichment:

- Employees get bored by performing routine jobs. They enjoy doing jobs which offer them variety and opportunity to show their skill. Employees get satisfied and motivated when they are offered challenging jobs that require higher level of knowledge and skill
- They are given more autonomy and responsibility
- They are provided with opportunity for personal growth and meaningful work experience.

5. Employee Recognition programmes:

- Recognition = acknowledgement of their work with a show of appreciation.
- **Examples:**
 - i. Congratulating the employee for good performance.
 - ii. Displaying on the notice board or in the company newsletter about the achievement of employee.
 - iii. Installing award or certificate for best performance.
 - iv. Distributing mementos, complimentary goods like T-shirts in recognition of employee services.
 - v. Rewarding an employee for giving valuable suggestions.

6. Job security:

- Stability about future income and work so that they do not feel worried on these aspects and work with greater zeal.
- Negative aspect of job security - When people feel that they are not likely to lose their jobs, they may become complacent.

7. Employee participation

- Involving employees in decision making of the issue affecting them.
- Can take the form of joint management committees, work committees, canteen committees etc.

8. Employee empowerment:

- Giving employees autonomy and power.
- He feeling that their jobs are important has a positive impact on their job performance.

Leadership

Meaning = process of influencing the behavior of other people to work willingly towards the achievement of specified goals in a given situation.

Importance of Leadership:

1. **Makes people contribute positively:**
 - Influences behaviour and makes people contribute positively and produce good results.
2. **Creates congenial work environment:**
 - Maintains personal relations, helps followers fulfil their needs+ provides confidence, support and encouragement.
3. **Introduces change:**
 - Persuades, clarifies and inspires people to accept changes.
 - So overcomes resistance to change with minimum discontent..
4. **Handles conflict**
 - Does not allow adverse effects .
 - Allows followers to express their feelings and disagreements and gives suitable clarifications.
5. **Trains subordinates:**
 - Builds up successors and helps in smooth succession process.

| | |
|---|--|
| <u>Features:</u> | <u>Qualities Of A Good Leader:</u> |
| <ol style="list-style-type: none"> 1. Ability to influence others 2. Tries to bring about a change in the behavior of others 3. Indicates interpersonal relations 4. Exercised to achieve common goals of the firm 5. Continuous process | <ol style="list-style-type: none"> 1. <u>Physical features</u> - appearance, personality, health and endurance inspires followers to work with the same tempo. 2. <u>Knowledge</u> - knowledge and competence to instruct and influence subordinates. 3. <u>Integrity</u> - the leader should be a role model regarding ethics, values, integrity and honesty. 4. <u>Initiative</u> - grab opportunities instead of waiting for them. 5. <u>Communication</u> - capacity to explain his ideas and also be a good listener, teacher, counselor and persuader. 6. <u>Motivation skills</u> - understand followers needs and devise suitable means to satisfy them. 7. <u>Self-confidence</u> - so that he can provide confidence to followers 8. <u>Decisiveness</u> - should be firm and not change opinions frequently 9. <u>Social skills</u>-sociable, friendly and maintain good relations with followers. |
| <u>Role of a leader:</u> | |
| <ul style="list-style-type: none"> ▪ Top management: <ul style="list-style-type: none"> - Achieve co-operation and involvement of employees in formulation of plans | <ul style="list-style-type: none"> ▪ Middle and lower management: <ul style="list-style-type: none"> - Interpret plans and policies - Influence to improve performance - Integrate personal and organizational goals - Represent work groups to superiors and others - Solve problems and fulfillment f aspirations |

Styles of Leadership:

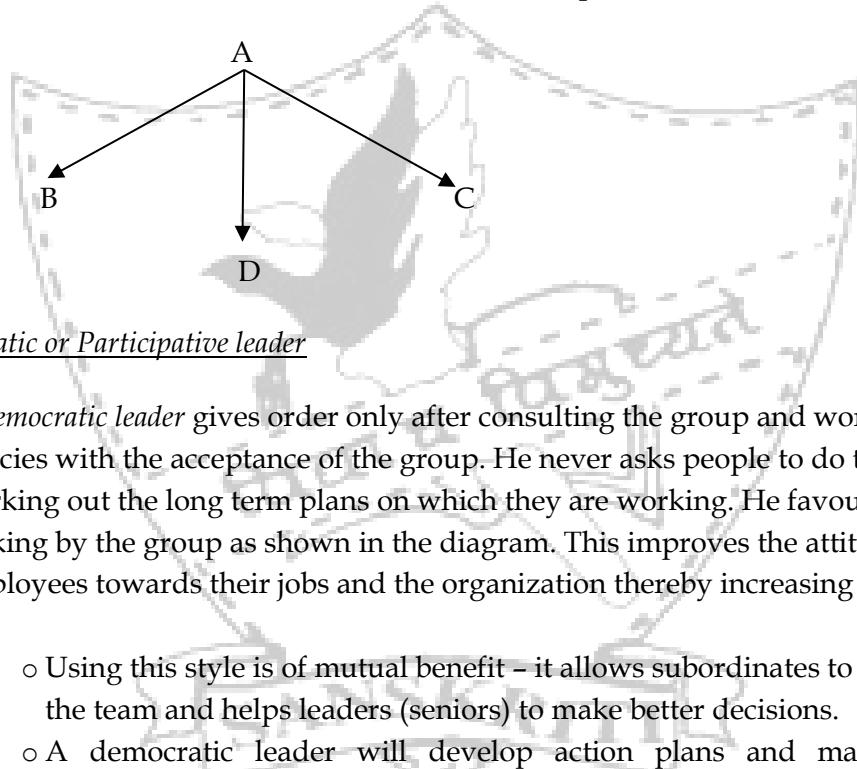
Leadership styles refer to a leader's behavior. Behavioral pattern which the leader reflects in his role as a leader is often described as the style of leadership. A Leadership style is the result of the leader's philosophy, personality, and experience and value system. It also depends upon the type of followers and the atmosphere prevailing in the organization.

A leader may use all styles over a period of time but one style tends to predominate as his normal way of using power.

1. **Autocratic or Authoritarian leader**

- An autocratic leader gives orders and insists that they are obeyed. He determines the policies for the group without consulting them. He does not give information about future plans but simply tells the group what immediate steps they must take. Under this style, all decision making power is centralized in the leader as shown in the diagram. He does not give the subordinates any freedom to influence his decision. It is like "bossing people around." This style should normally be used on rare occasions.

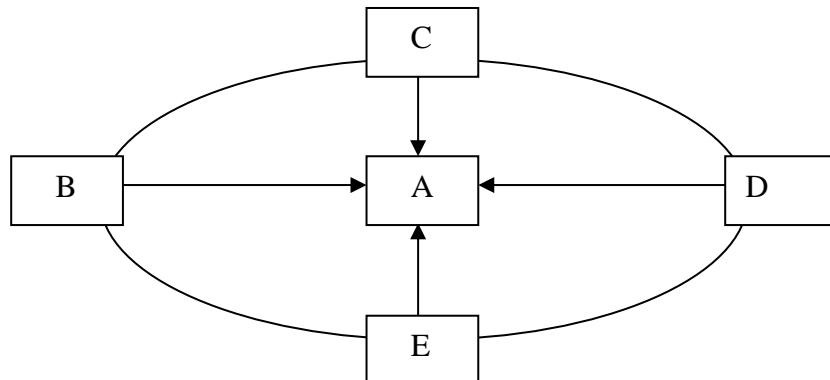
- An autocratic leader gives orders and expects his subordinates to obey those orders.
- If a manager is following this style, then communication is only one-way with the subordinate only acting according to the command given by the manager.
- This leader is dogmatic i.e., does not change or wish to be contradicted.
- This leadership style is effective in getting productivity in many situations like in a factory where the supervisor is responsible for production on time and has to ensure labour productivity.
- Quick decision-making is also facilitated.
- Example Mr. Ulhas, CEO of I Create India, distributes the work for the month. He delegates the work to his staff Ms. Ranju, Ms. Anjana, Ms. Geeta and Mr. Dinesh as per his discretion.(Mr. Ulhas is behaving as an autocratic leader.
- A is the leader - Boss - Centered - Leadership



2. Democratic or Participative leader

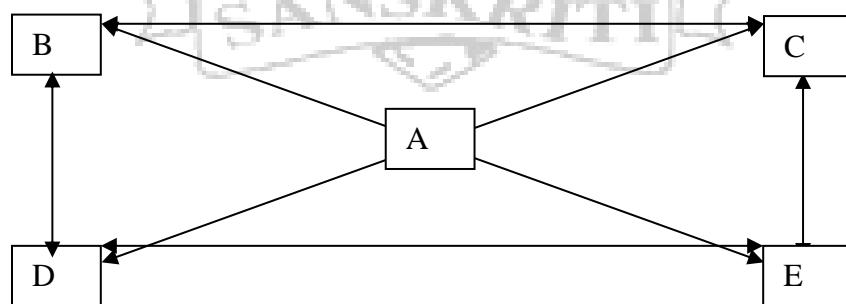
- A *democratic leader* gives order only after consulting the group and works out the policies with the acceptance of the group. He never asks people to do things without working out the long term plans on which they are working. He favours decision making by the group as shown in the diagram. This improves the attitude of the employees towards their jobs and the organization thereby increasing their morale.
- Using this style is of mutual benefit – it allows subordinates to become part of the team and helps leaders (seniors) to make better decisions.
- A democratic leader will develop action plans and makes decisions in consultation with his subordinates.
- He will encourage them to participate in decision making.
- This kind of leadership style is more common now-days, since leaders also recognize that people perform best if they have set their own objectives. They also need to respect the other's opinion and support subordinates.
- Mr. Ulhas has realized that due to absence of Ms. Geeta, the work will not get over as scheduled. He discusses with his staff members to meet the dead line. Everybody decided to do over time and planned to stay back accordingly. (Mr. Ulhas is behaving as a democratic leader)

- A is the leader – Group Centered – Leadership



3. Laissez faire or Free-rein leader

- A *free rein leader* or a *Laissez Faire Leader* gives complete freedom to the subordinates. Such a leader avoids use of power. He depends largely upon the group to establish its own goals and work out its own problems. Group members work themselves as per their own choice and competence. The leader exists as a contact man with the outsiders to bring information and the resources the group requires for accomplishing the job.
- NOTE: This is also known as laissez faire which means no interference in the affairs of others. [French: laissez means to let / allow and faire means to do.] Such a leader does not believe in the use of power unless it is absolutely essential.
- The followers are given a high degree of independence to formulate their own objectives and ways to achieve them.
- The group members work on their own tasks resolving issues themselves. The manager is there only to support them and supply them the required information to complete the task assigned.
- At the same time, the subordinate assumes responsibility for the work to be performed.
- A is the leader. Leadership is Subordinate – Centered – Leadership



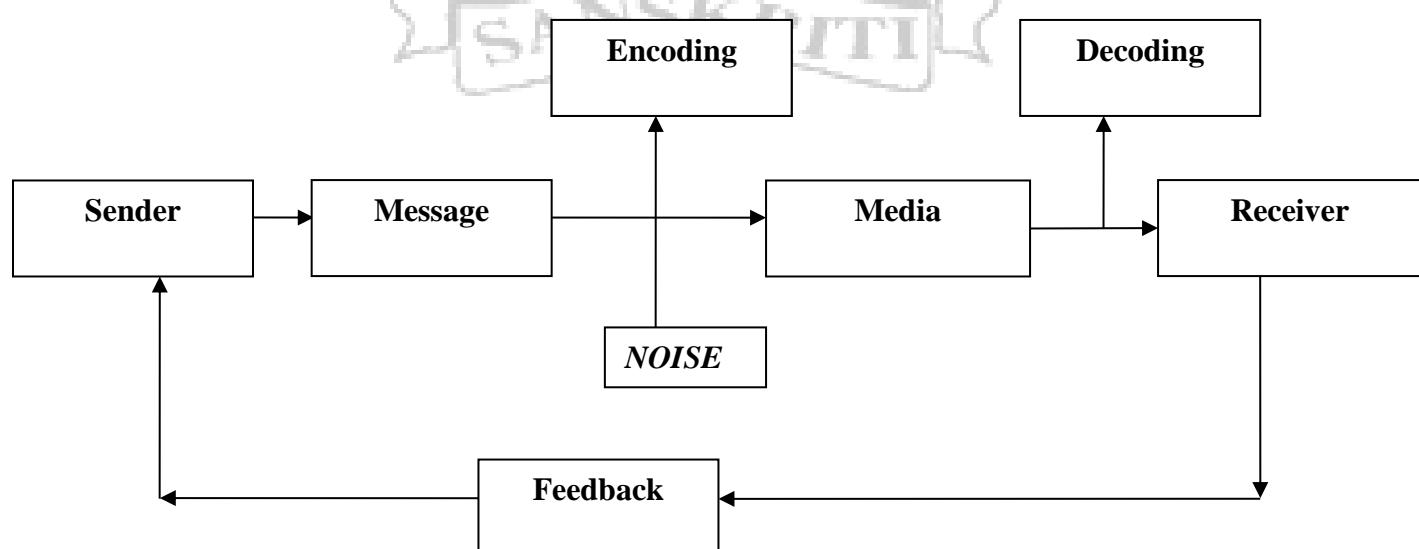
Conclusion:

Depending upon the situation a leader may choose to exercise a combination of these styles when required. For instance even a laissez faire leader would have certain rules to be followed while doing work and a democratic leader may have to take his own decision in an emergency situation.

- **Leader Vs manager(differences between the two on the basis of)**
 - o Formal authority structure
 - o Concern/focus
 - o Based on
 - o Scope
 - o Skills required

Communication

- **Meaning** = Exchange of ideas, facts, opinions, information and understanding between 2/ more persons.
- **Elements of communication process:**
 - **Sender:** Sender is the person who wants to convey his thoughts or ideas to the receiver. So he represents the source of communication.
 - **Message:** It is the content of ideas, feelings , suggestions etc. intended to be communicated.
 - **Encoding:** This means that the message is transmitted through the use of language, actions , pictures and gestures.
 - **Media:** It is the medium/path through which encoded message is transmitted to the receiver. E.g. letter, telephone, e-mail, direct face-to-face interaction.
 - **Decoding :**It involves interpreting the meaning of the message as intended by the sender.
 - **Receiver:** He is the person who receives the message.
 - **Feedback :**Feedback is the response that the receiver sends back to the sender after understanding his message.
 - **Noise:** Noise means any obstruction or hindrance to communication. It may be caused to the sender, message or the receiver. Some examples of noise are:
 - o Ineffective communication by the sender(manager) because of use of ambiguous symbols leading to faulty encoding, a poor telephone connection.
 - o Inattentive receiver
 - o gestures or postures that may distort the message.
 - o Faulty decoding(attaching wrong meaning to messages), prejudices that obstruct understanding of the message.



Importance of Communication: An efficient system of communication :

1. Acts as a basis of coordination:

- Among departments, activities, persons
- Done by explaining goals, mode of their achievement and inter-relationship among different individuals etc.

2. Helps in smooth working of an enterprise:

- coordinate the human and physical elements of an organisation into an efficient and active working unit that achieves common objectives.
- When communication stops, organised activity ceases to exist.

3. Acts as a basis of decision making:

- Provides relevant information for decision making..

4. Increases managerial efficiency:

- Ensures quick and effective performance of managerial functions..
- Conveys goals, issues instructions, allocates responsibilities and looks after performance.

5. Promotes cooperation and industrial peace:

- Two way communication promotes cooperation and mutual understanding between workers and managers.

6. Establishes effective leadership:

- Basis of leadership, good communication skills influences subordinates.

7. Boosts morale and provides motivation:

- Enables managers to motivate, influence and satisfy subordinates.
- Assists workers in adjusting with physical aspects of work
- Basis of democratic management.

• **Formal and Informal Communication:**

Formal communication:

- Official communication following the chain of command
- Is concerned with official matters
- May be written/oral but generally recorded and filed.
- Directions =
 - ▶ Vertical:
 - Downward-superior to subordinates - sending notices, passing guidelines, asking them to complete assigned work.
 - upward- subordinates to superior - application for leave, submission of reports.
 - ▶ Horizontal- between departments- about schedule of product delivery, product design etc.

Informal communication:

- Takes place outside the official channels
- May be work related or other matters
- Arises out of social interactions
- Grapevine:
 - Origin and direction of flow is not easily located
 - Cuts across scalar chain
 - Spread of rumors is possible as it is not easy to fix responsibilities

| | |
|--|--|
| <u>Advantages of Formal Communication</u> | <u>Advantages of Informal Communication to members:</u> |
| <ol style="list-style-type: none"> 1. Systematic 2. Source can be easily located 3. Support to authority 4. Responsibility can be easily fixed 5. Control is facilitated 6. Co-ordination 7. Message is not usually distorted | <ol style="list-style-type: none"> 1. Social satisfaction 2. Connects members not officially related 3. Relates to matters not communicated through official channels <p><u>Advantages of Informal Communication to mgt:</u></p> <ol style="list-style-type: none"> a. Fills gaps in the formal structure b. Fast c. Employees reactions can be ascertained d. Improves labour management relationship |
| <u>Disadvantages of Formal Communication</u> | <u>Disadvantages of Informal Communication:</u> |
| <ol style="list-style-type: none"> 1. Slow 2. impersonal 3. Accurate information may not be transmitted | <ol style="list-style-type: none"> 1. Message may get distorted 2. Rumors 3. Unsystematic 4. Confidential information may leak out 5. Not easy to fix responsibility |

- Difference between formal and informal communication-Basis:-

- | | | |
|--|---|---|
| <ol style="list-style-type: none"> 1. Meaning 2. Speed 3. Fixing responsibility | <ol style="list-style-type: none"> 4. Nature of message 5. Direction of flow 6. Needs served Channel | <ol style="list-style-type: none"> 7. Source and direction 8. Distortion of message 9. Rumors 10. Manner of conveying |
|--|---|---|

Barriers To Effective Communication:

I. Semantic Barriers

- Sometimes the language of the sender may be very technical or incomprehensible to the receiver. Moreover words and sentences can be understood differently by different people in the organization, depending on their understanding level.
- They are:
 - i. Badly expressed message - use of wrong words or not using the needed words.
 - ii. Symbols with different meanings - If a word has several meanings, the receiver may perceive the meaning of the word differently from that intended by the sender e.g use of the words 'value', 'right' etc.

- iii. Faulty translations – If the communications are originally drafted in one language and are then translated to the language understandable to the workers and if the translator is not proficient with both languages, mistakes may creep in causing different meanings to the communication.
- iv. Unclarified assumptions – when the worker does not understand, or may misunderstand the assumptions that the sender feels are implied. E.g the superior may instruct the subordinate ‘to take good care of the goods’. He may mean that the quality should be taken care of while producing, while the worker may understand that the goods should be kept safely.
- v. Technical jargon - While explaining things to the subordinates, the superior may use technical jargon which may not be understood by the employees/workers.
- vi. Body language and gesture decoding - Along with the verbal communication, another important mode of communication is body language and gestures shown by the person who is talking. If the verbal combination does not match his body language, then the employees may get confused and may misunderstand the meaning.

II. Psychological Barriers

The state on mind of both the sender and receiver may affect the communication and how it is comprehended .e.g a worried person may not be able to communicate properly. Similarly an angry person may not be able to receive the communication properly.

- i. Premature evaluation - Sometimes people evaluate the meaning of the message even before it is completed by the sender. This shows that the receiver does not have an open mind and is jumping to conclusions without logically deducing it from the situation.
- ii. Lack of attention - Sometimes when the sender is communicating, the receiver does not pay proper attention. This is because his mind is already preoccupied somewhere else. e.g an employee explains his problems to his boss, but the boss is preoccupied with a file. Boss does not understand the message and the employee is disappointed.
- iii. Lossby transmission and poor retention - When communication passes through various levels, this results in filtering or loss of information. Also people may not be able to retain the information for a long time if they are inattentive or not interested.
- iv. Distrust - If the parties don't have faith in each other/or believe each other, they will not be able to understand each other's message in the original sense.

III. Organizational Barriers

Factors related to the organization structure like rules and regulations, authority relationships etc may cause barriers to effective communication.

- i. Organizational policy - If the organizational policy does not support free flow of information, it may result in barriers. E.g in a centralized organisation, people may not be encouraged to have a free communication.
- ii. Rules and regulations - Rigid rules and regulations may create barriers as this may lead to red tapism and delay in action.
- iii. Status - Sometimes people working at the higher level do not believe in the information provided by the lower level employees and they don't allow the subordinates to express their feelings freely.

- iv. Complexity in organization structure - When the information passes through various levels, there can be screening or filtering of information at different levels.e.g while giving feedback, the subordinates filter their negative points and only highlight their positive points.
- v. Organisational facilities - In a large organisation, free and effective flow of information is possible only when there are proper facilities like suggestion box, complaint box, social get togethers, etc. Lack of these facilities create communication problems.

IV. Personal Barriers

The personal factors of both the sender and the receiver may exert influence on effective communication. Some of the personal barriers are as follows:

- i. Fear of challenge to authority - Sometimes superiors withhold or suppress information, if they fear of losing their authority over subordinates.
- ii. Lack of confidence of superior on his subordinates - If the superiors do not trust the competency of the employees, they don't pay any attention to their advice, opinion or suggestions.
- iii. Unwillingness to communicate - Sometimes subordinates don't feel free to approach and communicate to the superior. This leads to barriers in communication.
- iv. Lack of proper incentives - If there is no incentive for communication then the subordinates may not take any initiative to communicate. E.g If there is no reward for a good suggestion; the subordinates may not be willing to offer useful suggestions.

Improving Communication Effectiveness

1. **Clarify the ideas before communication** - First of all the superior should himself be clear about the message. The entire idea, should be analysed in depth first by the superior and then stated in a manner that is clearly conveyed to the subordinates.
2. **Communicate according to the needs of the receiver** - The manager should adjust his communication according to the education and understanding levels of the subordinates. This will make the receiver more receptive.
3. **Consult others before communicating** - It is always better to involve others in developing a plan for communication. Participation of subordinates may help gain ready acceptance and willing co-operation of subordinates.
4. **Be aware of languages, tone and content of message** - For an effective communication, the words and tone in a message must be selected carefully. The language used should not offend the sentiments of the listener. The message should be stimulating to evoke response from the listeners.
5. **Convey things of help and value to listeners** - Before conveying, it is better to know the interests and the needs of the people you are communicating. If the message relates to them, this will evoke response from them.
6. **Ensure proper feedback** - Communication is complete only when the receiver understands the message and gives his feedback. He should encourage the subordinates to respond to the communication.
7. **Communicate for present as well as future** - Communication must meet the needs of the present as well as future. There must be consistency in the past, present and future communication.

8. **Follow up communications** - There should be a proper follow up of the information given by the manager to the subordinates. This follow up helps to remove hurdles, misunderstanding of instructions given by the manager to his subordinates.
9. **Be a good listener** - Manager should be a good listener. Patient and attentive listening solves half of the problem.

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| <p>Semantic barriers:</p> <ul style="list-style-type: none"> a. Result on account of use of wrong words, faulty translations, different interpretations etc. b. Examples are: <ul style="list-style-type: none"> o Badly expressed messages o Symbols with different meanings o Faulty translations o Unclarified assumptions o Technical jargon | <p>Psychological barriers:</p> <ul style="list-style-type: none"> a. State of mind of both sender and receiver reflects in effective communication. b. Examples are: <ul style="list-style-type: none"> o Premature evaluation o Lack of attention o Loss by transmission and poor retention o Distrust |
| <p>Organisational barriers:</p> <ul style="list-style-type: none"> c. Related to organizational structure, authority relationships, rules and regulations. d. Examples are: <ul style="list-style-type: none"> o Organizational policies o Rules and regulations o Status o Complexity in organizational structure o Organizational facilities | <p>Personal barriers</p> <ul style="list-style-type: none"> e. Examples are: <ul style="list-style-type: none"> o Fear of challenge to authority o Lack of confidence of superiors on his subordinates o Unwillingness to communicate o Lack of proper incentives o Selective reception |

- Improving communication effectiveness:

1. Clarify ideas before communication
2. Communicate according to needs of the receiver
3. Consult others before communicating
4. Be aware of language, tone and content of message
5. Convey things of value and help to listeners
6. Ensure proper feedback
7. Communicate for present as well as the future
8. Follow up communications
9. Be a good listener

Controlling

Meaning

Controlling involves comparison of actual performance with the planned performance. If there is any difference or deviation, then finding the reasons for such difference and taking corrective measures or action to stop those reasons so that they don't re-occur in future and that organizational objectives are fulfilled efficiently.

Definition

According to Koontz and O' Donnell, "*Managerial control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans.*"

| | |
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| <p><u>Nature/ Features:</u></p> <ul style="list-style-type: none"> - Goal oriented - Pervasive - Continuous - Forward looking - Involves looking back <p><u>Extra points:</u></p> <ul style="list-style-type: none"> - Action oriented* - Primary function- performed at all level* - Brings back management cycle back to planning* | <p><u>Importance:</u></p> <ol style="list-style-type: none"> 1. Accomplishment of organizational goals 2. Judging accuracy of standards 3. Making efficient use of resources 4. Improving employee motivation 5. Ensuring order and discipline 6. Facilitating coordination in action |
|--|---|

Limitations of Controlling:

- a. Difficulty in setting quantitative standards
- b. Little control on external factors
- c. Resistance from employees
- d. Costly affair

Steps In The Process Of Control:

- a. Setting performance standards
- b. Measurement of actual performance
- c. Comparing actual performance with standards
- d. Analyzing deviations
 - Critical point control
 - Management by exception
- e. Taking corrective action

Features of Controlling

1. **Goal oriented:** Controlling is directed towards accomplishment of organizational goals in the best possible manner.
2. **Pervasive:** Controlling is an essential function of every manager and exercised at all levels of management.
3. **Continuous:** It is not an activity to be pursued in the end only; it has to be done on a continuous basis.
4. **Controlling is looking back:** Controlling involves measurement of actual performance and its comparison with the desired performance. It is the process of checking and verification.
5. **Controlling is forward looking:** It is related to future because it seeks to improve future results on the basis of experience gained in the past.
6. **Depends on planning:** It presupposes existence of planning because without planning no control is possible.
7. **Action oriented*:** Control has no meaning if no corrective action is taken; So timely action should be taken to prevent deviations.
8. **Primary Function of Management* -** controlling is performed at all levels and in all types of organizations.
9. **Brings back management cycle back to planning:*** Control should not be viewed as the last function. In fact it links back to planning. Controlling involves
 - Comparing actual performance with standards
 - Finding out deviations
 - Taking corrective action so that they don't repeat in futureThese are the guidelines when future planning is done. Thus controlling not only completes one cycle of management process and also helps to improve planning in the next cycle.

Importance of Controlling

Control is an indispensable function of management without which even the best of the plans may go vary.

1. **Helps in accomplishing goals:**
 - ▶ Ensures achievement of organizational objectives by identifying deviations and indicating corrective action.
 - ▶ Controlling ensures that all activities in the organization take place according to the plans.
2. **Helps in judging accuracy of standards:**
 - ▶ Enables management to verify whether the standards set are accurate, achievable and objective.
 - ▶ An efficient control system reviews and revises standards from time to time to match them with organizational and environmental changes.
3. **Helps in making efficient use of resources:**
 - ▶ Reduces wastages and spoilage of resources.

- ▶ When each activity is performed according to the pre-determined standards and norms it ensures that work is done in the most efficient and effective manner.

4. Helps to improve employee motivation:

- ▶ Employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised.
- ▶ These reports become the basis for giving promotions, increments etc. to the employees.
- ▶ This motivates them to give a good performance.

5. Ensures order and discipline:

- ▶ Creates an atmosphere of order and discipline in the organization.
- ▶ Subordinates are under a vigil (check) at all times and they perform their functions efficiently.
- ▶ It also leads to check over dishonesty and chances of fraud in the company.

6. Facilitates co-ordination:

- ▶ This is because each department and employee is governed by pre-determined standards which are well coordinated with one another.
- ▶ This leads to unity of direction and ensures overall accomplishment of organization objectives.

Limitations of Controlling

1. Difficulty in setting quantitative standards:

- ▶ Control system loses its effectiveness when standards of performance cannot be defined in quantitative terms. This makes comparison with standards a difficult task.
- ▶ e.g areas like human behaviour, employee morale, job satisfaction cannot be measured quantitatively.

2. Little control on external factors:

- ▶ An enterprise cannot control external factors like government policies, technological changes, competition. etc.

3. Resistance from employees:

- ▶ Control is resisted by the employees as they feel that their freedom is restricted. E.g employees may resist and go against the use of cameras to observe them minutely.

4. Costly:

- ▶ Control involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system.
- ▶ Managers must ensure that the cost of installing and operating a control system should not exceed the benefits derived from it.

Steps In The Process Of Control:

1. Setting performance standards:

- A standard is a criterion against which actual performance is compared.
- Can be quantitative (- eg costs, revenue, units to be produced, time spent in performing a task etc) as well as qualitative (improving goodwill, motivation etc).
- Managers fix standards in the light of organizational goals. As they serve as the basis of control, they should be set carefully. They should satisfy the following requirements:
 - Standards should be simple and easy to understand both for short and for long term.
 - They should be achievable (not too high)
 - As far as possible they should be set in precise quantitative terms so that it makes comparison easier. E.g in terms of profits, cost, units (reduction of defects from 10 in every 1000 pieces produced, to 5, produced in a quarter.)
 - Should be flexible enough to be modified when the need arises, in view of the changes taking place both in the internal as well as external business environments.

2. Measurement of actual performance:

- Performance should be measured in the same units in which standards are set as this would make the comparison easier. Also performance measurement should be objective and reliable.
- Measurement of work can be done:
 - After the task is completed or
 - During the performance wherever it is possible .e.g in case of assembling task each part produced should be checked before assembling.
- There are several techniques for measurement of performance:
 - Performance of an employee may require personal observation or preparation of performance report by his superior
 - Measurement of company's performance may involve calculation of certain ratios like gross profit, net profit, return on investment etc. at periodic intervals.
 - Progress of work in certain operating areas like marketing may be measured in terms of number of units sold, increase in market share etc.
 - Efficiency in production may be measured by counting the number of pieces produced etc.
 - In small scale operations each piece may be checked, while in large organizations, this would not be possible. So certain pieces could be checked at random. This is called sample checking.

3. Comparing actual performance with standards:

- Such comparison will reveal the deviation between actual and desired results.
- If there is a match between them then controlling ends there only. But if there is a mismatch or deviation then the manager finds out the extent of such deviation.

4. Analysing deviations:

- All deviations need not be brought to the notice of top management. Deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas.
- Also it is important to determine the acceptable range of deviations. Deviations can be analyzed in two ways:
 - **Critical point control:**
 - It is neither economical nor easy to keep a check on every activity in an organization.
 - Control should focus on key result areas (KRA's) which are critical to the success of an organization.
 - This is because if anything goes wrong at the critical points, the entire organization suffers. e.g In a manufacturing organization, an increase of 5% in labour cost may be more alarming than a 15% increase in postal charges.
 - **Management by exception:**
 - This principle of management control emphasizes that a manager who tries to control everything may end up controlling nothing.
 - So he should make a priority list and bring to the notice of top management only significant deviations which go beyond the permissible limits.

5. Taking corrective action:

- When the deviations are within acceptable limits, no corrective action is required.
- However when deviations go beyond the acceptable range, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.
- Corrective action may involve:
 - Training of employees if targets could not be met/ assigning additional employees or equipments to the project and permission for overtime work etc.
 - Where deviations cannot be corrected through managerial action, it means that plans are unrealistic.
 - So plans need to be re-framed if they are over stated (when performance can't be improved further) or under stated (when performance is higher than the standards.)

Management by exception

- *It means that the manager who tries to control everything may end up controlling nothing.*
- If the control is to be effective and economical, it must focus attention on factors critical to performance. In a large organization keeping a close check on each and every activity will be
 - Tedium
 - very time consuming
 - increase unnecessary efforts and
 - decrease attention on important problems.
- Therefore every manager must prepare his list of priorities and put more concentration on important matters and ignore minor deviations (because if he involves himself in all the activities then he will not be able to control even a single activity effectively). e.g if a group of 50 workers fail to achieve the production target due to inefficiency of 3 workers, then only 3 of them should be sent for training instead of wasting resources on all 50 workers.
- Similarly if postal expenses by 10% the deviation is too insignificant to require managerial attention. On the other hand if labour costs rise by even 1% it should receive managerial attention.

Benefits of Management by Exception :

1. It saves time and efforts of managers (as they deal with only significant deviations.)
2. It focuses managerial attention on important areas. Thus there is better utilization of managerial talent.
3. The routine problems are left to the subordinates. This way it facilitates delegation of authority and increases morale of the employees.
4. It identifies critical problems which need timely action to keep the organization on the right track.

Therefore the more a manager concentrates his energies on important deviations, the more effective he will be in the process of control.

Relationship between Planning and Controlling

Planning and controlling functions are very closely related. The relation between the two is explained below:

- Meaning
- **Planning and controlling are inter dependent and inter linked**
- **Planning and Controlling are both forward looking as well backward looking functions:**
 1. **Meaning:**
 - Planning is the basic function of every enterprise as in planning we decide what is to be done, how it is to be done and by whom it must be done. It bridges the gap between where we are standing today and where we want to reach.
 - Controlling means keeping a check that everything is in accordance with the plan and if there is a deviation taking preventive measures to stop that deviation. Thus it ensures correct and timely implementation of plans.
 2. **Planning and controlling are inter dependent and inter linked**
 - Planning and controlling are inseparable twins of management as one function depends on the other.
 - A system of control presupposes the existence of certain standards. It compares actual performance with the planned and if there is no planned performance then the controlling manager will not be able to know whether the actual performance is O.K or not. e.g. If a worker has produced 800 units, the manager can know whether it is adequate or not only when there is a standard output set by the planners. If standard output is 1000 units, the manager makes sure that productivity of worker is increased to achieve the requisite target. So the base for comparison/ yardstick to check is given by the planning function to the controlling function.
 - On the other hand planning function is also dependent on controlling as plans are not to be made on the paper only but these have to be followed and implemented in the organization. Controlling makes sure that everyone follows the plan strictly. So planning is a pre requisite for controlling. So Planning without controlling is meaningless and controlling without planning is blind. **Planning is prescriptive whereas controlling is evaluative.**
 3. **Planning and Controlling are both forward looking as well backward looking functions:**
 - Some people are of the opinion that planning is forward looking as it involves looking ahead as plans are prepared for future and are based on forecast of future conditions while

controlling is backward looking because we look back to compare performance with the plans.

- However this is not completely correct. Planning is not only futuristic but it is also guided by past experiences. Similarly controlling is not only done with a view to do a post mortem but also with a view to improve future performance. Thus planning and controlling are both backward looking as well as forward looking.

Therefore they are both inter-related and they reinforce each other. That is,

1. Planning based on facts makes controlling easier and effective; and
2. Controlling improves future planning by providing information derived from past experience.
 - *(Note: Shorten the answer according to marks)*



Financial Management

- '*Business Finance*' = Money or funds available for a business for its operations (that is, for some specific purpose) is called finance. It is indispensable for survival and growth of business, for production and distribution of goods and meeting day to day expenses etc.
- It involves acquiring funds to buy Fixed assets (tangible and intangible) and Raw materials and maintain working capital.
- According to B.O.Wheeler:" Financial Management includes those business activities that are concerned with acquisition and conservation of capital funds in meeting the financial needs and overall objectives of a business enterprise."
- Thus, financial management is concerned with efficient acquisition and allocation of funds.
- It is **concerned with** procurement and usage of funds
- **Aims of Financial Management:**
 - i. Reduce cost of funds procured
 - ii. Keep risks under control
 - iii. Achieve effective employment of funds
 - iv. Ensure availability of sufficient funds while avoiding idle funds.
- **Role of Financial Management:**
 - FM has a direct bearing on the financial health of a company.

| | Examples of areas affected | Explanations |
|---|---|--|
| 1 | Size and composition of fixed assets | <ul style="list-style-type: none"> • Depend directly upon investment decision i.e how much capital the company is planning to invest. |
| 2 | Quantum of current assets and their break-up into cash, inventories and receivables | <ul style="list-style-type: none"> • Increase in fixed assets will lead to a commensurate increase in working capital requirements. • Also depend on credit policy, inventory management etc. |
| 3 | Amount of long and short term financing to be used | <ul style="list-style-type: none"> • Proportion of both long term and short term sources is determined on the basis of liquidity and cost analysis. • Long term sources give more liquidity but also involve a higher cost also as compared to current assets. |
| 4 | Break up of long term financing | <ul style="list-style-type: none"> • Into debt and equity • Part of financing decision |

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| 5 | All items in P&L a/c | <ul style="list-style-type: none"> • Higher debt means higher interest expenses • Also higher equity means higher dividend expenses • Expansion of business leads to higher overall expenses. |
|---|----------------------|--|

- Good financial management aims at mobilization of financial resources at lower cost and deployment of these funds in most lucrative activities.
- Financial management is concerned with decisions w.r.t:
 - long and short run capital requirements
 - procurement of funds
 - flow of funds in the day-to-day activities
 - Distribution of earnings to owners

OBJECTIVES OF FINANCIAL MANAGEMENT:

- Primary objective: To maximize wealth of owners in the long run – Wealth Maximization concept.
 - 'Owners' of a company are the shareholders.
 - The term *wealth* refers to wealth of owners as reflected by the *market price* of their shares.
- The market price of shares is linked to three basic financial decisions:
 - Investment decision
 - Financing decision and
 - Dividend decision
- Market price of a share will increase if benefits from a decision are greater than the cost involved in it.
- The goal of a firm should be to maximize the wealth of owners in the long run.
- Increase in the market price of shares is an indicator of the financial health of a firm.
- Other objectives that help a firm achieve the primary objective are:
 - Ensure availability of funds at reasonable costs:
 - Ensure effective utilization of funds:
 - Ensure safety of funds thro creation of reserves:
 - Maintain liquidity and solvency:

FINANCIAL DECISION:

There are three decisions that a financial manager has to take:

1. Investment Decision
2. Financing Decision and
3. Dividend Decision

1. INVESTMENT DECISION:

- Resources are scarce and can be put to alternate use. A firm must choose where to invest so as to earn the highest possible profits.
- Investment decision relates to decisions about how the firm's funds are invested in different assets that is, different investment proposals
- Has two components:
 - ▶ Working Capital Decisions - Short Term investment decisions.
 - ▶ Capital Budgeting decisions - Long Term investment decisions.

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| <ul style="list-style-type: none"> • Working Capital Decisions: <ol style="list-style-type: none"> 1. Helps to <u>maintain earning capacity</u>. 2. Concerned with <u>decisions</u> w.r.t level of cash, inventories and debtors. 3. Affect <u>day to day working</u> of a business. 4. Influence <u>liquidity</u> as well as <u>profitability</u>. 5. <u>Essential ingredients</u> of sound working capital management are: <ul style="list-style-type: none"> ○ Efficient cash management ○ Inventory management ○ Receivables management | <p>2. Capital Budgeting Decisions:</p> <ol style="list-style-type: none"> 1. Leads to an <u>increase in earning capacity</u> of a concern. 2. <u>Important because:</u> <ol style="list-style-type: none"> a. Size and competitiveness of a business is affected by this decision. b. Involves huge costs c. Irreversible except at a huge cost. <p><u>Examples</u> = investing in new assets, setting up of new business, expansion or modernization of business etc.</p> |
|---|---|

- *Factors affecting Capital Budgeting decisions:*
 - *Cash Flows:*
 - *Rate of Returns:*
 - *Investment Criteria*

Factors Affecting Capital Budgeting Decisions:

- *Cash Flows:*
 - Investment decisions are taken so as to earn returns for the firm.
 - Series of cash receipts and payments over the life of an investment have to be carefully analysed before taking a capital budgeting decision.
 - E.g The investment proposal expected to bring reasonable amount of cash but after a long term may be rejected.
- *Rate of Returns:*
 - Expected rate of returns from each proposal should be compared with the risks associated with the projects before taking an investment decision.
 - E.g If there are two investment proposals A and B with a rate of return of 10% and 12%, then project B should be selected. Only the rate of return cannot be the sole criterion. Some investment proposals bring higher rate of return but at the same time involve huge risks.
 - The finance manager should select the proposal with moderate risks which the company can afford. Huge risks may lead to insolvency.
- *Investment Criteria:*
 - There are various Capital Budgeting techniques available to a business that can be used to evaluate the various investment proposals.

- These are based on calculations w.r.t amt of investment, interest rates, cash flows and rate of returns associated with proposals.
- These techniques are applied to the investment proposals to choose the best proposal.

2. FINANCING DECISION

- These are decisions w.r.t quantum of finance or composition of funds from various long-term sources. (short term = working capital management)
- Financing decisions involve:
 - a) Decision whether or not to use a combination of ownership and borrowed funds.
 - b) Determining their precise ratio.
- Firm needs a judicious mix of debt and equity as :
 - Debt involves 'Financial Risk' = risk of default on payment of interest on borrowed funds and the repayment of the principle amount whereas
 - Shareholders' funds involve no fixed commitment w.r.t payment of returns or repayment of capital.
- Ownership fund vs. Debt fund: They can be compared on the basis of factors such as examples, interest/dividend payout and repayment of principle, tax deductibility, and risk and floatation costs.
- Factors affecting Financing Decisions:
 - Cost:
 - Cost of debt = interest and cost of equity = dividend.
 - Debt is cheaper and the company should opt for the cheapest source.
 - Risk:
 - Co. Should assess the different risks associated with the sources - Debt has a higher financial risk as compared with equity.
 - Debt has a higher risk so equity should be preferred.
 - Floatation costs:
 - Floatation cost of debt is lower than the floatation cost of equity.
 - Higher the floatation cost, lesser attractive the source.
 - Cash flow position of the business:
 - Strong cash flow position makes debt more attractive as the firm will be able to meet the fixed costs associated with debt.
 - Level of fixed operating costs:
 - If firm already has high fixed operating costs (e.g rent, salaries etc), it must opt for a source with lesser fixed financial costs i.e. Not choose debt..
 - Control:
 - Issue of equity dilutes control whereas debt carries no control rights.
 - So if the company wants to avoid takeover bids, they will issue debt.
 - State of capital markets:
 - During boom period, issue of equity will find takers but during depression, firm will have to use debt.

3. DIVIDEND DECISION

- Dividend is that portion of divisible profits that is distributed to the owners i.e. the shareholders. It results in current income for the shareholders.

- *Retained earnings*= proportion of profits kept in, that is, reinvested in the business for the business.
- **Dividend decision**= whether to distribute earnings to shareholder as dividends or retain earnings to finance long-term profits of the firm. Must be done keeping in mind the firms overall objective of maximizing the shareholders wealth.
- *Factors affecting Dividend Decision:*

a) **Earnings:**

- Dividends can only be paid out of current earnings or accumulated profits.
- If firm has earnings-can have a higher payout ratio.

b) **Stability of earnings:**

- If earnings are stable – high payout ratio i.e. Greater portion of the earnings can be given as dividends.

c) **Stability of dividends:**

- i.e. policy of stabilizing dividend per share and not altering it if increase in earnings are temporary of a small amt.
- Dividend per share is not altered if change in earnings is temporary.

d) **Growth opportunities:**

- If firm has projects to invest in, have a low payout.
- Growth companies are smaller than in the non-growth companies.

e) **Cash Flow Position:**

- If firm does not have cash, dividends cannot be declared (e.g. if most of its sales are on credit and as a result liquidity position is not comfortable)

f) **Shareholder's preference:**

- If majority of shareholders prefer current dividends, have a high payout.
- But if most shareholders want the company to grow by reinvesting its earnings and give them a capital gain in terms of an increase in the market price of shares, have a low payout ratio.

g) **Taxation policy:**

- Compare tax rate on dividend with capital gain tax rate that is applicable on increase in market price of shares.
- If tax rate on dividends is lower, shareholders will prefer more dividends and vice versa.

h) **Stock market reaction:**

- Declaration of dividends has a positive impact on the goodwill of the firm in the market.
- So if the firm is planning to issue shares etc in the near future, have a high payout ratio.

i) **Access to capital markets:**

- Large and reputed companies have easy access to capital markets whereas smaller companies do not.
- If it is difficult to raise funds, firm should have a low payout ratio, retain funds so that it can generate funds internally.

j) **Legal constraints:**

- Provisions of the companies Act that place restrictions of dividends have to be adhered to.
- If a firm earns profits, it cannot declare dividends for more than 3 years in a row.

k) **Contractual constraints:**

- If a firm has entered into a contract with a financial institution to raise funds, the company cannot violate the terms of the loan agreement in this regard.

FINANCIAL PLANNING:

- It involves preparation of a financial blueprint of an organization. It is the process of estimating the fund requirement of a business and determining the possible sources from which it can be raised.
- ***Objectives of Financial Planning:***
 - ▶ To ensure availability of funds whenever they are required
 - Includes estimation of the funds required for different purposes (long term assets/wk cap requirement)
 - Estimate the time at which these funds need to be made available.
 - Specify sources of these funds.
 - ▶ To see that the firm does not raise resources unnecessarily:
 - Shortage of funds => firm cannot meet its payment obligations.
 - Surplus funds => do not earn returns but adds to costs.
- In words of Gerstenbug: Financial Planning includes:
 - *Determination of amount of finance:*
 - *Determination of source of funds:*
 - *Determination of suitable policies for administration of capital*
- Difference between Financial management and financial planning*

| Basis | Financial Management | Financial Planning |
|-----------|---|---|
| Meaning | It refers to the efficient acquisition, utilization and disposal of surplus for the smooth flow of an organization. | It aims at smooth operations by focusing on fund requirements and their availability in the light of financial decisions. |
| Scope | It is wider in scope and includes financial planning. | It is narrow in scope as it is one of the segments of financial management. |
| Objective | Objective of Financial management is to increase the wealth of shareholders | Objective of financial planning is to ensure timely availability of adequate funds. |

- ***Time Horizon of Financial Planning:***
 - Financial Planning is typically done for 3-5 years-broad in scope and generally include long term investment, growth and financing decisions. Focus = capital expenditure programmes and determining the debt-equity mix.
 - May also be undertaken for a short term ='Budgets'= stating of expected revenues and expenses related to a specific operation for a specified period.
- ***Process of Financial Planning:***
 1. Preparation of sales forecast.
 2. Determine the requirements of funds - fixed and working capital.

3. Estimate the expected profits to determine the amount of funds that can be provided internally.
4. This helps us to estimate the requirement for funds from external sources.
5. Identify the possible sources and prepare the cash budgets incorporating these factors.

- ***Importance of Financial Planning:***

1. ***Makes the firm better prepared for the future:***

Financial Planning tries to forecast what may happen in the future and prepares alternative plans to meet different eventualities. Also, if the company has some expansion programmes in the pipeline, Financial Planning would help to identify the sources from which funds can be raised to finance such programmes.

2. **Helps in avoiding business shocks and surprises:**

By preparing plans to meet eventualities in advance, Financial Planning aims at studying various factors that have an impact on the business and helps in predicting the probability of their occurrence. Thus, Financial Planning helps to avoid shocks and surprises by predicting them in advance and developing plans to meet them.

3. **Co-ordinating different functions:**

Financial Planning helps to coordinate the activities of the financial departments and other departments. The overall financial plan lays down objectives, policies, procedures etc. to ensure coordination between different functional areas of the business.

4. **Reduces waste, duplication of effort and gaps in planning:**

Financial Planning decides the amount of capital to be raised, the form and proportion of various types of securities to be included in the capital structure and how these funds can be utilized. It, therefore, helps to avoid confusion and waste such as loss of time, goodwill and financial resources.

5. **Links the present with the future:**

Financial Planning helps to estimate future requirements and prepares plans in the present to balance requirements of funds with availability of funds.

6. **Provides a link between the investment and the financing decisions:**

Investment decision involves selection of the best investment proposal from the available alternatives. Financing decision is about selecting the source of finance for the required proposal. Financial planning links both by identifying the requirement of long and short term funds required for the selected proposal and searching for alternative sources of funds.

7. **Makes evaluation of performance easier:**

Financial Plans or 'Budgets' are the basis of financial controls. They set standards against which actual performance is compared. The deviations that are identified then can be corrected and necessary steps can be taken to prevent their re-occurrence.

CAPITAL STRUCTURE:

- On the basis of ownership, funds => owners funds + borrowed funds.
- Owners funds = equity share capital + preference share capital + reserves and surpluses + retained earnings = EQUITY
- Borrowed funds = loans + debentures + public deposits = DEBT
- Capital Structure = The mix of long-term sources of funds
- Refers to the proportion of debt and equity used for financing the operations of a business.

- ***Cost and risk- Debt Vs Equity:***
 - Cost of Debt is lower than cost of equity but Debt is more risky than equity.
 - Cost of debt < cost of equity as lenders risk < owners risk.
 - Lender earns an assured interest and repayment of capital..
 - Interest on debt is a tax deductible expense so brings down the tax liability for a business whereas dividends are paid out of profit after tax.
 - Debt is more risky for the business as it adds to the financial risk faced by a business.
 - Any default w.r.t payment of interest or repayment of principle amt may lead to liquidation.
 - Capital structure affects both the profitability and the financial risk faced by a business.

- **Optimal Capital Structure is that combination of debt and equity that maximizes the market value of shares of that company**

Financial Leverage:

- Financial leverage = proportion of debt in the overall capital structure.
- Also called 'Trading on Equity' or 'Capital Gearing'.
- Cost of funds = cost of debt + cost of equity.
- As financial leverage increases, cost of funds decline as debt is a cheaper source of funds.
- As It refers to use of any source of long-term funds that carry a fixed rate of interest to increase the earnings available to equity holders.
- The reasons for higher EPS with debt are:
 - i. Rate of return on investment is more than cost of debt
 - ii. Interest paid on debt is tax deductible and so there is a saving on the amount of income tax that the company will be required to pay.
 - iii. Number of shares is lesser when funds are raised as debt and so divisible profits (EAT) will have to be distributed among lesser number of shares.
- Use of Financial Leverage, however, involves a risk to equity holders because even a small change in EBIT will cause a great change in EPS and return on Equity as we can see in example II. Thus, the benefits of Trading on Equity are available only when the following conditions are satisfied:
 - i. Rate of earning is higher than the rate of interest on debt.
 - ii. The company's earnings are stable and regular to pay at least the interest on debentures.
 - iii. There are sufficient fixed assets to offer as security to lenders.

Example I: A company requires Rs 30,00,000 to finance its operations. Expected rate of return in 15% and tax rate is 30%. Financing options are:

- Equity shares @ Rs 10 per share OR
- Equity @ Rs 10 per share and debt @ 10% per annum.

The calculations of EBT (Earnings before Tax), EAT (Earnings after taxes) and EPS (Earning per Share) under the above two alternatives can be given as:

| Particulars | Plan A | Plan B | Plan C |
|---|---|---|---|
| Capital | (in Rs) Equity = 30,00,000 Debt = nil | (in Rs) Equity = 20,00,000 Debt = 10,00,000 | (in Rs) Equity = 10,00,000 Debt = 20,00,000 |
| CAPITAL EMPLOYED | Total = 30,00,000 | Total = 30,00,000 | Total = 30,00,000 |
| EBIT (- Cap Empd * Rate of Return) $[= \frac{15}{100} * 30,00,000]$ | Rs4,50,000 | Rs4,50,000 | Rs4,50,000 |
| (- Interest @ 10%) $[= \frac{10}{100} * Debt]$ | Nil | (-Rs1,00,000) | (-Rs2,00,000) |
| EBT (-Taxes @30%) | Rs4,50 ,000 (- Rs1,35,000) | Rs 3,50 ,000 (- Rs1,05,000) | Rs 2,50 ,000 (- Rs 75,000) |
| EAT | Rs 3,15,000 | Rs2,45,000 | Rs1,75,000 |
| No. Of shares | 3,00,000 | 2,00,000 | 1,00,000 |
| EPS $(= \frac{EAT}{No\ of\ Shares})$ | Rs1.05 | Rs1.225 | Rs1.75 |

In the above example, we see that Plan C has a higher EPS as:

- a. Tax paid is least in Plan C as compared with tax paid in Plans A and B.
- b. Rate of return on investment (=15%) is more than cost of debt (10%)
- c. Number of shareholders under Plan C = 1,00,000 which is much lesser than that under plan A(3,00,000) or B (2,00,000).

Example II: A company requires Rs 30,00,000 to finance its operations. Expected rate of return in 5% and tax rate is 30%. Financing options are:

- Equity shares @ Rs 10 per share OR
- Equity @ Rs 10 per share and debt @ 10% per annum.

The calculations of EBT (Earnings before Tax), EAT (Earnings after taxes) and EPS (Earning per Share) under the above two alternatives can be given as:

| Particulars | Plan A | Plan B | Plan C |
|--|---|---|---|
| Capital | (in Rs) Equity = 30,00,000 Debt = nil | (in Rs) Equity = 20,00,000 Debt = 10,00,000 | (in Rs) Equity = 10,00,000 Debt = 20,00,000 |
| CAPITAL EMPLOYED | Total = 30,00,000 | Total = 30,00,000 | Total = 30,00,000 |
| EBIT (- Cap Empd * Rate of Return) $[= \frac{5}{100} * 30,00,000]$ | Rs1,50,000 | Rs1,50,000 | Rs1,50,000 |
| (- Interest @ 10%) $[= \frac{10}{100} * Debt]$ | Nil | (-Rs1,00,000) | (-Rs2,00,000) |
| EBT (-Taxes @30%) | Rs1,50 ,000 (- Rs45,000) | Rs50 ,000 (- Rs15,000) | (Rs50,000) |
| EAT | Rs1,05,000 | Rs35,000 | (Rs 50,000) |
| No. Of shares | 3,00,000 | 2,00,000 | 1,00,000 |
| EPS $(= \frac{EAT}{No\ of\ Shares})$ | Rs0.35 | Rs0.175 | NIL |

In the above example, we see that With an increase in debt, the company is actually incurring a loss as the Rate of return on investment (=05%) is lesser than cost of debt (10%), this is an UNFAVOURABLE FINANCIAL LEVERAGE that increases the financial risk.

Factors affecting capital structure are:

- i. Cash flow position:
 - a. The size of the projected cash flows must be considered before deciding the capital structure of the firm. If there is sufficient cash flow, debt can be used.
 - b. It must cover fixed payment obligations w r t:
 - i. Normal business operations
 - ii. Investment in fixed assets
 - iii. Meeting debt service commitments as well as provide a sufficient buffer.
- ii. Interest coverage ratio :
 - a. Higher the Interest coverage ratio which is calculated as follows: EBIT / Interest, lower shall be the risk of the company failing to meet its interest payment obligations.
 - b. Low Interest coverage ratio => debt ≠ used.

iii. Debt Service Coverage Ratio:

- a. Debt service coverage ratio = $\frac{\text{Profit after tax} + \text{Depreciation} + \text{Interest} + \text{Non Cash exp.}}{\text{Preference dividend} + \text{Interest} + \text{Repayment obligation}}$
- b. A higher Debt service coverage ratio, in which the cash profits generated by the operations are compared with the total cash required for the service of debt and the preference share capital, the better will the ability of the firm to increase debt component in the capital structure.
- c. Low Debt service coverage ratio => debt ≠ used.

iv. Return On Investment

- a. If return on investment of the company is higher, the company can choose to use trading on equity to increase its EPS, i.e., its ability to use debt is greater.

v. Cost Of Debt

- a. More debt can be used if cost of Debt is low.

vi. Tax Rate

- a. A higher tax rate makes debt relatively cheaper and increases its attraction as compared to equity.

vii. Cost Of Equity

- a. when the company uses more debt, the financial risk faced by equity holders increase so their desired rate of return increases.
- b. If debt is used beyond a point, cost of equity may go up sharply and share price may decrease in spite of increased EPS.

viii. Floatation Cost

- a. Cost of Public issue is more than the floatation cost of taking a loan.
- b. The floatation cost may affect the choice between debt and equity and hence the capital structure

ix. Risk Consideration:

- a. The total risk of business depends upon both the business risk and financial risk. If a firm's business risk is lower, its capacity to use debt is higher and vice versa.

x. Flexibility:

- a. If the firm uses its debt potential, it loses the flexibility to use more debt.
- b. To maintain flexibility the company must maintain some borrowing power to take care of unforeseen circumstances.

xi. Control:

- a. Debt normally does not cause dilution of control whereas a public issue makes the firm vulnerable to takeovers.
- b. To retain control, firm should issue debt.

xii. Regulatory Framework:

- a. Public issue of shares and debentures have to be made under SEBI guidelines. Raising funds from banks and other financial institutions require fulfillment of other norms:
- b. It is relatively easier to get a loan as compared to issuing shares to the public.

xiii. Stock Market Conditions:

- a. If the stock markets are bullish, equity shares are more easily sold even at a higher price.
- b. However, during a bearish phase, a company, may find raising of equity capital more difficult and it may opt for debt.

xiv. Capital Structure of other companies:

- a. There are usually some industry norms which may help. Care however must be taken that the company does not follow the industry norms blindly.

MANAGEMENT OF FIXED CAPITAL

- Also called **Investment** or **Capital Budgeting decisions** and involves *allocation of firm's capital to different projects or assets with long term implications for the business.*
- **Features of Fixed Capital:**
 - Permanently invested in business
 - Generate income and not meant for resale.
 - Affects growth prospects, profitability and risk of the business in the long run.
 - Involve large investments
 - Financed through long-term sources of finance
 - Irrevocable except at huge losses.
- **Examples of Capital Budgeting decisions** are expenditures on:
 - Acquisition, expansion, modernization and replacement of assets.
 - Launching a new product line
 - Advertising expenditure, R&D program having long-term implications.
- **Importance of Capital Budgeting Decisions:**
 1. Long term growth and effects: affect future prospects of the business.
 2. Large amount of funds involved:
 3. Risk involved:
 4. Irreversible:
- **Factors affecting Fixed Capital Requirement:**

| | |
|-----------------------------|----------------------------|
| 1) Nature of business: | 5) Growth prospects: |
| 2) Scale of operations: | 6) Diversification: |
| 3) Choice of technology: | 7) Financing alternatives: |
| 4) Technology up gradation: | 8) Level of collaboration: |
- **Factors affecting Fixed Capital Requirement:**
 1. **Nature of business:** manufacturing needs more investment in fixed assets than trading concerns
 2. **Scale of operations:** large scale needs investment in fixed assets than small scale
 3. **Choice of technology:** Firms needing capital intensive technique higher investment in plant and machinery as it relies less on manual than firms using labor intensive technique.
 4. **Technology up gradation:** In some industries, assets become obsolete faster and need frequent replacement. Such firms needing frequent technological up gradation needs more fixed capital.
 5. **Growth prospects:** more fixed capital needed for growing concerns.
 6. **Diversification:** more fixed capital is needed if the firm has plans to diversify.
 7. **Financing alternatives:** more fixed capital is needed on immediate basis if fixed assets are bought on cash down rather than on installment basis or taken on lease.
 8. **Level of collaboration:** if firms in an industry collaborate and use idle capacity in each other's plants to meet orders that they cannot fulfill with their existing capacities, they need less fixed capital as need for expansion of production capacity is reduced.

MANAGEMENT OF WORKING CAPITAL

- Working Capital = short term finance (invested in a business for a short period usually up to one year)
- It is required to meet day to day operating expenses.
- Current assets
 - Get converted to cash or cash equivalents quickly and without a significant loss in their value. They help a firm meet its payment obligations.
 - These assets however provide no or very less returns.
 - Examples are cash in hand/cash at bank, marketable securities, bills receivable, debtors, finished goods inventory, Work in progress, Raw materials, Prepaid expenses etc.
- Current liabilities = due for payment within a year.
 - Examples = bills payable, creditors, o/s expenses, advances from customers.

Operating Cycle

- Duration of time between acquisition of supplies and collection of cash from receivables is called Operating Cycle. Trading and manufacturing concerns need working capital to finance operations during this time gap.
- Cash payments take place on a regular basis (for raw materials, wages etc) without cash being realized immediately (because of credit sale).
- Working capital is required to sustain the operations of a business during this period as:
 - Minimum cash balance needs to be maintained
 - Stock of raw materials will have to be stored to ensure uninterrupted production process and finished goods stocked to meet orders from customers.
 - Credit facilities have to be given to customers.
- What amount of the working capital is required will be determined by the operating cycle of the firm.
- Excess investment in working capital will lead to blocking funds in idle assets such as cash, debtors etc. that do not earn any returns. It will further lead to lower returns in addition to exposing the business to risks such as risk of unsold inventories or bad debts.
- Shortage of investment in working capital might lead to situation where stock is not available when required and there is no cash to finance day-to-day operations eventually leading to loss of sale and of reputation when firm is unable to meet its debts.
- Therefore, adequate investment should be made in working capital depending on risk-return trade off
- ***Factors Affecting Working Capital (WC) Requirement:***
 1. **Nature of business:** Trading concerns needs lesser WC than Manufacturing concerns as trading concerns do not process raw materials and so have lesser stocks and goods are converted into sales immediately on their receipt. Service industries need lesser wk cap than manufacturing industries.

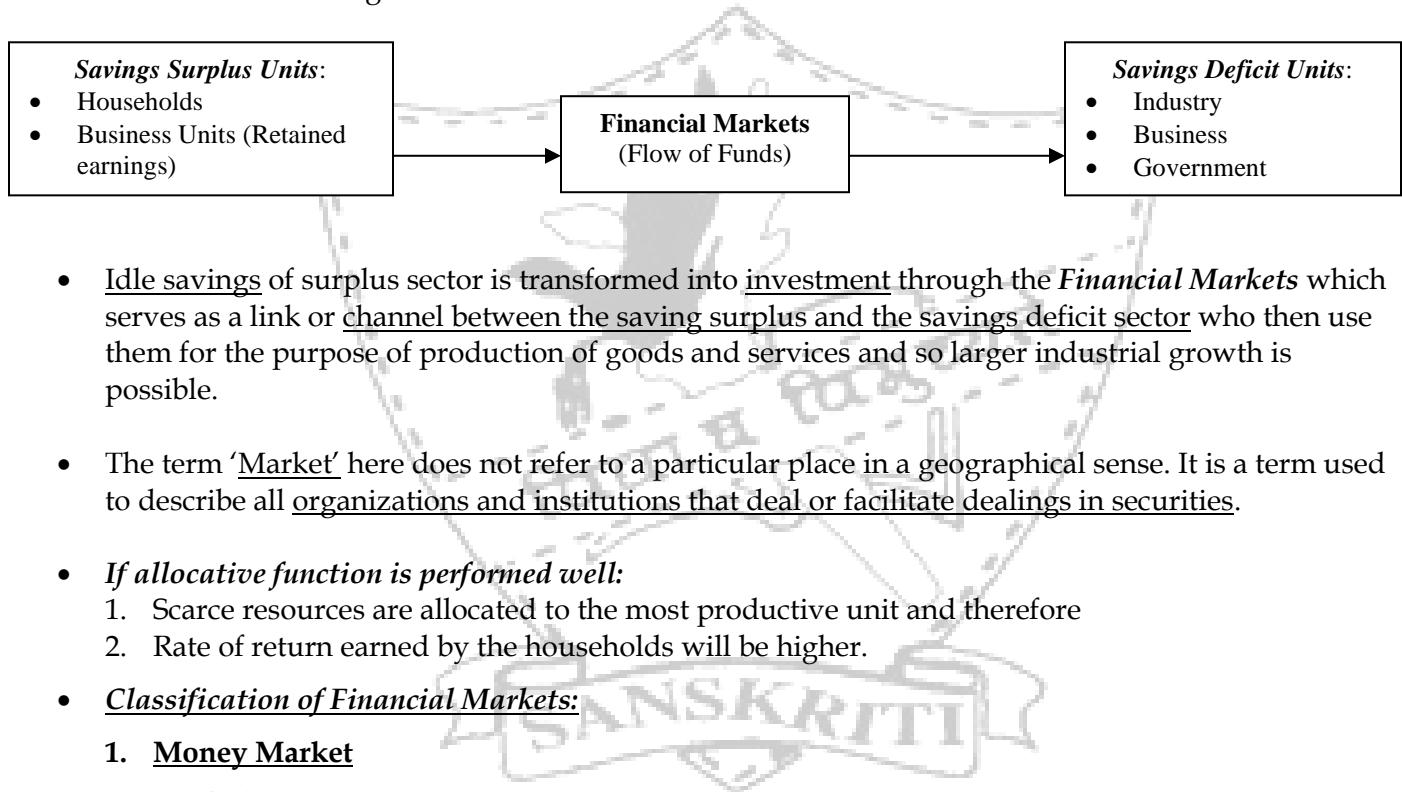
2. **Scale of operations:** Large-scale -quantum of inventory and debtors are higher Vs smaller firm.
3. **Business cycle:** Boom period sales and production higher =>more WC Vs Depression
4. **Seasonal factors:** in peak seasons when demand is high, they need more working cap than during lean season.
5. **Production cycles:** = time taken to convert Raw materials into finished goods. Requirement of working cap is higher for firms with long production capital.
6. **Credit allowed:** if firm gives its debtors long credit periods, it needs to meet its expenses during this period and as a result, needs more working capital.
7. **Credit availed:** if creditors are willing to offer the firm liberal terms, it needs lesser working capital.
8. **Operating efficiency:** more efficiency, lesser working capital required.
9. **Availability of raw materials:** if raw materials are easily available, a large stock need not be kept as stock and so lesser working capital is needed.
10. **Growth prospects:** if growth prospects are there, more working capital is needed.
11. **Level of competition:** if firms are competitive, a larger stock of goods need to be maintained so that consumers do not go to the rival firm due to our inability to meet their demand. Also, Larger amount of credit sales may be required to be made to retain consumers.
12. **Inflation:** leads to a requirement of more working capital as higher amounts are required to maintain a constant volume of production and sales.

Financial Markets

Introduction

- **Financial Intermediation** = process of allocating funds from saving surplus units (E.g. households) to saving deficit units (e.g. industries, government etc).
- **Alternatives** = Banks or Financial markets

Financial Markets are the institutional arrangements by which savings generated in the economy are channelised into avenues of investment by industry, business and the government. It is a market for the creation and exchange of financial assets.



- Idle savings of surplus sector is transformed into investment through the **Financial Markets** which serves as a link or channel between the saving surplus and the savings deficit sector who then use them for the purpose of production of goods and services and so larger industrial growth is possible.
- The term 'Market' here does not refer to a particular place in a geographical sense. It is a term used to describe all organizations and institutions that deal or facilitate dealings in securities.
- If allocative function is performed well:
 1. Scarce resources are allocated to the most productive unit and therefore
 2. Rate of return earned by the households will be higher.
- Classification of Financial Markets:
 1. Money Market
 2. Capital Market
 - Primary Markets
 - Debt
 - Equity
 - Secondary Markets
 - Debt
 - Equity

Functions of Financial Markets

1. Mobilization of savings and channelising them into the most productive uses
2. Facilitate Price Discovery
3. Provide liquidity to financial assets

4. Reduce the cost of transactions
1. Mobilization of savings and channelising them into the most productive uses:
 - Facilitates transfer of savings from the savers to the investors.
 - Financial markets help people to invest their savings in various financial instruments and earn income and capital appreciation.
 - Facilitate mobilization of savings of people and their channelisation into the most productive uses.
2. Facilitate Price Discovery:
 - Price of anything depends upon the demand and supply factors.
 - Demand and supply of financial assets and securities in financial markets help in deciding the prices of various financial securities; where business firms represent the demand and the households represent the supply.
3. Provide liquidity to financial assets:
 - Financial markets provide liquidity to financial instruments by providing a ready market for the sale and purchase of financial assets.
 - Whenever the investors want, they can invest their savings into long term investments and whenever they want, they can sell the investments/ instruments and convert them into cash.
4. Reduce the cost of transactions:
 - By providing valuable information to buyers and sellers of financial assets, it helps to save time, effort and money that would have been spent by them to find each other.
 - Also investors can buy/sell securities through brokers who charge a nominal commission for their services. This way financial markets facilitate transactions at a very low cost.

Money Markets

- Market for financial securities with maturity period of less than one year.
- Mkt for low risk, unsecured and short term debt instruments that are highly liquid are traded everyday.
- No physical location by conducted over the telephone and the internet.
- **Helps to:**
 - raise short term funds
 - Temporary deployment of funds
- **(Money Market Instruments Used By)**

| Govt./Semi Govt. | Pvt. firms & Companies | Banks |
|--|---|-------------------------------------|
| <input type="checkbox"/> Treasury Bills | <input type="checkbox"/> Trade Bills | <input type="checkbox"/> Call Money |
| <input type="checkbox"/> Govt. Securities | <input type="checkbox"/> Commercial Papers | |
| <input type="checkbox"/> PSU Bonds | <input type="checkbox"/> Certificate of Deposit | |
| • Features of Money market instruments | | |
| 1. Provide short term funds 2. Huge outlay required as unit value | 4. High liquidity 5. High safety | |

| | |
|---|---|
| of instruments is high 3. Duration = 1 day to 1 year | 6. Lower expected returns as compared to long term securities. <ul style="list-style-type: none"> • <i>Features of Money market:</i> |
| 1. Short Term 2. Features of Instruments 3. Location 4. Helps to/Purpose 5. Participants: | 6. Main Instruments: 7. Amount of Money Required 8. Liquidity: 9. Expected rate of return: 10. Safety |

- ***Features of Money market:***

1. **Short Term:** The money market is a market for short term securities with a maturity period up to one year.
2. **Features of Instruments:** It is a market where low risk, unsecured and short term debt instruments are traded.
3. **Location:** It has no physical location but is an activity that is carried on over the telephone and through the internet.
4. **Helps to/Purpose:** It enables raising of short term funds for meeting temporary shortages of cash as well as the temporary deployment of excess funds for earning returns.
5. **Participants:** The major participants are the Reserve Bank of India, Commercial Banks, Non-Banking Finance Companies, Mutual Funds and Financial Institutions.
6. **Main Instruments:** The main instruments traded in the money market are Treasury bills, Trade Bills, Commercial Papers and Certificate of Deposits.
7. **Amount of Money Required:** Investment in money market entails huge sums of money as the unit value of instruments are high.
8. **Liquidity:** Money market enjoys a high degree of liquidity as they are short term instruments and are issued by financial instruments, banks or reputed companies..
9. **Expected rate of return:** The expected rate of return is generally low as the money is invested only for a short duration.

The Discount Finance House of India (DFHI) has been established for the specific objective of providing a ready market for money market instruments.

| | Treasury Bills | Commercial Paper | Call Money | Certificate of Deposit | Commercial Bill |
|------------------------------|---|---|--|---|--|
| Issued by | RBI on behalf of the government | Companies | Banks | Commercial Banks and DFIs | Firms |
| Maturity period | 14 days to 364 days | 15 days to 365 days | 1 day to 15 days | 91 days to 365 days | 90 days |
| Minimum amount of instrument | Rs 25,000 and multiples thereof | Rs 5,00,000 | Variable | Rs 5,00,000 | Variable |
| Proceeds are used to | Meet short term financial needs. Issued at a discount and redeemable at par. | Meet working capital and seasonal needs. Used for bridge financing.(funds used to meet floatation costs for public issues) Issued at a discount and redeemable at par. Alternative to bank borrowing for large reputed companies. | Re-distribute the pool of day-to-day surplus funds among other banks that have a temporary cash deficit. Used by banks to meet CRR. | <u>issued by commercial Banks</u> and Development Financial Institutions to individuals, corporations & companies to Mobilize funds during period of tight credit- that is, when demand for credit is high but deposit rate is low. | <ul style="list-style-type: none"> • Finance credit sales for a firm • Source of working capital. • When a trade bill is discounted with a commercial bank, it becomes a commercial bill. |

| Other features | Treasury Bills | Commercial Paper | Call Money | Certificate of Deposit | Commercial Bill |
|----------------|---|--|---|--|--|
| | <ul style="list-style-type: none"> • Zero coupon bonds(that is, sold at a discount and redeemed at par) • Highly liquid • Freely transferable • Issued as a promissory note Negligible risk of default as they are issued by the government • Buyers are banks, NBFCs, LIC, UTI, GIC etc. | <ul style="list-style-type: none"> • Zero coupon bonds (sold at a discount and redeemed at par) • Used by well reputed and large companies • Issued as an unsecured promissory note. Negotiable & transferable by delivery • Buyers are banks, insurance companies, mutual funds etc. | <ul style="list-style-type: none"> • Interest rate is called 'Call rate' and varies from day to day. • inter bank transactions • liquidity is next only to cash basically over-the-telephone market. | <ul style="list-style-type: none"> • These are unsecured negotiable, short-term instruments • Bearer document issued by bank against deposits kept by companies and other institutions for a period of 91 days to 1 year. • Freely tradable in the secondary market | <ul style="list-style-type: none"> • Short term ,negotiable and self-liquidating instrument |

Capital Markets

- Facilities and institutional arrangements through which long term securities are raised and invested- both debt and equity.
- Nature of Capital Markets:

| | |
|---|---|
| a. Important component of Financial markets b. Two segments(primary and secondary) c. 2 forms(organized and unorganized) d. long term securities e. Satisfies long term requirements of funds | f. Performs trade-off functions g. Creates dispersion in business ownership h. Helps in capital formation i. Creates liquidity |
|---|---|

- Features Of Capital Market Instruments:

| | |
|---|--|
| a. Provide long term funds b. Lesser outlay required as unit value of instruments is low c. Duration more than 1 year | d. Liquidity e. Lower safety f. Higher expected returns as compared to short term securities |
|---|--|

- Difference between Capital and Money markets are:

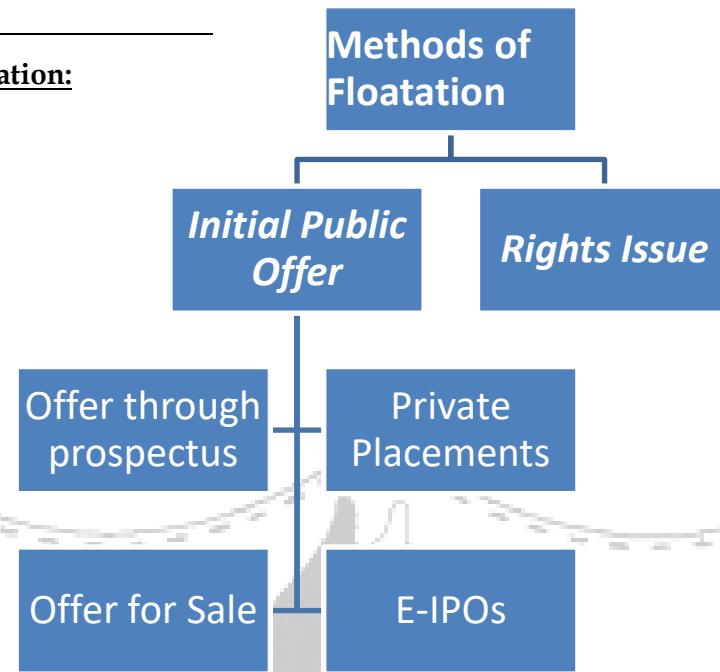
| | |
|--|---|
| 1) Meaning 2) Participants 3) Investment outlay 4) Duration 5) Liquidity | 6) Safety 7) Expected returns 8) Cost of transactions 9) Instruments traded in 10) Use of funds |
|--|---|

Primary Markets

1. New issues markets
2. Transfers investible funds from savers to entrepreneurs.
3. Funds used for setting up new projects, expansion, diversification, modernization of existing projects, mergers and take overs etc.
4. Features:

| | |
|---|--|
| 1. Concerned with new issues 2. No specific geographical location 3. Comes before secondary market 4. Various methods of flotation | 5. Directly leads to capital formation 6. Prices are determined by management 7. Only buying takes place |
|---|--|

• **Methods of Floatation:**



1. IPO=Initial Public offer = First time sale of securities.

a. *Offer though prospectus:*

- Prospectus provides details about an issue and therefore helps he potential investor to understand and evaluate the issue.
- Issue is underwritten and listed
- It is also called a public issue

b. *Offer for sale:*

- Securities are sold enblock at an agreed price through an intermediary like issuing houses or stock brokers who then sells them to the general public at a higher price.

c. *Private placement:*

- Allotment of shares to institutional investors and some selected individuals.

d. *E-IPO's:*

- Issuing of fresh capital thro the on-line system of the stock exchange.

2. Rights Issue:

- Existing shareholders are offered the 'right' to buy new shares in proportion to the number of shares they already possess.
- The shareholder can either accept the offer himself/herself; assign a part of or all of his right in favor of another or 'rescind'(give up) this right altogether.

Secondary Market

- Refers to a market where existing securities are bought and sold.
- The company is not involved in the transaction at all. It is between two investors.
- **Features of Secondary market are:**
 - 1) Creates liquidity
 - 2) Fixed location
 - 3) Comes after primary market
 - 4) Encourages new investment
- **Difference between primary and secondary markets are:**

| | |
|---|---|
| 1) Meaning 2) Issue 3) Purpose 4) Buying and selling 5) Capital formation | 6) Organizational difference/Geographical coverage 7) Listing of securities 8) Sequence 9) Involvement of company 10) Determination of share prices |
|---|---|

- **Stock Exchange:**

- **Section 2(i) of SCRA 1956 [Securities Contract (Regulation) Act]:** Stock Exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating and controlling of business in buying, selling and dealing in securities.

| <u>Features of Stock Exchange:</u> | <u>Functions of Stock Exchange:</u> |
|--|---|
| a. It's a market for previously issued securities b. Dealing only by authorized members c. Permits transactions in listed securities only d. Has a specific geographic location e. Regulated by SEBI & SCRA. | a. Gives liquidity and marketability to existing securities b. Pricing of securities(dd and ss) c. Safety of transactions(membership = regulated + dealings well defined) d. Contributes to economic growth (ensures that savings are channelized to most productive investment avenues) e. Spreading of equity cult(ensures wider share ownership) f. Provides scope for speculation (in a restricted and controlled environment) |

Trading Procedure in Stock Exchanges

1) Selection of a Broker:

- The first step is to select a broker who will buy / sell securities on behalf of the speculator/investor.
- The investor has to sign a broker -client agreement and a client registration form before placing an order to buy or sell securities.
- He has also to provide certain other details and information such as PAN number (mandatory), Bank account details, Depository account details etc.
- The broker then opens a trading account in the name of the investor

2) Opening demat account with Depository:

- The investor has to open a Demat account or 'beneficial owner' (BO) account with a depository participant (DP) for holding and transferring securities in the demat form.
- He will also have to open a bank account for cash transactions in the securities market.

3) Placing the order:

- The order can be communicated to the broker and should specify the securities to be bought or sold and the price range within which the order is to be executed. The broker will then go ahead with the deal at the above mentioned price or the best price available.
- An order confirmation slip is issued to the investor by the broker. Only the securities of listed companies can be traded on the stock exchange.

4) The broker goes on-line and connect to the main stock exchange and match the share and best price available.

5) When the shares can be bought or sold at the price mentioned, it will be communicated to the broker's terminal and the order will be executed electronically. The broker will issue a trade confirmation slip to the investor.

6) After the trade has been executed, within 24 hours the broker issues a Contract Note. A Unique Order Code number is assigned to each transaction and is printed on the contract note.

7) Settlement:

- This is the last stage in the trading of securities done by the brokers on behalf of their clients.
- Investor has to deliver the shares/pay cash for the shares bought. Should be done immediately on receiving the contract note/ before the day when broker makes the payment/delivers the shares to the Stock Exchange on the Pay In Day.

8) Cash is paid/ securities are delivered on the pay in day. Equity spot markets follow a T + 2 rolling settlement w.e.f 1 April 2003. This means that any trade taking place on Monday gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm, Indian Standard Time, Monday to Friday. Delivery of shares must be made

in decartelized form, and each exchange has its own clearing house, which assumes all settlement risk.

- 9) Cash is paid or securities are delivered by the investor on the **pay-in day**, and on the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the **pay-out day**. Payment for shares/ delivery of shares has to be made within 24 hrs of the pay-out day.
- 10) The broker then has to make payment to the investor or delivery of shares in demat form directly to the investor's demat account. Investor has to give details of his demat account and instruct his DP to take delivery of his shares in his BO account.
 - Brokers may be individuals, partnership firms or corporate bodies. They act as intermediaries between buyers and sellers. The investor has to sign a broker-client agreement and a client registration form before placing an order to buy or sell securities.
 - After the trade has been executed, within 24 hours the broker issues a Contract Note.
 - A copy of the contract note contains the name and the price of securities, names of the parties, brokerage charges. It is signed by the broker.
 - This note contains details of the number of shares bought or sold, the price, the date and time of deal, and the brokerage charges. This is an important document as it is legally enforceable and helps to settle disputes/claims between the investor and the broker.
 - Pay-in day is before the T+2 day as the deal has to be settled and finalized on the T+2 day. The settlement cycle is on T+2 day on a rolling settlement basis, w.e.f. 1 April 2003. 9.
 - On the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the **pay-out day**.
 - The broker then has to make payment to the investor within 24 hours of the payout day since he has already received payment from the exchange.

Benefits of Electronic trading systems or screen-based trading :

Electronic trading systems or screen-based trading has certain advantages:

1. It ensures transparency as it allows participants to see the prices of all securities in the market while business is being transacted. They are able to see the full market during real time.
2. It increases efficiency of information being passed on, thus helping in fixing prices efficiently. The computer screens display information on prices and also capital market developments that influence share prices.
3. It increases the efficiency of operations, since there is reduction in time, cost and risk of error.
4. People from all over the country and even abroad who wish to participate in the stock market can buy or sell securities through brokers or members without knowing each other. That is, they can sit in the broker's office, log on to the computer at the same time and buy or sell securities. This system has enabled a large number of participants to trade with each other, thereby improving the liquidity of the market.
5. A single trading platform has been provided as business is transacted at the same time in all the trading centers. Thus, all the trading centers spread all over the country have been brought onto one trading platform, i.e., the stock exchange, on the computer.

Now, screen-based trading or on-line trading is the only way in which you can buy or sell shares. Shares can be held either in physical form or an electronic book entry form of holding and

transferring shares can also be adopted. This electronic form is called dematerialised form.

Dematerialisation and Depositories

'Dematerialisation of Securities'

- Purchase and sale of securities involve exchange of money in return for share certificates. This led to problems of theft, forgery, transfer delays and time involved in paperwork. To eliminate these problems, an electronic book entry form of holding and transferring securities has been introduced. This is referred to as '*Dematerialisation of securities*'.
- A 'D-Mat' account works in the same form as a bank account where the share certificates held by the account holder can be deposited with the bank and after that any purchase and sale of such shares does not require physical transfer of the certificates. The account of the seller is brought down and the shares will now be reflected in the account of the buyer.)
- Demat (Dematerialized) account refers to an account which an Indian citizen must open with the depository participant (banks, stockbrokers) to trade in listed securities in electronic form. The securities are held in the electronic form by a depository.
- Physical shares can be converted into electronic form or electronic holdings can be reconverted into physical certificates (rematerialisation). Dematerialisation enables shares to be transferred to some other account just like cash and ensures settlement of all trades through a single account in shares.
- These demat securities can even be pledged or hypothecated to get loans. There is no danger of loss, theft or forgery of share certificates. It is the broker's responsibility to credit the investor's account with the correct number of shares. Working of the Demat System.

Depository:

- Just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities(e.g. shares, debentures, bonds, mutual funds etc.) in electronic form on behalf of the investor. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/ sold at any time and instruction to deliver or receive shares on behalf of the investor can be given.
- It is a technology driven electronic storage system. It has no paper work relating to share certificates, transfer, forms, etc. All transactions of the investors are settled with greater speed, efficiency and use as all securities are entered in a book entry mode.
- At present in India there are two depositories in India:
 - i. NSDL (National Securities Depository Ltd.) is the first and largest depository presently operational in India. It was promoted as a joint venture of the IDBI, UTI, and the National Stock Exchange.
 - ii. CDSL (Central Depository Services Ltd.) is the second depository to commence operations and was promoted by the Bombay Stock Exchange and the Bank of India.

- Depository interacts with the investor through intermediaries who are electronically connected to the depository and serve as contact points with the investors and are called depository participants. The depository participant (DP) serves as an intermediary between the investor and the Depository (NSDL or CSDL) who is authorized to maintain the accounts of dematerialized shares. Financial institutions, banks, clearing corporations, stock brokers and nonbanking finance corporations are permitted to become depository participants. If the investor is buying and selling the securities through the broker or the bank or a non-banking finance corporation, it acts as a DP for the investor and complete the formalities
 1. A depository participant (DP), either a bank, broker, or financial services company, may be identified.
 2. An account opening form and documentation (PAN card details, photograph, power of attorney) may be completed.
 3. The physical certificate is to be given to the DP along with a dematerialization request form.
 4. If shares are applied in a public offer, simple details of DP and demat account are to be given and the shares on allotment would automatically be credited to the demat account.
 5. If shares are to be sold through a broker, the DP is to be instructed to debit the account with the number of shares.
 6. The broker then gives instruction to his DP for delivery of the shares to the stock exchange.
 7. The broker then receives payment and pay the person for the shares sold.
 8. All these transactions are to be completed within 2 days, i.e., delivery of shares and payment received from the buyer is on a T+2 basis, settlement period.

Other important Terms:

- ***Listing:*** a company's securities can be traded on a Stock Exchange only if they are listed or quoted on it. Every stock exchange prepares a 'LIST' of companies that have permission to trade in that particular exchange and only companies that fulfill the stringent conditions laid down by the exchanges w.r.t submission of documents, filing and publishing of records etc are allowed to be listed. This is done to ensure that interests of shareholders are adequately looked after.
- '***Demutualisation***' refers to the process of separating the ownership of stock exchanges from the trading rights of members. Earlier, ownership, control and management of stock exchanges were in the hands of Brokers and this led to a conflict of interest between the brokers and their clients. Demutualisation' reduced this conflict of interest and the chance of brokers using stock exchanges for personal gains.

SEBI:

- Established in 1988 and given statutory status through an Act in 1992. SEBI was set up to protect the interests of investors, development and regulation of stock markets.

- Setup to regulate the function of the security market with a view to :
 - i) Promote their orderly & healthy development.
 - ii) Provide adequate protection to investors.
 - iii) Create an environment to facilitate mobilization of adequate resources through the securities market.
- **Basic Purpose and Role of SEBI:**

SEBI meets the needs of 3 interest groups:

 - **Issuers:** provide a market place where they can raise finances in an easy, fair & efficient manner.
 - **Investors:** protection of rights & interests through adequate, accurate & authentic information & disclosure of info on a continuous basis.
 - **Intermediaries:** Offer a competitive, professionalized & expanding market with adequate & efficient infra structure so that they are able to render better service to the investors & issuers.
- **Organizational Structure of SEBI:**
 - Activities are divided into five operational departments:
 - Each department is headed by an executive director.
 - Head office = Mumbai and regional offices in Kolkata, Chennai and Delhi.
 - Also has 2 advisory committees
 - Primary market advisory committee
 - Secondary market advisory committee
- **Objectives of SEBI:** The overall objective of SEBI is to protect the interests of investors and to promote the development of, and regulate the securities market. This may be elaborated as follows:
 1. To regulate stock exchanges and the securities industry to promote their orderly functioning.
 2. To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
 3. To prevent trading malpractices and achieve a balance between self-regulation by the securities industry and its statutory regulation.
 4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

- **Functions of SEBI**

| Protective Functions | Development Functions | Regulatory Functions |
|---|--|---|
| i) Prohibit fraudulent & unfair trade practices in secondary market (e.g. Price rigging & misleading statement) | i) Promotes training of intermediaries of the securities market | i) Registration of brokers & sub brokers & other players in the market. |
| ii) Prohibit insider trading | ii) Conducting research & publish information useful to all market participants. | iii) Registration of collective investment schemes & mutual funds. |
| iii) Undertaking steps for investor protection. | iii) Undertaking measures to develop the capital markets by adapting a flexible approach | iii) Regulation of stock bankers & portfolio exchanges & merchant bankers. |
| iv) Promote fair practice & code of conduct in securities market. | | iv) Regulation of takeover bids |
| | | v) Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries |
| | | vi) levying fee for carrying out the purposes of the Act |
| | | vii) Performed exercising such power under securities contracts (Regulation) Act 1956, as may be delegated by the Govt. of India. |

Marketing Management

MEANING OF SOME IMPORTANT TERMS:

- Needs = basic human requirements. Essential items necessary or fundamental to human existence.
- Wants=desire for a particular product. Tend to be 'satisfier specific'.
- Demand- willingness to buy is backed by purchasing power
- Utility - want satisfying power of a product.
- What can be marketed:
 - A product =
 - bundle of utility not confined to physical products but can refer to other things of value such as services, ideas, place. It refers to anything that satisfies a need or want.
 - may be tangible or intangible(i.e. goods and services)
 - even people can be marketed
- Customers= people or organizations that seek satisfaction of their wants.
- 'Marketers' =
 - Anyone taking a more active role in the process of exchange is called a marketer. Normally it is the seller. But in certain situations, it may also be the buyer. This may be in the situation of rare supply.
 - Sellers as marketer are the deliverers or providers of satisfaction. They makes available products or services and offers them to customers with an intention of satisfying customer needs and wants. They can be divided into:
 - Goods marketers (such as Hindustan Lever)
 - Services marketers (such as Indian Airlines)
 - Others marketing experiences (such as Walt Disney) or places (like tourist destinations).
- Marketing activities =activities carried on by the marketers to facilitate exchange of goods and services between the producers and the users of such products.
- Market is:
 - Place where buyers and sellers meet and conduct buying and selling activities. It does not necessarily mean a geographical place(e.g. conduct of business thro telephone, mail or internet)
 - The other ways in which this term is being used is in the context of a product market(cotton market, gold or share market), geographic market(national and international market), type of buyers(consumer market and industrial market) and the quantity of goods transacted(retail market and wholesale market).
 - In the modern marketing sense, it refers to a set of actual or potential buyers of a product or service i.e. all customers who share a particular need or want and are able to buy the product (also referred to as target markets)

- **Marketing**

- Traditionally it has been defined as performance of business activities that direct the flow of goods and services from producers to consumers. Therefore activities such as packing, warehousing, transportations and pricing are all referred to as marketing activities.
- In modern times thinkers like Philip Kotler have defined marketing as 'a social process by which individual groups obtain what they need and want through creating offerings and freely exchanging products and services of value to each other'.

- **Features of Marketing:**

- 1. Need and Want:

- The primary motivation for people to engage in the process of marketing is the satisfaction of some need or want.
 - Thus, the focus of a marketer is satisfaction of such needs or wants of individuals or organisations by developing necessary products and services.

- 2. Creating a Market Offering:

- Market offering is a complete offer for a product/service having given features like size, quality and availability at a given location etc.
 - A good market offer is one that is developed after analyzing the needs and preferences of potential buyers.

- 3. Customer Value:

- A product will be purchased only if the buyers' perception of its value is more than the price that he has to pay for the product.
 - The job of a marketer is to add value to the product so that the customers prefer it in relation to the competing products and decides to purchase it.

- 4. Exchange Mechanism:

- The process of marketing involves exchange of products and services for money or for something considered to be of value by the people.
 - For any exchange to take place, it is important that the following conditions be satisfied:
 - Involvement of at least 2 parties-the seller and the buyer
 - Each party must have something perceived as valuable by the other.
 - Each party must have the ability to communicate with the other and deliver the product or the service.
 - It must be voluntary- that is, each party must have the freedom to accept or to reject the other party's offer.
 - The party should be willing to enter into transaction with each other.

- **Marketing Management**

- Can be defined as the process of planning, organizing, directing and controlling the activities related to the marketing of goods and services to satisfy customer wants.
 - According to Philip Kotler 'Marketing Management is the analysis, planning, implementation and control of programmes designed to create, build and maintain mutually beneficial exchange relationships with target markets for the purpose of achieving organisational goals.

- **The process of Marketing involves:**
 - i. Choosing a target market
 - ii. Getting, keeping as well as growing the customer
 - that is, ensure that the target customers purchase the firm's product, ensure that they keep their customers satisfied with the products and attract new customers so that the firm can grow.)
 - iii. Create, develop and communicate superior values to the customers.
- Marketing management not only is concerned with creating a demand for the firm's product but also managing the products demand effectively as per the situation in the market. For example, if demand is seasonal, the marketing team can use tools such as off season discounts to attract customers during the firms' lean season and attempt to change the time pattern of demand.
 - But sometimes, if the demand is 'OVERFULL', that is, more than what the company can handle, the marketer will try to restrict the demand.
- What can be marketed:
 - **Physical Products** : DVD player, Motor cycle, ipods, Cell phone, Footwear, Television, Refrigerator.
 - **Services** : Insurance, Health Care, Business Process Outsourcing, Security, Easy Bill service, Financial Services(Investment), Computer Education, Online Trading.
 - **Ideas** : Polio Vaccination, Helpage, Family Planning, Donation of Blood (Red cross), Donation of money on Flag Day (National Foundation for Communal Harmony).
 - **Persons** : For Election of Candidates for Certain Posts.
 - **Place** : 'Visit Agra - 'City of Love', 'Udaipur - 'The City of Lakes', 'Mysore - The City of Gardens'.
 - **Experience** : Customised Experiences as Dinner with a cricketer (say Dhoni); Lunch with a celebrity (say Bill Gates or Aishwarya Roy) or experience of Balloon Riding, mountaineering, etc.
 - **Properties** : Intangible rights of ownership of real estate in financial property (Shares, Debentures).
 - **Events** : Sports events (say Olympics, Cricket series), diwali mela, fashion show, music concert, film festival, elephant race (Kerala Tourism).
 - **Information** : Production packaging and distribution of information by organisations such as by universities, research organisation, providing information as market information (marketing research agencies), technology information.
 - **Organisations**: For boosting their public image organisations such as Hindustan Lever, Ranbaxy, Dabur, Proctor and Gamble, communicate with people. Example, Phillips says, 'Let's make Things Better'.

| Basis Of Difference | Selling | Marketing |
|---|--|--|
| 1. Part Of The Process Vs. Wider Term - <i>Scope</i> | Selling = part of marketing. The focus is transferring the ownership of the product from the seller to the buyer. Has a <u>narrower scope</u> than marketing | <u>Marketing</u> is a much <u>wider term</u> consisting of a number of activities. Thus selling is only a part of marketing. |
| 2. Transfer Of Title Vs. Satisfaction Of Customer Wants - <i>Main Focus</i> | Affecting <u>transfer of title and possession</u> of goods from seller to buyer | Achieving <u>maximum satisfaction of customer needs and wants</u> . |
| 3. Profit Thro Maximizing Sales Vs. Customer Satisfaction | Activities directed at maximizing sales and thereby the profits available to a business in the <u>short run</u> . | Focus on customer satisfaction as a route to profit maximization in the <u>long run</u> . |
| 4. Start And End Of Activities | Starts with production and ends with sale, which is transfer of ownership. | Start much before production and continues even after sale has been concluded. |
| 5. Difference In The Emphasis | Bending the customer according to the products | Develop the product and other strategies as per the customer demand. |
| 6. Difference in Strategies. | Involves efforts such as promotion and persuasion. | Uses integrated marketing efforts involving strategies in respect of product, promotion and physical distributaries. |

Marketing Management Philosophies

Marketers attempt to identify customers' wants and needs and accordingly create products, price them, promote and distribute them to satisfy the demand of customers. Thus, an offer is made by the marketer to the customer with the hope of actualizing an exchange with potential customers.

The process of creation of an offer and the interaction with the market, that is, the marketing efforts may be guided by different philosophies, which are as follows:

- i. Production concept
- ii. Product concept
- iii. Selling concept
- iv. Societal marketing concept
- v. Marketing concept

| | PRODUCTION CONCEPT | PRODUCT CONCEPT | SELLING CONCEPT |
|-----------------------------|--|--|--|
| Environment in which formed | In the earlier days of the industrial revolution, the <u>number of producers were limited</u> , → limited supply of industrial products → not able to match demand . So, anyone who was able to produce goods could easily find buyers for the same. | With passage of time, the <u>supply improved</u> → <u>customers</u> started looking for products that were <u>superior</u> in performance, quality and features. | increase in scale of production→ <u>competition</u> among the sellers → Product quality and availability alone did not ensure survival as a <u>large number of firms</u> were now <u>selling products of similar quality</u> |
| Assumption | potential exchange would be realized simply if the <u>products are widely available and inexpensive</u> . | potential exchange would be realized when the <u>products are of high quality</u> | potential exchange is realized only if <u>firms undertake aggressive selling and promotion efforts</u> , that is, customers, if left alone, would not buy or not buy enough of the firms' product |
| Strategy Adopted | <u>Lowering the cost of production by means of mass production and distribution.</u> | <u>making superior products</u> and improving them over time | rely upon the powers of <u>advertising</u> and <u>other persuasion techniques</u> to influence customers. They focus on the selling the product that the firm has to offer to the customers, that is, somehow convert the goods into cash. |
| Drawback | <u>Customers do not always buy products only as they are inexpensive and widely available.</u> | <u>customers do not always buy products only as they are of high quality if they do not need it.</u> | such technique can <u>succeed in the short run but not in the long run</u> . And if the customers are <u>wrongly lured</u> , they may <u>adversely affect</u> the firms' <u>goodwill</u> and therefore harming the firms' long term prospects. |

| <u>SOCIETAL MARKETING CONCEPT</u> | <u>MARKETING CONCEPT</u> |
|--|--|
| <ul style="list-style-type: none"> ✓ Firms must perform marketing in a fashion that societal well being is enhanced i.e. attention must be paid to social, ethical and ecological aspects of marketing ✓ Environmental ills such as pollution plundering of resources, drug abuse etc. must be avoided while identifying and meeting customer needs. ✓ Thus it holds that the task of a firm is to identify the needs and wants of the target market and deliver the desired satisfaction in an effective and efficient manner so that the long term well being of the consumers and the society as a whole is taken care of. | <ul style="list-style-type: none"> ✓ Marketers believes that potential exchange will be realized when <u>firms develops products and services that customers want and not just what the firm can produce</u> and therefore satisfies customers better than competitors. That is, firms following this philosophy make products in response to the market needs. ✓ Key points in the marketing concept are: <ul style="list-style-type: none"> ○ Identification of the <u>target market</u> ○ Understanding <u>needs and wants</u> of customers in the target market. ○ <u>Development</u> of products to satisfy the needs and wants of target market. ○ Satisfying needs of target market <u>better than competitors</u>. ○ Doing all these at a <u>profit</u>. <p>There are two dominant forces in the market - Customers and Competitors. Firm must keep a constant check on customers and factors that influence customer needs as this will help them in shaping products and services in accordance with changing customer needs. Also firm must maintain a constant vigil on competitors and formulate strategies to ensure that they satisfy customer needs better than them</p> |

Basis of Differences in the Marketing Management Philosophies

| Philosophies/ Bases | Production Concept | Product Concept | Selling Concept | Marketing Concept | Societal Concept |
|------------------------|---|--|--------------------------|-----------------------------------|---|
| Starting Point | Factory | Factory | Factory | Market | Market/Society |
| Main focus | Quantity of product | Quality, performance and features of product | Existing product | Customer needs | Customer needs and society's well being |
| Means | Availability and affordability of product | Product improvements | Selling and promoting | Integrated marketing | Integrated marketing |
| Ends | Profit thro volume of production | Profit thro | Profit thro sales volume | Profit thro customer satisfaction | Profit thro customer satisfaction and social welfare. |

Functions of Marketing NCERT Pg 309 - For examples

Gathering And Analyzing Market Information:

- systematic investigation of facts
- SWOT analysis
- Necessary to identify needs
- Decisions can be wrt. Identifying customer needs and wants, identifying buying motives, choice of a brand name, packaging and media used for promotion.
- Data is available both from primary as well as secondary sources.

Marketing planning :

- Aim = to develop a complete marketing plan so that the marketing objectives can be achieved.
- It also must specify the action programs.
- E.g if a marketer aims at enhancing his market share in the country in the next three years, then his marketing plan should include various important aspects like plan for increasing level of production, promotion of products etc.

Product designing and development:

- Involves decisions regarding the product to be manufactured and its attributes such as its quality considerations, packaging, models and variations to be introduced etc..
- Done by anticipating customer needs and developing new products or improving existing products to satisfy these needs.

Standardization and grading:

- Standardization = Process of setting certain standards for a product on the basis of its desired qualities. E.g. ISI mark for electrical goods.
- Grading = Division of products into classes made up of units possessing similar features such as for agricultural products

| | |
|--|---|
| <p>Packaging and labeling:</p> <ul style="list-style-type: none"> • 'Packaging' refers to designing a package (that is a wrapper or a container) for a product. • Packaging protects the products from damage, risks of spoilage, breakage and leakage. It also makes buying convenient for customers and serves as a promotional tool. • 'Labeling' = designing a label to be put on the package. It may vary from a simple tag to complex graphics. | <p>Branding</p> <ul style="list-style-type: none"> • Whether to sell the product in its generic name or in a Brand name. • Helps in differentiation, builds customer loyalty and promote its sale. • Decision = whether each product will have a separate brand name or the same brand name to be used for all products. |
| <p>Customer support services:</p> <ul style="list-style-type: none"> • These include services such as after-sales and maintenance services, handing customer complaints etc. • <u>secure repeat sales</u> from customers and <u>developing brand loyalty</u> for a product | <p>Pricing of products :</p> <ul style="list-style-type: none"> • <i>Price</i> is defined as the exchange value in terms of money and <i>Pricing of Products</i> refers to the process of fixing up the price of a product. • It plays an important role in the success or failure of a product as the demand of a product is <u>related to the price</u> of the same. • <u>Factors affecting</u> pricing decisions are cost of production, demand of the product, degree of competition etc. |
| <p>Promotion:</p> <ul style="list-style-type: none"> • Includes all activities undertaken to inform prospective customers about the product, its qualities, availability, price etc. • <u>Examples</u> of promotional activities are advertising, personal selling, publicity and sales promotion • Essential for creating, maintaining and increasing the demand of a product. • Crucial decisions = deciding the promotion budget and the promotion mix that is the combination of promotional tools that will be used. | <p>Physical distribution:</p> <ul style="list-style-type: none"> • Ensure that the goods move from the production center and reach the consumers in the consumption center. • Two major decisions in this area are: <ul style="list-style-type: none"> ◦ Decisions wrt<u>channels of distribution</u> or marketing intermediaries ◦ <u>Physical movement</u> of goods • <u>Important decision areas</u> include managing inventory, storage and warehousing and transportation of goods from one place to another. |
| <p>Transportation:</p> <ul style="list-style-type: none"> • Physical movement of goods. Removes hindrance of place and creates place • <u>Not only finished goods but raw materials</u> are also transported. • <u>Affected by</u> nature of products, its cost and location of target markets. • It <u>involves decisions</u> such as mode of transportation, route planning etc. • It helps to <u>avoid situations of extreme surplus and deficiencies</u>. | <p>Storage and warehousing:</p> <ul style="list-style-type: none"> • Producers need to hold and <u>preserve goods during the time gap</u> between production/purchase and sale/resale of products. • Storage and warehousing helps in: <ol style="list-style-type: none"> a. <u>Protect goods</u> b. <u>Maintain adequate</u> c. Helps a firm to <u>manufacture</u> products <u>in anticipation of demand</u>. d. <u>Minimizes price fluctuations</u>. • Manufactures/retailers may maintain their own warehouses or hire services of warehousing companies. |

Marketing Mix

There are a large number of factors that affect marketing decisions. They can be classified as:

- Non-controllable factors and Controllable factors:

To be successful, a firm needs to take sound decisions wrt controllable factors while keeping the environmental factors in mind.

To develop marketing tools, marketing managers use the abovementioned controllable factors and the set of marketing tools that a firm uses to pursue its marketing objectives in the target market is described as Marketing Mix.

Success of a market offer will depend upon how well these ingredients are mixed to create superior value for customers and simultaneously achieve their sales and profit objective. Thus, an ideal marketing mix would need:

- *Producing satisfying products*
- *Offered to buyers at a reasonable price*
- *Conveniently available*
- *About which communication is offered.*

a. Product:

- ✓ Product mix relates to decisions regarding planning, developing and producing the right type of products and services for the consumers.
- ✓ Product is the tangible/intangible product, which is goods/services/anything of value that is offered to the market for exchange. It relates to not only the physical product but also the benefits offered by the product from the customers' point of view.
- ✓ It also includes the extended product- that is, what is offered to the customers by way of after sales services, handling complaints etc. this decision is more important for durable products.
- ✓ Important decisions in this area include deciding about the features and quality of the product, its packaging, labeling, trademark and branding of products.

b. Price:

- ✓ It is a value that a buyer passes on to the seller in lieu of the product or services provided.
- ✓ It is a source of revenue for the seller.
- ✓ Marketer needs to analyze the objectives of setting price and analyze the factors that determine the price.
- ✓ Decision also includes pricing methods, pricing strategies, pricing policies, price changes, discounts to be offered, credit terms etc.
- ✓ Price is the cost the customers has to bear for the product and so must be set so that the customers perceive the price to be in lieu with the value of the product.

c. Place:

- ✓ Set of decisions that need to be taken in order to make the product available for purchase and consumption of the target market at the right place, in the right time and at the right price.
- ✓ It includes all the activities involved in transferring ownership and physical possessions of the product to the consumer.
- ✓ It involves decisions wrt:

- Channels of distribution- selection of intermediaries/dealer to reach the customers, providing support to the intermediaries etc.
- Physical distribution-managing inventory, storage, warehousing and transportation of goods from the place where they are produced to the place where it is required by the buyer.

d. Promotion :

- ✓ These are activities undertaken to persuade and motivate people to buy their products.
- ✓ It involves communicating the features, attributes, availability, merits etc of the product to both the customers and the participants in the channels of distribution in order to achieve sales goals.
- ✓ Tools used include advertising, sales promotion, personal selling etc.

Product

- A product is a mixture of tangible and intangible attributes, which are capable of being exchanged for a value and with the ability to satisfy customer needs.
- It includes goods, services, ideas, persons and places in the concept of product.
- Marketers must, thus, focus on what a product or a service does for a customer, that is, the utility or benefit that a product provides to a customer. Once that is analysed, a layer of values can be added to provide a greater satisfaction to the customers. These layers can be categorized as:
 - *First level*- that is, the basic benefit that a buyer seeks in a product. E.g. for an automobile transportation.
 - *Second level*- that is what a customer expects (in terms of various features etc) when they buy a product. E.g. fuel efficiency, desired mileage etc.
 - *Third level*- that is, augmented product level, that is, features that can be added by marketers in order to exceed customer expectations. E.g. finance options etc. it helps to beat the customers.
- From the customers' point of view, the customer seeks 3 types of benefits:
 - Functional Benefits (motorcycle =>transportation)
 - Psychological Benefits (motorcycle =>need for prestige and esteem)
 - Social Benefits (motorcycle =>acceptance from a group)

Branding:

Generic name: Name of the whole class of the product. Eg. Toothpaste, wrist watch etc.

Branding: the process used to create a distinct identity of a product. It is the process of using a name, term, symbol or design individually or in some combination to identify a product.

Brand : Name, term, sign, design or some combination of the above used to identify the products of the seller and to differentiate them from those of competitors.

Brand Name : Part of a brand that can be spoken

Brand mark : Part of brand that is in the form of symbols, design, color scheme or lettering that cannot be uttered but can be recognized.

Trade Mark : Brand/ part of brand that is given legal protection against its use by other firms..

Advantages to the marketers:

- Enables product differentiation:
 - ✓ Distinguishes the firms products from that of its competitors, thus secures and controls its markets.
- Helps in advertising and display programmes:

Advantages to Customers:

- Helps in product identification:
 - ✓ If customer is satisfied with a brand, he will not make a close inspection every time.

| | | |
|--|--|--|
| <ul style="list-style-type: none"> ✓ Without a brand, the advertiser can only create an awareness about the generic product and not be sure of the sale of his brand. | <ul style="list-style-type: none"> • <u>Differential pricing:</u> <ul style="list-style-type: none"> ✓ As when customers like and become used to a brand, they would agree to pay a little more for it than the competing product • <u>Ease in introduction of a new product</u> minimizes selling costs – enjoys the reflected glory of the brand | <ul style="list-style-type: none"> • <u>Ensures quality:</u> <ul style="list-style-type: none"> ✓ deviation in quality, customers can have a recourse to the manufacturer/marketer. ↑confidence and level of satisfaction of customers • <u>Status symbol:</u> <ul style="list-style-type: none"> ✓ Because of their quality, customers feel proud of using them and so ↑ level of satisfaction of customers |
|--|--|--|

- **Characteristics of a good brand name:**
 1. Short, easy to pronounce, spell and remember(Rin, Vim, Ponds)
 2. Suggest product benefits and quality (Genteel, Boost)
 3. Distinctive (Zodiac, Safari)
 4. adaptable to packing or labeling requirements, to different advertising media and to different languages.
 5. Versatile to accommodate new products(Maggi)
 6. Capable of being registered and protected legally
 7. Have staying power(should not get outdated easily).

Packaging

- Act of designing and producing an appropriate container or wrapper of a product.
- **Levels:**
 1. Primary packing -product's immediate container. May be kept till the product is used(plastic wrappers) or for the lifetime of the product (toothpaste)
 2. Secondary packing -additional layer of protection till the product is used(cardboard box for toothpaste)
 3. Transportation packing - further packing component necessary for storage, identification or transportation.(corrugated boxes containing 10, 20, or 100 units)
- **Importance:**
 - Rising Standards Of Health And Sanitation - As chances of adulteration in such goods are minimized
 - Self-Service Outlets-so some of the traditional role assigned to personal selling w.r.t promotion has gone to packaging.
 - Innovational Opportunities-innovation on packaging used to market products e.g. tetra packs for milk.
 - Product differentiation-colour, size, material etc of packaging makes a difference in perception of customers about the quality of the product.
- **Functions**
 - Product Identification – colgate = red, vanish = pink, tide = orange
 - Product Protection – protection from spoilage, breakage, leakage, pilferage, damage, climatic effect etc during storage, distribution and transportation.
 - Facilitating Use Of The Product - convenient to open, handle and use the product. Eg cosmetics, toothpaste etc.
 - Product Promotion -colour scheme, photographs or typeface may be used tp attract customers. Specially used in self service stores.

❖ Labeling

- Attached to the product package. Helps in identification of product and communicating with the potential buyer and promoting the sales of the products.
 - Providing necessary information to the consumers.
 - May be a simple tag attached to a product or complex graphics that are a part of the package.
-
- **Functions:**
 1. Describe the products and specify its content
 - Provide detailed information w.r.t contents, price, promotion schemes, cautions in use , method of use etc
 2. Identification of the product or brand
 - And common identification information w.r.t name and address of the manufacturer, net weight when packed, manufacturing date, maximum retail price and Batch number.etc
 3. Grading of products
 - Into different categories on the basis of features, quality etc.
 4. Help in promotion of products
 - Attract attention and give reason for purchase - 40% extra, free gift inside.
 5. Providing information required by law
 - Statutory warnings,

Detailed Discussion On The Components Of Marketing Mix: Price Mix

Price =

- Sum of values that consumers exchange for the benefit of having or using the product Price may therefore be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service
- Normally expressed in monetary terms. Decisions include decisions wrt basic price, discounts to be offered etc.
- It is the value passed by the customer to the seller in lieu of the product/ service provided.
- Important because:
 - Single most important factor affecting the revenue and profits of a firm.
 - Used to regulate the demand of the product.
 - Considered to be an effective competitive weapon specially in a competitive market.

Factors determining price determination:

1. Product cost:

- Price should include all costs and also include a fair return for undertaking the marketing effort and risk.
- Includes costs of producing, distributing and selling the product.
- Costs sets the floor price -the minimum level / lower limit at which the product may be sold.

- Price should recover Total costs (Fixed costs/overheads + Variable costs+ Semi-variable costs) in the long run, but in certain circumstances(introduction of a new product/entry into a new market) product price may not cover all the costs for a short while.
- There are three types of costs: *Fixed costs/overheads*- *Variable costs* and *Semi-variable costs*.
 - a. *Fixed costs/overheads*- costs that do not vary with the level of activity/volume of production eg rent of a building, salary etc.
 - b. *Variable costs*-vary in direct proportion with the level of activity/volume of production eg cost of raw material, labour etc
 - c. *Semi-variable costs*.- vary with the level of activity/volume of production but not in direct proportion eg cost of transportation of finished goods etc

2. Utility and demand:

- Utility provided by the product and the demand of a product set the upper limit of price that a buyer would be willing to pay for a product.
- Buyers pay to the point where the utility of the demand is more than or equal to the utility derived from it.
- Law of demand = consumers purchase more at a lesser price.
 - ✓ Elasticity of demand = responsiveness of demand to change in prices of a product. Demand = elastic if a small change in price results in a large change in quantity demanded.
 - ✓ If demand is inelastic, firm can fix higher prices.

3. Extent of competition in the market:

- Competitors' price, the quality and features of their products and their anticipated reactions must be examined carefully before fixing the price of a product.Greater the similarity between the products, the higher is the degree of loss of freedom to fix prices
- If there are competing firms, prices get fixed at a lower level. But prices tend to be higher with lesser competition.

4. Government rules and regulations:

- In order to protect the interests of public against unfair prices, the government can intervene.
- For example, government can declare a product as essential product and regulate its prices. Common products included in essential commodities are drugs, LPG, some food items etc.

5. Pricing objectives:

- Generally it is profit-maximization but instead of charging the maximum price in the short run, the firm may lower per unit price so that it can capture a larger share of the market and maximize its long run profits.
- Apart from profits maximization other objectives may be:
 - ✓ Market leadership- prices will be at a lower level to attract more customers.
 - ✓ Surviving in a competitive market – may lead to discounts to liquidate its stock
 - ✓ Product quality leadership – higher prices to cover quality and cost of R&D.

6. Marketing methods used:

- Affected by other elements such as distribution channels used, type of packaging, customer services, and amount spent on promotion etc.

Detailed Discussion On The Components Of Marketing Mix: Place Mix

- A set of decisions needs to be taken to make the product available to customers for purchase and consumption.
- The marketer needs to make sure that the product is available at the right quantity, at the right time and at the right place.
- It requires development of:
 - Channels of distribution
 - Physical distribution of products.

a) Channels Of Distribution:

- Includes a series of firms/individuals/people/institutions/merchants and functionaries who form a network which helps in the transfer of title to a product from the producer to the end consumer.
- They help to overcome time, place and possession gaps that separate the goods and services from those who need/want them from those who want them.
- Thus, intermediaries in the channel of distribution help to:
 - ✓ Assist in transferring title to goods from the producers to consumers.
 - ✓ Bring economy of effort
 - ✓ Cover large geographical area and bring efficiency in distribution
 - ✓ Transportation, storage and negotiation
 - ✓ Make various items available at one place
 - ✓ Serves as an authentic source of market information.

b) Physical Distribution

- Involves physical handling of and movement of goods from the place of production to the place of consumption.
- Path taken by the good in their movement from the place of production to the place of consumption.
- Creates time and place utility
- Involves decisions wrt inventory, storage and warehousing, transportation and order processing.

Components of Physical Distribution

Order Processing:

- Method used by the firm to process customers' orders is a major decision area wrt distribution.
- A good order processing system should provide for an accurate and speedy processing of orders, in the absence of which goods would reach the customers late or in the wrong quantity or specifications.
- Lack of this will lead to loss of business and goodwill.

Inventory control:

- Maintaining adequate inventory ensures product availability as and when demand arises and this prevents out-of-stock situation.
- Decision = level of inventory. Higher inventory = higher level of satisfaction of the consumers but also higher costs.
- Optimum inventory level=benefits of maintaining inventory should be balanced with the cost of inventory.

- Factors determining inventory level:
 - Policy w.r.t customer service to be offered.
 - Degree of accuracy of the sales forecast.
 - Responsiveness of the distribution system
 - Cost of inventory
- Correct estimation of demand and inventory helps firm to:
 - Reduce their cost levels
 - Maintain production at a consistent level

Transportation:

- Physical movement of goods to place where they are required. Very crucial as unless goods are physically available, the sale cannot be affected.
- Means of carrying goods and raw materials from the points of production to the point of sale.
- A firm uses it both for bringing raw material to the firm and transporting finished products from the firm.
- Modes available = rail, water, air, pipeline or trucks.
- Decision criteria = speed, frequency, dependability, availability, cost etc.

Warehousing:

- Act of storing and assorting products in order to create time utility.
- There is a time gap between production and consumption and goods need to be stored during this time period.
- Larger the number of warehouses=>lesser the time taken to serve customers at different locations=> but greater the cost of warehousing.
- Firms may either use own warehouses or hire services of specialized warehouses.
- Products requiring long term storage (agricultural products)=>warehouses located near production sites=>minimises transportation charges.
- Bulky/hard to ship / perishable products=>warehouses kept at different locations near the market.
- Modern warehouses perform various specialized functions such as grading, labeling, packing etc.

Channels Of Distribution

Meaning:

- Includes a series of firms/ individuals/ people/institutions/merchants and functionaries who form a network which helps in the transfer of title to a product from the producer to the end consumer.
- They help to overcome time, place and possession gaps that separate the goods and services from those who need/want them from those who want them

Types of Channels:

- **Direct/zero level channel:**
 - ✓ Producer → consumer
 - ✓ E.g.: mail order, internet, door to door selling. E.g. Eureka Forbes.
- **Indirect channel:**
 - **One level channel =**
 - ✓ Producer → retailer → consumer
 - ✓ Usually used for specialty goods like expensive watches, appliances, Cars(MarutiUdyog) etc.
 - **Two level channel =**
 - ✓ Producer → wholesaler → retailer → consumer.
 - ✓ Most commonly used model.
 - ✓ Usually used for consumer goods like soaps , salt etc.
 - **Three level channel =**
 - ✓ Producer → agent → wholesaler → retailer → consumer.
 - ✓ Done when manufacturers cannot approach wholesalers directly or when they carry a limited product line and has to cover a wide market.

Functions of Channels of Distribution:

1. **Sorting:** into homogenous groups on the basis of some common characteristics.
2. **Accumulation:** into homogenous lots and this helps to maintain continuous flow of supplies.
3. **Allocation:** Breaking homogenous stock into smaller marketable lots.
4. **Assorting:** Middlemen procure a variety of goods from manufacturers and then supply them in the desired combination to the users.
5. **Product Promotion:** Middlemen participate in activities such as displays, contests etc.
6. **Negotiation:** W.r.t price, quality, guarantee etc so that the transfer of ownership is properly affected.
7. **Risk Taking:** on account of price and demand fluctuations, spoilage, destruction etc.

Factors Determining Choice of Channels:

1. Product Related Factors:

- Industrial/consumer product-
 - Industrial products are technical, made to order, expensive and purchased by few buyers so require a shorter/ direct channel involving few middlemen.
 - Consumer products are standardized, less expensive, less bulky, non-technical & frequently bought so, they can be better distributed by a number of middlemen.
- Perishability of product:
 - Fruits, vegetables and dairy products= perishable =>short channel as long channel would hurt customer service levels.

- Toiletry, groceries, fabrics= non perishable=>longer channels.
- Unit value of product:
 - Convenience goods = For low unit value of products with a high turnover such as stationary etc= less margin per unit so need to reach a wider market to be profitable =>long channels.
 - For high unit value of products (like gold, heavy equipment etc), shorter channels are recommended.
- Degree of complexity:
 - Complexity=>industrial/engineering products that are technical=>short channels.
- Standardization vs. customization:*
 - For customized product, direct contact between buyer and seller is required to evolve desired product parameters and so direct selling is preferred. Standardized products can easily be sold with the help of intermediaries.
- Bulk and weight*
 - Heavy and bulky products require shorter channels to minimize hauling charges.

2. Company Characteristics:

- Financial strength:
 - Direct channel = requirement of large amt of funds for space + sales force. So if the company has spare funds, it can go for direct channel.
- Degree of control desired on distribution
 - Mgt wants to have greater control on distribution =>direct channel.
- Market standing:*
 - Well established companies enjoy goodwill and recognition and so can eliminate middlemen. But lesser known companies have to rely on middlemen to sell their products.
- Volume of production:*
 - Big manufacturers can sell directly to consumers but smaller companies do not have the necessary resources to sell to the consumers directly.

3. Competitive Factors:

- Choice of channels used by competitors imp as it will have to select a chammel with similar reach + policy of firm-whether it wants to go with the competitors or be different from them.

4. Market Factors:

- Size of market that is number of consumers:
 - Industrial products=small no. of buyers=>short channel.
 - Convenience goods=large no of buyers =>long channel.
- Geographical concentration of buyers:
 - Industrial products=Buyers are concentrated in a small area=>short channel.
 - Convenience goods=Buyers are widely dispersed=>long channel.
- Order size/quantity purchased:
 - Industrial products=size of order is large=>short channel.
 - Convenience goods=size of order is small=>long channel.

5. Environmental Factors:

- environmental factor such as economic condition and legal constraints.
- In a depressed economy marketers use shorter channels to distribute their goods in an economical way.

Detailed Discussion On The Components Of Marketing Mix: Promotion Mix

- Promotion refers to

- The use of communication with the twin objective of informing potential customers about a product and persuading them to buy it.
- It is an important element of marketing mix by which marketers make use of various tools of communication to encourage exchange of goods and services in the market.
- Promotion mix refers to combination of promotional tools used by an organisation to achieve its communication objectives.
- Various tools used in promotion mix are:
 - Advertising: Paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor.
 - Sales Promotion: Short term activity or incentives aimed at encouraging trial/purchase of a product. It includes a variety of non-recurrent activities like samples, coupons etc.
 - Personal Selling: Direct face to face interaction between sales personnel and potential customer.
 - Public Relations: Public Association Relations' defined public relations as "The art and social science of analyzing trends, predicting their consequences, counseling organizational leaders and implementing planned programme of action which will serve both the organization and the public interest."
- They can be used in different combinations, to achieve the goals of promotion.

Advertising

- *Impersonal form of communication that is paid for by the marketers(sponsors) to promote a good or service.*
- *Features Of Advertising*:
 1. Paid Form - sponsor has to bear the costs of communicating with the prospective buyer.
 2. Impersonality - no direct face to face contact between prospects and advertisers. Creates a monologue and not a dialogue.
 3. Identified Sponsor - undertaken by an identified individual who makes the advertising effort and bears the costs of it.
- *Merits Of Advertising*:
 1. Mass Reach - large number of people over a large geographical area can be reached.
 2. Enhancing Customer Satisfaction And Confidence - creates confidence and prospective buyers feel more comfortable and assured about the product quality
 3. Expressiveness - due to development in art, computer designs and graphics, special effect can be created that makes simple products and messages look attractive.
 4. Economy- because of its wide reach, overall cost of advertising gets spread over a wide audience and per unit cost of reach ↓.
- *Limitations Of Advertising*:
 1. Less Forceful - than personal selling as no compulsion on prospect to pay attention.
 2. Lack Of Feedback-no immediate and accurate feedback mechanism to check delivery of message.
 3. Inflexibility - as message is standardized and not tailor-made to suit the requirements of different age groups.

4. Low Effectiveness – as volume of advertisements ↑, becomes tougher to make advertising message heard by target prospects.

Personal Selling

- **Features Of Personal Selling:**
 1. Personal Form -direct face to face dialogue takes place → interactive relationship between seller and buyer.
 2. Development Of Relationship – with prospective customer that may lead to a sale.
- **Merits :**
 1. Flexibility – sales presentation can be adjusted to meet the specific needs of individual customer.
 2. Direct Feed Back – face-to-face communication → feedback from customer that can help salesman adapt the presentation.
 3. Minimum Wastage – company can decide the target market before making any contact with them.
- **Role: Importance To-**
 - **Businessmen:**
 1. Effective Promotional Tool – influences prospects about merits of a product → ↑ sales.
 2. Flexible Tool – sales offer may be varied to adapt to varying purchase situations.
 3. Minimizes Wastage Of Effort – as compare to other promotion tools.
 4. Consumer Attention – opportunity to detect loss of consumer interest and attention that can be looked into leading to successful completion of sale.
 5. Lasting Relationship – between salesperson and customer leading to personal rapport.
 6. Personal Rapport- increases competitive strength of a business organization.
 7. Role In Introduction Stage – helps persuade customers about the merits of the product.
 8. Link With Customers –sales persons play persuasive role, service role and informative role and so link the firm to its customers.
 - **Customers**
 1. Help In Identifying Needs – helps customers recognize their needs and wants and know how they can be satisfied.
 2. Latest Market Information – w.r.t price changes, product availability and shortages, product introduction etc that help them take purchase decision.
 3. Expert Advice -
 4. Induces Customers – to purchase products that satisfies their needs in a better way and thereby helps them improve their standards of living.
 - **Society:**
 1. Converts Latent Demand – leading to more jobs, more incomes and more products and services => ECONOMIC GROWTH.
 2. Employment Opportunities – greater income and employment to unemployed youth.
 3. Career Opportunities- with greater opportunities for advancement and job satisfaction as well as security, respect, interest and independence to young men and women.
 4. Mobility Of Sales People – which promotes travel and tourism.

5. Product Standardization - ↑ standardization and uniformity in consumption patterns in a diverse society.

Qualities of a good salesman:

1. Physical qualities: Tidy appearance, good posture, cheerful smile etc
2. Psychological qualities: good nature with Empathy and ego drive,
3. Technical quality: Full technical knowledge about the product,
4. Good communication skills -Polite, tactful, having good manners etc
5. Honesty
6. Courtesy
7. Persistent- must not give up as one additional argument can close a sale.
8. Capacity to inspire trust

Public Relations

- The concept of Public Relations involves a variety of programmes to promote and protect a company's image or its products.
- It means to strengthen relations with various stake holders like customers, shareholders, employees, suppliers, investors etc. It is done through - news, speeches by corporate leaders, organizing events like sports events, concerts, seminars etc.
- Public Association Relations' defined public relations as " The art and social science of analyzing trends, predicting their consequences, counseling organizational leaders and implementing planned programme of action which will serve both the organization and the public interest."
- "The Chartered Institute of Public Relations" defines Public Relations as „a strategic management function that adds value to an organization by helping it to manage its reputation.
- Public relations covers a wide range of tactics, usually involve providing information to independent media sources in the hope of gaining favorable coverage. It also involves a mix of promoting specific products, services and events and promoting the overall brand of an organization, which is an ongoing tact.
- Traditional Public Relation Tools include- Press release and Press Kits which are distributed to the media to generate interest from the Press. Other widely known Tools include- Brochures, Newsletters and Annual Reports.

- **Role of Public Relations (NCERT)**

The role of public relations can be discussed with respect to the functions which the department performs. Public relations itself is an important tool in the hands of the marketing department, which can be used to the advantage of the business. The public relations department performs five functions:

1. **Press relations:**

- i. Information about the organisation needs to be presented in a positive manner in the press.
- ii. This requires skill in developing and researching a story and getting the media to accept press releases.

- iii. The public relations department is in contact with the media to present true facts and a correct picture about the company. Otherwise news can get distorted if taken from other sources.

2. Product publicity:

- i. New products require special effort to publicise them.
- ii. The public relations department manages the sponsoring of events such as arranging sports and cultural events like news conferences, seminars and exhibitions.

3. Corporate Communication:

- i. communicating with the public and the employees within the organisation.
- ii. This is usually done with the help of newsletter, annual reports, brochures, articles and audio-visual materials.
- iii. Speeches by the company's executives at a meeting of trade associations or trade fairs can really boost the company's image. Even interviews with TV channels and responding to queries from the media go a long way in promoting public relations.

4. Lobbying:

- i. The organisation has to deal with government officials and different ministers in charge of corporate affairs, industry, finance with respect to policies relating to business and the economy.
- ii. The government also seeks to maintain a healthy relationship with associations of commerce and industry and solicits the opinion of major stakeholders while formulating industrial, telecom, taxation policies, etc.
- iii. The public relations department then has to be really proactive in promoting or defeating regulations that affect them.

5. Counselling:

- i. The public relations department advises the management on general issues which affect the public and the position the company would like to take on a particular issue.
- ii. The company can build goodwill by contributing money and time to certain causes like environment, wildlife, children's rights, education, etc. Such cause-related activities help in promoting public relations and building goodwill.

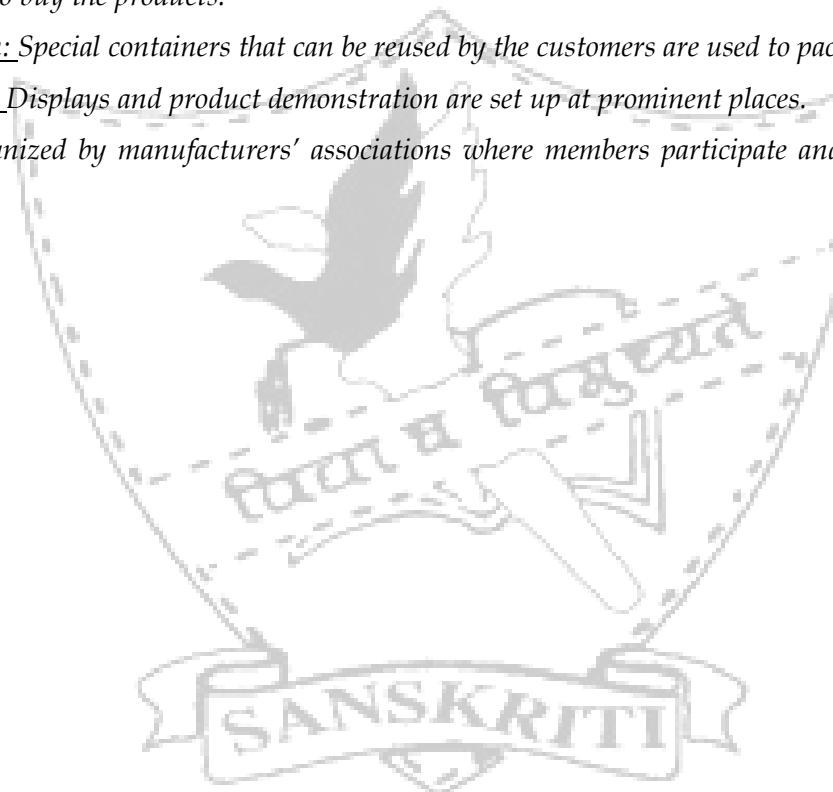
• *Maintaining good public relations also helps in achieving the following marketing objectives*

- i. Building awareness: Public relations department → build marketplace excitement before the product reaches the market or media advertising takes place. This usually creates a favourable impression on the target customer.
- ii. Building credibility: If news about a product comes in the media whether print or electronic it always lends credibility and people believe in the product since it is in the news.
- iii. Stimulates sales force: It becomes easier for the sales force to deal with the retailers and convince dealers if they have already heard about the product in the news before it is launched. Retailers and dealers also feel it is easier to sell the product to the ultimate consumer.
- iv. Lowers promotion costs: Maintaining good public relations costs much less than advertising and direct mail. However, it requires a lot of communication and interpersonal skills to convince the media to give space or time for the organisation and its product.

Sales Promotion

- Sales Promotion refers to short term incentives/ other promotion activities that seek to stimulate interest, trial or purchase.
- Induces customers to actually take the decision to buy. They aim to:
 1. Increase sales volume by making customers buy more of a product than they would otherwise buy.
 2. Induces trial with the use of free gifts or trial packs. These steps are targeted at customers who would not otherwise buy the product.
 3. Enhance repeat purchase.
 4. Gain shelf space
 5. Block competition by directing customer attention to promotions.
- Sales promotion may be directed at Customers, middlemen or the firm's own sales force
- ***Merits of Sales Promotion:***
 1. Attention Value: Attract attention of people through use of incentives.
 2. Useful In New Product Launch: Sales promotion tools induce people to break away from their regular buying behavior and try new products.
 3. Synergy in Total Promotional Efforts: Sales promotion activities add to the overall effectiveness of the promotional efforts (advertising and personal selling) of a firm.
- ***Limitations Of Sales Promotion - if used frequently:***
 - a. Reflects Crisis: A firm that frequently relies on sales promotion activities may give the impression that it is unable to manage its sales and there are no takers for its products.
 - b. Spoils Product Image: Consumers may feel that the products are not of good quality or are not appropriately priced.
- ***Commonly Used Activities:***
 1. Rebate/ Price Off: Offering goods at a price lesser than the original price for a limited period of time to clear off excess stock. E.g a car manufacturer's offer to sell a particular brand of car at a discount of Rs.10,000, for a limited period.
 2. Discount: A certain percentage of the price is reduced as a discount from the list price. Mainly used by retailers for a limited period when the season is about to change.e.g season's sale at snowwhite, reebok.
 3. Refunds: Refunding a part of price paid by customer on production of some proof of purchase. e.gRs 2 off on presentation of empty pack of Ruffle lays.
 4. Product Combinations/ Premium/Gifts Offering a related/bonus product free on purchase of a product. Induces customers to switch brand. Shaker free with coffee, toothbrush free with tooth paste.
 5. Quantity Gifts: Offering extra quantity of a product. e.g buy three soaps and get one free, shaving cream's offer of 49% extra.
 6. Instant Draws & Assigned Gifts: Scratch a card and instantly win a refrigerator, car, T-shirt etc.
 7. Lucky Draw: Opportunity to win gifts, expensive goods/holidays etc on lucky draw coupons. These draws are taken by names of customers who have bought the goods.

8. Usable Benefits: Discount voucher of related products or a free gift given with product, get a discount voucher for accessories on apparel purchase of Rs.1,000 and above.
9. Full Finance At 0%: Schemes of easy financing used for consumer durables e.g washing machines, T.V etc . But one has to be careful about 'file charges' recovered by firms.
10. Sampling: Offer of free samples of the product to potential customers. Generally used at the time of introduction of a product.
11. Contests: Competitive events involving application of skills or luck.e.g solving a quiz, answering some questions.
 - ❖ Free in Mail Premium: Customers are required to correspond with marketers by sending proof of purchase (e.g. wrappers) to claim benefits/ gifts.
 - ❖ Packaged Premium: Marketers pack some gift inside some of the product packages and the possibility of getting gifts lure the customers to buy the products.
 - ❖ Container Premium: Special containers that can be reused by the customers are used to pack the products.
 - ❖ Point Of Purchase: Displays and product demonstration are set up at prominent places.
 - ❖ Trade Shows: Organized by manufacturers' associations where members participate and display their goods in a stall.



Consumer Protection

- ❖ With growing competition, Marketers may attempt to engage in unscrupulous, exploitative and unfair trade practice.
- ❖ As a result of this, consumers may be exposed to risks due to unsafe products- that is, he may be cheated, may have to pay a higher price etc.
- ❖ Thus; there is a need to provide adequate protection to consumers against such practices.
- ❖ With growing competition, Marketers may attempt to engage in unscrupulous, exploitative and unfair trade practice. As a result of this, consumers may be exposed to risks due to unsafe products- that is, he may be cheated, may have to pay a higher price etc. Thus; there is a need to provide adequate protection to consumers against such practices.
- ❖ *Business practices that may lead to consumer exploitation include:*
 - Firms charging high prices for low quality products in order to earn high profits.
 - Use of false weights and measures
 - Spurious and adulterated products
 - Rough behavior of salesman
 - Unsatisfactory after sales services.
- ❖ *Aspects of consumer awareness:*
 - Physical protection of consumers:
 - Protection of economic interest of consumers
 - Protection of public interest
- ❖ *Consumer protection =*
 - Educating consumers about their rights and responsibilities and
 - Getting their grievances redressed
- ❖ *Requirements for consumer protection =*
 - Judicial machinery for protecting consumer interests
 - Formation of consumer-associations voluntarily by consumers.

Importance of Consumer Protection

From The Consumers' Point Of View:

1. Consumer Ignorance -
 - About their rights and reliefs available. So it becomes important to educate them about the same.
2. Unorganized Consumers -
 - consumers are not organized in the form of consumer associations that take care of their interests, as a result, adequate protection has to be given to consumers till these organizations become powerful enough to protect and promote consumer interests.
3. Widespread Exploitation Of Consumers -

- Consumers need protection from widespread unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black-marketing etc.

From Point Of View of Business:

1. Long-term Interest of Business:

- It is in the long-term interest of business to satisfy their customers.
- This leads to repeat sales and provides good feedback to prospective customers and thus, help in increasing the customer-base of business.
- It leads to long-term profit maximization through customer satisfaction.

2. Business uses Society's Resources:

- Business organizations use resources which belong to the society.
- They, thus, have a responsibility to supply such products and render such services which are in public interest and would not impair public confidence in them.

3. Social Responsibility:

- A business has social responsibilities towards various interest groups.
- Consumers form an important group among the many stakeholders of business and like other stakeholders; their interest has to be well taken care of.

4. Moral Justification:

- It is the moral duty of any business to take care of consumer's interest and avoid any form of their exploitation.
- A business must avoid unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black marketing etc.

5. Government Intervention:

- A business engaging in any form of exploitative trade practices would invite government intervention or action. This can impair and tarnish the image of the company.

Role of NGOs:

- ✓ There are about 500 consumer organisations working in India such as Consumer guidance society of India, Mumbai; Common Cause, New Delhi etc.
- ✓ They **perform several functions** such as:
 1. Educating the general public about consumer rights by organizing training programmes, seminars and workshops.
 2. Publishing periodicals and other publications to impart knowledge about consumer problems, legal reporting, reliefs available and other matters of interest.
 3. Carrying out comparative testing of consumer products in accredited laboratories to test relative qualities of competing brands and publishing the test results for the benefit of consumers.
 4. Encouraging consumers to strongly protest and take an action against unscrupulous, exploitative and unfair trade practices of sellers.
 5. Providing legal assistance to consumers by way of providing aid, legal advice etc. in seeking legal remedy.
 6. Filing complaints in appropriate consumer courts on behalf of the consumers.
 7. Public Interest Litigations(PILs) - Taking an initiative in filing cases in consumer courts in the interest of the general public, not for any individual.

The Consumer Protection Act, 1986

- Set up to protect and promote consumer interest thro a speedy and inexpensive redressal of grievances.
- Recognizes consumer rights
- Redressal agencies- set up a three-tier agency to address consumer grievances.
- Scope of the act-

It is applicable to all types of undertaking:

- Large and small scale
- Private, public and co-operative sector
- Manufacturer or trader
- Firms supplying goods as well as services

- Complaints can be filed and compensation claimed w.r.t:

- ✓ Fraudulent practices by traders and manufacturers
- ✓ Defective goods
- ✓ Deficiency in services in connection with 9 services such as banking, transportation, insurance, supply of electricity and gas, house construction, medical service

- A consumer is

- A person who buys any goods for a consideration or any user of such goods when such use is made with the approval of the buyer.
- A person who hires or avails of a service for a consideration or any beneficiary of such services when such use is made with the approval of the buyer.
- ✓ Consideration here means that the goods or services are either fully paid, partly paid or under a scheme of deferred payment such as installment scheme.
- ✓ This definition does not include people who avails services for some commercial purpose or obtain goods for resale or for some commercial purpose.

- Who can file a complaint:

- a) Any consumer
- b) Any Registered Consumers Association
- c) The Central Government or Any State Government
- d) One or more consumers on behalf of numerous consumers having same interests
- e) A legal heir or representative of a deceased consumer.
- f) A complaint under Section 2 (b) of the Consumer Protection Act 1986.

- Time limit for disposal of cases:

- As speedily as possible-
- ✓ Within 3 months or
- ✓ Within 5 months if complaint requires testing or analysis of goods.

- **Relief available to consumers:**

- Remove defect in goods and deficiency in services.
- Replace defective goods with one with no defects
- Refund price paid
- Pay a reasonable amount of compensation for any loss or injury suffered.
- Pay punitive damages in appropriate circumstances.
- Discontinue unfair/restrictive trade practice
- Not to offer hazardous goods and services for sale
- Withdraw hazardous goods from sale
- Cease manufacturing hazardous goods
- Pay an amount to consumer welfare fund/ person (not less than 5%) to be utilized in the prescribed manner
- Issue corrective advertisement to neutralize the effect of misleading ads.
- Pay adequate costs to parties.

- **Consumer Rights:**

| | |
|---|---|
| <p>1. Right to safety:</p> <ul style="list-style-type: none"> • Protection against products, production processes and services that are hazardous to health and life. • Important for safe and secure living • Consumers' immediate safety requirements as well as their long term interests must be taken into account. • Example, for products like gas cylinders, pressure cookers, | <p>2. Right to seek redressal:</p> <ul style="list-style-type: none"> • Consumer who suffers a loss or injury due to unfair trade practice or restrictive trade practice or unscrupulous exploitation of consumers can complain to the necessary forum for redressal of his grievance. He can claim repair/replacement of defective goods, refund of money or compensation of loss or injury suffered. • The government has set up district, state and a national commission for redressal of consumer grievances. |
| <p>3. Right to be heard:</p> <ul style="list-style-type: none"> • Right to register his dissatisfaction/ complaint/ grievance at appropriate forum. • Many consumer organizations are also working in this direction. • This is a right as well as a responsibility to ensure that their interests prevail. | <p>4. Right to choose:</p> <ul style="list-style-type: none"> • Assurance, wherever possible, of availability of a variety of products at competitive prices. • The producer should not use aggressive selling techniques to sell these products. |

| | |
|---|--|
| | |
| <p>5. Right to consumer education:</p> <ul style="list-style-type: none"> ○ Right to <u>acquire knowledge and skills</u> required to be an <u>informed consumer</u>. ○ Consumers have a <u>right to be educated about</u>: <ul style="list-style-type: none"> • Their rights and remedies, responsibilities Unfair and restrictive trade practices, relevant laws enacted to prevent UTPs and protect consumer interests. ○ However there is no clear cut policy about how consumers should be educated ○ <u>If consumers are educated</u>: <ol style="list-style-type: none"> 1. They will be aware of their rights and remedies available and therefore will be able to protect themselves against frauds by businessmen. 2. They will be able to influence factors affecting consumer decisions. | <p>6. Right to be informed:</p> <ul style="list-style-type: none"> • Right to be informed about the <u>quality, quantity, potency, purity, standard and price</u> of the goods and services that he intends to purchase. • This is important to ensure that the <u>consumers are able to make a proper choice</u> and decision and to <u>protect them</u> against unfair practices, deceptive advertising and misleading labels. • Also <u>applicable to information related to public affairs</u> which are dealt with by the government and its agencies |

- **Consumer Responsibilities:**

1. Ask for a cash memo
 - On purchase of goods or services. This would serve as a proof of the purchase made.
2. Be aware
 - About various goods and services available in the market so that an intelligent and wise choice can be made.
3. Buy only standardized goods
 - As they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewelry etc.
4. Follow manufacturer's instructions
 - Learn about the risks associated with products and services, and use the products safely.
5. Read labels carefully
 - So as to have information about prices, net weight, manufacturing and expiry dates, etc.
6. Assert yourself
 - To ensure that you get a fair deal.
7. Be honest in your dealings.
 - Choose only from legal goods and services and discourage unscrupulous practices like black-marketing, hoarding etc.
8. File a complaint in an appropriate consumer forum
 - In case of a shortcoming in the quality of goods purchased or services availed. Do not fail to take an action even when the amount involved is small.
9. Form consumer societies
 - Which would play an active part in educating consumers and safeguarding their interests.
10. Respect the environment.

- Avoid waste, littering and contributing to pollution.

- **Ways and means of Consumer Protection:**

1. **Self Regulation by Business:**

- It is in the long-term interest of businesses to serve the customers well.
- Socially responsible firms follow ethical standards and practices in dealing with their customers.
- Many firms have set up their customer service and grievance cells to redress the problems and grievances of their consumers.

2. **Business Associations:**

- Examples of associations of trade, commerce and business - Federation of Indian Chambers of Commerce of India (FICCI) and Confederation of Indian Industries (CII)
- They have laid down their code of conduct which lay down for their members the guidelines in their dealings with the customers.

3. **Consumer Awareness:**

- A consumer, who is well informed about his rights and the reliefs available to him, would be in a position to raise his voice against any unfair trade practices or unscrupulous exploitation.
- This enables them to understand their responsibilities and to safeguard their interests.

4. **Consumer Organizations':**

- Educate consumers about their rights and providing protection to them.
- Force business firms to avoid malpractices and exploitation of consumers.

5. **Government:**

- Enacting various legislations. The legal framework in India encompasses various legislations which provide protection to consumers.
- The most important of these regulations is the Consumer Protection Act, 1986. The Act provides for three-tier machinery at the district, state and national levels for redressal of consumer grievances.

Three Tier Mechanism Set Up By the Consumer Protection Act, 1986

| Basis | District Forum | State Commission | National Commission |
|---|---|--|--|
| 1. Jurisdiction (That is entertains complaints against) | When value of goods and services and/or compensation claimed does not exceed <u>20 lakhs.</u> | <ul style="list-style-type: none"> ○ <u>Appeals against any order of any district commission within the state.</u> ○ When value of goods and services and/or compensation claimed is <u>between 20 lakhs and one crore.</u> | <ul style="list-style-type: none"> ○ <u>Appeals against any order of any State Commission.</u> ○ When value of goods and services and/or compensation claimed is <u>more than one crore.</u> |
| 2. Appeal against order filed with | <u>State commission</u> within 30 days of filing such order. | <u>National commission</u> within 30 days of filing such order | <u>Supreme Court</u> within 30 days of filing such order only when the compensation claimed exceeded 1 crore. |
| 3. Fees (Only prescribed fees are payable and no court fees or legal charges are charged in such cases) | No prescribed fees | <ul style="list-style-type: none"> ○ If an <u>appeal</u> against an order of the district forum is filed then the prescribed fees is: <ul style="list-style-type: none"> ▪ 50% of the amount payable as per such order OR ▪ Rs 25,000 - Whichever is lesser. ○ In all other cases, no prescribed fees for cases filed for the first time. | <ul style="list-style-type: none"> ○ If an <u>appeal</u> against an order of the State Commission is filed then the prescribed fees is: <ul style="list-style-type: none"> ▪ 50% of the amount payable as per such order OR ▪ Rs 35,000 - Whichever is lesser. ○ In all other cases, no prescribed fees for cases filed for the first time. |
| 4. Composition | <ul style="list-style-type: none"> ○ A <u>president</u> who is/has been/ is qualified to be a district judge. ○ <u>Not less than two other members</u>, one of who has to be a woman. | <ul style="list-style-type: none"> ○ A <u>president</u> who is/has been/ is qualified to be a state that is High Court judge. ○ <u>Not less than two other members</u>, one of who has to be a woman. | <ul style="list-style-type: none"> ○ A <u>president</u> who is/has been/ is qualified to be a judge of the Supreme Court. ○ <u>Not less than four other members</u>, one of who has to be a woman. |

| | | | |
|-----------------------------|--|--|---|
| 5. Appointments | <p>All appointments are by the <u>State Governments</u> on the basis of recommendation of a <u>selection committee</u>.</p> | <p>All appointments are by the <u>State Governments</u>.</p> <ul style="list-style-type: none"> ○ <u>Members</u>-on the basis of recommendation of a <u>selection committee</u>. ○ <u>President</u> - after consultation with the <u>Chief Justice of the High Court</u> | <p>All appointments are by the <u>Central Government</u>.</p> <ul style="list-style-type: none"> ○ <u>Members</u>-on the basis of recommendation of a <u>selection committee</u>. ○ <u>President</u> - after consultation with the <u>Chief Justice of India</u>. |
| 6) Action that can be taken | <p>In all the cases, on receiving the complaint,</p> <ul style="list-style-type: none"> ○ The concerned forum shall refer the complaint to the party against which the complaint has been received. ○ If required, the goods or samples thereof shall be sent for testing to a laboratory. ○ The concerned commission then shall pass and order after considering the test report from the lab and after hearing the party against whom the complaint has been filed. | | |

BUSINESS STUDIES PROJECT XII

Presentation and Submission of Project Report

- Students are required to select any one Topics for the entire year.
- At the end of the stipulated term, each student will prepare and submit his/her project report.
- The projects will be returned after evaluation. The school may keep the best projects
- Following essentials are required to be fulfilled for its preparation and submission.
- The total length of the project will be of 25 to 30 pages.
- The project should be handwritten.
- The project should be presented in a neat folder.
- The project report should be developed in the following sequence:
 - Cover page
 - Title page
 - Certificate of Authenticity
 - Index
 - Acknowledgements
 - Preface
 - Introduction
 - Planning and activities done during the project
 - Observations and findings
 - Conclusions
 - Learning from project
 - Appendix
 - Teacher's Observations

ASSESSMENT :ALLOCATION OF MARKS

| The marks will be allocated under the following heads: | <u>Marks</u> |
|--|--------------|
| • Initiative, cooperativeness and participation | 2 |
| • Creativity in presentation | 2 |
| • Content, observation and research work | 4 |
| • Analysis of situations | 4 |
| • Viva | 8 |
| TOTAL | 20 |

Summarized Elements of Business Studies Projects (Individual Activity) Final Presentation of the Project Report

1.Cover page

- Design an attractive cover that should include the following information:
- Title of the Project
- Student Information:
 - i. Name:
 - ii. School:
 - iii. Year:
 - iv. Roll No:

2.List of Contents or Index:

- Write or Print the Index in the above order

3.Acknowledgements

I , _____, do hereby declare that this project is my original work and I would like to thank Ms _____, my Business Studies teacher, for her wholehearted support and guidance for making it possible to complete this project on time. I would also like to thank CBSE for giving us an opportunity to widen our knowledge base by introducing this topic of study and my school for giving us this subject option.
I would also like to thank my friends and family members for their kind support and guidance without which this project could not have been completed.

(Acknowledge the institutions, the places visited and the persons who have helped)

4.Preface

One page containing in a concise manner, the details about the entire project. Any person who wants to know about your project should be able to understand it on reading the Preface. You are required to **give either of the following details:**

- One page containing in a concise manner, the details about the entire project. Any person who wants to know about your project should be able to understand it on reading the Preface. You are required to give the following details:
- Example:
 - Name of Project: Element of Marketing Mix.
 - Problem Statement / Objective Of Project:

- The objective of the project is to develop a detailed marketing plan for introducing _____ and covering the aspects of Product, Price, Place and Promotion.

5. Introduction

- Give in about 3 to 4 pages:
 - a. Why have you selected this project
 - b. What did you expect to find out
 - c. For Example,
 - i. Give an introduction of Marketing
 - ii. Give details about the 4 P's of marketing Mix.
 - iii. Give some historical background of your product if possible

6. Planning and Activities Done During the Project

You need to give details here about what were the activities that you undertook to do your project. Such as

- How did you start with the project?
- Did you take interviews etc?
- Did you carry out research?
- How the analysis was done?
- Give them in a sequence

7. Observations and Findings

- This is the main body of the project and CBSE has specific guidelines for all the four options.

8. Conclusions

- a. Summarized suggestions or findings, future scope of study.
- b. Give this as a summary of your firm stating which principle or techniques apply and which do not.
- c. *The relevance of the topic in today's context*
- d. *A summary of your findings in the order in which you have presented your project*

9. Photographs (if Any)

10. Appendix

- Persons/Firms Consulted
- Books Referred To, Including your Text Book
- Websites Referred to
- Questionnaires

11. Teachers Observations:

- With Signatures of Teachers



Certificate of Authenticity

This is to certify
that _____ bearing Roll
Number _____ is a student of Class XII of
Sanskriti School.

She/he has successfully completed her/his project under my
guidance and supervision towards the fulfillment of the
practical examination in Business Studies conducted by the
Central Board of Secondary Education for the academic year

.....
Date of Submission:.....

Name of Subject Teacher:.....

Teacher's Signature:.....

School Stamp

OPTION 1: ELEMENTS OF MARKETING MANAGEMENT-

The Student is required to develop a market offering:

The students are required to do a simple market research with the objective of finding out a product /service whose marketing may be profitable. They can choose one from this list or any other.

| | | | |
|----------------------|---------------------|-------------------------|--------------------|
| 1. Toothpaste | 2. Noodles | 3. Shampoo | 4. Bathing soap |
| 5. Washing detergent | 6. Washing powder | 7. Lipstick | 8. Moisturizer |
| 9. Shoe polish | 10. Pen | 11. Shoes | 12. Hair dye |
| 13. Mobile | 14. Chocolate | 15. Sauces/ketchup | 16. Ready soups |
| 17. Body spray | 18. Fairness cream | 19. Hair oil | 20. Roasted Snacks |
| 21. Jeans | 22. Pickles | 23. Squashes | 24. Jams |
| 25. Salt | 26. Bread | 27. Butter | 28. Shaving cream |
| 29. Razor | 30. Cheese spreads | 31. e -Wash | 32. Tiffin wallah |
| 33. Air Conditioners | 34. Infant dress | 35. Sunglasses | 36. Fans |
| 37. Fruit candy | 38. Washing powder | 39. Bathroom cleaner | 40. Wipes |
| 41. Shoe polish | 42. Blanket | 43. Baby Diapers | 44. Hair dye |
| 45. Adhesives | 46. Refrigerator | 47. Ladies footwear | 48. Ready soups |
| 49. RO system | 50. Fairness cream | 51. Mixers | 52. Roasted Snacks |
| 53. Learning Toys | 54. Pickles | 55. Microwave oven | 56. Music player |
| 57. Pencil | 58. Eraser | 59. Water bottle | 60. Furniture |
| 61. Newspaper | 62. Nail polish | 63. Pen drive | 64. DTH |
| 65. Car | 66. Kurti | 67. Cosmetology product | 68. Cutlery |
| 69. Breakfast cereal | 70. Suitcase/airbag | 71. Coffee | 72. Wallet |
| 73. Crayons | 74. Jewellery | 75. Water storage tank | 76. Ladies bag |
| 77. Saris | 78. Cycle | 79. Bike | 80. Crockery |
| 81. Camera | 82. Invertors | 83. Washing machine | 84. Tea |

- The identified product should not be items whose consumption /use is discouraged by the society and government like alcohol products/ pan masala and tobacco products, etc.
- Identify **one** product/service from the above which the students may like to manufacture/provide [pre assumption].
- The students are not to prepare their project on any existing brand. They need to create their own brand name etc.
- The questions that they need to research on are as follows:

PRODUCT

1. Why have they selected this product/service?
2. Find out '5' competitive brands that exist in the market.
3. What permission and licenses' would be required to make the product?
4. What are your competitors Unique Selling Proposition.[U.S.P.]?
5. Does your product have any range give details?
6. What is the name of your product?
7. Enlist its features.
8. Draw the 'Label' of your product.
9. Draw a logo for your product.
10. Draft a tag line.
11. How will your product be packed?

PLACE

12. Which channel of distribution are you going to use? Give reasons for selection?
13. Decisions related to warehousing, state reasons.
14. What means of transport you will use and why?

PRICE

15. What is the selling price of your competitor's product?
 - (i) Selling price to consumer
 - (ii) Selling price to retailer
 - (iii) Selling price to wholesaler

16. What is the profit margin of the competitor in percentage to the

- Manufacturer.
- Wholesaler.
- Retailer.

17. What is going to be your selling price?

- (i) To consumer
- (ii) To retailer
- (iii) To wholesaler

18. What cost effective techniques will you follow for your product. What cost effective techniques will you follow for your promotion plan.

19. List 5 ways of promoting your product.

20. Any schemes for

- (i) The wholesaler
- (ii) The retailer
- (iii) The consumer

21. What is going to be your 'U.S.P'?

22. Draft a social message for your product.



OPTION 2: ELEMENTS OF BUSINESS PRINCIPLES

1:They are required to observe the application of the 14 general Principles of management advocated by Fayol.

- These are Division of work, Unity of command, Unity of direction, Scalar chain, Esprit de corps, Fair remuneration to all, Order, Equity, Discipline, Subordination of individual interest to general interest, Initiative, Centralization and decentralization, Stability of tenure.

HOW TO GO ABOUT THE PROJECT:

1. The students are required to visit **any one** of the following:

- a. A departmental store.
- b. An Industrial unit.
- c. A fast food outlet.
- d. Any other organisation approved by the teacher.

2. **The observations could be on the basis of**

- The different stages of division of work resulting to specialisation.
- Following instructions and accountability of subordinates to higher authorities.
- Visibility of order and equity in the unit.
- Balance of authority and responsibility.
- Communication levels and pattern in the organisation.
- Methods and techniques followed by the organisation for unity of direction and coordination amongst all.
- Methods of wage payments followed.
- Any other principle identified in the organization

One-two page analysis of your observations with regard to all the above mentioned aspects about the firm must be included.

3. Photographic evidence of the child visiting the unit must be pasted.

4. Questionnaires and interview must be taken in the selected organization.
5. Number of questionnaires to be filled is 15.



OPTION 3: ELEMENTS OF BUSINESS ENVIRONMENT

The Student Can Select Any One Element Of The Following:

1. *Changes witnessed over the last few years on mode of packaging and its economic impact.*

- a. The changes in transportation of fruits and vegetables such as cardboard crates being used in place of wooden crates, etc. Reasons for above changes.
- b. Milk being supplied in glass bottles, later in plastic bags and now in tetra pack and through vending machines.
- c. Plastic furniture [doors and stools] gaining preference over wooden furniture.
- d. The origin of cardboard and the various stages of changes and growth.
- e. Brown paper bags packing to recycled paper bags to plastic bags and cloth bags.
- f. Re use of packaging [bottles, jars and tins] to attract customers for their products.
- g. The concept of pyramid packaging for milk.
- h. Cost being borne by the consumer/manufacturer.
- i. Packaging used as means of advertisements.

2. *The reasons behind changes in the following:*

- Coca – Cola and Fanta in the seventies to Thums up and Campa Cola in the eighties to Pepsi and Coke in nineties.
- Start from the times when India sold Coca Cola and Fanta were being manufactured in India by the foreign companies.
- The students may be asked to enquire about
 - Reasons of stopping the manufacturing of the above mentioned drinks in India THEN.
 - The introduction of Thums up and Campa cola range.
 - Re entry of Coke and introduction of Pepsi in the Indian market.
 - Factors responsible for the change.
 - Other linkages with the above.

- Leading brands and the company having the highest market share.
- Different local brands venturing in the Indian market.
- The rating of the above brands in the market.
- The survival and reasons of failure in competition with the international brands.
- Other observations made by the students

3. *Changing role of the women in the past 25 years relating to :*

- a. Joint families, nuclear families,
- b. Women as a bread earner of the family,
- c. What has the effect been on the types of goods and services? (Changes in the requirement trend of mixers, washing machines, micro wave and standard of living)
The students can take examples like:
 - i. Washing machines, micro waves, mixers and grinder.
 - ii. Need for crèche, day care centre for young and old.
 - iii. Ready to eat food, eating food outside, and Tiffin centres.
- d. Case Study: profiles of women employees, business persons and professionals - 1 each.
- e. Interview with at least two women (1-working and 1-non working) having different life experiences asking about her changing role. Photographic evidence should be attached.

4. *The changes in the pattern of import and export of different Products.*

- The students should identify a product of their city/country which needs to be imported /exported.
- They are required to find the details of the actual import/export procedure. They may take help from the Chambers of Commerce, Banker, existing Importers/Exporters, etc.
- They should find details of the procedure and link it with their Text knowledge.

- a. The specimens of documents collected should be pasted in the Project file with brief description of each. They may also visit railway godowns/dockyards/ transport agencies and may collect pictures of the same.

5. *A study on child labor laws, its implementation and consequences.*

- a. Child labor – industries that use child labor with reasons why they do so.
- b. NGOs working in this area and their contributions.
- c. To visit an NGO in Delhi or any other place who is working with child labourers. (Photographic evidence is a must).
- d. Role of Government in preventing the above
- e. Interview of a child labourer along with your photo with that child.
- f. This is to be followed by a study on child labor laws, its implementation and consequences
- g. One page suggestion about how to prevent child labour.

6. *The state of 'anti plastic campaign,' the law, its effects and implementation.*

- a. Origin of plastic
- b. Uses of plastic
- c. Reasons for opposing use of plastics and alternatives to plastic. (pasting photographs of the alternatives)
- d. Anti Plastics Campaigns in India and abroad
- e. Laws passed in India and abroad for the same
- f. Implementation of the act
- g. Effect of the act and its implementation
- h. One page suggestion as how to avoid using plastics.

7. *What has the effect been on the types of goods and services? The students can take examples like:*

- a. Washing machines, micro waves, mixers and grinder.

- b. Need for crèche, day care centre for young and old.
- c. Ready to eat food, eating food outside, and Tiffin centers'.

For the above, develop the project on the given line:

- Select product and give its history starting with its invention
- Name the leading manufacturers and give their profiles briefly
- Explain the reasons for the given product's popularity.

CONCLUSION:

If you are choosing any of the above mentioned projects on elements of business environment, conclusion should be written for the following points in different pages:

Economic Environment:

- Changes in disposable income of people
- Value of rupee
- Volume of imports and exports of different items

Political Environment:

- Prevailing political system
- Dominant ideologies, practices and values of major political parties
- Nature of relationship of our country with foreign countries

Legal Environment:

- Various laws in relation to the topic briefly

Technological environment:

- Scientific improvements
- Latest innovations

Social environment:

- Attitudes towards product innovations, lifestyles, occupational distribution and consumer preferences Concern with quality of life
- Life expectancy
- Expectations from the workforce
- Shifts in the presence of women in the workforce n Birth and death rates

- Population shifts and Educational system and literacy rates
- Consumption habits
- Composition of family



OPTION 4: STOCK MARKET

The purpose of this project is to teach school students the values to investing and use the stock market. This project also teaches important lessons about the economy, mathematics and financial responsibility. The basis of this project is to learn about the stock market while investing a specified amount of fake money in certain stocks. Students then study the results and buy and sell as they see fit. This project will also guide the students and provide them with the supplies necessary to successfully monitor stock market trends and will teach students how to calculate profit and loss on stock.

The students will have to study the prices of companies in a particular Stock Exchange. They will also be required to identify and study the price movements of firms in that Stock Exchange for a period of 6 months.

The students are already exposed to the Stock Exchange under Globalization in the Economics Unit of Social Science Syllabus of class X. The Project Work will enable them to understand the topics 'Sources of Business Finance,' Unit 7 of Class XI and 'Capital Market,' Unit 10 of Class XII.

The project work will enable the students to:

- Understand the topics like sources of business finance and capital market
- Understand the concepts used in stock exchange
- Inculcate the habit of watching business channels, reading business journals/newspapers and seeking information from their elders.

The students are expected to:

- a. Develop a brief report on History of Stock Exchanges in India. (your country)
- b. Prepare a list of at least 25 companies listed on a Stock Exchange.
- c. To make an imaginary portfolio totalling a sum of Rs. 50,000 equally in any of the 5 companies of their choice listed above.
- d. **The students may be required to report the prices of the stocks on daily basis and present it diagrammatically on the graph paper.**
- e. They will understand the weekly holidays and the holidays under the Negotiable Instruments Act. They will also come across with terms like closing prices, opening prices, etc.

- f. During this period of recording students are supposed to distinctively record the daily and starting and closing proves of the week other days under the negotiable instrument act so that they acquire knowledge about closing and opening prices.
- g. The students may conclude by identifying the causes in the fluctuations of prices. Normally it would be related to the front page news of the a business journal, for example,
- Change of seasons.
 - Festivals.
 - Spread of epidemic.
 - Strikes and accidents
 - Natural and human disasters.
 - Political environment.
 - Lack in faith in the government policies.
 - Impact of changes in government policies for specific industry.
 - International events.
 - Contract and treaties at the international scene.
 - Relations with the neighbouring countries.
 - Crisis in developed countries, etc.
- h. **The students are expected to find the value of their investments and accordingly rearrange their portfolio.**
- i. The project work should cover the following aspects;
- o **Graphical presentation** of the share prices of different companies on different dates.
 - o **News paper clippings** to reflect the changes of share prices must be attached to the project.
 - o **Change in market value of shares** due to
 - Change of seasons, festivals, natural and human disasters.
 - Change in political environment / policies of various countries / crisis in developed countries or any other reasons
 - o **Identify the top ten companies out of the 25 selected** on the basis of their market value of shares.
- j. **It does not matter if they have made profits or losses.**

► **THEORY EXAMINATION: 3 HOUR PAPER CARRYING 80 MARKS; PRACTICAL : 20 MARKS**

GUIDELINES FOR THE 80 MARK THEORY PAPER

- In the reading time allotted don't try to read or solve all the questions. Read the question paper carefully and check out the marks assigned to each question. Plan and organize your answers in your mind. Utilize this time to choose the 6 mark questions that you would like to attempt very carefully since internal choice is only provided in all 6 marks questions and not in 1, 3, 4 and 5 markers.
- **Do not change the order of questions.** Either start answering from question 1 and go to question 30 or start from question 30 and move to question 1. Take practice papers to find out what works for you.
- In case you are not sure about any answer, leave adequate space for it and attempt it later.
- **Finish questions worth 30 marks in every hour.** For example, in case you start from the last question, ensure that you finish all 6 markers and one 5 marker question in the first hour.
- Leave one line after every point in answer and at least 3 lines between answers for questions carrying 1 or 3 marks. For questions carrying 4,5 or 6 marks. Always write a new answer from a new page.
- Always write your answers in points.
 - Best way to highlight is to leave a line after the heading or write the heading in caps.
 - Usually all answers are to be written according to the marks For example, for 3 marks write 3 points with explanation. But wherever there isn't any explanation asked or is not given in the book write double the number of points to be on the safer side.
 - In every point ideally the heading should be given and explained and its relation with the question asked should be written. For eg: importance of business environment:
 - First mover advantage: explain the meaning of the term
 - How is it an advantage, explain that
 - Example if possible.
 - Though word limit is not to be adhered very strictly yet writing unnecessarily long answers because you know it well, will only waste your time and not give any extra marks.

- Explanation of each point should not be more than 3 sentences(Where the number of points to be given are specifically mentioned in the question, give only that many)
- Try to write headings given in N.C.E.R.T or as given by teacher.
- Attempt all questions.(Write and explain whatever you know rather than leaving question completely)
- Leave time for revision.
- Give examples whenever possible.(Especially in questions of Differential Piece wage system, Trading on Equity etc.)
- Read the questions thoroughly before answering. Leave the questions you are unsure about for the end.
- Business studies is a scoring subject, but you have to **stress on presentation**;
- Try to write answers in points rather than writing long paragraphs
- Underline important parts and headings of answers or use highlighter or black pen (do it simultaneously while writing answers)-Do not leave this for end
- Do write question number clearly and strictly tallying with the question paper.
- Follow a serial order. You may also follow the reverse order i.e. attempt 6 marks questions first, then 5, 4, 3 and 1 markers.

➤ For questions carrying 1 mark:

- Only read the 1 markers if you are sure of attempting the paper from 1 to 30. Some of them may be very tricky, demoralizing you.
- 1 mark questions should not be answered in more than 2 sentences. Also not more than a minute should be given to each.
- There have been instances where for 1 mark the question was what 'Work Study' is. You will have to give all 4 components for getting the mark.

➤ For questions carrying 4-6 marks:

- 4 and 5 markers are usually tricky so think carefully and frame what you are going to write carefully.
- Examples are almost necessary in 4, 5 and 6 markers wherever possible.
- 5-6 markers need an introduction sentence. This introduction can be taken from the question only.
- If the question carries a statement or a case study, such statement or case study HAS to be quoted in your answer.
- In your explanations, give one sub point for each $\frac{1}{2}$ mark. If 4 points have been asked for 6 marks it means each point is worth $1 \frac{1}{2}$ marks. If the point headings are given, you may

again be unsure about the length of your explanations. Follow the same rule, what is the meaning of the term, and what is its relation with the question.

➤ **Terms or words in questions and how to answer them:**

- If the question has a statement or an extract, or a particular situation is given, start the answer from the extract given in the question for clarity.
 - Eg: question: "Internal sources of recruitment are better than external sources" Explain any five reason in support of this statement.(5 Marks)
 - Ans: Internal sources of recruitment are better than external sources in following respects:
 - (Write 5 points with explanation)
- In question where process or steps are asked , write all points whether it is for 3, 4, 5 or 6 marks (explanation varies according to marks). If the question asks for steps in a process, you lose marks if you do not write the steps in an order.
- For questions that ask 'Do you agree or disagree'
 - E.g. "Directing is the heart of management process" Do you agree? Give four reasons in support of your answer.(5 Marks)
 - **Start answer with your view** Ans: Yes, I agree that Directing is the heart of management process. The reasons are : (Write 5 points with explanation)
- If possible give the diagrammatic representation of answer. Example: Scalar Chain, Communication Networks , Controlling process, Functional structure, Divisional structure etc.
- In a question with words like 'Enumerate', 'Outline', 'State' or 'List', write explanatory points (complete sentence should be given regarding points)
- Elaborate/explain/describe mean the same thing
- Justify/ comment/give your opinion is the same. Here, you have to give two points of view with a conclusion. If conclusion is not given, your answer will be said to be incomplete.
- List/enumerate are same. State means one line to explain
- 'Distinguish between' should always be tabulated. Basis of difference should also be given. If for one basis, one part is correct while the other is incorrect or not related to the other side or is not done, then no marks for the correct part will be awarded.

GUIDELINES FOR PRACTICALS

- Project draft has to be preserved and produced with your final file on the date of your viva.
- Project file must be reviewed by your teacher before final submission on the 10th of December.
- File must be prepared on the basis of the guidelines given.
- Your teacher has to write her comments and stamp your project. So timely submission will ensure that your project will be corrected thoroughly and you will get adequate time to correct mistakes, if any.
- CBSE holds its practical exams between the 1st and 15th of February.
- On the date of the practical examination,
 - You are required to come to school in your correct school uniform and present yourself for a Viva that will be conducted by an external examiner.
 - You will also be required to produce your practical file for correction where it will now be evaluated by the external examiner.
- You can be asked any question about :
 - The topic you have selected,
 - The chapter concerned from your text (i.e. Marketing Management or Business Environment or Principles of Management depending on the project you have selected)
 - The firm you have studied
 - Any question or specific principle that you have covered as a part of your project
 - Your findings and Learnings from the project.

HOW TO STUDY BUSINESS STUDIES

- Firstly, understand the topics and then start learning the points. Try explaining the points to yourself or someone else to see if you have understood it correctly.
- Once a topic is understood, then learn the points. Prepare your own point notes or you can use the one given in your smart skills.
- Once you have learnt a chapter, revise the point headings every week by reading it aloud to yourself.
- Once the second term is over, practice papers will be available in school. Please attempt at least 5 practice papers and get them corrected before your examinations.
- Learning happens when the mind is completely fresh and alert. So chose a time of the day when your mind is fresh.
- Some students find it easy to learn theory while taking a break from numerical subjects like Mathematics and Accountancy.

- If something is distracting you frequently, it is better to acknowledge the disturbance and think about the particular issue before you again start concentrating.
- You have to discipline your mind, and it does not happen in a day or two. It requires persistent effort and practice.
- Do the course consistently rather than finishing it and leaving it
- A thorough base makes it easier to assimilate information. Jumping immediately to processes and applications just because they carry more marks may not be fruitful if you are confused about basic concepts.
- Marking scheme of CBSE requires brief and to the point answer, therefore you should avoid writing long answers , you don't get more marks by writing longer answers, but you waste your time.
- **Remember** that success has to be backed by hard work and perseverance. You may forget, but every time you read and answer again, it only gets re-enforced in your mind and things begin to fall in place on their own when you enter the examination hall. Also Business Studies is a subject where sometimes simple common sense can make up for a temporary memory lapse. So trust your ability to think sensibly and do not lose heart.

Exam is a life Skill, Learn it and enjoy it.

ALL THE BEST





BUSINESS STUDIES
SAMPLE PAPER
2015-16

| S.No. | Questions and Answers | Marks and Typology | Unit |
|-------|--|--------------------|------|
| 1 | State any one characteristic of co-ordination. | 1K | I |
| 2 | How does management help in increasing efficiency? | 1U | I |
| 3 | What is meant by "single use plan.?": | 1K | II |
| 4 | <p>Laxmi Chemicals Ltd., a soap manufacturing company wanted to increase its market share from 30% to 55% in the long run. A recent report submitted by the Research & Development Department of the company had predicted a growing trend of herbal and organic products. On the basis of this report the company decided to diversify into new variety of soaps with natural ingredients having benefits and fragrances of Jasmine, Rose, Lavendar, Mogra, Lemon Grass, Green Apple, Strawberry etc. The Unique Selling Proposition (USP) was to promote eco-friendly living in the contemporary life style. The company decided to allocate Rs.30 crores to achieve the objective.</p> <p>Identify the type of one of the functions of management mentioned above which will help the company to acquire dominant position in the market.</p> | 1H | II |
| 5 | <p>Reshu's father has gifted her shares of a large cement company, with which he had been working. The securities were in physical form. She already has a bank account and does not possess any other forms of securities.</p> <p>She wished to sell the shares and approached a registered broker for the purpose. Mention one mandatory detail which she will have to provide with the broker.</p> | 1A | IV |
| 6 | How do rising prices affect the requirement of working capital of an organisation? | 1U | IV |
| 7 | Good Living Ltd. manufactures mosquito repellent tablets. These tablets are packed in strips of 12 tablets each. Each of these strips are packed in a cardboard box, 48 such boxes are then placed in a big corrugated box and delivered to various retailers for sale. State the purpose of packaging the tablets in a corrugated box. | 1A | V |
| 8 | Shreemaya Hotel in Indore was facing a problem of low demand for its rooms due to off season. The Managing Director (MD) of the hotel, Mrs. Sakina was very worried. She called upon the Marketing Manager, Mr. Kapoor for his advice. He suggested, that the hotel should announce an offer of '3 Days and 2 Nights hotel stay packaged with free breakfast and one day religious visit to Omkarehswar and Mahakaleshwar Temples'. The MD liked the suggestion very much. Identify the promotional tool, which can be used by the hotel, through which large number of prospective pilgrimage tourists, all over the country and also abroad, can be reached, informed and persuaded to use the incentive. | 1H | V |
| 9 | State any three points which highlight the importance of delegation for an organisation. | 3K | II |
| 10 | Explain any two factors affecting price of a product. | 3U | V |
| 11 | <p>'If anything goes wrong with the performance of key activities, the entire organization suffers. Therefore, the organization should focus on them.'</p> <p>Explain the statement with a suitable example.</p> | 3U | III |
| 12 | Aakanksha, Nikita and Parishma are the owners of a handicraft unit in the | 3H | III |

| | | | |
|----|--|-----------------------|----|
| | <p>urban area of Dibrugarh in Assam, which is involved in the manufacturing and marketing of Sital Pati, traditional mats and Jappi (the traditional headgear). They decided to shift this manufacturing unit to a rural area with an objective of reducing the cost and providing job opportunities to the locals.</p> <p>They followed the functional structure in this organisation with a view to increasing managerial and operational efficiency.</p> <p>They assessed and analysed the type and number of employees required, keeping in mind that they had to encourage the women, and the people with special needs belonging to the rural area.</p> <p>State the next three steps that they will have to undertake, for obtaining a satisfied workforce for their handicraft unit.</p> | | |
| 13 | <p>Saqib Ltd. is a large credit worthy company operating in the Kashmir Valley. It is an export oriented unit, dealing in exclusive embroidered shawls. The floods in the Valley have created many problems for the company. Many craftsmen and workers have been dislocated and raw material has been destroyed. The firm is therefore, unable to get an uninterrupted supply of raw material, and the duration of the production cycle has also increased. To add to the problems of the organisation, the suppliers of raw material who were earlier selling on credit are asking the company, for advance payment or cash payment on delivery. The company is facing a liquidity crisis. The CEO of the company feels that taking a bank loan is the only option with the company to meet its short term shortage of cash.</p> <p>As a finance manager of the company name and explain the alternative to bank borrowing that the company can use to resolve the crisis.</p> | 3A | IV |
| 14 | <p>Nutan Tiffin Box service was started in Mumbai by Mumbai Dabbawalas. The Dabbawalas who are the soul of entire Mumbai aim to provide prompt and efficient services by providing tasty homemade tiffin to all office goers at right time and place. The service is uninterrupted even on the days of bad weather, political unrest and social disturbances. Recently they have started online booking system through their website 'mydabbawala.com'. Owing to their tremendous popularity amongst the happy and satisfied customers and members, the dabbawalas were invited as guest lecturers by top business schools. The Dabbawalas operate in a group of 25-30 people along with a group leader. Each group teams up with other groups in order to deliver the tiffin on time. They are not transferred on frequent basis as they have to remember the addresses of their customers. They follow certain rules while doing trade- No alcohol during working hours; No leave without permission; Wearing of white cap & carrying ID cards during business hours.</p> <p>Recently on the suggestion of a few self motivated fellow men, the dabbawalas thought out and executed a plan of providing food left in tiffins by customers to slum children. They have instructed their customers to place red sticker if food is left in the tiffin, to be fed to poor children later.</p> <p>a) State any one principle of management given by Fayol & one characteristic of management mentioned in the above case.</p> <p>b) Give any two values which the Dabbawalas want to communicate to the society.</p> | (2+2) = 4 (E&M) | 1 |
| 15 | Kiran Industries is a company manufacturing office furniture. The company | 4H | II |

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| | <p>chose to diversify its operations to improve its growth potential and increase market share. As the project was important many alternatives were generated for the purpose and were thoroughly discussed amongst the members of the organisation. After evaluating the various alternatives Sukhvinder, the Managing Director of the company decided that they should add 'Home Interiors and Furnishings' as a new line of business activity.</p> <p>a) Name the framework, which the diversified organisation should adopt, to enable it to cope with the emerging complexity? Give one reason in support of your answer.</p> <p>b) State any two limitations of this framework.</p> | | |
| 16 | <p>Mrs. Rajlaxmi is working as the Human Resource Consultant in a firm manufacturing cosmetic, which is facing a problem of high employee turnover. The CEO of the company has invited suggestions from her for retaining the talented employees & reducing the employee turnover. Mrs. Rajlaxmi recommends that the good employees be rewarded in a way that it creates a feeling of ownership among the employees and at the same time makes them contribute towards the growth of the organization.</p> <p>a) Identify the incentive and explain its type, which has been suggested by Mrs. Rajlaxmi to the CEO of the company.</p> <p>b) Also explain any two other incentives of the same type.</p> | 4A | III |
| 17 | Enumerate any two techniques of scientific management. | 4K | 1 |
| 18 | "A financial market is for the creation and exchange of financial assets." Explain any two of its functions. | 4U | IV |
| 19 | <p>"Every time I travelled, people asked me to bring them chips, khakra and pickles from all over the country," says Anoushka. Finally, she and her colleague, Sumeet, decided to make a business out of it. They launched a facebook page, asked people what they wanted, and they came up with a list of about 100 places and tied up with two dozen vendors to begin with. They were servicing people from Jaipur who wanted spices from Kerala, people from Panipat who wanted halwa from Jammu and people from Delhi who ordered for fresh tea leaves from Darjeeling. Through their business they wished to bridge the gap between sellers and buyers. The business is now worth millions.</p> <p>Explain any two important activities that Anoushka and Sumeet will have to be involved in for making the goods available to the customers at the right place, in the right quantity and at the right time.</p> | 4H | V |
| 20 | <p>Joseph Bros. was a firm manufacturing jute lamp shades. It uses left over jute pieces from various jute factories to manufacture economical lamp shades which are supplied to various hotels in nearby towns. It employs men and women from nearby villages as workers for creating good lamp shade designs.</p> <p>Joseph Bros., is not able to meet its targets. Namish, the supervisor of the company, was told to analyse the reasons for the poor performance. Namish found following problems and suggested certain solutions in the working of the business. The number of workers employed was less than what was required for the work. As a result, the existing workers were overburdened. The firm decided to search for new workers and it asked the present employees to introduce candidates or recommend their friends and relatives to the firm. This enabled the firm in "putting people to jobs" and assured attainment of objectives according to</p> | (2+1+2) = 5 (E&M) | III |

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| | plans. a) Identify the functions of management being performed by the firm in the above situation. b) Name the concept and its source used by the firm to attract more workers for the firm. c) State any two values being followed by Jacob Bros. | | |
| 21 | Suhasini a home science graduate from a reputed college has recently done a cookery course. She wished to start her own venture with a goal to provide 'health food' at reasonable price. She discussed her idea with her teacher (mentor) who encouraged her. After analyzing various options for starting her business venture, they shortlisted the option to sell readymade and 'ready to make' vegetable shakes and sattu milk shakes. Then, they both weighed the pros and cons of both the shortlisted options. a) Name the function of management being discussed above and give any one of its characteristics. b) Also briefly discuss any three limitations of the function discussed in the case. | 5A | II |
| 22 | State any five semantic barriers to communication in an organization. | 5K | III |
| 23 | "A good understanding of environment by business managers enables them not only to identify and evaluate but also to react to the forces external to their firm." In the light of the above statement explain any four points of importance of understanding business environment by a manager. | 6U | 1 |
| 24 | Shalini, after acquiring a degree in Hotel Management and Business Administration took over her family food processing company of manufacturing pickles, jams and squashes. The business was established by her great grandmother and was doing reasonably well. However the fixed operating costs of the business were high and the cash flow position was weak. She wanted to undertake modernisation of the existing business to introduce the latest manufacturing processes and diversify into the market of chocolates and candies. She was very enthusiastic and approached a finance consultant, who told her that approximately Rs.50 lakh would be required for undertaking the modernization and expansion programme. He also informed her that the stock market was going through a bullish phase. (a) Keeping the above considerations in mind, name the source of finance Shalini should not choose for financing the modernization and expansion of her food processing business. Give one reason in support of your answer. (b) Explain any two other factors, apart from those stated in the above situation, which Shalini should keep in mind while taking this decision. | 6H | IV |
| 25 | Aman a degree holder in Entrepreneurship came to know about Piplantri Village located in Rajasthan, where in 2006 an initiative was started, in which 111 trees are planted every time a girl child is born. To keep termites away from the trees the villagers have planted 2.5 million Aloe Vera plants around the trees. This has turned the village into an oasis, as the planting of trees led to higher water levels. Aman decided to visit the village to start a business unit, for the processing and marketing of Aloe Vera into juices, gels and other products. However, on visiting the village Aman found that the villagers were | A | 6 |

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| <p>suffering exploitation at the hands of local merchants who were engaged in unscrupulous, exploitative trade practices like hoarding and black marketing of food products and also selling unsafe, adulterated products to the villagers.</p> <p>After looking at their plight instead of a business organisation he decided to set up an organisation for the protection and promotion of the consumer interest of the villagers.</p> <p>State the functions that the organisation established by Aman will be performing. (Any six points)</p> | | |
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BUSINESS STUDIES
SAMPLE PAPER
2015-16
Marking Scheme

| S.No. | Answers | Marks and Typology | Unit |
|-------|---|--|------|
| Ans1 | <p>Any one characteristic.</p> <ol style="list-style-type: none"> 1. <u>Coordination integrates unrelated group efforts</u> into purposeful work activity. 2. <u>Coordination ensures unity of action</u> in the realization of a common purpose. 3. <u>Coordination is not a one-time function</u> but it is a <u>continuous function</u> beginning with planning stage and continues till controlling. 4. Coordination is a <u>pervasive function</u> needed at all levels of management. 5. Coordination is the <u>function of every manager</u> in the organization. 6. Coordination is a function <u>performed in a deliberate and conscious manner.</u> | 1 mark for the statement | I |
| Ans2 | A manager reduces cost and increases productivity through better planning, organizing, directing, staffing and controlling the activities of the organization. | 1 mark | I |
| Ans3 | A single use plan is developed for a onetime event. Such a course of action is not likely to be repeated in future. | 1 mark | II |
| Ans4 | Strategy | 1 mark | II |
| Ans5 | Permanent Account Number (PAN) | 1 mark | IV |
| Ans6 | With rising prices larger amounts are required to maintain a constant volume of production and sales. Thus working capital requirement of a business will be high. | 1 mark | IV |
| Ans7 | The packaging of tablets in a corrugated box is necessary for the purpose of storage, identification and transportation. | 1 mark for the statement | V |
| Ans8 | Advertising. | | V |
| Ans9 | <p>Importance of Delegation (any three):</p> <ol style="list-style-type: none"> (i) Delegation leads to <u>effective management</u> through empowerment of employees. (ii) Delegation helps in <u>employee development</u> by providing them with the chance to use their skills and experience. (iii) Delegation <u>motivates employees</u> by giving them responsibility which builds their self-esteem. (iv) Delegation <u>facilitates growth</u> by providing ready workforce to take up any expansion program. (v) Delegation provides <u>basis of management hierarchy</u> by establishing superior-subordinate relationship. (vi) Delegation helps in <u>better coordination</u> as it avoids overlapping of duties. | 1 mark for the statement (1x3=3) | II |
| Ans10 | <p>Factors affecting price of a product: (Any two factors)</p> <ol style="list-style-type: none"> (i) Product Cost (ii) Utility and Demand (iii) Extent of competition in the market (iv) Government and Legal Regulations (v) Pricing Objectives (vi) Marketing Methods used | 1/2 mark heading + 1½ explanation (1½ x 2=3) | V |

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|------------------------|--|--|-----|------------|--|------------|--|-----------------|--|---------------|---|------------------|---------|----------------|-------------------|--|---|
| Ans11 | <p>The statement refers to use of 'Critical Point Control', while analyzing deviations.</p> <p>It emphasizes that deviations in the key areas need to be attended more urgently as compared to deviations in certain insignificant areas. Control should, therefore focus on these key result areas which are critical to the success of an the organization.</p> <p>For example, in a manufacturing organization, an increase of 5 percent in the labour cost may be more troublesome than a 15 percent increase in postal charges. (or any other suitable example)</p> | 2 marks for explanation and 1 mark for example (2+1=3) | III | | | | | | | | | | | | | | |
| Ans12 | <p>The next three steps in the process of staffing are stated below:</p> <ol style="list-style-type: none"> 1. <u>Recruitment</u> is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. 2. <u>Selection</u> is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment. 3. <u>Placement and orientation</u> refers to the employee occupying the position or post for which the person has been selected and introducing the selected employee to other employees and familiarising him with the rules and policies of the organisation. | 1 mark for each statement (1x3=3) | III | | | | | | | | | | | | | | |
| Ans13 | <p>Commercial Paper: It is a short term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. It is issued by large and creditworthy companies to raise short term funds at lower rate of interest than market rates. The issuance of commercial paper is an alternative to bank borrowing for large companies that are generally considered to be financially strong.</p> | 1 mark for naming and 2 marks for explanation (1+2=3) | IV | | | | | | | | | | | | | | |
| Ans14 | <p>a) Principles of management (any one)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Stability of Personnel</td> <td style="width: 50%; text-align: right;">1</td> </tr> <tr> <td>Initiative</td> <td></td> </tr> <tr> <td>Discipline</td> <td></td> </tr> <tr> <td>Esprit de corps</td> <td></td> </tr> </table> <p>Characteristic of management (any one)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Goal oriented</td> <td style="width: 50%; text-align: right;">1</td> </tr> <tr> <td>Intangible Force</td> <td style="text-align: right;">Dynamic</td> </tr> <tr> <td>Group activity</td> <td style="text-align: right;">Multi Dimensional</td> </tr> </table> <p>b) Values that have been communicated by the Dabbawalas: (any two)</p> <ol style="list-style-type: none"> 1. Fulfilling social responsibility; 2. Empathy towards disadvantaged children; 3. Team work. <p>(or any other suitable value)</p> | Stability of Personnel | 1 | Initiative | | Discipline | | Esprit de corps | | Goal oriented | 1 | Intangible Force | Dynamic | Group activity | Multi Dimensional | (1 mark each for the statement of the principle and feature) | I |
| Stability of Personnel | 1 | | | | | | | | | | | | | | | | |
| Initiative | | | | | | | | | | | | | | | | | |
| Discipline | | | | | | | | | | | | | | | | | |
| Esprit de corps | | | | | | | | | | | | | | | | | |
| Goal oriented | 1 | | | | | | | | | | | | | | | | |
| Intangible Force | Dynamic | | | | | | | | | | | | | | | | |
| Group activity | Multi Dimensional | | | | | | | | | | | | | | | | |
| Ans15 | <p>(a). Divisional Structure-</p> <p>Reason in support of the answer (any one)</p> <ol style="list-style-type: none"> 1. Product Specialisation helps in the development of varied skills in a divisional head and this prepares him for higher positions. 2. Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them. 3. It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making. 4. It facilitates expansion and growth as new divisions can be added without interrupting existing operations by merely adding another divisional head and staff for the new product line. <p>(b) Limitations of the Divisional Structure: (Any two)</p> <ol style="list-style-type: none"> 1. Conflict may arise among different divisions with reference to | 1 mark for the statement 1 mark each | II | | | | | | | | | | | | | | |

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| | allocation of funds. 2. It may lead to increase in costs since there may be a duplication of activities across products. 3. Divisional interests may supersede organisational interests. | for the statement (1x2=2) | |
| Ans16 | (a) Financial incentive. 1 Co -Partnership/ Stock Option 1 (b) Other financial incentives (any two): Pay and allowances Productivity linked wage incentives Bonus Profit Sharing Retirement Benefits Perquisites | 1 mark for identifying the incentive 1/2 mark for identifying the type and 1/2 mark for the explanation 1/2 mark for the heading+1/2 mark for the explanation (1x2=2) | III |
| Ans17 | Ans. Techniques of Scientific Management (any two) <u>Functional Foremanship:</u> The technique is to improve the performance of supervisor in the factory set up. Taylor suggested functional foremanship through eight persons. Functional Foremanship is an extension of principle of division of work and specialization at the shop floor. <u>Motion Study</u> - It refers to the study of movements like lifting, putting objects, sitting & changing positions etc. Which are undertaken while doing a typical job. Unnecessary movements are eliminated so that it takes less time to complete the job efficiently. <u>Standardisation and simplification of work-</u> The process of setting standards for every business activity. These standards are bench marks which must be adhered during production process. The standards were set for every business activity standardisation of process, raw material, time, product etc. Simplification aims at eliminating superfluous varieties, sizes and dimension. <u>Method study</u> the objective of method study is to find the one best way of doing the work <u>Time study</u> it determines the standard time taken to perform a well defined job, the objective of time study is to determine the number of workers to be employed <u>Fatigue study.</u> This study seeks to determine the amount and frequency of rest intervals in completion of a task <u>Differential piece wage system.</u> According to this there are different rate of wage payment, higher rate for the efficient members who performed above standard and lower rate for those who perform below standards. | (2+2=4) | I |
| Ans18 | Functions of Financial Market. (any two) (i) Mobilisation of savings and channeling them into the most productive uses (ii) Facilitating price recovery. | 1/2 mark for heading and 1 ½ mark for explanation | IV |

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|-------|---|--|-----|
| | (iii) Providing liquidity to financial assets. (iv) Reducing the cost of transaction | | |
| Ans19 | Activities/ Components of Physical Distribution: (Any two) 1. Order processing- A good physical distribution system should provide for an accurate and speedy processing of orders, in the absence of which goods would reach the customers late or in wrong quantity or specifications. 2. Transportation- It is the means of carrying the goods and raw materials from the point of production to the point of sale. It is important because unless the goods are physically made available, the sale cannot be completed. 3. Warehousing- It refers to the act of storing and assorting products in order to create time utility in them. 4. Inventory Control- Higher the level of inventory, higher will be the level of service to customers but the cost of carrying the inventory will also be high because lot of capital would be tied up in the stock. Thus, a balance is to be maintained in respect of the cost and customer satisfaction. | 1/2 mark for the heading+ 1 1/2 mark for explanation (2x2=4) | V |
| Ans20 | (a) Staffing and Controlling 2 (b) Recruitment, External Source of Recruitment (Recommendations of employees) 1 Values being followed by Joseph Bros. : (i) Creating employment opportunities. (ii) Utilizing resources efficiently by using leftover clothes. (any other suitable value.) | 1x2=2 | III |
| Ans21 | (a) Planning. Characteristics of planning (any one) 1 (i) Planning focuses on achieving objectives. (ii) Planning is a primary function of management (iii) Planning is pervasive (iv) Planning is continuous (v) Planning is futuristic (vi) Planning involves decision making (vii) Planning is a mental exercise (b) Any three limitations of planning: (i) Planning leads to rigidity (ii) Planning may not work in a dynamic environment (iii) Planning reduces creativity (iv) Planning involves huge cost (v) Planning is a time consuming process (vi) Planning does not guarantee success | 1/2 mark for heading and ½ mark for the explanation (1x3=3) | II |
| Ans22 | Semantic barrier to communication (Any five) (i) <u>Badly expressed message</u> may not convey intended meaning. (ii) <u>Symbols with different meanings</u> may be perceived differently by the receiver. (iii) Message originally drafted in one language may be misunderstood due to <u>faulty translation</u> . (iv) Messages involving certain assumptions may be interpreted | (1x5=5) | III |

| | | | |
|-------|--|--|----|
| | <p>differently due to <u>unclarified assumptions</u>.</p> <p>(v) Use of <u>technical jargon</u> by specialists may not be understood by others.</p> <p>(vi) <u>Body language and gesture decoding</u> may be misunderstood if what is said and what is expressed do not match.</p> | | |
| Ans23 | <p>Importance of understanding business environment: (Any four)</p> <ol style="list-style-type: none"> 1. It enables the firm to identify opportunities and getting the first mover advantage. 2. It helps the firm to identify threats and early warning signals. 3. It helps in tapping useful resources. 4. It helps in coping with rapid changes. 5. It helps in assisting in planning and policy formulation 6. It helps in improving performance | <p>1/2 mark for the point heading and 1 mark for explanation ($1^{1/2} \times 4 = 6$)</p> | I |
| Ans24 | <p>(a) Debt Any one reason</p> <ol style="list-style-type: none"> 1. Due to weak cash flow position, the firm may not be able to honour fixed cash payment obligations. 2. Increased fixed operating cost will increase the business risk therefore debt should not be issued as it further increases the financial risk. 3. The stock market condition being bullish, the investors will prefer to buy equity shares. <p>(b) Other factors which Shalini would keep in mind are: (any two)</p> <p>Return on Investment Tax Rate Cost of Equity Floatation Costs Flexibility Control Consideration Regulatory Framework Capital Structure of other companies. Debt Service Coverage Ratio Interest Coverage Ratio Cost of Debt</p> | <p>(1+1)</p> <p>0.5 mark for the heading +1.5 mark for the explanation</p> | IV |
| Ans25 | <p>Functions of an NGO: /Consumer organisation (any six)</p> <ol style="list-style-type: none"> (i) Educating the villagers/general public about consumer rights by organising training programmes, seminars and workshops. (ii) Publishing periodicals and other publications to impart knowledge about consumer problems, reliefs available and other matters of interest. (iii) Carrying out comparative testing of consumer products in accredited laboratories to test relative qualities of competing brands and publishing the test results for the benefit of consumers. (iv) Encouraging consumers to strongly protest and take an action against exploitative and unfair trade practices of sellers. (v) Providing legal assistance to consumers by way of providing aid, legal advice etc, in seeking legal remedy. (vi) Filing complaints in consumer courts on behalf of consumers. (vii) Taking an initiative in filing cases in consumer courts in the interest of the villagers/general public, not for any individual. | <p>(1x6=6)</p> | VI |

SAMPLE QUESTION PAPER
BUSINESS STUDIES (054) CLASS-XII
2016-17

Time allowed: 3 hours

Maximum marks: 80

General Instructions:

- i. Answer to questions carrying 1 marks may be from one word to one sentence.
- ii. Answer to questions carrying 3 marks may be from 50-75 words.
- iii. Answer to questions carrying 4-5 marks may be about 150 words.
- iv. Answer to questions carrying 6 marks may be about 200 words.
- v. Attempt all parts of a question together.

| Q.No. | Questions | Typology and Marks | Unit |
|-------|--|--------------------|------|
| 1 | What did Taylor want to communicate through mental revolution? | 1 R | 1 |
| 2 | What is meant by span of management? | 1 R | 2 |
| 3 | Super Fine Rice Ltd. has the largest share of 55% in the market. The company's policy is to sell only for cash. In 2015, for the first time company's number one position in the industry has been threatened because other companies started selling rice on credit also. But the managers of Super Fine Rice Ltd. continued to rely on it's previously tried and tested successful plans which didn't work because the environment is not static. This led to decline in sales of Super Fine Rice Ltd. The above situation is indicating two limitations of planning which led to decline in its sales. Identify these limitations. | 1 H | 2 |
| 4 | Why is it said that directing takes place wherever superior-subordinate relationship exists? | 1 U | 3 |
| 5 | When is financial leverage favourable? | 1 U | 4 |
| 6 | ABC Ltd. issued prospectus for the subscription of its shares for ₹ 500 crores in 2008. The issue was oversubscribed by 20 times. The | 1 A | 4 |

| | | | |
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| | company issued shares to all the applicants on pro-rata basis. Later SEBI inspected the prospectus and found some misleading statement about the management of the company in it. SEBI imposed a penalty of ₹ 5 crores and banned its three executive directors for dealing in securities market for three years. Identify the function and its type performed by SEBI in the above case. | | |
| 7 | Ronit Raj, a marketing manager is a patient of diabetes for which he takes medicines regularly. One day, on his tour to Patna, he met with an accident and was hospitalised. Due to doctors' negligence a delicate nerve of his right leg was cut rendering him crippled throughout his life. Identify the consumer right that has been violated by the doctors under the Consumer Protection Act, 1986 in the above situation. | 1 H | 5 |
| 8 | Sirajuddin purchased a car for ₹15 lacs from an automobile company and found that its airbags were defective. After many complaints with the company that went unheard, he filed a case in the District Forum. He was not satisfied with the orders of the District Forum. He then appealed before the State Commission and on being dissatisfied with the orders of State Commission, he appealed before the National Commission. Sirajuddin was not satisfied with the orders of National Commission. Suggest him the highest authority where he could appeal against the decision of the National Commission. | 1 A | 5 |
| 9 | State the main aspects in the concept of planning? | 3 R | 2 |
| 10 | How does controlling help in "Judging accuracy of standards" and "Ensuring order and discipline." | 3 U | 3 |
| 11 | M/s Beta Ltd. deals in consumer goods. It employs 100 workers and 10 operative managers who give guidance and support to the workers while operating the machinery. The company has a policy of granting leave as per the requirement of the workers. Workers | 3 H | 3 |

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| | <p>are generally granted leave on festivals and special occasions. Recently on Puja festival, it received a big order. Workers are keen to take Puja holidays while management is pressing hard for overtime. This matter was placed before the Personnel Manager who called the meeting of operative managers and workers to inform them about the changes in the incentive plan which states payment of double wages for working overtime and triple wages for working on holidays. Workers without any pressure voluntarily took limited holidays and were able to increase their earning by working overtime and on holidays. During Board of Directors meeting, Personnel Manager was asked to update the management for achieving higher output, meeting timely supplies without any confrontation with workers. Personnel Manager replied, “I just used a carrot with no sticks approach”.</p> <p>By quoting the lines from above paragraph state any two elements of directing.</p> | | |
| 12 | ‘Money market is essentially a market for short-term funds’. In the light of this statement, state any three features of money market. | 3 U | 4 |
| 13 | <p>‘Grahak Shakti’, an N.G.O. organized a workshop to discuss various issues relating to consumers. During the discussion, one of the members drew attention towards exploitation of consumers due to defective and unsafe products, adulteration, black marketing, hoarding etc. To this another member argued that consumers themselves are responsible as they do not raise collective voice against the exploitation. The Chairperson of the organization was of the opinion that it was also the duty of the businessman to take care of the interests of various stakeholders. Business organizations earn money by selling goods and services to consumers. So the interests of the stakeholders have to be well taken care of.</p> <p>(a) State three points that highlight the need for consumer</p> | 3 A | 5 |

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| | protection as discussed in ‘Grahak Shakti’s workshop. | | |
| 14 | State any four functions of operational management. | 4 R | 1 |
| 15 | <p>Ramdas, aged 49 is working in an aviation company. He is the senior most employee in his division. He is even senior to the division manager, Kanaputti. Ramdas is considered one of the most committed, capable and hard-working employees. As a result of his abilities and seniority, he generally received the work assignments of his choice. Although there was no formal designation of various ‘special’ projects assigned to Ramdas, he handled them as a matter of routine. A problem developed when an able and intelligent person Nagarjuna, aged 33, was appointed by Kanaputti. Nagarjun’s previous three years’ experience in the closely related work, made it possible for him to catch on to the routine work of his new job more rapidly than was customary for a new employee. On several occasions, Kanaputti noticed the tension developing between the two employees. However, he didn’t want to get involved in their personal issues as long as the work was completed effectively and efficiently by them. One day, the tension between them reached the boiling point and Ramdas complained to Kanaputti stating that his duties were being largely taken over by Nagarjun. Kanaputti issued the order stating the clear allocation of the jobs and related duties between the two. He further clarified the working relationship between them by specifying who was to report to whom. This helped in reducing the workload, enhancing productivity and removing ambiguity.</p> <ol style="list-style-type: none"> Identify and state the step of organizing process which has not been carried out properly and contributed to this problem. State the two steps of the organizing process which have been taken by Kanaputti to respond to the complaint of Ramdas. Also state two points of importance of organizing as reflected in the above case. | 4 H | 2 |

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| 16 | Human Resource Management includes many specialized activities and duties which the human resource personnel must perform. In the light of this statement, explain any four such duties performed by Human Resource Manager. | 4 U | 3 |
| 17 | <p>Resolutions Pvt. Ltd. is a publishing company. Its book on Business Studies for class XII is in great demand. As a result, the employees in the marketing department are always racing against time. The employees have to work overtime and on holidays to cater to the demand.</p> <p>Managers in the marketing department are under stress as they have to handle more than two territories. The work stress has led to dissatisfaction among the employees and managers.</p> <p>a) Name and explain the step of staffing process which has not been performed properly.</p> <p>b) State the next two stages immediately following the step identified in part 'a'.</p> | 4 A (2+2) | 3 |
| 18 | 'Unicon Securities Pvt. Ltd' was established to deal in securities. It was registered as a stock broker with National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) to trade in securities listed at these exchanges. It is also a depository participant with CDSL and NSDL. In the first three years, it developed its business successfully. After that the composition of Board of Directors changed. Some customers complained to the customer care centre of the company that shares purchased by them and for which the payment has been duly made, were not transferred to their D'mat Accounts by 'Unicon securities Pvt. Ltd'. The executive of customer care centre promised the aggrieved customers that their shares will be transferred to their respective D'mat Accounts very soon. But the company delayed the matter and didn't transfer the shares of the customers to their D'mat Accounts. This eroded investors' | 4 E 1+1+2 | 4 |

| | | | |
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| | <p>confidence and multiplied their grievances.</p> <ol style="list-style-type: none"> 1) Identify the step of trading procedure in a stock exchange which has not been followed by 'Unicon Securities Pvt. Ltd' . 2) Name the Apex statutory body of capital market to whom customer can complain to redress their grievances. 3) Write two values not followed by Unicon Security Pvt. Ltd. | | |
| 19 | <p>'Time Line' watch manufacturing company is a renowned company marketing watches. It performs various activities like, market analysis, product designing or merchandising, packaging, warehousing, branding, pricing, promotion and selling. The company maintains good customer relations through various follow up activities. This helps the company in procuring repeat sales orders.</p> <ol style="list-style-type: none"> (a) Name the concept related to the activities mentioned in the above paragraph. (b) Explain any two features of the concept identified in part (a) | 4 H | 5 |
| 20 | <p>Naman and Govind after finishing their graduation under vocational stream decided to start their own travel agency which will book Rail Tickets and Air Tickets on commission basis. They also thought of providing tickets within ten minutes through the use of internet. They discussed the idea with their Professor Mr. Mehta who liked the idea and suggested them to first analyse the business environment which consists of investors, competitors and other forces like social, political etc. that may affect their business directly or indirectly. He further told them about the technological improvements and shifts in consumer preferences that were taking place and hence they should be aware of the environmental trends and changes which</p> | 5 A 1+2+2 | 1 |

| | | | |
|----|--|-----|---|
| | <p>may hinder their business performance. He emphasised on making plans keeping in mind the threat posed by the competitors, so that they can deal with the situation effectively. This alignment of business operations with the business environment will result in better performance.</p> <p>(i) Identify and state the component of business environment highlighted in the above Para.</p> <p>(ii) State any two features of business environment as discussed by Professor Mehta with Naman and Govind.</p> <p>(iii) Also state two points of importance of business environment as stated by Professor Mehta in the above situation.</p> | | |
| 21 | <p>'Shan Spices Ltd.' are the manufacturer of different food specific spices like Rajma Masala, Cholley Masala, AalooParantha Masala etc. Mr. Raghav, the owner of the company has created different departments for purchase, production, marketing, finance and human resource. There are thirty employees working in the organisation. Planning is of paramount importance to the company as Mr. Raghav believes that effective planning leads to achievement of organisational objectives. So in order to make employees focus on objectives, he issued instructions that during working hours only official matters will be discussed. He made certain rules and code of conduct for the employees to follow, according to which employees are not allowed to visit and talk to the employees of other departments except for official work. He emphasised on work performance which resulted in smooth functioning of the organisation.</p> <p>1) Identify and state the type of organisation mentioned in the above para.</p> | 5 E | 2 |

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| | <p>2) State one feature of the concept identified in part (1) as mentioned in the above para.</p> <p>3) What was the purpose behind the formulation of rules for the employees that restricted their personal communication with the employees of other departments?</p> <p>4) State two values violated by Mr. Raghav.</p> | | |
| 22 | Describe briefly 'Maslow's need hierarchy theory' of motivation? | 5 R | 3 |
| 23 | Briefly explain work study techniques that help in developing standards to be followed throughout the organization. | U6 | 1 |
| 24 | <p>'A business that doesn't grow dies', says Mr. Shah, the owner of Shah Marble Ltd. with glorious 36 months of its grand success having a capital base of ₹80 crores. Within a short span of time, the company could generate cash flow which not only covered fixed cash payment obligations but also create sufficient buffer. The company is on the growth path and a new breed of consumers is eager to buy the Italian marble sold by Shah Marble Ltd.</p> <p>To meet the increasing demand, Mr. Shah decided to expand his business by acquiring a mine. This required an investment of ₹120 crores. To seek advice in this matter, he called his financial advisor Mr. Seth who advised him about the judicious mix of equity (40%) and Debt (60%). Mr. Seth also suggested him to take loan from a financial institution as the cost of raising funds from financial institutions is low. Though this will increase the financial risk but will also raise the return to equity shareholders. He also apprised him that issue of debt will not dilute the control of equity shareholders. At the same time, the interest on loan is a tax deductible expense for computation of tax liability.</p> <p>After due deliberations with Mr. Seth, Mr. Shah decided to raise funds from a financial institution.</p> <p>a) Identify and explain the concept of Financial Management as</p> | (2+4)=6 H | 4 |

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| | <p>advised by Mr. Seth in the above situation.</p> <p>b) State the four factors affecting the concept as identified in part ‘a’ above which have been discussed between Mr. Shah and Mr. Seth.</p> | | |
| 25 | <p>‘Coconut Joy Ltd.’ are the manufacturer of vegetarian frozen dessert food products made with coconut milk, agave syrup and other certified ingredients. The founders of the company Lovely and Lalita originally developed this treat to meet their own needs but found that their friends and families around were also keen to use the products. It was not only the vegetarians, but also those who could not get enough environment friendly sustainable food, that appreciated the product.</p> <p>It did not take long for Lovely and Lalita to recognise the potential of their little venture. In the beginning they started from their home with the product being sold through local family parties that enable guests to personally meet the owner. This helped to establish strong connections with the prospective buyers and the company could put the product on shelves of natural food store. The company used all marketing activities to grow and expand. The company began sponsoring booths at festivals, drawing attention to its newly created vegetarian products. It also disseminated relevant information to media about its products and the people who helped in building the company’s reputation. Lovely and Lalita were invited for an interview with one of the leading TV channels in which they talked about their environment friendly vegetarian products. To show its gratitude to customers, local business and government officials who supported the company from the beginning, ‘Coconut Joy Ltd.’ hosted a gala event and involved all of them to raise funds for a few local NGO’s. The company also asked its fans and customers to send songs and poetry conveying their impression about ‘Coconut</p> | (2+4)=6 A | 5 |

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| | <p>Joy's Ltd.' products.</p> <p>(a) Identify and explain the communication tool used by 'Coconut Joy Ltd'.</p> <p>(b) Briefly explain the role of the tool identified in 'a' above.</p> | | |
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Marking Scheme

Business Studies (054)

2016-17

| Q.No. | Answers | Marks |
|-------|---|--|
| 1 | Taylor emphasized that there should be complete transformation in the thinking / attitude of management and workers towards each other. Managers should share surplus with workers and the workers should work with full devotion. | 1 |
| 2 | Span of management refers to the number of subordinates that can be effectively managed by a superior. | 1 |
| 3 | 1. Planning does not guarantee success. 2. Planning may not work in dynamic environment. | $\frac{1}{2}$ mark for each point |
| 4 | Directing takes place at every level of management. That is why it takes place where ever superior subordinate relation exists. | 1 |
| 5 | When ROI is higher than cost of Debt. | 1 |
| 6 | Protective function Prohibition of fraudulent and unfair trade practices | $\frac{1}{2}$ mark of identifying and $\frac{1}{2}$ for stating the type of function |
| 7 | Right to safety | 1 |
| 8 | He cannot appeal to any other higher authority as only those matters which have been directly filed in the National Commission and where the value of goods and services in question along with the compensation claimed exceed Rs.1 crore are appealable before Supreme Court. | 1 |
| 9 | 1) Setting objectives for a given time period. | 1 mark for |

| | | |
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| | 2) Formulating various courses of action to achieve them. 3) Selecting the best possible alternative from among the various courses of action available. | stating each aspect stating=3 |
| 10 | Judging accuracy of standards Ensuring order and discipline | 1.5 marks for explanation of each point=3 |
| 11 | Supervision means guiding the efforts of employees and other resources to achieve desired results. Supervision-‘ it employs 10 operating managers.....support to the workers. Motivation means stimulating people to action to accomplish desired goals. Motivation-‘ to pay double wages for working overtime and triple wages for working on holidays’. | $\frac{1}{2}$ mark for naming the element each and 1 mark for quoting the line for each 3 |
| 12 | Features of money market: I. It is a market for short term funds which deals in monetary assets whose period of maturity is up to one year. II. Money market instruments are highly liquid. III. Money market instruments are less risky. | One mark each for the statement=3 $(1 \times 3 = 3)$ |
| 13 | (i) Widespread exploitation of consumers. (ii) Unorganized consumers. (iii) Social responsibility. | (1mark each for stating the point) $(1 \times 3 = 3)$ |
| 14 | I. To oversee the efforts of the workforce. II. To interact with the actual workforce and pass on the instructions of the middle management to the workers. III. To ensure that the quality of output is maintained and wastage of material is minimized. IV. To ensure safety standards are maintained | (1mark each for stating the function)=4 $(1 \times 4 = 4)$ |

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| 15 | <p>1. Assignment of duties-Defining the work of different job positions and allotting the work according to the skills of the employees.</p> <p>2. Kanaputti responded to the complain of Ramdas by</p> <ul style="list-style-type: none"> a. Assigning the duties b. Establishing reporting relationship <p>3. a. clarity in working relationship.</p> <ul style="list-style-type: none"> b. Benefits of specialization c. Effective administration | <p>$\frac{1}{2}$ for heading and $\frac{1}{2}$ mark for stating the heading</p> <p>$\frac{1}{2}$ mark each for the heading</p> <p>One mark each for stating the points (Any two)</p> |
| 16 | <p>1) Recruitment i.e. searching for qualified people.</p> <p>2) Analyzing job, collecting information about jobs to prepare job descriptions.</p> <p>3) Developing compensation and incentives plans.</p> <p>4) Training and development of employees for efficient performance and carrier growth.</p> <p>Or any other relevant duties of human resource personnel</p> | <p>1 mark each for correct statement=4</p> |
| 17 | <p>a) Estimation of manpower requirement. It involves determining the number and type of employees required. It would necessitate workload analysis and workforce analysis</p> <p>b) 1) Recruitment- Process of searching for perspective employees and stimulating them to apply for the job.</p> <p>2) Selection- Process of choosing the most suitable candidate and rejecting the unsuitable ones.</p> | <p>($\frac{1}{2}$ mark for heading +1 .5 for explanation)</p> <p>($\frac{1}{2}$ mark each for the heading + $\frac{1}{2}$ marks for stating the point)</p> |
| 18 | <p>1. Delivery of shares in D'mat form directly to investors D'mat Account by the broker.</p> <p>2) The Securities and Exchange Board of India (SEBI)</p> <p>3) a) Honesty</p> | <p>1 mark</p> <p>1 mark</p> <p>1 mark each for value</p> |

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| | b) commitment or any other. | =4 |
| 19 | a) Marketing b) Features of marketing (1) Need and wants (2) Creating market offering (3) Customer value (4) Exchange mechanism | (1 mark) & (1/2mark each for heading and 1 mark each for explanation) Any two =4 |
| 20 | (i) Technological Environment. It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business. (ii) (a) Specific and general forces. (b) Dynamic nature (iii) a) It helps the firm to identify threats and early warning signals. b)It helps in planning and policy formulation. | $\frac{1}{2}$ mark for identification and $\frac{1}{2}$ mark for stating the point. 1/2 mark each for the heading and 1/2 mark for stating 1 mark each for stating the point =5 |
| 21 | 1) Formal organisation | 1/2 mark for identification and $\frac{1}{2}$ for stating the identified |

| | | |
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| | <p>2) Focus on objective and work performance</p> <p>3) Avoidance of the emergence of informal organisation which may obstruct the fulfilment of organisational goals.</p> <p>4) <u>Values</u></p> <p>1) Freedom to employees</p> <p>2) Fulfilment of psychological social needs of employees</p> | <p>point.</p> <p>1 mark for stating the feature</p> <p>1 marks for the statement</p> <p>1 mark each for value</p> |
| 22 | Maslow's Need Hierarchy theory is based on human needs; which are as follows: 1. Basic Physiological Needs 2. Safety / Security Needs 3. Affiliation/ Belonging Needs 4. Esteem Needs 5. Self Actualisation Needs | One mark each for describing the need briefly |
| 23 | Techniques of work study includes the following : 1. Time study 2. Motion study 3. Fatigue study 4. Method study | $\frac{1}{2}$ mark each for heading and 1 mark each for the explanation=6 |
| 24 | a) Capital structure | 1/2 mark for naming the concept and 1 $\frac{1}{2}$ mark for explaining the concept |

| | | |
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| | b) i) Cash flow position ii) Floatation cost iii) Risk consideration iv) Tax rate v) Control | 1/2 mark each for heading and 1/2 mark each for stating the point (Any four) Total - 6 |
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| 25 | <p>(a) Public Relation.</p> <p>b) (i) Press Relation. (ii) Product Publicity. (iii) Corporate Communication. (iv) Counselling.</p> | <p>1/2 mark for naming the concept and 1 ½ marks for explaining the concept</p> <p>1/2 mark each for the heading and 1/2 mark each for explanation</p> |
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Business Studies (054)

Class-XII (2016-17)

Sample Paper Blue Print

Time: 3 Hours

Max. Marks:80

| Chapter No. | Unit Name | 1 Mark Question | 3 Mark Question | 4 Mark Question | 5 Mark Question | 6 Mark Question | Total | Total Marks |
|--------------------|---------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|--------------|--------------------|
| 1 | Nature and Significance of Management | | | 1(14) | | | 4(1) | 16 |
| 2 | Principles of Management | 1(1) | | | | 1(23) | 7(2) | |
| 3 | Business Environment | | | | 1(20) | | 5(1) | |
| 4 | Planning | 1(3) | 1(9) | | | | 4(2) | 14 |
| 5 | Organising | 1(2) | | 1(15) | 1(21) | | 10(3) | |
| 6 | Staffing | | | 1(16,17) | | | 8(2) | 20 |
| 7 | Directing | 1(4) | 1(11) | | 1(22) | | 9(3) | |
| 8 | Controlling | | 1(10) | | | | 3(1) | |
| 9 | Financial Management | 1(5) | | | | 1(24) | 7(2) | 15 |
| 10 | Financial Market | 1(6) | 1(12) | 1(18) | | | 8(3) | |
| 11 | Marketing Management | | | 1(19) | | 1(25) | 10(2) | 15 |
| 12 | Consumer Protection | 1(7,8) | 1(13) | | | | 5(2) | |
| Total | | 8(1) | 5(3) | 6(4) | 3(5) | 3(6) | | 80 |

SAMPLE QUESTION PAPER

BUSINESS STUDIES (054)

CLASS XII (2017-18)

1. Name the process which provides the requisite amount, quality, timing and sequence of efforts and ensures that planned objectives are achieved with a minimum of conflict. (1)
2. What are Planning premises? (1)
3. Name the process of exchange of information between two or more persons to reach common understanding. (1)
4. Sara worked in a call center. Her team manager did not wish to be contradicted and gave rewards depending on the result. State one benefit of the style of leadership being followed by Sara's team manager. (1)
5. What does a high Debt Service Coverage Ratio indicate? (1)
6. Aarohan Ltd. an automobile manufacturer was diversifying into manufacturing two-wheelers. They knew that India is on a growth path and a new breed of consumer is eager for a first vehicle. The market responded very well to the new product. The company did not have to allow credit, as it had advance orders from four to six months with deposits paid. Also, due to efficiency in managing their operations as soon as a vehicle was off the assembly line, it was out to the dealers. Give any one reason discussed above which helped the firm in managing its working capital efficiently. (1)
7. SEBI recently called for information and issued a show cause notice to NSE and its 14 officials seeking explanation on the Preferential Access allegations at the Exchange's Co-location facility. State the function that SEBI performed by doing so. (1)
8. Identify the right of a consumer under Consumer Protection Act, 1986 which Consumer organizations help a consumer to claim by performing the function of "encouraging consumers to strongly protest and take an action against unscrupulous, exploitative and unfair trade practices of sellers". (1)
9. Progress Ltd. Is facing difficulties in introduction of machinery of latest technology as they are facing resistance from the informal groups who are pressurizing the members to work against organizational interests. As the Human Resources manager of the company would you advise the management of the company to confront them or give them some other suggestion to deal with the informal groups. (3)
10. Shyam wanted to start a business of selling handicrafts by getting in touch with the craftsmen in the rural areas of Bengal. He wants to make a low investment in fixed Capital. Advise him in taking suitable decisions regarding the Nature of Business, Scale of

operations and Financing Alternatives (in a developed financial market) that he needs to take for the purpose. (3)

11. State any three functions of a supervisor. (3)
12. Malaysian budget airline group Sky Europe announced discounted fares, starting as low as Rs.1,099 for domestic destinations operated by its Indian Joint Venture carrier and Rs.2,099 for international flights operated by other group airlines under a limited period offer. A. Identify the medium of communication which can be used by the firm to inform a large number of people about the new fares. B. Also, state any two merits of the communication tool, apart from the one discussed above. (3)
13. State any three responsibilities that a consumer must keep in mind while purchasing gold jewelry. (3)
14. Having transformed 2500 Kirana stores across eight cities into virtual super markets, the start up Quick Bizz further decided in advance, to collaborate with 15000-20,000 store owners in top 30 cities of the country by the end of this year. The company has set its eye on digitizing over 1,00,000 kirana stores over next 18-24 months. A. Identify and explain the step in the process of one of the functions of management discussed above. B. Also explain the last step to be performed by Quick Bizz as part of the process. (4)
15. At present, apart from the basic pay and allowances as a part of compensation, the employees and employers contribute 12% of basic wages each towards Employees Provident Fund scheme and Employees Pension Fund scheme. A proposal to reduce the contribution by employers and employees to 10% of basic pay and dearness allowance was listed on the agenda for a recent meeting of Employees Provident Fund Organization held. The stakeholders expressed their reservations about it and they feel that it should be continued at 12%. Explain any two needs as suggested by Maslow's Need Hierarchy Theory, which will not be satisfied by the incentives discussed above. (4)
16. State the first four steps which are involved in the screen-based trading for buying and selling of securities in the secondary market. (4)
17. Bye-Bye Motors recently informed the media about its aim to train up to 4000 people in the next 3 years in the skills associated with automobile industry as part of its program to provide technical and vocational education for unemployed youth. The firm has already started the program in collaboration with Automobile Skill Development Council. This news in the media has helped the firm in promoting its image in the eyes of the public and consumer activist groups.
 - A. Why is it important for the company to satisfy the public and the consumer activist groups. Give reasons.
 - B. Which departments in the firm can be given the responsibility to disseminate information and build goodwill of the firm? (4)
18. R&T Reality, the property development arm of the construction and engineering giant R&T in a recent report to the media shared that it is betting on bigger and better projects

providing greater benefits to the customers, lower prices and faster execution to boost its growth. The spokesperson of the company informed the media that besides the innovative features, quality and brand, the fair pricing followed by the company is also a hit with the buyers. He said that the company is also focusing on accurate, speedy and timely delivery. Proper communication with the market was being maintained through advertising. Even dealers were to be offered incentives to boost the sales.

The above para describes the combination of variables used by R&T Reality to prepare its market offering. Identify and explain the variables. (4)

19. It is heartening that the implementation of compliance requirements of the Companies Act, 2013 has progressed substantially with NIFTY 500 companies. Data shows a significant increase in women's participation in the top management of Indian Companies from 5% few years ago to 13% now. Even companies which are not in NIFTY 500 have undertaken drives to increase women's participation across different areas of work. The government had also announced that it would support such companies. Identify and explain the dimensions of business environment discussed above which brought about the change. (4)

20. Give any five characteristics of management. (5)

21. Textile manufacturer Super textiles reported 43% fall in its profits in the fourth quarter ended 31 March 2017, which is beyond the acceptable range 25% decided by the company. This was due to higher fuel cost and lower yield on account of demonetization. The company aims to implement cost saving measures by restructuring contracts and its business processes to meet its targets in the future.

A. Name the function of management discussed above.

B. Also identify and explain the steps of the function of management discussed above. (5)

22. Saksham Ltd. a firm manufacturing textiles, wished to diversify their business. They were considering two options, either to diversify into manufacturing tooth-paste or switches. They wanted to invest in the purchase of land, to set up a manufacturing unit in the backward areas of Gujarat, which would also lead to the generation of employment opportunities in the area, but only after fulfilling all legal requirements and taking appropriate steps to ensure that the environment was not polluted. The finance manager of the company, Mr. Ramakant was asked by the management to prepare a report on the factors which should be considered while making the above investment decision.

A. State any two factors that Mr. Ramakant would give in his report.

B. Also state any one reason which makes it important for the above decision to be made carefully.

C. And state two values being fulfilled by Saksham Ltd. (5)

23. The IT major GIPRA is terminating the employment of its senior managers, if after evaluating their performance against pre-determined standards if it is found lacking. With this disruption analysts say a large portion of the employees may become irrelevant unless they learn new skills and apply the knowledge to work on emerging technologies. GIPRA is ready to facilitate employee learning, through its in-house centers.

- A. Name the function of management performed by GIPRA to maintain a satisfactory work force.
- B. Identify and explain the two steps in the process of the function of management discussed above.
- C. Also state any two steps of the function of management discussed, that the firm had to perform before performing the above steps. (6)

24. Rajat joined as a CEO of Bharat Ltd, a firm manufacturing Computer hardware. On the first day he addressed the employees. He said that he believed that a good company should have an employee suggestion system and he wished to minimize employee turnover to maintain organizational efficiency. He informed all employees that he would ensure that all agreements were clear, fair and there was judicious application of penalties. However, he said that he believed that lazy personnel should be dealt with sternly to send the message that everyone was equal in the eyes of management. Also that he would want to promote a team spirit of unity and harmony among employees, which would give rise to a spirit of mutual trust and belongingness among team members and eventually minimize need for using penalties. He told all present that the interests of the organization should take priority over the interests of any one individual employee.

- A. Identify and briefly explain any four principles of management given by Fayol, which Rajat highlighted in his address to the employees.
- B. Also state two values that Rajat wanted to spread in the organization. (6)

25. “Put simply, decentralization refers to delegation of authority throughout all the levels of the organization.” In the light of the above statement give the meaning of and difference between Delegation of authority and decentralization. (6)

MARKING SCHEME
BUSINESS STUDIES (054)
CLASS XII (2017-18)

Ans1. Co-ordination. (1 mark)

Ans2. The manager/planner is required to make assumptions about the future. These assumptions are called planning premises. (1 mark)

Ans 3. Communication. (1mark)

Ans 4. Benefits of Autocratic or Authoritarian leader: (Any one) (1 mark for the statement)

- a. This leadership style is effective in getting productivity in many situations.
- b. Quick decision-making is also facilitated by this style of leadership.

Ans5. A high Debt Service Coverage Ratio indicates better ability to meet cash commitments and consequently, the company's potential to increase debt component in its capital structure.(1)

Ans 6. Factors affecting working capital requirements: (Any one)

- a. Credit Allowed.
- b. Operating Efficiency. (1 mark)

Ans7. The following function was performed by SEBI- Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries. – Regulatory Function. (1 mark for the statement)

Ans 8. Right to be heard. (1 mark)

Ans9.

- a. It would be in the best interest of the organization if the existence of such groups is recognized and the roles that their members play are identified.
- b. The knowledge of such groups can be used to gather their support and consequently lead to improved organizational performance. Such groups can also provide useful communication channels.
- c. Instead of confronting them, the management should take skillfully take advantage of both formal and informal organization so that work continues smoothly. (3 marks)

Ans 10. Decisions Shyam should take to ensure low investment in fixed capital requirement with respect to:

- a. Nature of Business: Instead of setting up a manufacturing unit, Shyam should start a trading concern of buying handicrafts from the craftsmen and selling them.
- b. Scale of operations: Shyam should keep the scale of his organization small.
- c. Financing alternatives: A developed financial market may provide for leasing facilities. So instead of making outright purchase of assets, for example of office space, Shyam should take them on lease and reduce his requirement of fixed capital. (1x3=3 marks)

Ans11. Following are the functions of a supervisor: (Any three)

- a. Supervisor maintains day-to-day contact and maintains friendly relations with workers.
- b. Supervisor acts as a link between management and workers.
- c. Supervisor plays a key role in maintaining group unity among workers placed under his control.
- d. Supervisor ensures performance of work according to the targets set.
- e. Supervisor provides good on-the-job training to the workers and employees.
- f. Supervisory leadership plays a key role in influencing the workers in the organization.
- g. A good supervisor analyses the work performed and gives feedback to the workers. (1x3=3)

(1 mark for each statement)

Ans 12.

A. Advertising. (1 mark)

B. Merits of advertising: (Any two)

- a. Advertising enhances customer satisfaction and confidence, as they feel more comfortable and assured about the product quality and hence feel more satisfied.
- b. With the developments in art, computer designs, and graphics, advertising has developed into one of the most forceful and expressive medium of communication.
- c. Advertising is a very economical mode of communication if a large number of people are to be reached. (1x2=2)

(1 mark for each statement)

Ans 13. Following are the consumer responsibilities that a consumer must keep in mind while purchasing gold jewelry: (Any three)

- a. Be aware about various goods(types of jewelry) available in the market so that an intelligent and wise choice can be made.

- b. Buy only standardized jewelry as they provide quality assurance. Thus, look for Hallmark on jewelry.
- c. Learn about risks associated with the product, follow manufacturer's instructions.
- d. Read labels carefully so as to have information about prices, net weight, etc.
- e. Assert yourself to ensure a fair deal.
- f. Be honest in your dealings.
- g. Ask for a cash memo on purchase of the jewelry. (1x3=3)

(1 mark for each statement)

Ans 14 A. Following is the step in process of Planning:

Setting objectives: The first and foremost step is setting objectives. Objectives may be set for the entire organization and each department or unit within the organization. Objectives or goals specify what the organization wants to achieve. Objectives should be stated clearly. Management must contribute ideas and participate in the objective setting process. If the end result is clear it becomes easier to work towards the goal. (1/2 mark for identification+1 ½ marks for explanation)

B. Following is the last step to be performed by Quick Bizz as part of the process of Planning:

Follow up action: To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. Monitoring the plans is equally important to ensure that objectives are achieved. (1/2 mark for the heading + 1 ½ marks for the explanation)

Ans 15. The following needs given as per Maslow's Need Hierarchy Theory will not be satisfied by the two incentives- Basic pay and allowances (satisfies basic needs) & Retirement Benefits (satisfy safety and security needs) discussed above: (Any two)

- a. **Affiliation /Belonging Needs:** These needs refer to affection, sense of belongingness, acceptance and friendship.
- b. **Esteem Needs:** These include factors such as self-respect, autonomy status, recognition and attention.
- c. **Self Actualization Needs:** It is the highest level of need in the hierarchy. It refers to the drive to become what one is capable of becoming. (2x2=4)

(1/2 mark for heading + 1 ½ marks for explanation)

Ans 16. Following are the first four steps in the screen-based trading for buying and selling of securities in the secondary market:

- a. The investor has to approach a registered broker or sub-broker and sign a broker-client agreement and a client registration form before placing an order to buy or sell securities.

- b. The investor has to open a “demat” account or “beneficial owner” account with a depository participant for holding and transferring securities in the demat form.
- c. The investor then places an order with the broker to buy or sell shares, the broker will go ahead with the deal and issue the order confirmation slip to the investor.
- d. The broker then will go on-line and connect to the main stock exchange and match the share and best price available. (1x4=4)

(One mark for each statement)

Ans 17. A.

- a. The voice and opinion of the general public is important as they may be interested in the company and its product and have an impact on the business ability to achieve its objectives. Thus, it is imperative to manage public opinion and the company’s relation with the public on a regular basis.
- b. Consumer Activist groups need to be satisfied because they can impose restriction on the sales of the firm’s products directly by urging customers to refrain from buying them through the imposition of laws. (1x2=2)

B. The following departments in the firm can be given the task to disseminate information and build goodwill:

- a. The marketing department.
- b. A separate department to manage public relations.(1x2=2)

Ans18. The following are the variables used by R&T Reality to prepare its market offering:

- a. Product: Product means goods or services or ‘anything of value’, which is offered to the market for sale. The concept of product relates to not only the physical product but also the benefits offered by it from customer’s view point. The concept of product also includes the extended product or what is offered to the customers by way of after sales services, handling complaints, etc. The important product decisions include deciding about the features, quality, packaging, labeling and branding of the products.
- b. Price: Price is the amount of money customers have to pay to obtain the product. The marketers have not only to decide about the objectives of price setting but to analyse the factors determining the price and fix a price for the firm’s products. Decisions have to be taken in respect of discounts to customers, traders and credit terms, etc, so that the customers perceive the price to be in line with the value of the product.
- c. Place: Place or physical distribution include activities that make firms products available to the large customers. Important decision areas in this respect include selection of intermediaries to reach the customers, providing support to the intermediaries. The other

decision areas relate to managing inventory, storage and warehousing and transportation of goods from the place it is produced to the place it is required by the buyers.

- d. Promotion: Promotion of products and services include activities that communicate availability, features, merits, etc, of the products to the target customers and persuade them to buy it. Most marketing organizations undertake various promotional activities and spend substantial amount of money on the promotion of their goods through using number of tools such as advertising, personal selling and sales promotion techniques.

(1 x4=4) (1/2 mark for the heading+ 1/2 mark for the explanation)

Ans 19. The dimensions of Business environment discussed above which brought about the above change are:

- a. Legal environment- Legal environment includes various legislations passed by the Government, administrative orders issued by government authorities, court judgments, as well as the decisions rendered by various commissions and agencies at every level of government-Center, State, Local. Non-Compliance of laws can land the business enterprises into legal problems.
- b. Political environment- Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. Attitudes of the government officials may have either positive or negative impact upon business.

(2x2=4) (1/2 mark for heading+ 1 ½ marks for explanation)

Ans 20. Following are the characteristics of management: (Any five)

- a. Management is a goal oriented process which unites the efforts of different individuals in the organization towards achieving these goals.
- b. Management is all pervasive as the activities involved in managing an enterprise are common to all organizations whether economic, social or political.
- c. Management is multidimensional as it is a complex activity that has three dimensions: Management of work, Management of people, Management of operations.
- d. Management is a process consisting of continuous, composite, but separate functions.
- e. Management is a group activity which ensures team work and coordination of individual effort in a common direction.
- f. Management is a dynamic function and has to adapt itself to the changing environment.
- g. Management is an intangible force that cannot be seen but its presence can be felt in the way the organization functions.

(1x5=5)

Ans 21 A. Controlling.

(1 mark)

B. The steps of controlling discussed above are:

- a. Analysing deviations: Some deviation in performance is expected in all activities. It is therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point control and management by exception should be used by the manager in this regard. After identifying the deviations that demand managerial attention these deviations need to be analyzed for their causes.
- b. Taking Corrective Action: The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.
(2x2=4)(1/2 mark for heading+1 ½marks for explanation)

Ans 22.A. Factors that should be kept in mind by the company while making the investment decision: (Any two)

- a. The amount of cash flows should be carefully analyzed before considering the decision.
- b. The rate of return of the project based on expected return and assessment of the risk involved from each proposal should be analyzed.
- c. The decision to invest in a particular project involves a number of calculations regarding the amount of investment, interest rate, cash flows and rate of return. (1x2=2)

B. The following are the reasons that make the above decision to be made carefully: (Any one)

- a. These decisions have a bearing on the long term growth.
- b. These decisions result in a substantial portion of capital funds being blocked in long-term project.
- c. These decisions influence the overall business risk complexion of the firm.
- d. These decisions once taken, are not reversible without incurring heavy losses. (1 mark)

C. Following are the values being fulfilled by Saksham Ltd.: (Any two)

- a. Responsibility
- b. Respect for law and order
- c. Sensitivity to environment
- d. Development of backward regions.
- e. Generating employment opportunities

(or any other suitable value) (1x2=2) (2+1+2=5)

Ans 23. A. The function of management being performed by GIPRA to maintain a satisfactory work force is Staffing. (1 mark)

B. The two steps of staffing discussed above are:

a. Training and development: The organization should facilitate employee learning by having either in-house training centers or have forged alliances with training and educational institutes to ensure continuing learning of their employees. The organizations also benefit.

b. Performance Appraisal: All organizations have some formal or informal means of appraising their employee's performance. Performance Appraisal means evaluating an employee's current and/or past performance as against certain predetermined standards. The performance appraisal process includes defining the job, appraising performance, and providing feedback. (1 1/2 x2=3) (1/2 mark for identification+1 mark for the explanation)

C. Following are the two steps in the process of staffing that the management had to perform before performing the above steps: (Any two)

a. Estimating manpower requirements, which involves not merely knowing how many persons the company needs but also what type.

b. Recruitment is defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organization.

c. Selection is the process of choosing from among the pool of the prospective candidates developed at the stage of recruitment.

d. Orientation is introducing the selected employee to other employees and familiarizing him with the rules and policies of the organization. Placement refers to the employee occupying the position or post which the person has been selected. (1x2=2) (1 mark for each statement)

Ans 24.

A. Following are the principles of management highlighted by Rajat in his address to the employees: (Any Four)

- a. Initiative: Initiative means taking the first step in self motivation. It is thinking out and executing the plan. But it does not mean going against the established practices of the company for the sake of being different.
- b. Stability of personnel: "Employee turnover should be minimized to maintain organizational efficiency." according to Fayol. Personnel should be selected and appointed after due and rigorous procedure. But once selected they should be kept at their post/position for a minimum fixed tenure.
- c. Discipline: Discipline is the obedience to organizational rules and employment agreement which are necessary for the working of the organization. According to Fayol, discipline

requires good superiors at all levels, clear and fair agreements and judicious application of penalties.

- d. **Equity:** There should be no discrimination against anyone on account of sex, religion, language, caste, belief or nationality, etc. Good sense and experience are needed to ensure fairness to all employees, who should be treated as fairly as possible.
- e. **Espirit de corps:** Management should promote a team spirit of unity and harmony among employees, according to Fayol. A manager should replace 'I' with 'We' in all his conversations with workers to foster team spirit.
- f. **Subordination of individual interest to general interest:** In all situations the interests of the group/company will supersede the interest of any one individual. This is so because larger interests of the workers and stakeholders are more important than the interest of any one person. (1x4=4) (1/2 mark for the heading +1/2 mark for the explanation)

B. Following are values that Rajat wanted to spread in the organization: (Any two)

- a. Responsibility
- b. Discipline.
- c. Conflict resolution.
- d. Good behavior in human interaction.
- e. Team work

(or any other suitable value) (1x2=2)

Ans 25. Following is the meaning and difference between Delegation and Decentralization :

| Basis of difference | Delegation | Decentralization |
|----------------------|--|---|
| 1. Meaning | Delegation is the entrustment of responsibility and authority to another and the creation of accountability for performance. (or any other suitable meaning) | Decentralization explains the manner in which decision-making responsibilities are divided among hierarchical levels. (or any other suitable meaning) |
| 2. Nature | Delegation is a compulsory act because no individual can perform all tasks on his own. | Decentralization is an optional policy decision. It is done at the discretion of the top management. |
| 3. Freedom of action | More control by superiors hence less freedom to take own decisions. | Less control over executives hence greater freedom of action. |
| 4. Status | It is a process followed to share tasks. | It is the result of the policy decision of the top management. |

| | | |
|------------|---|--|
| 5. Scope | It has narrow scope as it is limited to superior and his immediate subordinate. | It has wide scope as it implies extension of delegation to the lowest level of management. |
| 6. Purpose | To lessen the burden of the manager. | To increase the role of the subordinates in the organization by giving them more autonomy. |

(1/2x2=1 mark for the meaning)

(1x5=5marks for the differences)

Class – XII
Business Studies
Sample Question Paper 2018-19

MM: 80

Time Allowed: 3hours

| | Section A | Marks |
|---|--|-------|
| 1 | “Successful organizations do not achieve their goals by chance but by following a deliberate process”. Identify the process highlighted here. | 1 |
| 2 | Distinguish between Delegation and Decentralization on the basis of freedom of action. Or Distinguish between Authority and Responsibility on the basis of Origin. | 1 |
| 3 | Name the process of stimulating and inspiring people at work to accomplish desired objectives. Or Name the ‘on-the-job’ method of training that is used to give training to plumbers. | 1 |
| 4 | Define Marketing Management. Or Define ‘Grading’ as a function of marketing. | 1 |
| 5 | Mohit purchased a smart phone for ₹30,000 from a mobile phone seller on his verbal commitment that the smart phone will be replaced in case of any defect, within a span of six months. The phone started creating technical issues in spite of proper maintenance and upkeep of the phone. The seller denied taking any action on the complaint made by Mohit. Name the redressal agency under the Consumer protection Act where Mohit can file his complaint. | 1 |
| 6 | ‘The size of assets, the profitability and competitiveness are affected by one of the financial decisions’. State the decision involved with reference to the given statement. | 1 |
| 7 | In an organization, employees always feel that they are under enormous unnecessary stress, as the manager does not provide any information about future plans but simply instructs them what to do. He also does not listen to any of the suggestions given by the subordinates. Identify the type of leadership style followed by the manager in the above situation. | 1 |
| 8 | Mr. Mohan, Financial manager of ABC Ltd., has prepared the annual Statement of proposed expenditure to be presented in the Annual General Meeting. Identify the type of plan formulated by the financial manager. | 1 |

| Section B | | |
|------------------|--|---|
| 9 | State any three points of importance of directing function of management. | 3 |
| | Or | |
| 10 | <p>State any three measures to overcome the communication barriers.</p> <p>Rahul decided to start a desert cooler manufacturing business. He sets the target of earning 20% profit on sales in the first year. He was very much concerned about the future prospects of the business, which were uncertain. For this, he gathered information from the potential market and analyzed that the demand for wall mounted coolers is increasing day by day. He used this information as the base for future planning. On the basis of the gathered information, he called a meeting in the following week to find new methods to achieve the objective.</p> <p>a) Identify the function of management involved in the above case. b) Enumerate the next two steps, which have been followed by Rahul that are related to the process of one of the functions of management.</p> | 3 |
| 11 | “The overall objective of SEBI is to protect the interest of investors and to promote the development of, and regulate the securities market.” In light of the given statement, state any three objectives of SEBI. | 3 |
| | OR | |
| 12 | ‘Delegation is not a process of abdication.’ Comment | 3 |
| 13 | <p>Mr. Rohit is into transport business. His buses are hired by schools for transportation of students. He is willing to expand and diversify his business to inter-state transportation purposes.</p> <p>Enumerate any six factors that will affect his fixed capital requirements.</p> | 3 |
| Section C | | |
| 14 | <p>The Government of India has recently come up with an amendment to Section 6 of the Payment of Wages Act 1936, to allow employers of certain industries to make payment through various electronic modes of payments. The amendment will be applicable to all the public sector undertakings for wages disbursement using e-payment options. This is another milestone in the direction to further push to cashless economy.</p> <p>Identify and explain any two dimensions of business environment which relate to the above mentioned case.</p> | 4 |

| | | |
|------------------|---|---|
| | (d) A company offers a pack of 1 Kg of tea with a purchase of 5 kgs of sugar (e) On return of the wrapper, a customer gets ₹5 off on purchase of the same product. | |
| 21 | State any five functions performed by the manager who is working at the middle level management. | 5 |
| | Or | |
| | State any five characteristics of Coordination. | |
| 22 | Rudrakshi Ltd. is engaged in manufacturing high end luxury pens. The target production is 700 units daily. The company had been successfully attaining this target until three months ago. Over the last few month, it has been observed that daily production varies between 600-650 units. I. Identify the function of management, which has been highlighted in the above context. II. Discuss the first four steps involved in the process of the function identified above. | 5 |
| Section E | | |
| 23 | Differentiate between Functional structure and Divisional structure. | 6 |
| | Or | |
| | Distinguish between Formal organization and Informal organization. | |
| 24 | A public transport corporation has hired 2000 buses for the different routes for the passengers of metropolitan city. In order to fill vacancies, it advertised in the newspaper and number of applicants applied for the same. The company has to now undertake the process of selection to identify and select the best. Explain the first six steps involved in the process. | 6 |
| 25 | Flavours Ltd. was engaged in the business of making handmade chocolates. Lately, the business was expanding due to good quality and reasonable prices. As the demand was increasing, Flavours Ltd. decided to explore bakery products as well. In order to make bakery products the company directed its workforce to work overtime but this resulted in multiple problems. Due to increased pressure the efficiency declined and the workers had to take orders from more than one superior. Workers were overburdened and their health was also affected. Gradually the quality of the products begins to decline and market share also went down. The company realized that they had implemented changes without waiting for the required infrastructure. Identify and explain the principles/technique of Taylor/Fayol referred to in the above para. | 6 |

Class – XII
BUSINESS STUDIES
Marking Scheme 2018-19

Time allowed : 3 Hours

Answers

Maximum Marks : 80

| SECTION- A | | | | |
|------------|---|---|---|---|
| 1. | Process highlighted in the statement is 'Management'. | | | |
| 2. | Basis Freedom of Action | Delegation More control by superiors hence less freedom to take own decisions. | Decentralisation Less control over executives hence greater freedom of action. | 1 |
| OR | | | | |
| | Basis Origin | Authority Arises from formal position. | Responsibility Arises from delegated authority. | |
| 3. | The process of stimulating and inspiring people at work to accomplish desired objectives is known as Motivation. | | 1 | |
| OR | | | | |
| | Apprenticeship programmes can be used to give training to the plumbers. | | | |
| 4 | Marketing management refers to planning, organising, directing and controlling of the activities which facilitate exchange of goods and services between producers and consumers or users of products and services. | | 1 | |
| OR | | | | |
| | Grading is the process of classification of products into different groups, on the basis of some of its important characteristics such as quality, size, etc. | | | |
| 5 | No, Mohit cannot file a complaint against the seller in the consumer court as he does not have cash-memo. He had purchased mobile phone on the verbal commitment only. | | 1 | |
| 6 | Capital budgeting decision involves allocation of funds to different projects or assets with long term implications. | | 1 | |

| | | |
|------------------|---|----------|
| | | |
| 7 | Autocratic style of leadership is being followed by the manager in the given situation. | 1 |
| 8 | Budget is the type of plan formulated by the financial manager. | 1 |
| Section B | | |
| 9 | <p>Importance of directing: (Any three statements)</p> <ol style="list-style-type: none"> 1. Directing helps to initiate action in the organization towards attainment of desired objectives. 2. Directing integrates employees' efforts in the organization in such a way that every individual effort contributes to the organisational performance. 3. Directing guides employees to fully realize their potential and capabilities by motivating and effective leadership. 4. Directing facilitates introduction of needed changes in the organisation. 5. Effective directing helps to bring stability in the organization. <p style="text-align: center;">OR</p> <p>Measures to overcome communication barriers :</p> <ol style="list-style-type: none"> 1. Clarify the ideas before communication. 2. Communicate according to the needs of the receiver. 3. Consult others before communicating. 4. Be aware of the languages, tone and content of messages. 5. Convey things of help and value to listeners. 6. Ensure proper feedback. 7. Communicate for present as well as future. 8. Follow up communications. 9. Be a good listener. <p style="text-align: right;">(Any three statements)</p> | 1X3=3 |
| 1 0 | (a) Planning (b) (i) Identifying alternative courses of action. (ii) Evaluating alternative courses of action. | 1 1X2 |
| 1 1 | <p>Objectives of SEBI: (any three)</p> <ol style="list-style-type: none"> 1. To regulate stock exchanges and the securities industry to promote their orderly functioning. 2. To protect the rights and interests of investors, particularly individual investors and to guide and educate them. 3. To prevent trading malpractices and achieve a balance between self-regulation by the securities industry and its statutory regulation. 4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional. <p style="text-align: center;">OR</p> | 1X3=3 |

| | | |
|------------------|---|---|
| | | |
| | <p>Functions of Financial Market: (Any three)</p> <ol style="list-style-type: none"> 1. Financial markets mobilise savings of households and channelize them into the most productive uses. 2. It facilitates price discovery of a financial asset through interaction between supply and demand of funds. 3. Financial markets provide liquidity to financial assets, so that they can be easily converted into cash whenever required. 4. Financial markets provide valuable information about securities being traded in the market and thereby, help to reduce cost of transaction in terms of time, effort and money. | |
| 1 2 | The given statement is true as delegation helps a manager to extend his area of operation as without it his activities would be restricted to only what he himself can do. However, delegation does not mean abdication; the manager shall still be accountable for the assigned task. | 3 |
| 1 3 | <p>Factors affecting fixed capital requirements are: (any six)</p> <ul style="list-style-type: none"> i. Scale of operations ii. Financing alternatives iii. Growth prospects iv. Nature of Business v. Diversification vi. Level of Collaboration vii. Technology Upgradation viii. Financing Alternatives | 3 |
| SECTION C | | |
| 14 | <p>The various dimensions of business environment which relate to the above mentioned case are stated below:</p> <ol style="list-style-type: none"> a) Political Environment: Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. c sp tow b) Legal Environment: Legal environment includes various legislations passed by the Government administrative orders issued by government authorities, court judgments as well as the decisions rendered by various commissions and agencies at every level of the government centre, state or local. It is imperative for the management of every enterprise to obey the law of the land. vari c) Technological Environment: Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business. f pr (any two) | 4 |

| 15 | <p style="text-align: center;">PRIMARY AND SECONDARY MARKETS – A COMPARISON</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 2px;">PRIMARY MARKETS</th><th style="text-align: left; padding: 2px;">SECONDARY MARKETS</th></tr> </thead> <tbody> <tr> <td style="padding: 2px;">(i) There is sale of securities by new companies or further (new issues of securities by existing companies to investors).</td><td style="padding: 2px;">(i) There is trading of existing shares only.</td></tr> <tr> <td style="padding: 2px;">(ii) Securities are sold by the company to the investor directly (or through an intermediary).</td><td style="padding: 2px;">(ii) Ownership of existing securities is exchanged between investors. The company is not involved at all.</td></tr> <tr> <td style="padding: 2px;">(iii) The flow of funds is from savers to investors, i.e. the primary market directly promotes capital formation.</td><td style="padding: 2px;">(iii) Enhances encashability (liquidity) of shares, i.e. the secondary market indirectly promotes capital formation.</td></tr> <tr> <td style="padding: 2px;">(iv) Only buying of securities takes place in the primary market, securities cannot be sold there.</td><td style="padding: 2px;">(iv) Both the buying and the selling of securities can take place on the stock exchange.</td></tr> <tr> <td style="padding: 2px;">(v) Prices are determined and decided by the management of the company.</td><td style="padding: 2px;">(v) Prices are determined by forces of demand and supply.</td></tr> <tr> <td style="padding: 2px;">(vi) There is no fixed geographical location.</td><td style="padding: 2px;">(vi) Located at specified places.</td></tr> </tbody> </table> <p style="text-align: right; margin-top: -10px;">(any four)</p> | | PRIMARY MARKETS | SECONDARY MARKETS | (i) There is sale of securities by new companies or further (new issues of securities by existing companies to investors). | (i) There is trading of existing shares only. | (ii) Securities are sold by the company to the investor directly (or through an intermediary). | (ii) Ownership of existing securities is exchanged between investors. The company is not involved at all. | (iii) The flow of funds is from savers to investors, i.e. the primary market directly promotes capital formation. | (iii) Enhances encashability (liquidity) of shares, i.e. the secondary market indirectly promotes capital formation. | (iv) Only buying of securities takes place in the primary market, securities cannot be sold there. | (iv) Both the buying and the selling of securities can take place on the stock exchange. | (v) Prices are determined and decided by the management of the company. | (v) Prices are determined by forces of demand and supply. | (vi) There is no fixed geographical location. | (vi) Located at specified places. | 1X4=4 |
|--|--|---|-----------------|-------------------|--|---|--|---|---|--|--|--|---|---|---|-----------------------------------|-------|
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| (vi) There is no fixed geographical location. | (vi) Located at specified places. | | | | | | | | | | | | | | | | |
| OR | | | | | | | | | | | | | | | | | |
| Basis | Capital Market | Money Market | | | | | | | | | | | | | | | |
| Liquidity | Capital market securities are considered liquid but less liquid than money market securities. | Money market securities enjoy higher degree of liquidity. | | | | | | | | | | | | | | | |
| Duration | Capital market deals with medium and long term securities. | Money Market deals with short term securities. | | | | | | | | | | | | | | | |
| Expected Return | The investment in capital markets yield higher return due to longer duration. | The investment in money market yields less return due to short duration. | | | | | | | | | | | | | | | |
| Safety | Capital market securities are riskier than money market instruments. | Money market securities are comparatively safer than capital market securities. | | | | | | | | | | | | | | | |

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| 16 | <p>(i) Right to Information (ii) CONSUMER RESPONSIBILITIES (Any two) :</p> <ul style="list-style-type: none"> a. Be aware about various goods and services available in the market so that an intelligent and wise choice can be made. b. Buy only standardised goods as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewelry etc. c. Learn about the risks associated with products and services, follow manufacturer's instructions and use the products safely. d. Read labels carefully so as to have information about prices, net weight, manufacturing and expiry dates, etc. e. Assert yourself to ensure that you get a fair deal. f. Be honest in your dealings. Choose only from legal goods and services and discourage unscrupulous practices like black-marketing, hoarding etc. g. Ask for a cash memo on purchase of goods or services. This would serve as a proof of the purchase made. | 1 1X3=3 |
| 17 | <p>Characteristics of a good brand name: (Any four)</p> <ul style="list-style-type: none"> (i) The brand name should be short, easy to pronounce, spell, recognise and remember e.g., Ponds, VIP, Rin, Vim, etc. (ii) A brand should suggest the product's benefits and qualities. It should be appropriate to the product's function. e.g., Rasika, Genteel, Promise, My Fair Lady and Boost. (iii) A brand name should be distinctive e.g., Liril, Sprit, Safari, Zodiac. (iv) The brand name should be adaptable to packing or labelling requirements, to different advertising media and to different languages. (v) The brand name should be sufficiently versatile to accommodate new products, which are added to the product line. e.g. Maggie, Colgate. (vi) It should be capable of being registered and protected legally. (vii) Chosen name should have staying power i.e., it should not get out of date | 1X4=4 |
| OR | | |
| <p>Functions of packaging:</p> <ul style="list-style-type: none"> (i) Product Identification: Packaging greatly helps in identification of the products. For example, Colgate in red colour, or Ponds cream jar can be easily identified by its package. (ii) Product Protection: Packaging protects the contents of a product from spoilage, breakage, leakage, pilferage, damage, climatic effect, etc. This kind of protection is required during storing, distribution and transportation of the product. (iii) Facilitating Use of the Product: The size and shape of the package should be such that it should be convenient to open, handle and use for the | | |

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| | consumers. Cosmetics, medicines and tubes of toothpastes are good examples of this. (iv) Product Promotion: Packaging is also used for promotion purposes. A startling colour scheme, photograph or typeface may be used to attract attention of the people at the point of purchase. Sometimes it may work even better than advertising. In self-service stores, this role of packaging becomes all the more important. | |
| 18 | (i) The communication barrier discussed in the above paragraph is Lack of proper incentives. (ii) It is a type of Personal barrier. (iii) Other communication barriers of the same category are: (any two+ with suitable explanation) a) Fear of challenge to authority b) Lack of confidence of superior on his subordinates c) Unwillingness to communicate. | 1 1 1X2=2 |
| 19 | (a) Commercial paper – it is a short term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. (b) 15 days to one year. (c) It is used to provide short term funds for seasonal and working capital needs of the business. | |
| SECTION D | | |
| 20 | a. Usable benefit b. Quantity Gifts c. Rebate d. Product combination e. Refund | 1X5=5 |
| 21 | Following are the functions performed by the middle level manager:- (i) interpret the policies framed by top management (ii) ensure that their department has the necessary personnel, (iii) assign necessary duties and responsibilities to them, (iv) motivate them to achieve desired objectives, (v) Cooperate with other departments for smooth functioning of the organization. | 1X5=5 |
| OR | | |
| | Characteristics of Coordination: (i) Coordination unifies unrelated or diverse interests into purposeful work activity. (ii) The purpose of coordination is to secure unity of action in the realization of a common purpose. It acts as the binding force between departments and ensures that all action is aimed at achieving the goals of the organisation. (iii) Coordination is not a one-time function but a continuous process. It begins | |

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| | <p>at the planning stage and continues till controlling.</p> <p>(iv) Coordination is required at all levels of management due to the interdependent nature of activities of various departments. It integrates the efforts of different departments and different levels.</p> <p>(v) Coordination is the responsibility of all managers at the top, middle and lower level.</p> <p>(vi) Coordination is the deliberate function of management. (ANY FIVE)</p> | |
| 22 | <p>(i) Controlling</p> <p>(ii) Following are the first four steps involved in the controlling process:-</p> <p>(a) Setting Performance Standards: The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work. Standards can be set in both quantitative as well as qualitative terms.</p> <p>(b) Measurement of Actual Performance: Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.</p> <p>(c) Comparing Actual Performance with Standards: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms.</p> <p>(d) Analysing Deviations: Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas.</p> | <p>1</p> <p>1X4=4</p> |

| SECTION E | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------|--|--|---|--|-------|-------|----------------------|-----------------------|----|-----------|---|---|---|----------------|---|---|---|----------------|---|---|---|------------------------|--|---|---|-----------------------|--|--|---|--------------|---------------------------------------|---|
| 23 | Differentiate between functional structure and divisional structure: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th>S.No.</th><th>BASIS</th><th>FUNCTIONAL STRUCTURE</th><th>DIVISIONAL STRUCTURE</th></tr> </thead> <tbody> <tr> <td>1.</td><td>Formation</td><td>Formation is based on functions</td><td>Formation is based on product lines and is supported by functions.</td></tr> <tr> <td>2</td><td>Specialisation</td><td>Functional specialisation.</td><td>Product specialisation.</td></tr> <tr> <td>3</td><td>Responsibility</td><td>Difficult to fix on a department.</td><td>Easy to fix responsibility for performance.</td></tr> <tr> <td>4</td><td>Managerial Development</td><td>Difficult, as each functional manager has to report to the top management.</td><td>Easier, autonomy as well as the chance to perform multiple functions helps in managerial development.</td></tr> <tr> <td>5</td><td>Cost</td><td>Functions are not duplicated hence economical</td><td>Duplication of resources in various departments, hence costly.</td></tr> <tr> <td>6</td><td>Coordination</td><td>Difficult for a multiproduct company.</td><td>Easy, because all functions related to a particular product are integrated in one</td></tr> </tbody> </table> | | | | S.No. | BASIS | FUNCTIONAL STRUCTURE | DIVISIONAL STRUCTURE | 1. | Formation | Formation is based on functions | Formation is based on product lines and is supported by functions. | 2 | Specialisation | Functional specialisation. | Product specialisation. | 3 | Responsibility | Difficult to fix on a department. | Easy to fix responsibility for performance. | 4 | Managerial Development | Difficult, as each functional manager has to report to the top management. | Easier, autonomy as well as the chance to perform multiple functions helps in managerial development. | 5 | Cost | Functions are not duplicated hence economical | Duplication of resources in various departments, hence costly. | 6 | Coordination | Difficult for a multiproduct company. | Easy, because all functions related to a particular product are integrated in one |
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| | OR | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Difference Between Formal and informal organization: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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Business Studies Class 12

Sample paper (2019-20)

Duration: 3 hours

Maximum Marks: 80

Section – A

| Q.N. | Question | Max marks |
|------|---|-----------|
| 1 | Management is a. A Science; b. An Art; c. both science and art; d. Neither. | 1 |
| 2 | The purchase, production and sales managers at Sharda Ltd, a firm manufacturing readymade garments are generally at a conflict, as they have their own objectives. Usually each thinks that only they are qualified to evaluate, judge and decide on any matter, according to their professional criteria. Name the concept which will be required by the CEO Mr. Raman, to reconcile the differences in approach, interest or opinion in the organisation. | 1 |
| 3 | Principles of management are NOT: a. Applicable only in large firms; b. Formed by practice and experience of managers; c. Flexible; d. Contingent | 1 |
| 4 | _____ is considered a major element of the political environment: a. The extent and nature of government intervention in business; b. planned outlay in public and private sectors; c. Expectations from the work force; d. Administrative order issued by government authorities. | 1 |
| 5 | Name the step in the process of planning which is considered the “real point of decision making”. | 1 |
| 6 | _____ gives shape to the organisation structure. a) Extent of delegation; b) Span of Management; ;c) No of employees; d) Planning | 1 |
| 7 | Astra Builders has to deliver the flats to its buyers on time. Due to this there is a sudden rush of work. Therefore, the company needs to arrange workers to work at the sites at a short notice. The source of recruitment which may be used by the company to tap the casual vacancy is: a. Direct recruitment; b. Advertisement; c. Recommendation of employees; d. Employment Exchange. | 1 |
| 8 | SCT services CEO RajanGopinath's compensation includes salary, commission and other allowances. The company also pays for his insurance and vacations. Identify one indirect payment being made by the company to the CEO. a.Employer paid Insurance; b. Salary; c. Commission; d. Allowances. | 1 |
| 9 | At Support.com, there is no reward or appreciation for a good suggestion. Thus, the subordinates are not willing to offer any useful suggestions to their superiors. Identify the type of barrier to communication that has been created in the firm due to this. a. Semantic barrier; b. Personal barrier; c. Organisational barrier; d. Psychological barrier | 1 |

| | | |
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| 10 | M.R.Sarthi, the Ex-chairman of Swadesh Ltd, built up his successor before retiring. Following the norms set up by himself, he handed over the reins of the company to the co-founder Mr. Shravan, who had the potential to bring about change in the behaviour of others. Name the concept of management which was the reason why Mr. Sarthi chose Mr. Shravan to be his successor. A. Motivation; B. Leadership; C. Communication; D. Staffing. | 1 |
| 11 | An important project at AMB consultants is running behind schedule by a month. This has upset their clients and might affect the reputation of the company in the long run. No managerial action like assigning more workers, equipment or giving overtime has been able to solve the problem. What managerial action may now be taken by the company to avoid such a situation from arising in the future? A. Revise the schedule; B. Assigning additional workers and equipment to the project; C. Get permission for further overtime work; D. Both B&C. | 1 |
| 12 | A decision to acquire a new & modern plant to upgrade an old one is known as _____ decision. a) Financing decision; (b) working capital decision; (c) Investment decision; (d) Dividend decision. | 1 |
| 13 | ABC Ltd. has Debt Equity ratio of 3:1 whereas XYZ Ltd. has Debt Equity ratio of 1:1. Name the advantage ABC Ltd will have over XYZ Ltd, when the rate of interest is lower than the rate of return on investment of the company. (a) Trading on equity; (b) Low risk; (c) Low cost of equity ; (d) Greater flexibility. | 1 |
| 14 | Vikrant joins his father's business of Organic masalas, near Kotgarh in Himachal after completing his MBA. In order to capture a major share of the market, he decided to sell the product in small attractive packages by using the latest packaging technology. His father suggested that they hire financial consultants to estimate the amount of funds that would be required for the purpose & timings when it would be required. The concept being discussed by Vikrant's father, links which financial decision with the investment decision? a.)Dividend decision ;(b) Financial Planning; (C) capital structure decision; (d) Financing decision. | 1 |
| 15 | Raghav's friend Raman works as a Chartered Accountant in Solutions Ltd. Raman in a meeting with the Board of Directors of the Company came to know that the firm would soon be declaring a Bonus issue which would result in increase in the price of shares. Considering this, Raman advised Raghav to purchase the shares of Solutions Ltd., who acted on his advice and bought the shares before time. Which function of SEBI can control such malpractices? (a) Protective functions; (b) Regulatory functions; (c) Development functions; (d) All the above. | 1 |
| 16 | Large scale production done to reduce the average cost of production is the essence of _____concept of Marketing management. a) Product; b) Selling; c) Production; d) Marketing | 1 |

| | | |
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| 17 | Saumya decided to start a business of selling dress material from her house. She did various online surveys to find out about the preferences of prospective customers. Based on this, she prepared a detailed analysis of the business. She then made important decisions including deciding about the features, quality, packaging, labelling and branding of the dress material. Identify the element of Marketing Mix discussed above. (a)Promotion; (b) Market; (c) Product; (d) Place. | 1 |
| 18 | Tomato Ltd., a food delivery service app has recently faced criticism for the tampering of their product, by their delivery boys. Tomato Ltd. decided to put a hologram seal on the food packets in order to protect the contents from spoilage, leakage, pilferage, damage, along with a tag with a safety warning for the consumers to check the seal. Which concept of marketing discussed above is | 1 |
| | performing the important function of communicating with the potential buyer and promoting the sale. (a) Branding; (b) Product designing and development; (c) labelling; (d) packaging. | |
| 19 | Asserting oneself to ensure that one gets a fair deal, is the right of a consumer. (True/False) | 1 |
| 20 | Sheela went to a free eye camp & got her eyes operated for cataract. The surgery was not done properly, due to which she lost her vision. Where can she file a complaint under consumer protection act? (a) At District forum (b)State commission (c) National Commission (d) None of above | 1 |

Section – B

| Q.N. | Question | Max marks |
|------|---|-----------|
| 21 | List any three tasks that Mr. Armstrong needs to do, as a production manager, in his firm, to carry out the plans laid down by the top managers. Or Enumerate the three economic objectives of management. | 3 |
| 22 | “Delegation of authority, undoubtedly empowers an employee to act for his superior, but the superior would still be accountable for the outcome. Explain the elements of delegation of authority discussed above. | 3 |
| 23 | Banwari Lal is a cloth merchant in Karol Bagh. His grandsons are requesting him to let them diversify the business into bridal wear. Banwari Lal has agreed but on the condition that they will follow the function of management he has always followed, which helps an organisation in keeping track of the progress of activities and ensures that the activities conform to the standards set in advance so that the organisational goals are achieved. Name the function of management which Banwari Lal is asking his grandsons to follow. List any two reasons why it is considered an indispensable function of management. | 3 |

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| 24 | <p>The Research & Development department of Healthy Production Ltd. has decided to diversify from manufacturing health drinks to cereals made from millets. They are well aware of the fact that the company will have to communicate to the people the benefits of eating millets. For this purpose, they plan to sponsor various events like marathons and encourage people to switch to healthy eating through newsletters.</p> <p>a) Identify and briefly explain the promotional tool being discussed above. b) Also explain any two other promotional tool that can be used by the company, apart from the one discussed above.</p> | 3 |
| 25 | <p>Rita Sharma who works as a guard in a school, purchased two shirts for ₹460 each for her son. When she went back home, she realised that the shirt was small in size for her son. She decided to ask for return of money or exchange of the shirt with an appropriate size.</p> <p>But the store owner refused to return the money or exchange the shirt. Rita Sharma was disheartened. Her friend advised her to go to ‘Seva Sadan’, an autonomous voluntary organisation working for the protection of consumer welfare.</p> <p>The organisation helped her by explaining to her the legal procedure, as well as educated her about her rights as a consumer and helped her in filing the complaint and getting relief. With the help of the organisation Rita was able to get her money back from the store. Enumerate the rights of a consumer which Rita Sharma was able to exercise with the help of the voluntary organisation.</p> | 3 |

Section - C

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| 26 | <p>The Government is considering a pioneer proposal to launch a single debit-cumcredit card to increase the ease and usage for the consumers. The card which will be called the ‘National Mobility Card’ will have unique advantages for making payments in metro, buses, parking and making transactions during visits abroad. After hearing this news, Mega Bank decided to launch a “Mega Mobility Card” on similar lines , so that they could be the first to exploit the opportunity, arising due to the increasing trend of digitization. In order to improve their performance, they laid down a plan to hire more people in their marketing department and prepared guidelines to train their sales force to market the new card facility being launched by the bank. By quoting the lines, identify and explain any two points of importance of understanding Business Environment discussed above.</p> | 4 |
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| 27 | <p>Infocom has diversified itself into several product lines: Telecommunications, Engineering, financial services. Each subsidiary is self-sufficient with their-own administrative functions, propagating the belief that people can assume the responsibility for the effective implementation of their decisions and should be given autonomy. This has reduced the need for direct supervision by superiors, has promoted flexibility, initiative and faster decision making. The orders of customers are never delayed, as a result of good policy decisions of top management.</p> <p>(a). Identify and explain any two points of importance of the concept being discussed above.</p> <p>(b). Name and briefly explain a suitable framework for the company within which the managerial and operating task are to be performed.</p> | 4 |
| 28 | <p>State any four factors which affect the determination of the price of the product.</p> <p style="text-align: center;">OR</p> <p>State the four components of physical distribution?</p> | 4 |

Section – D

| | | |
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| 29 | <p>Name and explain with a suitable example the technique of Scientific Management given by Taylor, with the objective of determining the number of workers to be employed for a task.</p> <p style="text-align: center;">OR</p> <p>Name and explain with a suitable example the technique of Scientific Management given by Taylor to differentiate between the efficient and the inefficient workers.</p> | 5 |
|----|--|---|

| | | |
|----|---|---|
| 30 | <p>An Auto Company, Win Ltd is facing a problem of declining market share due to increased competition from other new and existing players in the market. Its competitors are introducing lower priced models for mass consumers who are price sensitive. The Board of Directors of the Company announced a meeting to discuss the decisions regarding pricing and launching a new range of models, in order to increase the market share of the company. Attending the meeting was not a discretion for the directors and a penalty was announced for not attending the meeting. The following decisions were taken in the meeting:</p> <ul style="list-style-type: none"> a) to define the desired future position of the company, as acquiring a dominant position in the market by increasing the market share to 10% in 1 year. b) to change the criteria for choosing vendors for procuring supplies; c) to invest in development of the human resources of the organisation by providing training to higher levels by holding seminars and providing on the job training for the supervisory management. <p>What are standing plans and single use plans? Briefly explain the plans discussed above, which can be classified as standing plans, by quoting the lines.</p> | 5 |
| 31 | <p>What is meant by Capital Budgeting? State any four factors affecting fixed capital requirement of a firm.</p> <p>OR</p> <p>Enumerate any five points of importance of financial planning.</p> | 5 |

Section - E

| Q.N. | Question | Max marks |
|------|---|-----------|
| 32 | <p>Ali Mohammad the CEO of Super Ltd believes that human resource is the most important asset of the firm. He believes that no organisation can be successful unless it can fill and keep filled the various positions provided for in the structure with the right kind of people. Identify the function of management being discussed above and state the benefits to the organisation that its proper application in the firm will ensure.</p> | 6 |
| 33 | <p>What is the meaning of Directing? State any four points of importance of Directing as a function of management.</p> <p>OR</p> <p>What is the meaning of motivation? State the features of motivation as an element of Directing.</p> | 6 |

| | | |
|----|--|---|
| 34 | <p>Kynaa, a beauty products e-commerce company, is diversifying into men's grooming. It is also tapping the demand for beauty products in the fashion industry and amid professionals such as make-up artists. As it diversifies its online presence, Kynaa is also expanding its physical presence. They have 41 outlets across 18 cities presently and plan to expand to 180 outlets. Each store requires a capital expenditure of 60-80 lakh rupees. The company has decided to raise funds by issuing equity shares but not directly to the public, rather by offering them for sale through brokers. Identify and briefly explain the method of floatation followed by the company. Also name & explain the other methods of floatation that can be used by the company for raising funds from the public, in the primary market.</p> | 6 |
| | <p style="text-align: center;">OR</p> <p>Radhika got 10, 00,000 rupees after selling her parental property which she had got as a gift from her grandmother. Her friend advised her to invest in securities in the stock market. Radhika was unaware of the procedure for the same. Her friend introduced her to a stock broker, who was registered with the National Stock Exchange. Radhika approached the broker. The broker guided her to open a DEMAT account with a Depository, as well as a Bank account. Radhika opened a Bank account & DEMAT account with Exin Bank.</p> <p>(a) Identify the steps in the trading procedure for buying and selling of securities which have been discussed above.</p> <p>(b) State the next four steps of the trading procedure.</p> | |

Business Studies Class 12 (2019-20)

Marking Scheme

1. c). both science and art.
2. Coordination.
3. a). Applicable only in large firms.
4. a). The extent and nature of government intervention in business 5. b). Selecting an alternative
6. b). Span of management.
7. a). Direct recruitment
8. a). Employer paid Insurance
9. b). Personal barrier
10. B) Leadership
11. A) Revise the schedule 12.c) Investment decision 13 a). Trading on equity.
- 14 d) Financing decision
- 15 a). Protective function
- 16 C). Production
- 17 c) Product 18 c) labelling
- 19 False
20. d) None of the above.

21. Following are the tasks that Mr. Armstrong needs to perform as a production manager in his firm to carry out the plans laid down by the Top managers: (Any three) i. Interpret the policies framed by top management.

- ii. Ensure that the production department has the necessary personnel.
- iii. Assign necessary duties and responsibilities to them. iv. Motivate them to achieve the desired objectives.

v. Cooperate with other departments for the smooth functioning of the organization. OR

Following are the economic objectives of management

- 1) Survival
- 2) Profit
- 3) Growth. (3marks)

22 Three elements of delegation are-

1. Authority- Right of an individual to command his subordinates & to take action within the scope of his position. It is right to take decisions inherent in a job position.
2. Responsibility- it is the obligation of subordinate to properly perform the assigned duty. It arises from superior subordinate relationship. It flows upwards.
3. Accountability implies being answerable for the final outcome, i.e. subordinate will be answerable to superior for satisfactory performance of work.

(1/2 mark for heading and ½ mark for explanation) (1x3 =3)

23. Controlling. (1 mark)

It is considered an indispensable function of management because of the following reasons (Any two):

- i. Accomplishing organizational goals.
- ii. Judging accuracy of standards. iii. Making efficient use of resources. iv. Improving employee motivation. v. Ensuring order and discipline.
- vi. Facilitating coordination in action. (1x2=2)

24. a) Public relations- It involves variety of activities designed to promote or protect company's image & its individual products in the eyes of public. (1/2 mark for identification and ½ mark for explanation) (1 mark)

c) Any two of the following are the promotional tools which may also be used: i) Advertising ii) Personal Selling iii) Sales promotion (1/2 mark for heading and ½ mark for explanation) (1x2 = 2)

25. a. Right to be heard

b. Right to seek redressal

c. Right to consumer education (1x3=3)

26. Following are the points of importance of understanding Business Environment discussed: (Any two) 1. "Improve existing card facility-----"- It helps the firm in identifying threat and early warning signal."

- 2. "Exploit opportunity arising-----"- It helps to identify opportunities and get first mover advantage.
- 3. "Improve their performance---"- It helps in improving performance.
- 4. "Planned to hire more-----guidelines to train sales force" -It helps in assisting in planning and policy formulation.

(1/2 mark for quoting, ½ mark for identification, 1 mark for explanation) (2x2=4)

27. a). Importance of Decentralisation are- (Any two)

- 1. Develops initiative among subordinate- It helps to promote- self-reliance & confidence among subordinates.
- 2. Develops managerial talent for the future- Decentralisation gives subordinates a chance to prove their abilities & creates a reservoir of qualified workforce.
- 3. Quick decision making- Since decisions are taken at the points of action. Therefore, no approval of superiors & leads to quick decision making.
- 4. Relief to top management- Decentralisation diminishes the amount of direct supervision exercised by superior over his subordinates because they are given freedom to act within the limits set by top management & top management can concentrate on important policies.

(1/2 mark for identification and 1 ½ mark for explanation) (2x2=4)

b). Divisional structure- In a divisional structure, the organisation structure comprises of separate business units or divisions. Each division is self-contained as it develops expertise in all functions related to a product line

(1/2 mark for naming and ½ mark for explanation)

28- Factors affecting price determination-(any four)

1. Product cost- One of the most important factors affecting the price is its cost. It includes cost of producing, distributing & selling the product.
2. Utility& Demand- The product cost set the lower limit of price, the utility provided by the product &intensity of demand of product sets the highest price of the product.
3. Extent of competition in the market- when firm does not face any competition it has complete freedom in fixing up the price. But when competition is more the price of the product is fixed keeping in mind the competitor's price.
4. Government regulations- In order to protect the interests of the consumers government has all rights to control prices of important commodities & services.
5. Marketing methods used- The price of product is also affected by the methods & techniques used to promote the product.
6. Pricing objectives- Apart from profit maximization other objectives are-
 - a. Obtaining market share leadership-If firm wants to capture big share of market it has to keep its price low.
 - b. Surviving in competitive market- To survive in a competitive market the firm has to offer discounts.
 - c. Attaining product quality leadership- Generally high prices are charged to cover cost of R&D.

(1 mark for each statement) (1x4=4)

OR

The following are the components of physical distribution:

1. Transportation is the means of carrying goods and raw material from the point of production to the point of sale.
2. Warehousing refers to the act of storing and assorting products in order to create time utility in them.
3. Inventory Control- A very important decision in respect of inventory is deciding the level of inventory.
4. Order Processing- A good physical distribution system should provide for an accurate and speedy processing of orders.

(1 mark for each statement) (1x4=4)

29. Time Study- It determines the standard time taken to perform a well-defined job. The standard time is fixed for the whole of the task by taking several readings. The method of time study will depend upon volume and frequency of task, the cycle time of operation and time measurement costs. For example- On the basis of several observations it is determined that standard time taken by the worker to make one cardboard box is 20 minutes. So in one hour she/he will make 3 boxes. Assuming that a worker has to put in 8 hours of work in a shift and deducting one hour for rest and lunch, it is determined that in 7 hours a worker makes 21 boxes @ 3 boxes per hour. Now this is the standard task a worker has to do. Wages can be decided accordingly.

(1 mark for naming and 4 marks for explanation)

OR

Differential Piece Wage System- The standard time and other parameters should be determined on the basis of the work study discussed above. The workers can be classified as efficient and inefficient on the basis of these standards. He wanted to reward the efficient workers. So he introduced different rate of wage payment for those who performed above standard and for those who performed below

standard. For example- it is determined that standard output per worker per day is 10 units and those who made standard or more than standard will get Rs. 50 per unit and those below will get Rs. 40 per unit. Now an efficient worker making 11 units will get $11 \times 50 =$ Rs. 550 per day whereas, a worker who makes 9 units will get $9 \times 40 =$ Rs. 360 per day. According to Taylor, the difference of Rs. 190 should be enough for the inefficient worker to be motivated to perform better.

(1 mark for naming and 4 marks for explanation)

30. Standing plans are used for activities that occur regularly over a period of time. It is designed to ensure that internal operations of an organisation run smoothly. (1 mark)

Single use plans- A single use plan is developed for a one-time event or project. Such a course of action is not likely to be repeated in the future.. (1 mark)

The following type of plans discussed above are classified as standing plans:

- i. “changing the vendors.....”- Policy is a general statement that guides thinking or channelizes energies towards a particular direction.
- ii. “Seminar for higher levels.....supervisory management”- Method provides the prescribed ways or manner in which a task has to be performed considering the objective.
- iii. “Attending the meeting not discretion----- penalty”- Rules are specific statements that inform what is to be done. (1/2 mark for quoting; ½ mark for explaining) (1x3=3)

31. Meaning- Decision to invest in fixed assets are known as capital budgeting decision. (1 mark)

Factors affecting fixed capital requirement- (Any four)

1. Nature of business- The type of business has a bearing upon the fixed capital requirement.
2. Scale of operation- A larger organization requires higher investment in fixed capital.
3. Choice of technique- A capital intensive organization requires higher investment in plant and machinery.
4. Technology upgradation- Such organisations which use assets which are prone to obsolescence require higher fixed capital.
5. Growth prospects-Higher growth of an organization generally requires higher investment in fixed assets.
6. Diversification- With diversification the fixed capital requirements increase.
7. Financing alternatives- Availability of leasing facility may reduce the funds required to be invested in fixed assets.
8. Level of collaboration- Collaboration reduces the level of investment in fixed assets.

(1 mark for each statement) (1x4=4)

OR

Importance of financial planning: (Any five)

1. It helps in forecasting what may happen in the future.
2. It helps in avoiding business shocks and surprises.
3. It helps in coordinating various business functions.
4. Reduce wastage, duplication of efforts.
5. It links present with the future.
6. It provides link between investment and financing decision.
7. It makes measurement of actual performance easier.

(1 mark for each statement) (1x5=5)

32. Staffing (1 mark)

Proper staffing ensures the following benefits to the organization-

- (i) helps in discovering and obtaining competent personnel for various jobs;
- (ii) makes for higher performance, by putting right person on the right job;
- (iii) ensures the continuous survival and growth of the enterprise through the succession planning for managers;
- (iv) helps to ensure optimum utilisation of the human resources. By avoiding overmanning, it prevents under-utilisation of personnel and high labour costs. At the same time it avoids disruption of work by indicating in advance the shortages of personnel; and
- (v) improves job satisfaction and morale of employees through objective assessment and fair rewarding of their contribution.

(1 mark for each statement)

33. Directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. (2 mark)

The points of importance of directing are any four:-

- (i) Directing helps to initiate action by people in the organisation towards attainment of desired objectives.
- (ii) Directing integrates employees' efforts in the organisation in such a way that every individual effort contributes to the organisational performance. Thus, it ensures that the individuals work for organisational goals.
- (iii) Directing guides employees to fully realise their potential and capabilities by motivating and providing effective leadership
- (iv) Directing facilitates introduction of needed changes in the organisation.
- (v) Effective directing helps to bring stability and balance in the organisation since it fosters cooperation and commitment among the people and helps to achieve balance among various groups, activities and the departments.

(1 mark for each statement)

OR

Motivation- Motivation means incitement or inducement to act or move. It means the process of making subordinates to act in a desired manner to achieve certain organisational goals. (2 mark)

Features of motivation-

1. It is an internal feeling.
2. It produces goal directed behavior.
3. It can be either positive or negative.
4. It is a complex process.

(1 mark for each statement)

34. Method of floatation used is offer for sale- In this method securities are not offered directly to the public but are offered for sale through intermediaries like stock brokers. (1 mark for identification and 1½ mark for explanation)

Other methods are-

1. Offer through prospectus- This method involves inviting subscription from public through prospectus. The issue may be underwritten & has to be listed with one stock exchange.
2. E-IPO-A company proposing to issue capital to the public through online system of stock exchange.

(1/2 mark for naming and 1 and ½ mark for explanation)

OR

a. The steps discussed in above para are-

1. Selection of broker- The buying & selling can be through SEBI broker. The first step is to select a broker who will buy/sell securities on behalf of investor. 2. Opening DEMAT account with a depository participant. (1x2=2)

b. The next four steps of the trading procedure:

1. Placing an order- Investor places an order with the broker to buy or sell shares. Brokers go ahead with the deal & order confirmation slip is issued to the investor by the broker.
2. Match the order- The broker will go online& match the share & the price.
3. Executing order- When the shares can be bought & sold at the price mentioned it will be communicated to the broker terminal & order will be executed electronically. The broker will issue trade confirmation slip to investor.
4. Issue of contract note- After the trade has been executed within 24 hours the broker issues contract note. It contains details regarding no. & price of shares. (1 mark for each statement)

