

CBSE Class-12 Business Studies
Question Paper 2017 Foreign Set-2

General Instructions:

- Answer to question carrying 1 mark may be from one word to one sentence
- Answer to questions carrying 3 marks may be from 50 to 75 words.
- Answer to questions carrying 4-5 marks may be about 150 words.
- Answer to questions carrying 6 marks may be about 200 words.
- Attempt all parts of a question together.
- Question Nos. 1 to 8 are very short-answer questions carrying 1 mark each.
- Question Nos. 9 to 13 carry 3 marks each.
- Question Nos. 14 to 19 carry 4 marks each.
- Question Nos. 20 to 22 carry 5 marks each.
- Question Nos. 23 to 25 carry 6 marks each.

Q1. What is meant by 'Capital Structure'?

Ans. Capital Structure refers to a judicious combination of the debt and equity in an organisation.

Q2. Why is 'Aptitude Test' conducted in the process of selection?

Ans. The Aptitude Test in the process of selection is conducted to measure an individual's potential and his capacity to develop.

Q3. Mansi took her niece, Ridhima, for shopping to 'Mega Stores' to buy her a bag for her birthday. She was delighted when on payment of the bag she got a pencil box along with the bag free of cost.

Identify the technique of sales promotion used by the company.

Ans. The technique of sales promotion being used by the company is 'Product Combination'.

Q4. Sika Ltd., a reputed industrial machines manufacturer, needs Rupees twenty crores as additional capital to expand the business. Mr. Amit Joshi, the Chief Executive Officer

(CEO) of the company wants to raise funds through equity. The Finance Manager, Mr. Narinder Singh, suggested that the shares may be sold to investing public through intermediaries, as the same will be less expensive.

Name the method through which the company decided to raise additional capital.

Ans. The method through which the company decided to raise additional capital is 'Offer for Sale'.

Q5. Differentiate between 'formal' and 'informal' organisation on the basis of 'flow of communication'.

Ans. The difference between formal and informal organisation on the basis of 'flow of communication' is tabulated below.

Basis of difference	Formal organisation	Informal organisation
Flow of Communication	Communication takes place through a properly defined scalar chain	Communication can take place in any direction as there is no planned communication

Q6. Give the meaning of 'supervision' as an element of directing.

Ans. Supervision implies the process of guiding and instructing the subordinates towards achieving the desired goals. In other words, it implies overseeing the work of the subordinates.

Q7. Bhagwati Enterprises is a company engaged in the marketing of air-conditioners of a famous brand. The company has a functional structure with four main functions – Purchase, Sale, Finance and Staffing. As the demand for the product grew, the company decided to recruit more employees.

Identify the concept which will help the Human Resource Manager to find out the number and type of personnel available so that he could decide and recruit the required number of persons for each department.

Ans. The concept which will help the Human Resource Manager in finding the number and type of personnel available so that he could decide and recruit the required number of

persons for each department is Workload Analysis.

Q8. Isha Machines was a renowned name for quality sewing machines since 1960. Mr. Suresh, the owner of Isha Machines, was worried as the production had declined during the last three month. He directed the Production Manager to find out the reason. The production Manager ordered the different supervisors to prepare a performance report of the workers working under them.

Identify the step taken by the Production Manager that is related to one of the functions of management.

Ans. The step taken by Production Manager is Measurement of Actual Performance under the controlling function of management.

Q9. Explain briefly 'Initiative' and 'Espirit de Corps' as principles of general management.

Ans. (i) Initiative: According to this principle, workers should be given enough motivation and incentive to work. They should be inspired to come up with suggestions for regarding the work. Although initiatives should be encouraged, but they should be in line with the practices and rules of the organisation. For example, the managers can ask the workers for their inputs over how to increase efficiency. Also, good suggestions can be rewarded.

(ii) Espirit de Corps: This principle recommends that employees should work in unity with each other. They should work as a team. In other words, team spirit should be promoted by the manager. Each employee should have a sense of belongingness. This proves useful especially in large organisations where without team work, achievement of objectives would become difficult. Team spirit increases coordination and mutual understanding among the employees and thereby improves efficiency.

Q10. State any three points of importance of planning.

Ans. The following points highlight the importance of planning:

- a. **Renders direction:** Planning clearly states the goals and objectives to be achieved, and guides the managers about what tasks are to be done and how they are to be done.
- b. **Subdued risk:** Planning helps foresee the future. Various plans are formulated keeping in consideration the expected future events. Thus, planning reduces the uncertainty of unforeseen events.

c. **Minimised overlapping:** As the managers are familiar with the policies and plans, they coordinate the activities together to achieve the set objectives. This helps in reducing the overlapping of work.

Q11. Explain briefly any three organisational barriers to communication.

Ans. Organisational barriers refer to those barriers in the communication that are related to structure of the organisation, hierarchical relationships in the organisation, rules and policies. The following are some of the organisational barriers:

a. **Policy of the organisation:** If the organisation's policy (such as following a centralised organisational structure) does not support free flow of communication, then it hampers the flow of communication. For instance, in a centralised organisational structure, free flow of communication is restricted.

b. **Rules and regulations:** Rigid rules and regulations hamper effective communication. Such rules as following strict channels of communication (through scalar chain) make the communication process cumbersome and lead to delays in the flow of information.

c. **Difference in status:** In an organisation, there exists a difference in the status of the superior and the subordinate in terms of their job profile and the level of authority. Such a difference may sometime create psychological barriers between them and restrict free flow of communication.

Q12. Hemant, Guddu and Toshita were friends from college days and presently they were doing different kinds of business. They regularly meet and discuss their business ideas, and exchange notes on customer satisfaction, marketing efforts, product designing, selling techniques, social concerns etc.

In one of such meetings, Hemant drew the attention of Guddu and Toshita towards the exploitation of consumers. He told that most of the sellers were exploiting the consumers in various ways and were not paying attention towards the social, ethical and ecological aspects of marketing, whereas he was not doing so. Guddu told that they were under pressure to satisfy the consumers but stated that the consumers would not buy or not buy enough unless they were adequately convinced and motivated for the same.

Toshita stressed that a company cannot achieve its objectives without satisfying the needs of the customers. It was the duty of the businessmen to keep consumer satisfaction in mind, because business is run by the resources made available by the

society. She further stated that she herself was taking into consideration the needs of the customers.

Identify the various types of thinking that guided Hemant, Guddu and Toshita in the marketing efforts of their business. Also, state one more feature each of the various types of thinking identified that is not given in the above para.

Ans. The concept of thinking followed by Hemant is the Societal Marketing Concept.

According to this concept, organisations should not only identify the immediate needs of the target market, but also aim at long-term well-being and interests of the consumers.

Feature: The emphasis of this thinking, is that the organisation should pay due consideration to social and environmental problems such as pollution, deforestation, population explosion and inflation.

The concept of thinking followed by Guddu is the Selling concept. According to this concept, a consumer would purchase the product only when he is sufficiently convinced regarding the features, quality, etc., of the product.

Feature: This thinking emphasizes that firms must focus on rigorous selling and promotion techniques so as to increase the sale of their product.

The concept of thinking followed by Toshita is Marketing concept. The marketing concept believes that customer satisfaction plays a vital role in the long-run success of any organisation. Herein, the organisations must aim towards appropriately identifying such needs of customers and satisfying them in an effective manner.

Feature: This thinking emphasizes that a firm should not just independently work towards customer satisfaction, but also aim at satisfying the customers better than its competitors.

Q13. Ramnath Ltd. is dealing in import of organic food items in bulk. The company sells the items in smaller quantities in attractive packages. Performance of the company has been up to the expectations in the past. Keeping up with the latest packaging technology, the company decided to upgrade its machinery. For this, the Finance Manager of the company, Mr. Vikrant Dhull, estimated the amount of funds required and the timings. This will help the company in linking the investment and the financing decisions on a continuous basis.

Therefore, Mr. Vikrant Dhull began with the preparation of a sales forecast for the next four years. He also collected the relevant data about the profit estimates in the coming years. By doing this, he wanted to be sure about the availability of funds from the

internal sources. For the remaining funds he is trying to find out alternative sources. Identify the financial concept discussed in the above paragraph. Also, state any two points of importance of the financial concept, so identified.

Ans. The financial concept discussed in the paragraph is Financial Planning. Its importance can be highlighted from the following factors:

- a. Helps in facing eventual situations:** Financial planning helps in forecasting the future situations. In this way, it prepares an organisation to cope with the adverse situations in a better manner.
- b. Helps in avoiding surprises and shocks:** Through financial planning, an organisation can detect situations of shortage or surplus of funds that may arise in future. Therefore, it prepares the managers in advance for such situations.

Q14. Sanket, after completing his entrepreneurship course from U.SA. returned to India and started a coffee shop 'Fioma Coffee' in a famous mall in Mumbai. The speciality of the coffee shop was the special aroma of coffee and wide variety of flavours to choose from. Somehow, the business was neither profitable nor popular, Sanket was keen to find out the reason. He appointed Riya, an MBA from a reputed management institute as a manager to find out the causes of the business not doing well. Riya, took feedback from the clients and found out that though they loved the special unique aroma of coffee but were not happy with the long waiting time being taken to process the order. She analysed and found out that there were many unnecessary obstructions which could be eliminated. She fixed a standard time for processing the order.

She also realised that there were many flavours whose demand was not enough. So, she also decided to discontinue the sale of such flavours. As a result, with in a short period Riya was able to attract the customers.

Identify and explain any two techniques of scientific management used by Riya to solve the problem.

Ans. The techniques of scientific management used by Riya to solve the problem are:

- (a) Standardisation of work:** Standardisation of work implies setting milestones or benchmarks for any work or activity. It aims at establishing standards of excellence against which actual performance can be measured. Standardisation can be set in terms of process, raw material, product or time. Standards are to be followed by the managers in the production process, and standardisation has the objective of ensuring that the final product

is of fixed size, characteristic and quality. Various other techniques given by Taylor, such as method study, fatigue study and time study, are based on the concept of standardisation.

(b) Simplification of work: Simplification of work involves eliminating unnecessary diversifications in the product in terms of variety, size and dimension. It aims at fuller utilisation of the resources, reducing the inventories and increasing the turnover. It also helps in reducing the costs of labour and machines. Along with this, simplification aims at removing the unnecessary steps involved in a process to achieve efficiency.

Q15. Rishitosh Mukerjee has recently joined AMV Ltd, A company manufacturing refrigerators. He found that his department was under-staffed and other departments were not cooperating with his department for smooth functioning of the organisation. Therefore, he ensured that his department has the required number of employees and its cooperation with other departments is improved.

(a) Identify the level at which Rishitosh Mukerjee was working.

(b) Also, state three more functions required to be performed by Rishitosh Mukerjee at this level.

Ans. Rishitosh Mukherjee is working at Middle Level Management as he is the department head.

The other functions performed by Rishitosh are:

- a. Acts as a link between the top management and the workers at the lower level
- b. Interprets and implements policies and plans as formulated by the top level management
- c. Assigns responsibilities to the workers and ensures proper working environment in their respective department

Q16. Give the meaning of 'Policy' and 'Budget' as types of plans.

Ans. (i) Policy: A policy is a general statement that aims at channelling the efforts of the organisation in a particular direction. It forms the general response or a course of action to be followed in a particular situation. The policies are the guidelines to managerial actions and decisions which help in the implementation of the strategies in an organisation. Moreover, they can be defined as the broad parameters which are used by managers to control the overall working of the management.

(ii) Budgets: A budget refers to a numerically expressed financial statement that defines the targets to be achieved and the policies to be followed in a specific period. The unique feature

of a budget is that it is numerical in nature and quantifies the future facts and data in numbers. A budget is often said to be a control device as it facilitate the comparison and analysing of deviations from the set targets.

Q17. These days, the development of a country is also judged by its system of transferring finance from the sector where it is in surplus to the sector where it is needed the most. To give strength to the economy, SEBI is undertaking measures to develop the capital market. In addition to this, there is another market in which unsecured and short-term debt instruments are actively traded everyday. These markets together help the savers and investors in directing the available funds into their most productive investment opportunity.

(a) Name the function being performed by the market in the above case.

(b) Name the market segment other than the capital market segment in which unsecured and short-term debt instruments are traded. Also, give any three points of difference between the two.

Ans. a. The function being performed by the market is the Allocative function.

b. The market segment other than the capital market segment in which unsecured and short-term debt instruments are traded is called the Money Market. The three points of difference between the two are as follows:

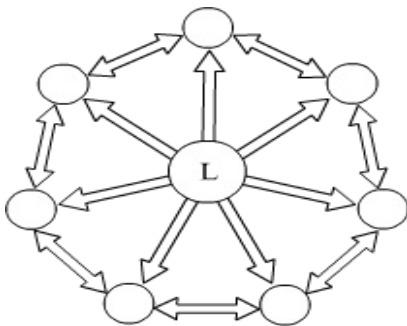
Basis of difference	Capital Market	Money Market
Time Span of Securities	It mainly deals in the trading of medium and long-term securities wherein the maturity period is more than one year	It deals in the trading of short-term securities wherein the maturity period can vary from one day to a maximum of one year
Liquidity	The securities traded are liquid in nature as they are tradable on stock exchanges. However, they are less liquid in comparison to the money market securities	The securities traded are highly liquid in nature. This is because DFHI (Discount and Finance House of India) discounts money market securities and offers a ready market for them
	Expected returns are higher due to	

Expected Returns	the possibility of capital gains in the long term and regular dividends or bonus	Expected returns are lower due to shorter duration
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Q18. Avdhesh is the Managing Director of Delta Ltd. The company had established a good name for itself and had been doing well. It was known for timely completion of orders. The Production Manager, Ms. Priyanka was efficiently handling the processing of orders and had a team of ten motivated employees working under her. Everything was going on well. Unfortunately, Priyanka met with an accident. Avdhesh knew that in the absence of Priyanka, the company may not be able to meet the deadlines. He also knew that not meeting the deadlines may lead to customer dissatisfaction with the risk of loss of business and goodwill. So, he had a meeting with his employees in which accurate and speedy processing of orders was planned. Everybody agreed to work as team because the behaviour of Avdhesh was positive towards the employees of the organisation. Everyone put in extra time and efforts and the targets were met on time. Not only this, Avdhesh visited Priyanka and advised her to take adequate rest.

- (a) Identify the leadership style of Avdhesh and draw a diagram depicting the style.**
(b) Also, identify any two values highlighted by the behaviour of Avdhesh.

Ans. (a) Democratic or Participative Leadership style



(b) Values involved

- (i) Positive attitude towards employees
- (ii) Considerate towards employees' health and their well-being

Q19. Explain briefly 'Casual Callers' and 'Labour Contractors' as external sources of recruitment.

Ans. (i) Casual callers: An organisation maintains a list of probable applicants along with their contact information. As and when vacancies arise, it contacts them and persuades them

to apply for the jobs available.

(ii) **Labour contractors:** Organisations approach labour contractors for engaging low-skilled workers or labourers. Labour contractors maintain a close contact with labourers and other workers and call them for work when the need arises.

Q20. 'RO Youth Club' organised a visit of its members to an Old Age Home to inculcate the habit of social work among them. The visit revealed that the living conditions of the inmates of the Old Age Home were not hygienic. So, the RO Youth Club members decided to clean the premises. During their cleanliness drive, they realised that the Old Age Home also required pest control. But some of the inmates of the Old Age Home were reluctant for it because they believed that the pest control may create health problems for them. RO Youth Club, therefore, decided to provide ethical, safe and odourless pest control. They showed to the inmates of the Old Age Home a pamphlet of the proposed pest 'control product which promised easy, inexpensive and long-lasting pest control. The inmates happily agreed and the pest control was carried out. The effect of the pest control started wearing off after a fortnight. RO Youth Club contacted the pest control company which kept on postponing their visit. After waiting for a month, RO Youth Club filed a case in the consumer court.

The consumer court was satisfied about the genuineness of the complaint and issued necessary directions to the pest control company.

(a) State any six directions that might have been issued by the court.

(b) Identify any two values that are being communicated by RO Youth Club to the society.

Ans. (a) The court may direct to

- (i) Repair the defective goods or remove the deficiency in service.
- (ii) Replacement of the defective good with a new one.
- (iii) Refund the price that was paid by the consumer for the good or service.
- (iv) Payment of compensation in cash for the loss or injury suffered.
- (v) Removal of misleading advertisement and issue of a correct advertisement henceforth.
- (vi) Payment of an appropriate amount (not less than 5% of the good in question) to be credited to the Consumer Welfare Fund.

(b) Values involved

- (i) Promoting cleanliness and hygiene

(ii) Fulfilling social responsibility

Q21. Nandrachal Networks and Technologies Ltd. is a leader in technology innovation in U.S.A. creating products and solutions for a connected world. It has a large Research and Development team which invented the first smart watch W-I, which besides showing the time would also monitor few health parameters like heart beat, blood pressure, etc. While in search of markets abroad, the company found that in India, the reform process was underway with the aim of accelerating the pace of economic growth. The company decided to take advantage of the fact that licensing requirements had been abolished. The company was also aware that there had been increased level of interaction and interdependence among the various nations of the world and India could be made a base for its international trade. It set up its office in Gujarat with a view to capture the Indian market. In a short span of time, the company emerged as a market leader. Success of the company attracted many other players to enter the market. Competition resulted in reduction in prices, thereby benefitting the customers.

(a) In the above paragraph, two major concepts related to government policy have been discussed. Identify and explain those concepts.

(b) Also, explain briefly any three impacts of those concepts on Indian business and industry.

Ans. a. The two concepts related to the government policy discussed in the question are Liberalisation and Globalisation.

1. **Liberalisation:** Liberalisation refers to the removal of controls and restrictions imposed by the government. They indicated the end of the famous license-permit-quota raj in India.

2. **Globalisation:** Globalisation refers to the integration of economies of the world. It is the process associated with increasing openness, growing economic independence and promoting economic integration in the world economy.

b. The three major impacts of these concepts on Indian business and industry were:

1. **Increased competition:** As a result of measures such as abolition of the licensing policy, dereservation and encouragement to foreign direct investment, the competition faced by industries increased, both internally as well as externally, from foreign enterprises. This increase in competition was particularly felt in service industries, such as telecommunication, banking and insurance.

2. **Increased demand:** With the increased competition, producers increasingly became

market-oriented. They began to produce goods keeping in mind the market demand. Therefore, the availability of goods and services for the consumers and the quality also increased tremendously. Thus, consumers gained from quality products and greater variety, and their demand for products increased.

3. Change in business policies: The government policies under the new industrial policy directly affected the functioning of business enterprises. As a result, they altered their policies and operations appropriately.

Q22. Describe briefly the steps in the process of controlling.

Ans. Controlling is a systematic approach of managing and controlling the organisational actions. The following are the steps involved in the controlling process.

i) Setting Standards

Setting up of standards involves developing the benchmarks against which the actual performance is to be measured. The standards can be set in qualitative as well as quantitative terms. Qualitative benchmarks can be in the form of improving coordination in work, higher goodwill or increased motivation level of employees, etc. Quantitative benchmarks can be in the form of sales targets, production units to be produced or time to be spent on a particular action, etc.

ii) Measuring Actual Performance

Once the standards are set, the next step is to measuring the actual performance of the activities. This may be done through various techniques such as personal observation, checking the sample, performance reports, etc. The checking should be done in an exact and reliable manner so that correct measurement is taken for comparison. Measurement can be done after the completion of an activity as well as while it is in progress.

iii) Comparing the Performances

Performances once measured are then compared with the set standards. Such a comparison helps in assessing the deviations in the work. Thereby, it guides the managers in taking the necessary steps so as to improve the performances. These comparisons are easier when they are in quantitative terms. For example, efficiency in work in terms of cost incurred can be measured against the standard cost.

iv) Analysing Deviation

Every organisation faces deviations when comparing the actual performance with the pre-developed standards. Thus, it is important to find the deviations that are in the permissible

range. It is said that deviations in key areas should be attended first. For analysing the deviations the managers generally use 'Critical Point Control' and 'Management by Exception'. Once the deviations are recognised, it is necessary to acknowledge the cause for it. There can be a number of elements causing deviations in work such as infeasible standards, deficiencies in process, under utilisation of resources, changes in business environment, etc. Thus, it becomes important for the management to take into regard the causes for the concerned deviations.

v) Corrective Measures

When deviations go beyond the admissible limits, there arises a need for the management to take corrective actions. This is the last step of controlling which aims on correcting the deficiencies of the organisation so that the errors do not occur again. For example, if the production target was not met duly, appropriate corrective actions such as training the workers or updating the machinery for working, etc. can be taken.

Q23. Medi Instruments Ltd. is a company dealing in the distribution of medical instruments. The company recently imported 15000 units of sugar testing machines to test the sugar levels without taking blood samples. For deciding the marketing strategy, the Chief Executive Officer of the company called a meeting of the marketing heads of different zones.

In the meeting, Sanjay, the North Zone Marketing Head, suggested that since the machines were sophisticated they need to visit hospitals personally to explain its working to the hospital staff who would be using the machines. He also suggested that additional trained people may be recruited for the same. Hitesh, another Zonal Head, added that since lot of money had been spent on the import of the machines, the company was short of funds to pay the additional staff, as suggested by Sanjay. Revansh, a newly appointed Zonal Head of South Zone, suggested that since the size of the order was not large, a detailed study of the factors determining the choice of channels of distribution was required before making the right choice.

(a) Identify the factors influencing the choice of channels of distribution which were discussed in the meeting.

(b) Also, explain briefly the other considerations to be taken care of in each factor identified in part (a).

Ans. a. The three factors that are influencing the choice of channels of distribution in the

given question are:

1. Product related factors (as the machinery is sophisticated)
2. Company characteristics (as the company do not have enough funds to pay for more employees)
3. Market related factors (as the size of the order is not large)

b. Other considerations in the cases are:

1. Product related factors: The decision regarding the appropriate channel of distribution is largely affected by the classification or the type of a product. Here, it is important to check whether the product is perishable or non-perishable; whether it is an industrial or a consumer product or the degree of complexity of the product. For instance, if a product is complex or sophisticated in nature then it would require shorter channels of distribution and careful handling.

2. Company characteristics: The characteristics of a company play an important role in making a decision regarding the channel of distribution. Generally a company's financial strength and the degree of control that the company wishes to hold on the intermediaries affect the choice of channels of distribution. Keeping the first one in view, a company that is financially strong and has spare funds to spend would opt for a shorter channel of distribution. This is because the shorter channels of distribution generally require a greater amount of funds for activities like hiring more salesman or opening higher number of retail outlets. This is likely to increase the cost of the firm and thus only those companies that have a strong financial base can opt for direct channels. In contrast to this, the companies that have a weaker financial base will opt for longer or indirect channels as these channels do not involve such costs.

Similarly, a company that wishes to have a greater control over the intermediaries should also opt for shorter channels of distribution. The reason behind this lies in the fact that the direct or the shorter channels involve minimum numbers of intermediaries and thus are easily controllable. On the other hand, companies that exercise lesser control over the intermediaries can opt for longer channels of distribution.

3. Market related factors: Factors such as size of the market, geographical concentration of buyers, quantity demanded, etc. also affect the choice between the channels. For example, in case the size of order is small then shorter channels should be adopted, whereas in case of large orders, long channels should be adopted. Similarly, in case the size of market is small then shorter channels should be adopted and if the size of market is large, then long

channels should be adopted.

Q24. Anoop Gaur started 'Cat's Eye', a company for providing cyber security solutions to businesses. Its objective is to prevent, detect, respond to cyber attacks and protect critical data. He was a hardworking software engineer and an expert in cyber security. His reputation grew by leaps and bounds as he was not only a person of integrity but also did his work with utmost honesty and sincerity. The business started growing day by day.

He was delighted when he was offered a big project by the Ministry of Science and Technology. While working on the project he found that the volume of work made it impractical for him to handle all the work by himself. Therefore, he decided to expand the team. The company maintained a close liaison with an engineering college in the State. During a campus placement, Aarav and Pranshi were appointed to work for the new project.

He found the new employees capable, enthusiastic and trustworthy. Anoop Gaur was thus, able to focus on the objectives and with the help of Aarav and Pranshi, the project was completed on time. Not only this, Anoop Gaur was also able to extend his area of operations. On the other hand, Aarav and Pranshi also got opportunities to develop and exercise initiative.

(a) Identify and explain briefly the concept used by Anoop Gaur in the above case which helped him in focussing on the objectives.

(b) Also, explain any four points of importance of the concept identified in part (a).

Ans. The concept used by Anoop Gaur is Delegation. This is because, he found the volume of work impractical to handle by himself and thus, decided to expand his team. After this, he delegated the tasks to Aarav and Prashi so that he himself can focus on the objectives. Thus, here, he is delegating the tasks to his subordinates.

The following points highlight the importance of delegation.

a. Managerial efficiency: By delegating work to the subordinates, the managers can concentrate on priority areas and also venture into new areas. This freedom from the routine tasks enhances the efficiency of the managers.

b. Employee proficiency: As the subordinates are entrusted with the responsibility of completing a task, they get an opportunity to prove their abilities and apply their skills. This helps them to gain experience and improve their proficiency.

c. **Motivation:** Delegation provides the employees with psychological benefits, which motivate and encourage them to give their best to the organisation.

d. **Growth:** Delegation helps in the preparation of efficient and experienced managers who can take up leading positions during the growth phase of the organisation. This facilitates easy growth and expansion of the organisation.

Q25. Explain briefly any four factors that affect the fixed capital requirements of a company.

Ans. The factors affecting the fixed capital requirements of a company are listed below.

(i) **Type of business:** The amount of fixed capital required by a company depends, to a large extent, on the type of business that it deals in. Organisations that deal in services or trading (having a small operating cycle) require less fixed capital. In contrast, a manufacturing firm involving a large operating cycle would require large amount of fixed capital.

Service or trading organisations → Small fixed capital requirement

Manufacturing organisations → Large fixed capital requirement

(ii) **Scale of operations:** Higher scale of operations implies that a larger amount needs to be invested in plants, land, building, etc., and thereby it requires large fixed capital and vice versa.

High scale of operation → Large fixed capital requirement

Small scale of operation → Small fixed capital requirement

(iii) **Alternative techniques of production:** An organisation can opt for either capital-intensive techniques or labour-intensive techniques of production. Organisations that follow capital-intensive techniques require higher investment in plants and machineries. Therefore, they require a larger amount of fixed capital. In contrast, organisations that follow labour-intensive techniques require lower amount of fixed capital.

Capital-intensive techniques → Large fixed capital requirement

Labour-intensive techniques → Small fixed capital requirement

(iv) **Growth prospects:** Higher growth and expansion of a company is associated with higher production, more sales, more inputs, etc. This requires higher level of machinery and equipments. Thus, organisations with high growth prospects require higher amount of fixed capital and vice versa.

High growth prospects → Large fixed capital requirement

Low growth prospects → Low fixed capital requirement