Class XII

40 YEARS OF EMINENCE IN EDUCATION

Business Studies

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Preface

It gives me immense pleasure and overwhelms me to know that students and teachers have highly appreciated and accepted this book.

This has encouraged me to thoroughly revise the book as per the latest syllabus of CBSE. Significant improvements have been made in several chapters as per the new syllabus. While revising the book questions from last year question papers are included in Review Exercise and some new additions are made in Higher Order Thinking Skill questions and Conceptual Questions. The present book has been specifically designed to meet the academic requirement of the new syllabus for the students of Class XII.

This is the eighth revised and enhanced edition of this book. The book is divided into two parts. Part A covers topics related to Principles and Functions of Management and Part B covers Business Finance and Marketing.

The main features of the book are:

1. The language is very simple and style is examination oriented.
2. The subject is presented in self-explanatory manner, so that students may find it easy to understand.
3. Topics are explained in points, so that students may find it easy to learn and understand.
4. Charts and diagrams are drawn after every topic.
5. Each chapter begins with the learning objectives.
6. This book is strictly as per the latest CBSE syllabus and covers complete matter as per the NCERT book.
7. After every topic, Objective Type Questions and Case Studies are given based on the latest CBSE Sample Paper (2020).
   (Hints of their answers are given at the end of each chapter.)
8. At the end of each chapter, 40 objective type questions (20 MCQs + 10 Fill in the blanks + 10 True/False) are given along with answers at the end.
9. Keywords of each topic are given at the end of each topic, to help students to solve case studies.
10. A flow chart of each chapter is given at the end to recap the topics covered in that chapter.
11. Quick revision is given to revise all the topics in short time.
12. At the end of each chapter, questions asked in last 7 years' Board Exam are given, so that the students may get an idea of what types of questions are expected from this chapter.
    (Hints of answers of these questions are also given.)
13. Case Studies are framed by using words strictly from the NCERT.
14. A section of questions–Higher Order Thinking Skill (HOTS) along with their answers is added to prepare the students to answer indirect questions and difficulty-level questions in board exam.
15. Review Exercises of NCERT textbook are also covered at the end of each chapter under the heading–Guidelines to NCERT Questions.

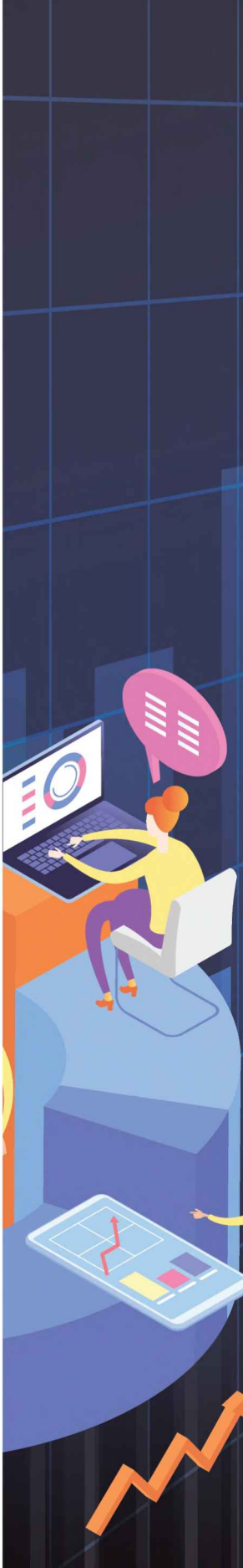
I, sincerely, believe that the students and (learned) teachers will find this book useful and instructive. I request all the teachers to give their views, suggestions, comments for further improvement of the book, at my mail *bst.poonamgandhi@gmail.com*. Your suggestions are always welcome and shall be gratefully acknowledged.

I want to thank the pillar of my strength, my husband, Rajiv Gandhi, for his never ending support. I also want to thank my son Bhuvan Gandhi, who helped and assisted me in preparing and writing the manuscript of this book.

Finally, I thank the publishers VK Global Publications Pvt. Ltd. for bringing out this book in an attractive format and nice set-up.

Regards,

–Poonam Gandhi



Dedicated to

My

Father-in-Law (Late Shri M.G. Gandhi)

Father (Late Mr. T.R. Saigal)

&

Mother (Late Mrs. C.M. Saigal)

SYLLABUS

CENTRAL BOARD OF SECONDARY EDUCATION, NEW DELHI

BUSINESS STUDIES, CLASS–XII

One Paper | Time : 3 hours | Theory: 80, Project: 20

	Units	Periods	Marks
PART–A: Principles and Functions of Management			
1.	Nature and Significance of Management	12	16
2.	Principles of Management	14	
3.	Business Environment	12	
4.	Planning	14	14
5.	Organising	15	
6.	Staffing	16	20
7.	Directing	15	
8.	Controlling	12	
	Total	**110**	**50**
PART–B: Business Finance and Marketing			
9.	Financial Management	20	15
10.	Financial Markets	18	
11.	Marketing Management	30	15
12.	Consumer Protection	12	
PART–C: Project Work (One)		**30**	**20**
	Total	**110**	**50**

Part A: Principles and Functions of Management — 110 Periods

Unit 1: Nature and Significance of Management — 12 Periods

Management—concept, objectives, and importance	After going through this unit, the student/learner would be able to: ■ 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	■ Examine the nature of management as a science, art and profession.
Levels of Management	■ Understand the role of top, middle and lower levels of management.
Management functions—planning, organizing, staffing, directing and controlling	■ Explain the functions of management.
Coordination—concept and importance	■ Discuss the concept and characteristics of coordination. ■ Explain the importance of coordination.

Unit 2: Principles of Management — 14 Periods

Principles of Management—concept and significance	After going through this unit, the student/learner would be able to: ■ Understand the concept of principles of management. ■ Explain the significance of management principles.
Fayol's principles of management	■ Discuss the principles of management developed by Fayol.
Taylor's Scientific management—principles and techniques	■ Explain the principles and techniques of 'Scientific Management'. ■ Compare the contributions of Fayol and Taylor.

Unit 3: Business Environment — 12 Periods

Business Environment—concept and importance	After going through this unit, the student/learner would be able to: ■ Understand the concept of 'Business Environment'. ■ Describe the importance of business environment.
Dimensions of Business Environment—Economic, Social, Technological, Political and Legal Demonetization—concept and features	■ Describe the various dimensions of 'Business Environment'. ■ Understand the concept of demonetization.
Impact of Government policy changes on business with special reference to liberalization, privatization and globalization in India	■ Examine the impact of government policy changes on business in India with reference to liberalisation, privatization and globalisation since 1991. ■ Discuss the managerial response to changes in business environment.

Unit 4: Planning — 14 Periods

Concept, importance and limitation	After going through this unit, the student/learner would be able to: ■ Understand the concept of planning. ■ Describe the importance of planning. ■ Understand the limitations of planning.
Planning process	■ Describe the steps in the process of planning.
Single use and standing plans. Objectives, Strategy, Policy, Procedure, Method, Rule, Budget and Programme	■ 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 — 15 Periods

Concept and importance	After going through this unit, the student/learner would be able to: ■ Understand the concept of organizing as a structure and as a process. ■ Explain the importance of organising.
Organising Process	■ Describe the steps in the process of organising.
Structure of organisation—functional and divisional concept. Formal and informal organisation—concept	■ 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	■ Understand the concept of delegation. ■ Describe the elements of delegation. ■ Appreciate the importance of Delegation.
Decentralization: concept and importance	■ Understand the concept of decentralisation. ■ Explain the importance of decentralisation. ■ Differentiate between delegation and decentralisation.

Unit 6: Staffing — 16 Periods

Concept and importance of staffing	After going through this unit, the student/learner would be able to: ■ Understand the concept of staffing. ■ Explain the importance of staffing.

Staffing as a part of Human Resource Management—concept	■ Understand the specialised duties and activities performed by Human Resource Management.
Staffing process	■ Describe the steps in the process of staffing.
Recruitment process	■ Understand the meaning of recruitment. ■ Discuss the sources of recruitment. ■ Explain the merits and demerits of internal and external sources of recruitment.
Selection process	■ 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—vestibule training, apprenticeship training and internship training	■ 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 — 15 Periods

Concept and importance	After going through this unit, the student/learner would be able to: ■ Describe the concept of directing. ■ Discuss the importance of directing
Elements of Directing	■ Describe the various elements of directing
Motivation—concept, Maslow's hierarchy of needs, Financial and non financial incentives	■ 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	■ 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	■ Understand the concept of communication. ■ Understand the elements of the communication process. ■ Discuss the concept of formal and informal communication. ■ Discuss the various barriers to effective communication. ■ Suggest measures to overcome barriers to communication.

Unit 8: Controlling — 12 Periods

Concept and importance	After going through this unit, the student/learner would be able to: ■ Understand the concept of controlling. ■ Explain the importance of controlling.
Relationship between planning and controlling	■ Describe the relationship between planning and controlling.
Steps in process of control	■ Discuss the steps in the process of controlling.

Part B: Business Finance and Marketing — 110 Periods

Unit 9: Financial Management — 20 Periods

Concept, role and objectives of Financial Management	After going through this unit, the student/learner would be able to: ■ 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	■ Discuss the three financial decisions and the factors affecting them.
Financial Planning—Concept and importance	■ Describe the concept of financial planning and its objectives. ■ Explain the importance of financial planning.
Capital Structure—Concept and factors affecting capital structure	■ 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	■ Understand the concept of fixed and working capital. ■ Describe the factors determining the requirements of fixed and working capital.

Unit 10: Financial Markets — 18 Periods

Financial Markets: Concept, functions and types	After going through this unit, the student/learner would be able to: ■ 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	■ 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	■ 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	■ 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	■ State the objectives of SEBI. ■ Explain the functions of SEBI.

Unit 11: Marketing — 30 Periods

Marketing—Concept functions and philosophies	After going through this unit, the student/learner would be able to: ■ Understand the concept of marketing. ■ Explain the features of marketing. ■ Discuss the functions of marketing. ■ Explain the marketing philosophies.
Marketing Mix—Concept and elements	■ Understand the concept of marketing mix. ■ Describe the elements of marketing mix.
Product— Branding, labelling and packaging— Concept	■ Understand the concept of product as an element of marketing mix. ■ Understand the concept of branding, labelling and packaging.
Price—Concept, Factors determining price	■ Understand the concept of price as an element of marketing mix. ■ Describe the factors determining price of a product.
Physical Distribution—Concept, components and channels of distribution.	■ Understand the concept of physical distribution. ■ Explain the components of physical distribution. ■ Describe the various channels of distribution.

Promotion— Concept and elements; Advertising, Personal Selling, Sales Promotion and Public Relations.	■ Understand the concept of promotion as an element of marketing mix. ■ Describe the elements of promotion mix. ■ Understand the concept of advertising. ■ Understand the concept of sales promotion. ■ Discuss the concept of public relations.

Unit 12: Consumer Protection — 12 Periods

Concept and importance of consumer protection	After going through this unit, the student/learner would be able to: ■ 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? Redressal machinery Remedies available	■ Understand the concept of a consumer according to the Consumer Protection Act 1986. ■ 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 Non-Governmental Organizations (NGOs).	■ Describe the role of consumer organizations and NGOs in protecting consumers' interests.

Part C: (Unit-13) Project work — 30 Periods

DESIGN OF MODEL QUESTION PAPER
BUSINESS STUDIES, CLASS–XII

Time: 3 Hours							Max. Marks: 80
S. No.	**Typology of Questions**	**Objective type/MCQ (1 mark)**	**Short Answer -I (3 marks)**	**Short Answer-II (4 marks)**	**Long Answer-I (5 marks)**	**Long Answer-II (6 marks)**	**Marks**
1.	**Remembering:** Exhibit memory of previously learned material by recalling facts, terms, basic concepts and answers.	5	1	1	1	1	23
2.	**Understanding:** Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions and stating main ideas.	5	2	1	—	1	21
3.	**Applying:** Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	5	1	—	1	1	19
4.	**Analysing and Evaluating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgements about information, validity of ideas or quality of work based on a set of criteria. **Creating:** Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	5	1	1	1	—	17
	Total	**20×1=20**	**5×3=15**	**3×4=12**	**3×5=15**	**3×6=18**	**80(34)**

Note: *There will be Internal Choice in questions of 3 marks (1 choice), 4 marks (1 choice), 5 marks (2 choices) and 6 marks (2 choices). In all, total 6 internal choices.*

PART: A

PRINCIPLES AND FUNCTIONS OF MANAGEMENT

1 NATURE AND SIGNIFICANCE OF MANAGEMENT

Contents as per Latest CBSE Syllabus

- Management—Concept, Objectives, and Importance
  - Concept includes Meaning and Features
- Management as Science, Art and Profession
- Levels of Management
- Management Functions—Planning, Organizing, Staffing, Directing and Controlling
- Coordination—Concept and Importance

INTRODUCTION

Successful organisations do not achieve their goals by chance but by following a deliberate process called management.

Management is essential for all organisations big or small, profit or non-profit, service or manufacturing management is necessary so that individuals make their best contribution towards group objectives. Managers take decisions as to who will do what, when they will do it and what resources they will use. Basic job of a manager is the effective and efficient utilisation of physical, financial and human resources to achieve organisational objectives. No matter what the organisation is or what its goal might be, they all have something in common, i.e., Management and managers.

Management consists of a series of inter-related functions that are performed by all managers, for examples, managers have to plan the objective of the firm, organise resources to achieve that objective, recruit and select employees who can implement these objectives. Giving directions, communicating and motivating these employees to achieve objectives effectively and efficiently and ultimately checking whether everything is going as per plan or not.

However, the time spent by managers in different functions is different. Managers at top level spent more time in planning and organising than the managers at lower level.

If we see real life examples, Shiv Nadar of HCL Enterprise performs all these functions, so is Nusli Wadia of Bombay Dying, Bill Gates of Microsoft, Indra Nooyi of Pepsico and Principal of your school, etc.

1.1 MODERN CONCEPT OF MANAGEMENT/ MEANING OF MANAGEMENT

According to modern concept *"management is a process of getting things done with the aim of achieving goals effectively and efficiently."*

The concept of Management insist on three terms:

1. **Process.** Process refers to series or sequence of steps, management is a process because it performs series of functions to get the things done. These functions are planning organising, staffing, directing and controlling.

   (These functions are discussed in detail is the later part of chapter and book.)

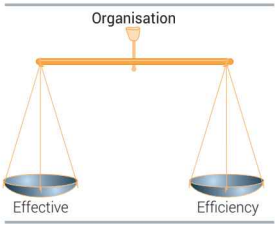
2. **Effectiveness.** It is concerned with doing the right task, completing activities and achieving goal. In other words, it is concerned with end result. Being effective or doing work effectively means finishing the given task or achieving the goal on time.

3. **Efficiency.** It refers to do the task in the right way, *i.e.*, with minimum cost and optimum utilisation of resources. Efficiency involve cost benefit analysis. It focus on deriving more benefits by using less resources. It insist on using less inputs such as money, materials, equipments persons to get more output. Management is concerned with efficient use of resources because reduction in cost leads to higher profit.

Difference between Effectiveness vs Efficiency

Basis of Difference	Effectiveness	Efficiency
1. Meaning	It refers to completing the task on time, no matter whatever the cost.	It refers to completing the task with minimum cost, optimum utilisation of resources and in cost effective manner.
2. Objective	To achieve end result	To conduct cost benefit analysis.
3. Main consideration	Doing the right task.	Doing the task in right way.

Relation between Efficiency and Effectiveness/Conclusion

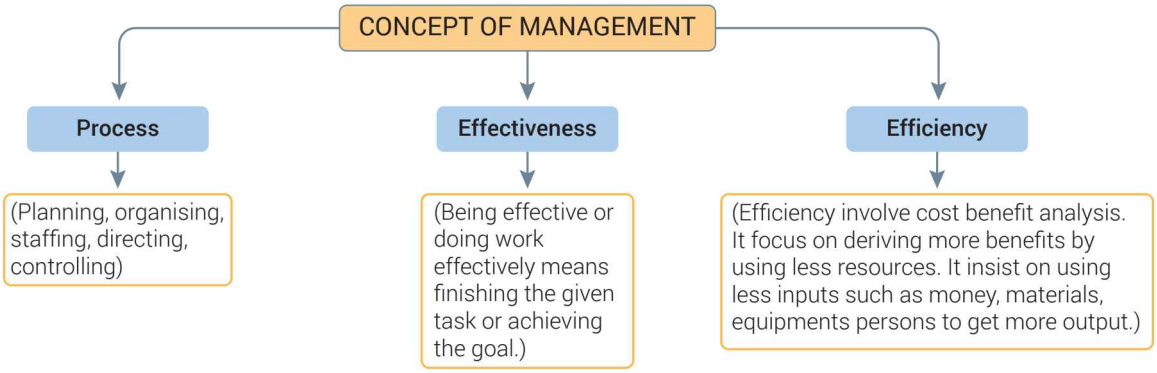


Effectiveness and efficiency are equally important as being effective means completing the task but it is not enough to just complete the task, it must be done correctly without any wastage of resources. Effectiveness and efficiency are the two sides of a same coin, one without other is of no use.

Effectiveness and efficiency together lead to higher profit and prosperity of an organisation. And failure of an organisation is due to inefficiency and ineffectiveness.

Definitions by different authors:

- "To manage is to forecast, to plan to organise, to command, to coordinate and to control."
- "Management is the creation of an internal environment where individuals working in a group can perform effectively and efficiently for the achievement of organisational goal."
- "Management is establishing an effective environment for people operating in formal organisational group." ***—Koontz and O'Donnel***
- "Management is the art of knowing exactly what you want your men to do and then seeing that they do it in the best and cheapest way." ***—James L. Ludney***
- "Management is the coordination of all resources through the process of planning, organising, directing and controlling in order to attain stated objectives." ***—F.W. Taylor***
- "Management is the process by which a cooperative group directs actions of others towards common goals." ***—Marrie and Douglas***



Keywords

Management: A process to achieve goal effectively and efficiently.

(i) Effectively: Completion of task or achievement of goal on time.

(ii) Efficiently: Completing the task or achieving the goal with minimum cost or optimum utilisation of resources or in cost effective manner.

MCQs and Case Studies

1. **"Management has to see that tasks are completed and goals are achieved with the least amount of resources at a minimum cost." Identify the two related concepts of management.**

   (a) Coordination and efficiency (b) Efficiency and effectiveness

   (c) Planning and effectiveness (d) Management and administration

2. **Successful organisations do not achieve their goals by chance but by following a deliberate process called:**

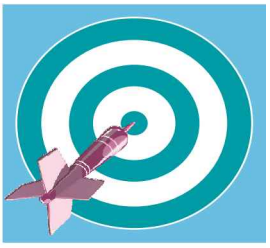
   (a) effectiveness (b) efficiency

   (c) coordination (d) management

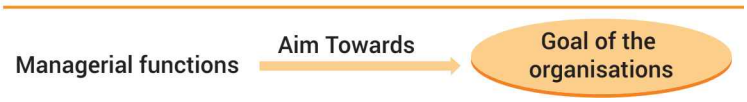
3. **During festival season ABC Ltd. received a new order of 10,000 mobile phones to be delivered in 10 days, failing which the contract will be null and void. To complete this production manager planned to outsource the production so that order could be delivered on time. The outsourcing resulted in increase in cost by 30%.**
   (i) Do you think the production manager performed duties effectively and efficiently?
   (ii) Give any two points of difference between effective and efficiency.
4. **ABC Ltd., a garment manufacturing Company set the target production of 100 garments per month at the estimated cost of ₹ 200 per garment. Mohan, a worker worked double shift and manufactured around 150 garments but at the estimated cost of ₹ 230 per garment.**

   On the other hand, Ravi another worker focus on cost and handled resources very carefully so he manufactured 90 garments but at the estimated cost of ₹ 190 per garment. Third worker maintained the balance and achieved target of 100 garment at the estimated cost of ₹ 200 per garment.
   (a) Identify the quality possessed by Ravi, Mohan and what they are lacking.
   (b) What quality is possessed by third worker?
   (c) Which worker is preferred by management? *(Answers at Page no. 56)*

1.2 CHARACTERISTICS OR FEATURES OF MANAGEMENT



1. **Management is Goal-oriented Process.** Management always aims at achieving the organisational objectives. The functions and activities of manager lead to the achievement of organisational objectives. Management unites the efforts of different individuals in the organisation towards achieving common goals.



2. **Management is Pervasive.** Managerial activities are performed in all types of organisations, in all departments and at all levels.
   Management is required in all organisation whether big or small, manufacturing or service organisation, profit or non-profit making organisation.
   Concept of management is used in whole world. What managers do in India, USA, Germany or Japan is same, how they do it may be quite different.
3. **Management is Multi-dimensional.** Management does not mean one single activity but it includes three main activities:
   (a) Management of work.

(b) Management of people.

(c) Management of operations.

(a) Management of work. All organisations are set up to perform some task or goal. Management activities aim at achieving goals or tasks to be accomplished. The task or work depends upon the nature of Business for example, work to be accomplished in a school is providing education, in hospital is to treat patient, in industry to manufacture some product. Management makes sure that work is accomplished effectively and efficiently.

(b) Management of people. People refer to human resources and human resources are the most important assets of an organisation. Management has to get task accomplished through people by making their strength effective and their weakness irrelevant.

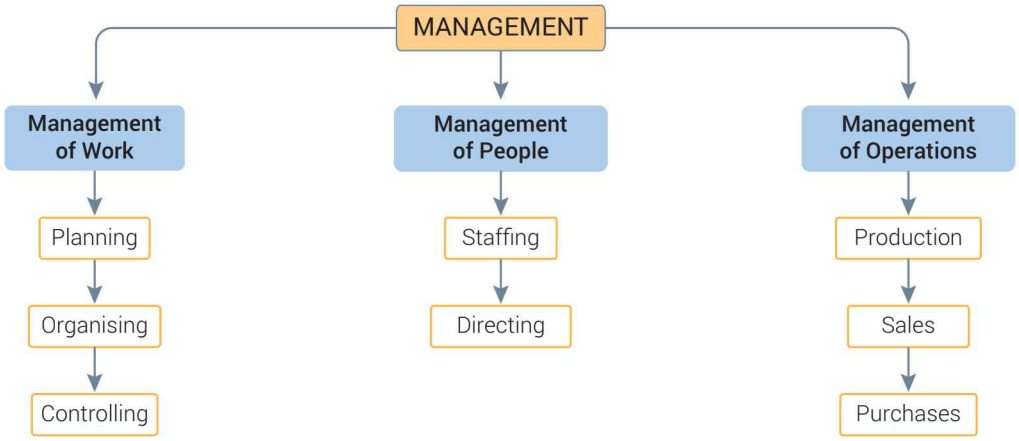
Managing people has two dimensions:

(i) Taking care of employee's individual needs.

(ii) Taking care of group of people.

(c) Management of operations. Operations refers to activities of production cycle such as buying inputs, converting them into semi-finished goods, finished goods.

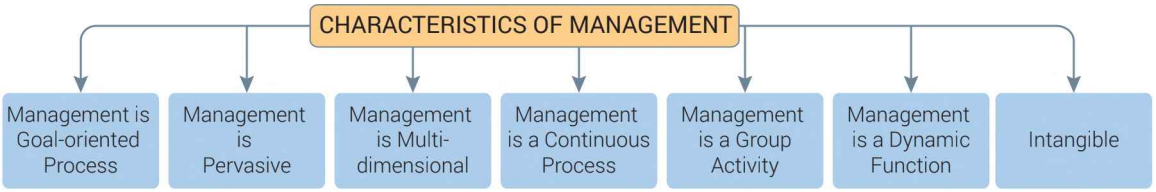
Management of operations concentrates on mixing management of work with management of people, *i.e.*, deciding what work has to be done, how it has to be done and who will do it.



4. **Management is a Continuous Process.** Management is a continuous or never ending function. All the functions of management are performed continuously, **for example**, planning, organising, staffing, directing and controlling are performed by all the managers all the time. Sometimes, they are doing planning, then staffing or organising, etc. Managers perform ongoing series of functions continuously in the organisation.

Management is a group activity:
Together everyone achieves more as a team.

5. **Management is a Group Activity.** Management always refers to a group of people involved in managerial activities. Each individual performs his/her role at his/her status and department, then only management function can be executed. Even the result of management affects every individual and every department of the organisation so it always refers to a group effort and not the individual effort of one person.
6. **Management is a Dynamic Function.** Management has to make changes in goal, objectives and other activities according to changes taking place in the environment. The external environment such as social, economical, technical and political environment has great influence over the management. As changes take place in these environments, same are implemented in organisation to survive in the competitive world.
7. **Intangible.** Management function cannot be physically seen but its presence can be felt. The presence of management can be felt by seeing the orderliness and coordination in the working environment.



Keywords

Features of Management

(i) Goal Oriented: Management focus on the end result.

(ii) Multidimensional: Management is multi facet, focus on three main activities—Management of work, People and Operations.

(iii) Pervasive: Use of management in business as well non-business organisation, everywhere, universal.

(iv) Continuous: Never ending, not one time task, ongoing process.

(v) Group Activity: All levels of management perform, involvement of all employees to manage and achieve the goal.

Use of we not I to represent management.

(vi) Dynamic: Any change in organisation, change in goal, change in technology, change in menu, etc.

(vii) Intangible: Situation showing systematic working, no chaos, i.e., presence of management can be felt not seen.

MCQs and Case Studies

1. **Human Resources are an organisation's greatest assets. Despite all developments in technology "getting work done from people" is still a major task of manager". Identify the dimension of management being described above.**

   (a) Management of work (b) Management of people

   (c) Management of operations (d) All of the above

2. **Management always work by keeping an end result or aim of the organisation. All activities of managers are directing towards the end result. It is related to which feature of management:**

   (a) Management is multidimensional (b) Management is continuous

   (c) Management is intangible (d) Management is a goal oriented process

3. Is planning, organising, staffing, directing and controlling applied in organisations such as school, club, restaurant, hospitals, etc.? If yes which characteristics of management does it signify? Explain that characteristic.

4. The task of management is to make people work towards achieving the organisational goals by making their strengths effective and their weakness irrelevant. Identify the dimension of management.

5. Dominos Pizza's keep introducing new variety of Pizzas in its menu. Which characteristics of management is highlighted in this? Explain any other two characteristics of management.

(Answers at Page no. 56)

1.3 OBJECTIVES OF MANAGEMENT

Meaning. *Objectives are the ends towards which the activities of an organisation are directed.*

The managerial objectives of an organisation can be classified into three major categories:

1. Organisational objectives
2. Social objectives
3. Personal objectives

1.3.1 Organisational Objectives

Meaning. ***These objectives aim at prosperity and growth of the organisation.*** Generally it is assumed that profit maximisation is the main objective of every organisation but it is not true. The managers try to develop and attain variety of objectives in all management areas.

The three important organisational objectives of a manager are:

1. **Survival.** The basic purpose of every organisation is to survive and exist in the competitive market for a long period of time and it is possible only when it is able to cover its cost.
2. **Profit.** The most important objective of every organisation is earning adequate amount of profit. Profit is essential for survival, growth and expansion of business. Profit is the reward given to businessman for bearing risk.
3. **Growth.** Business organisation must grow and expand their activities. The success of any organisation is measured by the growth rate and growth is measured in terms of sales, number of branches, number of products, number of employees, etc.

1.3.2 Social Objectives

Social objectives of the organisations deal with the commitment of the organisation towards the society. Business organisations are the part of society. They earn by using the resources of society so they must do something for society also.

The major social objectives of organisations are:

(a) Supply of quality products at reasonable prices.

(b) Contribution towards desirable civic activities.

(c) Generation of economic wealth.

(d) Generation of employment opportunities.

(e) Financial support to community.

(f) Organising educational, health and vocational training programmes.

(g) Participating actively in social service projects of Government and NGOs.

(h) Using environmental friendly methods of productions.

(i) Providing employment opportunities to weaker section of society.

1.3.3 Personal Objectives/Human Objectives/Individual Objectives

Individual objectives are related to the employees of the organisation. As employees are most important resources of every company and satisfied and motivated employees contribute maximum for the organisations.

The main individual objectives of management are:

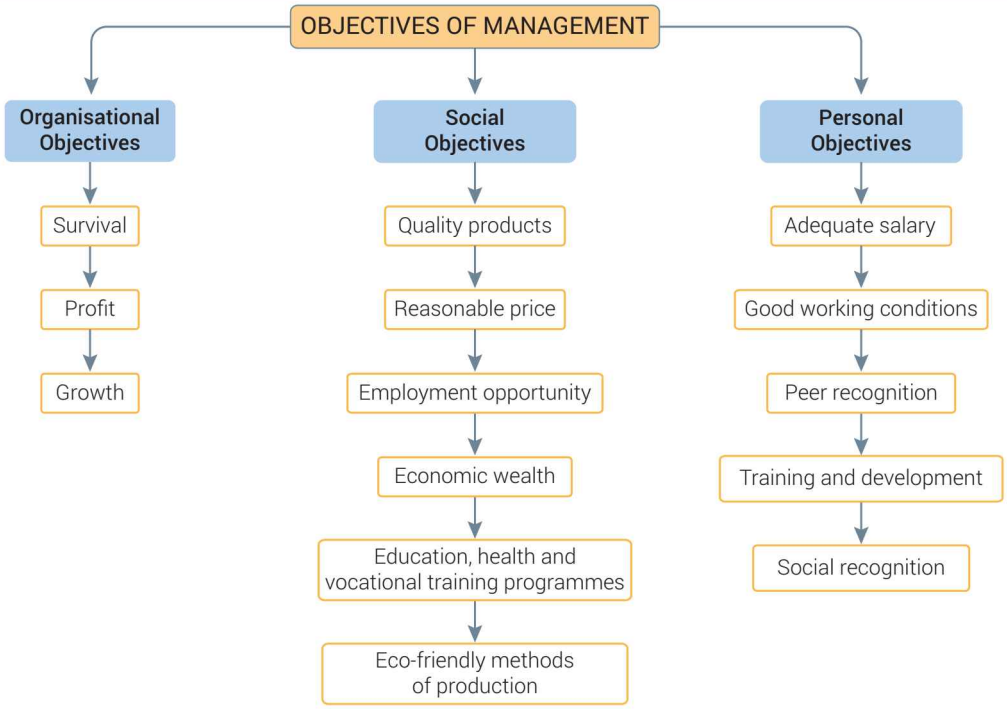
(a) Competitive salary to fulfill financial needs of employees.

(b) Promotion, training, personal growth and development of employees to fulfill esteem and other higher level needs of employees.

(c) Peer recognition, self respect, respect for colleague to fulfill social need.

(d) Good and healthy working conditions for safety of employees.

Workers may loose interest in work if their objectives are neglected. Management must try to integrate the personal objectives with the organisational objectives.



Keywords

- Objectives of Management
  - (i) Organisational objectives:

    Survival — Try to remain in market in cutthroat competition by covering cost.

    Profit — Earning rate

Growth — Opening new branch, adding more line of product, increasing scale of operations, all activities of expansion and diversification.

(ii) Social objectives: Any task or activity of organisation which brings benefit to society in general. e.g., Save environment, quality product, etc.

(iii) Personal objectives: Any task or activity of organisation for its employee's welfare. e.g., Training of employees, recreational activities for employees, opening creche and school for children of employees, etc.

MCQs and Case Studies

1. **Radhika is engaged in manufacturing earthen coolers by using environmental friendly methods of productions. Which management objective is discussed:**

   (a) social objective (b) organisational objective

   (c) personal objective (d) none of the above

2. **Ankita has started a new business of providing organic vegetables and fruits, although she is not having many competitors, but still she is trying to offer goods at minimum price so that she is able to survive in market and make sure people with limited income can also afford her vegetables and fruits.**

   State the two objectives she is trying to achieve:

   (a) organisational and personal (b) organisational and social

   (c) social and personal (d) all of the above

3. **XYZ Power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient day by day, so the company decided to increase production to generate higher sales. For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to provide training to their employees, for updating their knowledge.**

   Identify the objectives of management discussed above by quoting lines.

(*Answers at Page no. 56*)

1.4 IMPORTANCE OF MANAGEMENT

A business organisation attain top position only because of the quality of management. Successful organisation do not achieve their goals by chance but by following deliberate process called management. On the other hand, lack of proper management result in wastage of time money and efforts. Most of business fail due to poor management. Management is a life giving element in every business. Without it the resources of production, remain resources and shall never become production.

In the absence of management no organisation can run successfully. The major importance of management are:

1. **Management helps in achieving group goal.** Management tries to integrate the objectives of individuals along with organisational goal. Management directs the efforts of all the individuals in the common direction of achieving organisational goal.
2. **Management increases efficiency.** Managers try to reduce the cost and improve productivity with minimum wastage of resources. Management insists on efficiency and effectiveness in the work through planning, organising, staffing, directing and controlling.
3. **Management creates a dynamic organisation.** Organisations have to survive in dynamic environment so managers keep making changes in the organisation to match the environmental changes. The employees in the organisation are generally resistant to change. Efficient management motivates employees to adopt changes willingly by convincing them that change is not only beneficial for organisation but it improves the employee's work also in the competitive world.
4. **Management helps in achieving personal objectives.** An efficient manager is the one who brings maximum prosperity for employer as well as employees. Managers lead the people in such a manner that along with organisational goal, individual goal of employees is also achieved. As organisational goal and individual goal are in one direction only. Individual wants to earn more and organisation wants maximum production. Employees can earn more by producing more. This will fulfill the objectives of both the groups.

5. **Management helps in development of society.** Efficient management always has multiple objectives, they give due importance to social obligations, towards different groups of people such as employees, customers, suppliers, etc. It insists on providing quality goods, competitive salary, create employment opportunity, etc. By increasing production management also contributes to increase in GDP (gross domestic product) and leads to growth of nation.

Keywords

- Importance of Management
  - (i) Management helps in achieving group goal: Integrate employees objectives with organisation's objectives.
  - (ii) Management increases efficiency: Minimum cost, optimum utilisation of resources.
  - (iii) Management creates a dynamic organisation: Convincing employees to accept change updating and modifying objectives and other activities of organisation from time to time.
  - (iv) Management helps in achieving personal objectives: Giving due importance to goals of employees.
  - (v) Management helps in development of society: Contribution towards society.

MCQs and Case Studies

1. **On introduction of any changes in the organisations, all employees hesitate to accept changes, Managers convince the employees and guide them to adopt the changes willingly.**

   This is related to which importance of management:

   (a) management help in achieving group goal

   (b) management increases efficiency

   (c) management creates a dynamic organisation

   (d) management helps in achieving personal objectives

2. **ABC Ltd. is running a chain of fast food restaurants in India. The business was flourishing but over last two years they observed that the revenue and profit is declining. The management observed that with the entry of new fast food chains from across the world the people are shifting to these restaurants, so the management planned to add new variety of food items in their MENU, for that they sent their efficient employees abroad for training and imported machines to maintain the quality of food. The company make sure only fresh food is served to their customers, so at night they distribute left over food in nearby slum area. To increase profit margin, the supervisors take special care that there is minimum wastage and maximum utilisation of resources.**

   Identify the three points of importance from the above para by quoting lines.

(Answers at Page no. 57)

1.5 NATURE OF MANAGEMENT

Some authors regard management as science because there are well tested and experimented principles of management, some authors describe management as an art because more practice is required in management and some authors consider that management is going towards the paths of profession. To conclude whether management is science, art or profession, we must understand the features and meanings of science, art and profession and compare them with management meaning and features.

1.5.1 Management as a Science

Science can be defined as a systematic and organised body of knowledge based on logically observed findings, facts and events.

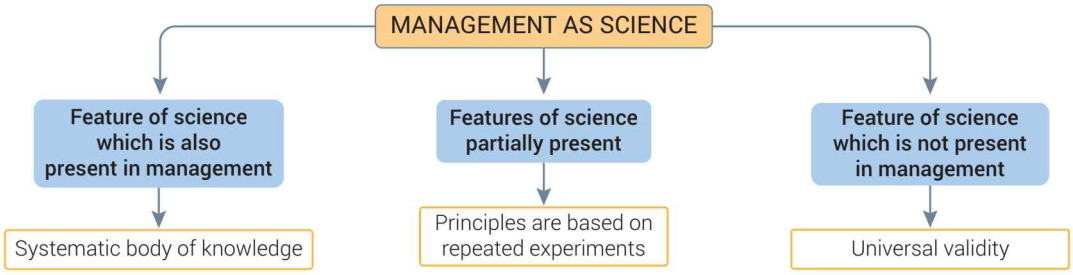
Science comprises of exact principles which can be verified and it can establish cause and effect relations.

Main characteristics/features of science are:

1. **Systematic body of knowledge.** In science organised and systematic study material is available which is used to acquire the knowledge of science. Like science in management also there is availability of systematic and organised study material. **So first feature of science is present in management.**
2. **Principles are based on experimentation.** Scientific principles are developed through observations and then tested through repeated experiments. The management principles are also developed through observation and experiments but since management deal with human being and human behaviour cannot be accurately predicted. **This feature of science is partially present.** So management can be called as inexact science.
3. **Universal validity.** Scientific principles have universal application and validity. Management principles are not exact like scientific principles so their application and use is not universal. They have to be modified according to the given situation. **So this feature of science is not present in management.**

CONCLUSION

On comparing the features of science with management we find that one features of science is present in management whereas two are not present. So management cannot be considered pure or exact science but we can call it as an **inexact science** or **social science.**



1.5.2 Management as an Art

Art can be defined as systematic body of knowledge which requires skill, creativity and practice to get perfection.

The main features of art are:

1. **Systematic body of knowledge/existence of theoretical knowledge.** In every art there is systematic and organised study material available to acquire theoretical knowledge of the art. For example, various books on different ragas are available in music.

In management also there is systematic and organised body of knowledge available which can help in acquiring managerial studies. **So this feature of art is present in management also**.

2. **Personalised application.** In the field of art only theoretical knowledge is not enough. Every artist must have personal skill and creativity to apply that knowledge. **For example**, all musicians learn same *ragas* but they apply these *ragas* according to their personal skill and creativity which makes them different. In management also all managers learn same management theories and principles. But their efficiency depends on how well they use these principles under different situations by applying personal skills and creativity **so this feature of art is also present in management.**

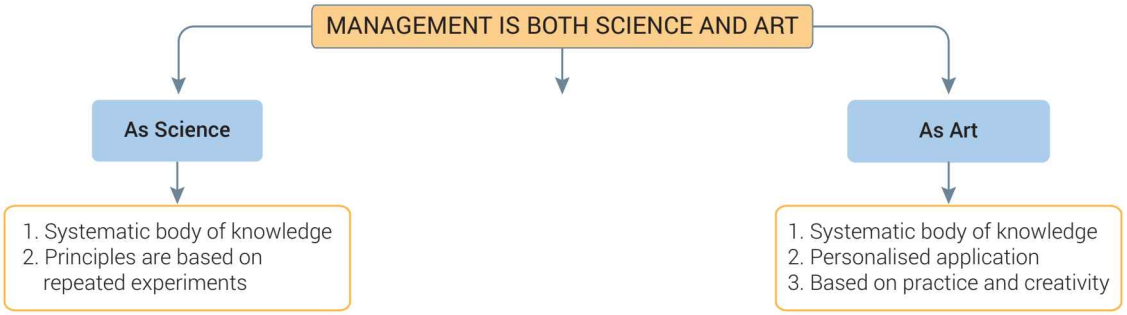
3. **Based on practice and creativity.** The artist requires regular practice of art to become more fine and perfect. Without practice artists lose their perfection. Art requires creative practice, *i.e.*, artist must add his creativity to the theoretical knowledge he has learned. Same way with experience managers also improve their managerial skills and efficiency. **So this feature of art is also present in management.**

CONCLUSION

On comparing the features of art with management we find all the features of art are present in management, so we can call **management as an art of getting the things done by others.**

1.5.3 Management: Both Science and Art

Management is both science as well as art. Like science it has systematic and well-organised body of knowledge and like art it requires personal skill, creativity and practice to apply such knowledge in the best possible way. Science and art are not in contrast to each other; both exist together in every function of management.



1.5.4 Management as a Profession

Profession can be defined as an occupation backed by specialised knowledge and training, in which entry is restricted.

The main features of profession are:

1. **Well-defined body of knowledge.** In every profession there is practice of systematic body of knowledge which helps the professionals to gain specialised knowledge of that profession. In case of management also there is availability of systematic body of knowledge. There are large number of books available on management studies. Scholars are studying various business situations and are trying to develop new principles to tackle these situations.

   So presently this feature of profession is present in management also.

2. **Restricted entry.** The entry to a profession is restricted through an examination or degree. **For example,** a person can practice as doctor only when he is having MBBS degree.

   Whereas there is no legal restriction on appointment of a manager, anyone can become a manager irrespective of the educational qualification. But now many companies prefer to appoint managers only with MBA degree.

   So presently this feature of profession is not present in management but very soon it will be included with statutory backing.

3. **Presence of professional associations.** For all the professions, special associations are established and every professional has to get himself registered with his association before practising that profession. **For example**, doctors have to get themselves registered with Medical Council of India, lawyers with Bar Council of India, etc.

   In case of management various management associations are set up at national and international levels which have some membership rules and set of ethical codes, **for example,** AIMA in New Delhi, National Institute of Personal Management at Kolkata, etc., but legally it is not compulsory for managers to become a part of these organisations by registration.

   So presently this feature of profession is not present in management but very soon it will be included and get statutory backing also.

4. **Existence of ethical codes.** For every profession there are set of ethical codes fixed by professional organisations and are binding on all the professionals of that profession. In case of management there is growing emphasis on ethical behaviour of managers. All India Management Association (AIMA) has devised a code of conduct for Indian managers. But legally it is not compulsory for all the managers to get registered with AIMA and abide by the ethical codes.

   So presently this feature of profession is not present in management but very soon it will be included with statutory backing.

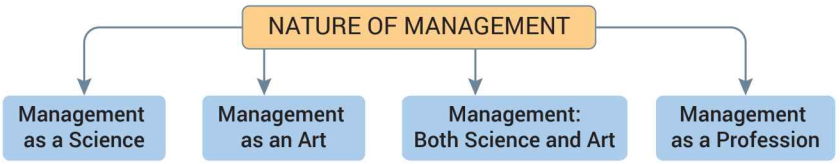
5. **Service motive.** The basic motive of every profession is to serve the clients with dedication. Whereas basic purpose of management is achievement of management goal, **for example**, for a business organisation the goal can be profit maximisation.

   But nowadays only profit maximisation cannot be the sole goal of an enterprise. To survive in market for a long period of time, a businessman must give due importance to social objectives along with economic objectives.

   So presently this feature of profession is not present but very soon it will be included.

CONCLUSION

On comparing the features of profession with management we can conclude that presently all the features of profession are not present in management but very soon, may be by next decade these will be included in management with statutory backing so we can say **management is on the path of becoming a profession.** Today it may not be recognised as a full-fledged profession like Doctor, Lawyer, etc., but very soon it will be recognised as a full-fledged profession.



Keywords

Nature of Management

(i) Management as Science: Use of logics, objectivity. Cause effect relationships indicate management as science.

(ii) Management as Art: Use of theoretical knowledge in personal way. Regular practice and creativity indicate art.

(iii) Management as Profession: Specialised knowledge, use of code of conduct, restricted entry and associations, indicate management as profession.

MCQs and Case Studies

1. **In order to become a lawyer one has to register himself as a member of Bar Council of India. Which feature of profession being revealed:**

   (a) Restricted Entry (b) Ethical code of conduct

   (c) Service Motive (d) Presence of professional associations

2. **State the common feature of Science, Art and Profession which is present in management also:**

   (a) Systematic body of knowledge (b) Based on practice and creativity

   (c) Use of Ethical codes (d) Universal validity

3. **Management has evolved like a discipline. There are number of books on management. Students are learning from these books various principles and theories of management. But all students of MBA do not become successful only by learning these principles. The success depend upon creative application of these principles. Today many companies have started giving importance to corporate social responsibility and Business Ethics.**

   In the above para one feature of Science, Art and Profession each are given. Identify each one of them by quoting lines. *(Answers at Page no. 57)*

1.6 LEVELS OF MANAGEMENT

As we have already learnt that management does not refer to a single individual but it refers to a group of persons. In companies large number of persons are employed and placed at different places to perform different managerial activities. To carry on these activities these employees are given necessary authority and responsibility. This grant of authority results in creation of chain of authority. This chain is divided into three levels which result in creation of three levels of management.

The main levels of management are:

1. Top level management.
2. Middle level management.
3. Supervisory level, operational or lower level management.

1.6.1 Top Level Management

They consist of the senior most executive of the organisation. Top level management consists of *Chairman, Board of Directors, Managing Director, General Manager, President, Vice President, Chief Executive Officer (C.E.O.), Chief Financial Officer (C.F.O.) and Chief Operating Officer*, etc. It includes group of crucial persons essential for leading and directing the efforts of other people. The managers working at this level have maximum authority.

Main functions of top level management are:

(a) *Determining the objectives of the enterprise.* The top level managers formulate the main objectives of the organisation. They form long term as well as short term objectives.

(b) *Framing of plans and policies.* The top level managers also frame the plans and policies to achieve the set objectives.

(c) *Organising activities to be performed by persons working at middle level.* The top level management assigns jobs to different individuals working at middle level.

(d) *Assembling all the resources such as finance, fixed assets, etc.* The top level management arranges all the finance required to carry on day to day activities. They buy fixed assets to carry on activities in the organisation.

(e) *Responsible for welfare and survival of the organisation.* Top level is responsible for the survival and growth of the organisation. They make plan to run the organisation smoothly and successfully.

(f) *Liaison with outside world, for example, meeting Government officials, etc.* The top level management remains in contact with government, competitors, suppliers, media, etc. Jobs of top level are complex and stressful demanding long hours of commitment towards organisation.

(g) *To integrate diverse elements and coordinate the activities* of different departments according to overall objectives.

(h) *Analyse business environment and its implications* for survival of the firm.

(i) They are responsible for all the activities of the business and for its impact on society.

The job of top level managers is complex and stressful. Demanding long hours and commitment to the organisation.

1.6.2 Middle Level Management

This level of management consists of *departmental heads such as purchase department head, sales department head, finance manager, marketing manager, plant superintendent, etc. People of this group are responsible for executing the plans and policies made by top level.* They act as a linking pin between top and lower level management. They also exercise the functions of top level for their department as they make plans and policies for their department, organise and collect the resources, etc.

Main functions of middle level management are:

(a) *Interpretation of policies framed by top management to lower level.* Middle level management act as linking pin between top level and lower level management. They only explain the main plans and policies framed by top level management to lower level.

(b) *Organising the activities of their department* for executing the plans and policies. Generally middle level managers are the head of some department. So they organise all the resources and activities of their department.

(c) *Finding out or recruiting/selecting and appointing the required employees* for their department. The middle level management selects and appoints employees of their department.

(d) *Motivating the persons to perform to their best ability.* The middle level managers offer various incentives to employees so that they get motivated and perform to their best ability.

(e) *Cooperate with other departments* for smooth functioning.

(f) Responsible for all the activities of first line managers.

1.6.3 Supervisory Level/Lower Level/Operational Level

This level consists of *supervisors, superintendent, foreman, sub-department executives; clerk, etc.* Managers of this group actually carry on the work or perform the activities according to the plans of top and middle level management. Their authority is limited. The quality and quantity of output depends upon the efficiency of this level of managers. They pass on the instruction to workers and report to the middle level management. They are also responsible for maintaining discipline among the workers.

Functions of lower level management are:

(a) *Representing the problems or grievances of workers* before the middle level management. The supervisory level managers are directly linked with subordinates so they are the right persons to understand the problems and grievances of subordinates. They pass these problems to middle level management.

(b) *Maintaining good working conditions and developing healthy relations between superior and subordinate.* The supervisory managers provide good working conditions and create supportive work environment which improve relations between supervisors and subordinates.

(c) *Looking to safety of workers.* Supervisory level managers provide safe and secure work environment for workers.

(d) *They try to maintain precise standard of quality* and ensure steady flow of output. The supervisory level managers make sure that quality standards are maintained by the workers.

(e) *They are responsible for boosting the morale of the workers* and developing the team spirit in them. They motivate 'the employees and boost their morale'.

(f) Minimising the wastage of materials and maintaining safety standards.

(g) Interact with the actual work force and pass on instruction of middle level management.

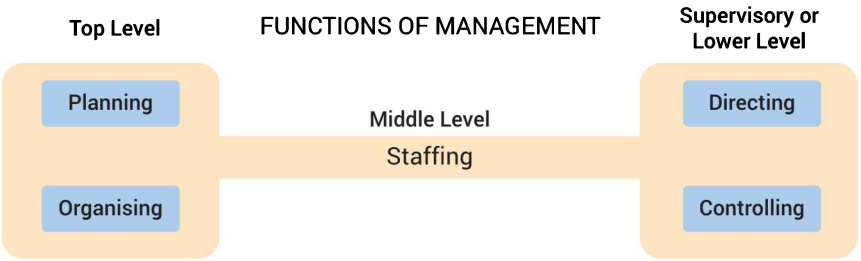
(h) Responsible for quality, quantity of output and loyalty of workers.

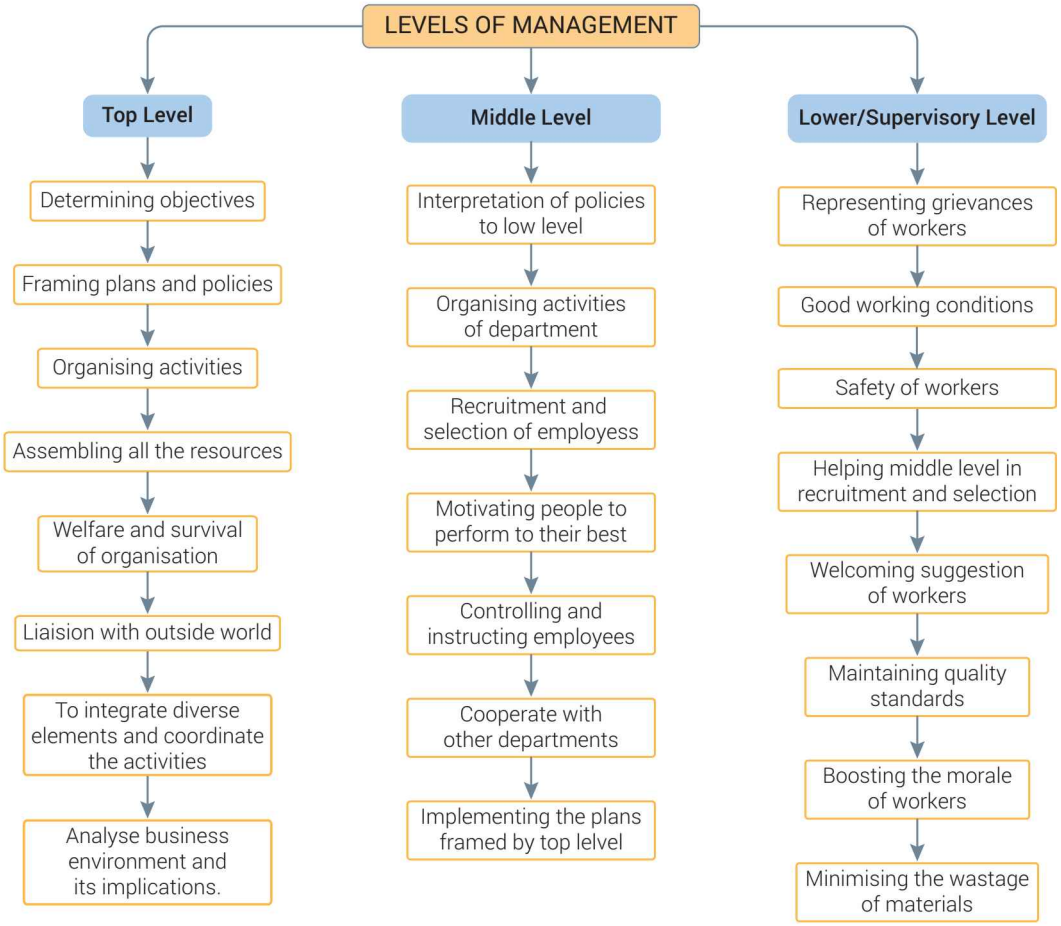
The quality and quantity of output depends upon the hardwork, discipline and loyalty or workers and workers are controlled and managed by supervisory level managers.

Focus of management function at different levels

Any person who performs managerial function, *i.e.*, planning, organising, staffing, directing and controlling, is considered as a manager. The focus of different levels is at different functions such as:

1. Top level concentrate on planning and organising.
2. Middle level keep their focus on staffing and coordination.
3. Lower level focus on directing and controlling as they give direction to workers.





Keywords

Levels of Management

(i) Top Level: Any designation which start from Chief, e.g., Chief Executive Officer, Chief Finance Officer, etc.

All the designations who control overall organisation and do not belong to one department only, e.g., President, Vice President, General Manager, Director, Chairman, etc.

(ii) Middle Level:

(a) Department head, unit head, division head, plant head, branch head, region head.

(b) All managers except General manager, e.g., Production manager, Sales manager, Purchase manager, etc.

(iii) Supervisory Level: All designations who control and supervise workers and labourers; who get the operations done, e.g., Supervisors, superintendent.

MCQs and Case Studies

1. As middle level of management make sure that department has the necessary personnels or employees, which level of management make sure right number of workers are there and they are having good working conditions:

(a) top level (b) middle level

(c) supervisory level (d) none of the above

2. If superintendent belongs to supervisory level then plant-superintendent will belong to:

(a) top level (b) middle level

(c) supervisory level (d) none of the above

3. Ashutosh Goenka was working in 'Axe Ltd', a company manufacturing air purifiers. He found that the profits had started declining from the last six months. Profit has an implication for the survival of the firm, so he analysed the business environment to find out the reasons for this decline.

(a) Identify the level of management at which Ashutosh Goenka was working.

(b) State three other functions being performed by Ashutosh Goenka. [*CBSE (D) 2017*]

4. 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. [*CBSE (AI) 2017*]

(*Answers at Page no. 57*)

1.7 FUNCTIONS OF MANAGEMENT

Regardless of size, nature and type of organisation, all the managers have to perform some basic functions which are:

1. **Planning.** Planning is always the first function performed by every manager. Planning refers to "*deciding in advance what to do, how to do, when to do, and who is going to do it. Planning bridges the gap between where we stand today and where we want to reach.*"

Every manager starts with deciding in advance the objectives of an enterprise and how to accomplish these objectives. Planning is the base of all other functions of management.

2. **Organising.** After setting up of plans next function of every manager is to organise the activities and establishing an organisation structure to execute the plan. Setting up organisational structure means deciding the framework of working how many units and sub-units or departments are needed, how many posts or designations are needed in each department, how to distribute the authority and responsibility among different people. Once these decisions are taken, an organisational structure gets set up.
3. **Staffing.** Staffing is the third step or function of a manager. It refers to recruiting, selecting, appointing the employees, assigning them duties, maintaining cordial relations and taking care of grievances of employees. It also includes training and developing the employees, deciding their remuneration, promotion, increments, etc., evaluating the performance, maintaining personal records of employees.
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 by motivating them, supervising the activities of employees, communicating with them. Managers act as leaders and guide them to right direction, so directing function includes, supervising, motivating, communicating and leadership.
5. **Controlling.** This is the last function of managers. In this function managers try to match the actual performance with the planned performance and if there is no match between both then managers try to find out the reasons of deviation and suggest corrective measures to come on the path of plan. Controlling functions refer to all the performance measurements and follow up actions that keep the actual performance on the path of plan.

Keywords

Functions of Management

(i) Planning

(a) Primary function (b) Base of all other functions

(c) First function of management (d) Involve decision making or choice

(ii) Organising

(a) Identifying the activities (b) Grouping the activities

(c) Establishing authority responsibility relations

(d) Creating various departments

(e) Assigning duties (f) Creating a structure

(g) Creating a framework for managerial and operational activities

(h) Design skeleton of organisation

(iii) Staffing: All activities related to employees of the organisation.
(a) Recruitment and selection
(b) Training and development of employees
(c) Estimating number and type of employees, an organisation will need in near future

(iv) Directing: Giving instruction orders to employees.
(a) Motivating employees
(b) Observing supervising and guiding employees
(c) Communicating with employees
(d) Heading employees towards the achievement of goal

(v) Controlling
(a) Ensure work accomplishment as per plan
(b) Comparison between plan and actual performance
(c) Any deviation from expectations or standard is due to lack of controlling
(d) Finding out deficiencies in implementation of plan

MCQs and Case Studies

1. It bridges the gap between where we are and where want to go
(a) Planning (b) Organising
(c) Staffing (d) Directing

2. It establish Reporting Relationship
(a) Planning (b) Organising
(c) Staffing (d) Directing

3. **The marketing manager of Alpha Ltd. fixed the target for all the sales executives and gave them all the possible authority to achieve it. They were asked to submit to him their performance report at the end of the month. All of them did the same. On the receipt of report the expected and actual results of sales executives were compared, on this basis future course of action was decided. The sales executives also wrote in their report the expectations of the customers from the company. The majority of them had written that they wanted the company to cooperate in the construction of Dharamshala, going on in the city. The marketing manager placed this demand before the Board of Directors. This was happily accepted.**

Identify the functions of management highlighted in above para by quoting relevant lines.

(Answers at Page no. 57-58)

1.8 COORDINATION

Apart from these five functions, there is one more important function which every manager has to perform. This is called **coordination.** It is not only a function but it is the essence of management.

The process by which manager synchronises the activities of different departments is known as coordination. Coordination is the force that binds all the other functions of management.

Coordination is the base or primary function of every manager because various departments of an organisation are working independently and there is need to relate and integrate their activities.

1.8.1 Coordination: The Essence of Management

Coordination brings unity of action and integrates different activities of organisation. Coordination is considered as the essence of management because of following reasons

1. Coordination is needed to perform all the functions of management:

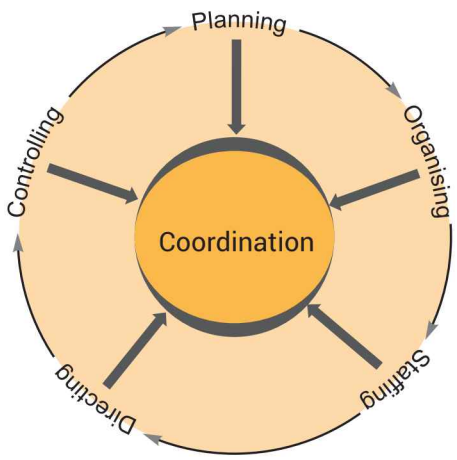
(i) The process of coordination begins at planning stage when top management plans for whole organisation.

(ii) Based on plans then organisational structure is developed.

(iii) Staff is recruited, selected and trained as per organisation structure and plan.

(iv) To ensure right execution of plan directions are given.

(v) Controlling ensure no discrepancy between plan and actual performance.



2. Coordination is required at all the levels:

(i) Top level requires coordination to integrate all the activities of organisation.

(ii) Coordination is required at middle level to balance the activities of different departments.

(iii) Lower level requires coordination to integrate the activities of workers.

3. Coordination is the most important function of an organisation. Any company which fails to coordinate its activities cannot survive and run successfully for a long period of time.

It is through the process of coordination that a manager ensures orderly arrangement of individual and group efforts in realisation of common objectives. Coordination involves synchronisation of different actions various units or departments.

Coordination make sure that planned objectives are achieved with minimum conflicts.

CONCLUSION

Coordination therefore involves synchronisation of different actions or efforts of the various units of an organisation. It ensures planned objectives are achieved with minimum cost. After analysing the above features we can say that coordination is not a simple function of management but it is the essence of management or in other words we can say that all the functions are flowers and coordination is a thread that ties these flowers to form the garland of organisation.

Poor report | Production | Sales | Store | Reception

In the absence of coordination there will be chaos and confusion in the organisation

1.8.2 Nature/Features of Coordination

1. **Coordination integrates group efforts.** The concept of coordination always applies to group efforts. There is no need for coordination when only single individual is working. The need for orderliness, integration arises only when more individuals are working as different individuals come from different backgrounds, have different styles of working so there is need to unify their efforts in common direction.

2. **Ensure unity of efforts.** Coordination always emphasises on unifying the efforts of different individuals because conflicting efforts may cause damage to organisation. The main aim of every manager is to coordinate the activities and functions of all individuals to common goal.

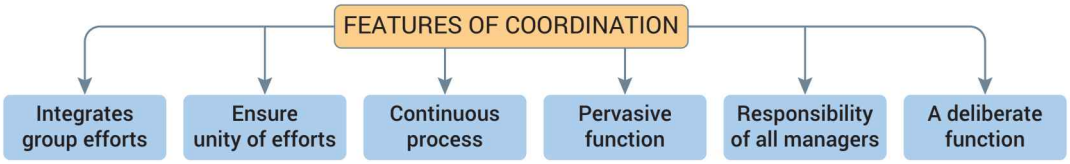
   Ensure unity of direction. **Coordination ensure all department work hand in hand and create balance in all the department. It acts as binding force in all department.**

3. **Continuous process.** Coordination is a non-ending function. It is a continuous function although its degree may vary. The managers work continuously to achieve coordination and maintain coordination because without coordination companies cannot function efficiently.

4. **Coordination is a pervasive function.** Coordination is a universal function, it is required at all the levels, in all the departments and to perform all the functions due to interdependence of various activities on each other. Business as well as nonbusiness organisation require coordination.

5. **Coordination is the responsibility of all managers.** Coordination is not the task of only top level managers but managers working at different levels try to coordinate the activities of organisation. The top level try to coordinate the overall plans and policies of organisation, middle level try to coordinate departmental activities and lower level coordinate the activities of workers.

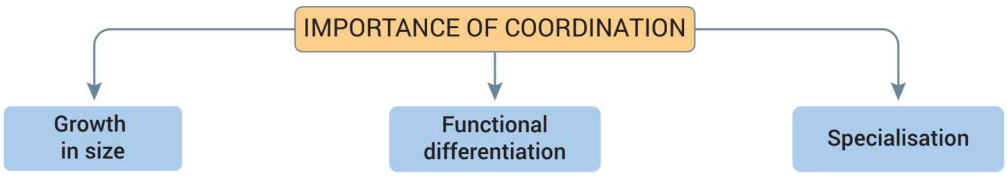
6. **Coordination is a deliberate function.** Every manager tries to coordinate the activities of organisation to avoid confusion and chaos. Without coordination efforts of individuals cannot be united and integrated; that is why while performing various activities in the organisation managers deliberately perform coordination function.



1.8.3 Importance of Coordination/Need of Coordination

Coordination is very important as it integrates the efforts of individuals, departments and specialists. Through coordination managers reconcile differences in approach, timings, efforts of interest. Coordination harmonise individual goals and organisational goals. The need and importance of coordination can be more clear by the following points:

1. **Growth in size.** The need of coordination increases with the increase in size of organisation because in large organisation there are more number of persons working, each individual has his own needs and objectives, so there is more need to bring together or synchronise the efforts of these employees towards common goal. Employees may have their individual objectives. For organisational efficiency it is important to harmonise individual goals and organisational goals through coordination.
2. **Functional differentiation.** The functions of an organisation are divided into different departments, sections or divisions and each department works in isolation by giving more importance to its objective. But in actual practice these departments are interlinked and interdependent. So there is more need to relate and bring together the activities of different sections as they are part of one organisation only. The coordination is needed to minimise the differences among departments.
3. **Specialisation.** In large and modem organisation there is high degree of specialisation and the specialists or experts feel that they are the only qualified people and they always take right decision in right direction. There are number of specialists working in the organisation. If all of them work in their own way it will result in chaos and confusion. So there is need to coordinate the activities of all the specialists in a common direction and get maximum benefit of these specialists.



Keywords

Coordination

(i) Synchronising, bringing together harmonising, unification, integration of all the activities and department.

Whenever any blame game or confusion or chaos between departments or employees occur it is due to absence of coordination.

MCQs and Case Studies

1. This concept ensure integration, timing, sequence of efforts, so that planned objectives are achieved with minimum conflicts. Identify that concept.

(a) Management (b) Planning

(c) Coordination (d) Cooperation

2. Which concept act as binding force of all the departments?

(a) Organising (b) Management

(c) Planning (d) Coordination

3. The management of Amaira Ltd. strongly believes that the members of the organisation should work towards fulfilled the common organisational goals. This requires team work and integration of efforts of all individuals departments and specialists. This is because all the individuals and departments depend on each other for information and resources to perform their respective activities. Manager needs to reconcile differences in approach, timing, efforts and interest. At the same time it should enable all its members to grow and develop. Thus, there is a need to harmonise individual goals and organisational goals.

(i) State the concept of management discussed above.

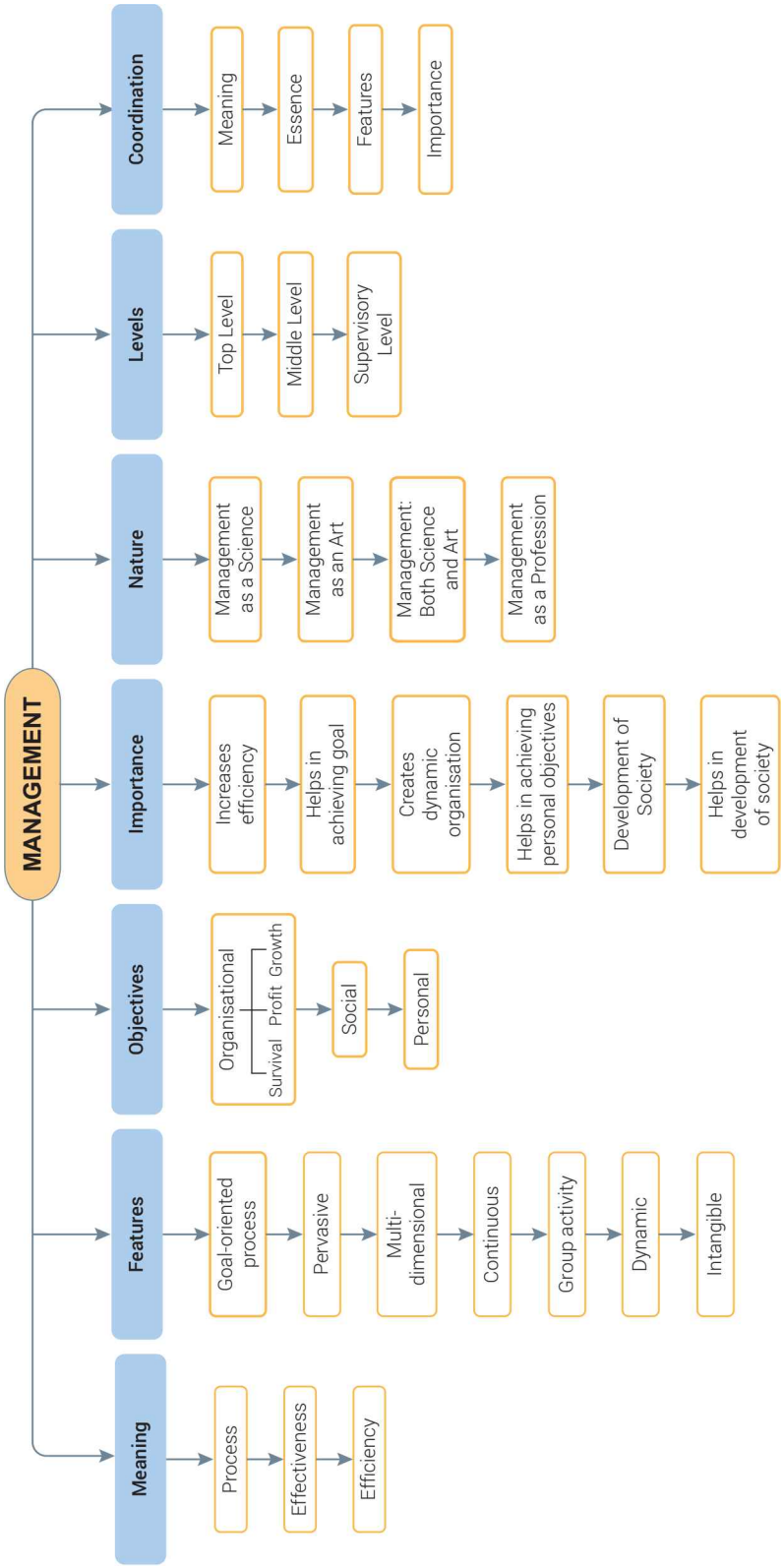
(ii) State any three features of the concept identified in above para.

(Answers at Page no. 58)

Quick Revision

- Concept. Management is a process of getting things done with the aim of achieving goals effectively and efficiently.
- Characteristics. The key features of management are:
  (i) Management is a goal oriented process (ii) Management is pervasive,
  (iii) Management is multidimensional (iv) Management is a continuous process
  (v) Management is a group activity, (vi) Management is a dynamic function
  (vii) Intangible.
- Objectives. There are three basic objectives of management: (i) Organisational, (ii) Social, (iii) Personal/Individual.
- Importance. Management is important because,
  (i) Management helps in achieving group goal
  (ii) Management improves efficiency
  (iii) Management creates a dynamic organisation
  (iv) Management helps in achieving personal objectives
  (v) Management helps in development of society
- Nature. Management is considered as an inexact science or social science and a perfect art as it requires personal skill, creativity and practice. Presently it does not satisfy all the features of profession but it is on the path of becoming a profession.
- Levels of management. There are three levels of management:
- Top level. Board of Directors, Chairman, etc. Responsible for determination of objectives and policies.
- Middle level. Purchase Manager, Sales Manager, etc. implementation of objectives, plans and policies.
- Lower level. Executing the work assigned by middle level. Supervisor, Superintendent, etc.
- Functions. Regardless of size and nature all the managers have to perform some basic functions which are: (a) Planning, (b) Organising, (c) Staffing, (d) Directing, (e) Controlling.
- Coordination. Coordination means integrating or bringing together different activities of an enterprise.
- Coordination: The essence of management
  (i) It is needed to perform all the functions of management
  (ii) It is required at all the levels
  (iii) It is the most important function of an organisation
- Nature/Features of coordination
  (i) Coordination integrates group efforts (ii) Ensure unity of efforts
  (iii) Continuous process (iv) Coordination is a pervasive function
  (v) Coordination is the responsibility of all managers
  (vi) Coordination is a deliberate function
- Importance of Coordination/Need of Coordination
  1. Growth in size 2. Functional differentiation
  3. Specialisation.

Nature and Significance of Management – A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. The process of creating an internal environment, where individual work effectively and efficiently for achievement of goal is known as
   (a) Coordination (b) Delegation
   (c) Management (d) Planning
2. When a worker achieves target production of 100 unit at a higher cost, he is
   (a) Efficient (b) Effective
   (c) Both Effective and Efficient (d) None of the above
3. Management is a process because
   (a) It involves series of steps (b) It leads to systematic working
   (c) It involves one single activity (d) None of the above
4. Management is always denoted by 'We' and not by 'I' because
   (a) It is a process (b) It is continuous
   (c) It is a group activity (d) It is intangible
5. Management works with the following objectives
   (a) Objective of profit maximisation (b) Objective of sales maximisation
   (c) Objective of becoming market leader (d) Multiple objective
6. A good manager focuses on
   (a) Prosperity of management
   (b) Prosperity of employees
   (c) Prosperity of both management and employees
   (d) None of the above
7. Managers apply management principles by using creativity. This is related to
   (a) Management as Science (b) Management as an Art
   (c) Management as both Science and Art (d) Management as a profession
8. Liaison with the outside world is the function of
   (a) Top Level (b) Supervisory Level
   (c) Middle Level (d) All of the above
9. Providing good working conditions and ensuring quality work is the function of
   (a) Top Level (b) Middle Level
   (c) Supervisory Level (d) All of the above
10. As Top Level is responsible for the welfare and operations of whole organisation, Middle Level is responsible for the welfare and operations of
   (a) Workers (b) Department
   (c) Both (a) and (b) (d) None of the above

11. Coordination is
    (a) A function of management (b) An essence of management
    (c) Part of Management (d) None of the above
12. Which function of management ensures work accomplishment as per plan?
    (a) Planning (b) Directing
    (c) Controlling (d) Organising
13. The process by which a manager integrates and synchronises the activities of different department is called
    (a) Management (b) Controlling
    (c) Planning (d) Coordination
14. Coordination is more important in an organisation
    (a) Performing or dealing with single function
    (b) Performing or dealing with multiple functions
    (c) Performing or dealing with manufacturing goods
    (d) All of the above
15. All the businessmen prefer their children to do MBA and then join business. This is related to
    (a) Management as Science (b) Management as an Art
    (c) Management as a profession (d) Management as both Science and Art
16. Ankita is engaged in manufacturing chocolates and biscuits by using environmental friendly methods of production. Which management objective is used here?
    (a) Individual objective (b) Organisational objective
    (c) Social objective (d) Economic objective
17. In order to enter into profession one has to acquire an educational degree by clearing specified examination conducted by registered institutes. Which feature of profession is being revealed?
    (a) Restricted entry (b) Ethical code of conduct
    (c) Professional association (d) Well defined body of knowledge
18. Which level of management is concerned to coordinate the activities of different departments according to overall objectives?
    (a) Top level (b) Supervisory level
    (c) Middle level (d) Operational level
19. "It involves leading, influencing and motivating the employees to perform the assigned task", highlight which function of management.
    (a) Staffing (b) Planning
    (c) Directing (d) Controlling
20. To exploit fully the growth potential of the organization management is talking about which objective?
    (a) Social objective (b) Personal objective
    (c) Organisational objective (d) Economic objective

(Answers at Page no. 58)

Fill in the Blanks

1. The management of an organisation does not achieve its objective by chance, but it is done by following a process called .
2. The function of management, which creates various departments is called .
3. The primary or first function of every manager is _____.
4. Division/Department head belongs to _____ Level of management.
5. Managers must update and modify its objectives from time to time is indicated in feature of management.
6. Management has objectives.
7. Completing the task with minimum cost and optimum utilisation of resources is called .
8. Completing the task on time or achievement of target is called .
9. Increase in number of branches, number of products indicate that management is achieving objective.
10. Coordination does not come by chance but is a process.

(Answers at Page no. 58)

True or False

1. Management is a single activity. (True/False)
2. Management is used only in Business Organisations. (True/False)
3. Management work with the single objective of Profit Maximisation. (True/False)
4. Management is a group activity. (True/False)
5. Coordination is a function of management. (True/False)
6. Coordination act as a binding force between various departments. (True/False)
7. Management principles have universal validity. (True/False)
8. Management is the activity of top level only. (True/False)
9. Management is intangible. (True/False)
10. Management is dynamic. (True/False)

(Answers at Page no. 58)

Remembering and Understanding-based Questions with Answers

Q. 1. What is meant by 'Effectiveness in Management'?

Ans. 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.

Q. 2. How does coordination ensure unity of action in Management?

Ans. Coordination acts as the binding force between departments and ensures that all actions are aimed at achieving the goals of the organisation.

Q. 3. State any one characteristic of co-ordination.

Ans. Coordination is pervasive.

Q. 4. How does management help in increasing efficiency?

Ans. A manager reduces cost and increases productivity through better planning, organizing, directing, staffing and controlling the activities of the organization.

Q. 5. In order to be successful, an organisation must change its goals according to the needs of the environment. Which characteristics of management are highlighted in this statement?

Ans. It is highlighting *"management is dynamic functioning"*.

Q. 6. To meet the objectives of the firm, management of Angora Ltd. offers employment to physically challenged persons identify the organisational objective it is trying to achieve.

Ans. It is trying to achieve 'social objectives'.

Q. 7. Name the level of management involved in:

(i) Overseeing the activities of workers.

(ii) Taking key decisions.

Ans. (i) Supervisory level, (ii) Top level.

Q. 8. Give any two functions of middle level.

Ans. (i) Interpretation of policies framed by top level management.

(ii) Recruitment, selection of employees.

Q. 9. Which function of management is known as essence of management?

Ans. 'Coordination' is considered as essence of management.

Q. 10. Management of any organisation strives to attain different objectives. Enumerate any two such objectives.

Ans. Any two objectives are:

(i) Organisational objectives, (ii) Social objectives.

Q. 11. Give any two characteristics of management.

Ans. (i) Management is multi-dimensional.

(ii) Management is a dynamic function.

Q. 12. Give any two important aspects of management.

Ans. (i) It helps in achieving group goals.

(ii) Management improves efficiency.

Q. 13. Name the level of management the following posts belong to:

(i) Purchase manager (ii) CEO

(iii) Superintendent.

Ans. (i) Middle level (ii) Top level

(iii) Supervisory level.

Q. 14. What do you mean by "*efficiency*"?

Ans. It refers to minimum wastage of resources or completing the task with minimum cost.

Q. 15. Which aspect of management binds all the functions of management?

Ans. Coordination.

Q. 16. Name the function of management which injects life in the organisation?

Ans. Staffing.

Q. 17. Name the function of management, which ensures work accomplishment as per plan?

Ans. Controlling.

Q. 18. Unique Ltd. is using eco-friendly method of production. Identify the objective it is trying to achieve.

Ans. Social objective.

Q. 19. Which function of management is considered as the base of all other functions?

Ans. Planning.

Q. 20. Which function of management ensures issuing of instructions and orders and also motivates the employees?

Ans. Directing functions.

Q. 21. Which function of management establishes authority/responsibility relationship.

Ans. Organising.

Q. 22. An organisation arranged Yoga Classes for its employees to improve their concentration level. State the objective of management it is trying to achieve.

Ans. Personal/Human or individual objective.

Q. 23. Explain the word management in brief.

Ans. The word management refers to forecast, to plan, to organise, to command, to coordinate and to control for achievement of organisational goal effectively and efficiently.

Q. 24. "*Management is intangible*." Comment.

Ans. Management cannot be seen physically, its presence can be felt through orderliness, enthusiastic employees and efficient work. The result of mismanagement can be felt more clearly and early as compared to management.

Q. 25. Management is continuous activity.

Ans. Management is a continuous or never ending function. All the functions of management are performed continuously, **for example,** planning, organising, staffing, directing and controlling are performed by all the managers all the time. Sometimes, they are doing planning, then staffing or organising, etc. Managers perform ongoing series of functions continuously in the organisation.

Q. 26. "*Management is considered as a full-fledged profession*." Do you agree with this statement? Give reasons to support your answer.

Ans. No. I do not agree with this statement because today management is not a full-fledged profession but it is on the path of becoming profession. Very soon it will be included in the list of profession. To prove this we can compare features of profession with the features of management:

(i) Well-defined body of knowledge
(ii) Restricted entry
(iii) Service motive
(iv) Existence of ethical codes
(v) Presence of professional associations.

Q. 27. Rahul is the manager of northern division of a large corporate house. At what level does he work in the organisation? What are her basic functions?

Ans. He works at "middle level."

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. If a manager is able to achieve the target of production of 5000 units but at a higher cost. Is he efficient or effective?

Ans. He is effective as he achieves the target on time but he is inefficient as he incurred higher cost.

Q. 2. Success of dubbawala (who carry tiffins to offices) of Mumbai is example of which aspect of management? Explain the importance of that aspect.

Ans. Coordination. For importance of coordination, refer page no. 36.

Q. 3. Ram argues that management is required in all kinds of organisations where as Mohan feels that management is not required in non-business organisations such as school, club, hospitals, etc. who is correct?

Ans. Ram, because management is pervasive.

Q. 4. *"An organisation is a collection of diverse individuals with different needs."* Which characteristics of management are highlighted in this statement?

Ans. Management is a group activity.

Q. 5. *"A business needs to add to its prospects in the long run."* Identify the organisational objectives highlighted in this statement. Explain other two objectives under this categories.

Ans. Growth. Other two objectives under this category are: (i) Survival (ii) Profit.

Q. 6. A manager applies the various theories of management in his unique personalised way. What aspect of nature of management does this statement indicate?

Ans. Management as an art.

Q. 7. Your father is working in an MNC as a chief operating officer. At what level of management is he working?

Ans. Top level management.

Q. 8. Mohan has retired from the post of a foreman in a factory. At what level of management is he working?

Ans. Supervisory or operational level.

Q. 9. Your father wants you to do M.B.A. before joining family business. What does this show about the nature of management?

Ans. Management is on the path of becoming a profession.

Q. 10. *"Assigning duties, grouping tasks establishing authority and allocating resources"* is one of the functions of management. Name that functions.

Ans. Organising.

Q. 11. Name the process of designing and maintaining an environment in which individuals work together in groups efficiently accomplishing selected aims?

Ans. Management.

Q. 12. Name the process by which a manager synchronises the activities of different departments?

Ans. Coordination.

Q. 13. *"Management is the life giving element in every business, without it the resources of production remain resources and shall never become production."* Comment.

Ans. Yes it is right to say that management is life giving element because of following importances: (For explanation of importance of management refer page nos. 20-21.)

Q. 14. Name the level of management engaged in:

(i) Selection of employees

(ii) Introducing new products

(iii) Design a suitable advertisement: campaign to sell a new product

(iv) Framing the capital structure of the company

(v) Preparing performance reports of employee

(vi) Hiring casual labourers.

Ans. (i) Middle level (ii) Top level

(iii) Middle level (iv) Top level

(v) Middle level (vi) Supervisory or lower level

Q. 15. Name the function of management:

(i) Finding out deficiencies in implementation of plans.

(ii) Establishing authority responsibility relationship between superior and subordinates.

(iii) Instructing and ordering employees.

(iv) Deciding policies, procedures, objectives of an organisation.

Ans. (i) Controlling (ii) Organising

(iii) Directing (iv) Planning

Q. 16. At what level of management, managers are responsible for the welfare and survival of the organisation?

Ans. At top level.

Q. 17. ABC Ltd. is facing a lot of problems these days. The company's profit margin is declining day by day. The production manager is blaming marketing management whereas marketing is blaming production department for not maintaining the quality. Finance department is blaming both. What quality of manager do you think is lacking? Explain it briefly.

Ans. The quality which is lacking in the above case is "coordination." The manager is able to execute all the functions but he is unable to coordinate these functions and coordination is not a mere function of manager but it is the essence of management.

Explain the topic: coordination an essence of management. (Refer page no. 34)

Q. 18. Hema is one of the most successful managers of her company, 'Kobe Ltd'. She uses her creativity and initiative in handling challenging situations at work. The knowledge gained by her during her student days at a renowned management institute as well as through her observation and experience over the years is applied by Hema in a skillful manner in the context of the realities of a given situation. She often reads books and other literature in various fields of management to keep her knowledge updated.

(i) An aspect of the nature of management is being highlighted in the above description. Identify the aspect.

(ii) Explain any three features of the aspect identified in part (i).

Ans. (i) Management as an art.

(ii) Features of management as an art (Refer page nos. 23-24)

Q. 19. The director of Unique India Ltd. called for meeting of all the employees, in the meeting directors informed the employees that the main objective of company is to increase the sale by 30%. Various plans were made to improve the potential and efficiency of employees as well as various operations. The sales manager suggested some changes in the product as per the latest demand in the market. As a result the company was able to achieve its target successfully at the end of the year.

State the characteristics of management highlighted above, also identify the lines indicating their characteristics.

Ans. (i) Goal-oriented

Line: "main objective of company is to increase the sale by 30%."

(ii) Multi-dimensional management of people and management of operation

Line: "Various plans were made to improve the potential and efficiency of employees as well as various operations."

(iii) Dynamic

Line: "Sales manager suggested some changes."

Q. 20. Unique India Ltd. decided to synchronize all the activities of organisation. While deciding what is to be done, when it is to be done, they tried to bring harmony between organisational goal and individual goal. While hiring employees HR department made sure people with right qualification only joined the organisation and they are paid as per their qualification. Further the directors made arrangement that at the end of every three months performance of the employees is compared with planned performance so that steps can be taken to check the deviation.

(i) Identify the three functions of management highlighted in above para.

(ii) Also identify the concept of management that gives importance in above para.

Ans. (i) (a) Planning (b) Staffing (c) Controlling

(ii) Coordination

Q. 21. Rohan, Sohan and Mohan are three friends they work in same company. One day they were having a conversation. When Rohan said I have purchased two new machines and it has become very difficult to motivate workers at shop floor to use these machines.

Sohan said I am facing problems in finding the exact number and types of employees for my department.

Mohan said I have to decide the long term plans of organisation and I am responsible for the overall welfare of the organisation.

(i) Identify different levels of management these friends belong to.

(ii) Explain any two functions of each level.

Ans. (i) Rohan: Supervisory level

Sohan: Middle level

Mohan: Top level

(ii) Functions of each level. (Refer to Page nos. 27-29).

Q. 22. The General manager—GM of 'Alpha Kidswear Limited', The GM has divided all the employees of his company into three levels (Top level, Middle level and Lower level). At the Top level the General Manager and Board of Directors themselves work. The middle level work is looked after by the four Departmental managers like the Production Manager, Purchase Manager, Sales Manager and Finance Manager.

The Lower Level is constituted of one supervisor of each of the four departments. These Supervisors look after the daily activities of their subordinates.

Often, it is observed that the managers of all Levels remain busy sometimes with the planning of their respective departments and sometimes with the comparison of the desired and actual results. Similarly, sometimes they are busy with the Recruitment, Selection and Training of the employees and sometimes with their motivation.

Mr. Sahil knows it very well that the job of management cannot be done by a single person alone, but when all join hands to work together the meaning of management is realised. This is

why he makes all his efforts to effect coordination in the activities of all his employees. All the employees are working with the team spirit.

In the above paragraph two special features of management have been described. Identify them by quoting the relevant lines and explain them.

Ans. (i) Continuous process

Relevant line— "often, it is observed ..... their motivation."

(ii) Group activities

Relevant line— "Job of management ..... work together."

Q. 23. Identify the nature of management When it is practiced as personalisd application of existing knowledge to achieve desired result.

Ans. Management as an Art.

Q. 24. In a manufacturing unit the purchase department purchased 50 tonnes of raw material for production department. Although only 40 tonnes was needed by the production department. Due to this goods were overproduced and not accepted by sales department. As a result some goods remained unsolved.

(i) Which aspect of management is lacking above.

(ii) Explain any two points of importance of that aspect.

Ans. (i) Coordination

(ii) Any two importance of coordination. (Refer Page no. 36)

Q. 25. Three groups of employees of Unique Enterprises are working at different levels. The first group is responsible for survival and growth of organisation with a view of coping with changes going on in the business environment. This group prefers to include the changes immediately in the plan.

The second group explains the policies of superiors with the employees and try to develop the feeling of cooperation among all the departments.

The third group is responsible for maintaining quality and safety standards and minimising wastages.

(i) Identify the levels of management described in above para.

(ii) State any two functions of each level.

Ans. (i) Top, middle and lower level

(ii) Functions of each level (Refer page nos. 27-29).

Q. 26. After every three months Mansi offers new scheme to its distributors and agents. She tries her best to bring changes keeping in mind the needs and wants of customers and incentives offered by competitors. This gives first mover advantage to Mansi and edge over the competitors.

(i) Identify the characteristic of management followed by Mansi.

(ii) Explain it briefly.

Ans. (i) Dynamic

(ii) Explanation on Page 16

Q. 27. Vivo Mobile aims to produce 20,000 mobiles in 2017. To achieve this target production department strives for timely production, finance department agreed for timely release of funds, purchase agreed for timely supply of raw materials and sales department agreed to take all possible steps to sell them. Due to combined efforts of all the departments, company can achieve its target.

(i) Which characteristic of management is highlighted in above para?

(ii) Which importance of management is highlighted here?

(iii) Which other aspect of management helps the Vivo Mobile Ltd. to achieve its objectives.

Ans. (i) Management is a group activity.

(ii) Management helps in achieving group goal.

(iii) Coordination.

Q. 28. Gemini Circus is organising shows internationally for the last thirty years. Their shows have been successful across the globe. Of late, their shows are not as popular as they were in past.

After analysing they are thinking of bringing necessary changes in their shows to gain popularity and get their past image of No. 1 back.

(i) Identify which two characteristics of management is reflected in above situation.

(ii) Which two functions of management are indicated here?

Ans. (i) (a) Dynamic (b) Goal-oriented.

(ii) (a) Planning (b) Controlling

Q. 29. 'Sonu Nigam' the famous playback singer always spends time for practice and adds his creativity in his singing.

Like Sonu Nigam, Rajiv, manager of Headlines Ltd. uses his creativity and practice management principles under different situations to manage the business. The employees are happy and satisfied as he every day reward employees for their punctuality and efficiency.

(a) Identify the nature of management highlighted above.

(b) Name other two aspects of nature of management.

Ans. (a) Nature of management highlighted above is "Management as an Art"

(b) The other two aspects of nature of management are:

(i) Management as Science.

(ii) Management as Profession.

Q. 30. Management of Alpha Ltd. has installed a special recycling plant to recycle the waste instead of dumping the waste in ground. It is also providing employment opportunities to local residents. Company started a school nearby for the children of their employees.

(i) Identify the objectives company is fulfilling.

(ii) Quote the lines from above para which indicate those objective.

Ans. (i) Social and personal objectives

"Installed a recycle plant": Social objective.

(ii) "Started a school for children of their employees": Personal objectives.

Q. 31. Directors of ABC Ltd. assigned the task of implementing the plans and policies framed by the board to all the departmental heads. Departmental heads appointed supervisors, superintendent, executives, etc. so that work can be assigned to workers as per the plan supervisors kept a check on workers as per the plan.

1. Identify the feature of management highlighted in above para.
2. Explain that feature.

Ans. 1. The feature highlighted in above para is "management is a group activity."

2. Refer to page no. 16.

Q. 32. A group of people believes that management is a systematic body of knowledge that explain certain general truth and is based on logical observation.

Identify and explain the nature of management discussed in above case.

Ans. Management as a Science.

Q. 33. In an organisation sales department wants to increase the sale by 20% so sales department planned to offer extra discounts to customers. Finance department raised objection on it as they say it will result in loss of revenue and company may face liquidity problem.

1. Name the importance of coordination referred here.
2. State other two importance of coordination.

Ans.
1. "Functional differentiation"
2. Other two importance:
   (a) Size (b) Specialisation.

Q. 34. An educational institution, the business organisation, hospitals, clubs, etc. all needed to be managed,

Which characteristic of management is highlighted here?

Ans. Management is universal or pervasive.

Q. 35. The manager of Alpha Ltd. is very efficient and effective and makes sure all the employees and workers in his team perform the task on time with minimum cost. His main focus is on cost cutting so he never listens to the demand of workers for increasing wages. He even gives no opportunity to worker for promotion. As a result workers started becoming frustrated and disheartened all the time.

(a) Which objective of management could not be achieved by the manager.

(b) State other two objectives of management.

Ans. (a) Personal/Human or individual objective.

(b) (i) Economic (ii) Social

Guidelines to NCERT Questions

Multiple Choice Questions

1. Which is not a function of management of the following?

(a) planning (b) staffing

(c) cooperating (d) controlling

2. Management is

(a) an art (b) a science

(c) both art and science (d) neither

3. The following is not an objective of management

(a) earning profits (b) growth of the organisation

(c) providing employment (d) policy making

4. Policy formulation is the function of

(a) top level managers (b) middle level managers

(c) operational management (d) all of the above

5. Coordination is
   (a) function of management
   (c) an objectives of management (d) none of the above

Short Answer Type Questions

1. Define management. [Refer on Page No. 12]
2. Name any two important characteristics of management. [Refer on Page No. 14-16]
3. Ritu is the manager of the northern division of a larger corporate house. At what level does she work in the organisation? What are her basic function?
   [**Hint:** She is working at middle level and her functions are: [Refer on Page No. 28]
4. Why is management considered a multi-faceted concept? [Refer on Page No. 14-15]
5. Discuss the basic features of management as a profession. [Refer on Page No. 24-25]

Long Answer Type Questions

1. 'Management is considered to be both an art and science.' Explain. [Refer on Page No. 24]
2. Do you think management has the characteristics of a full-fledged profession?
   [Refer on Page No. 25]
3. Coordination is the essence of management. Do you agree? Give reasons.
   [**Hint:** Yes] [Refer on Page No. 34]
4. 'A successful enterprise has to achieve its goals effectively and efficiently.' Explain.
   [Refer on Page No. 12]
5. 'Management is a series of continuous interrelated functions.' Comment.
   [Refer on Page No. 15]

Case Problems (NCERT)

1. **Company X is facing a lot of problems these days. It manufactures white goods like washing machines, microwave ovens, refrigerators and air conditioners. The company's margins are under pressure and the profits and market share are declining. The production department blames marketing for not meeting sales targets and marketing blames production department for producing goods, which are not of good quality meeting customers expectations. The finance department blames both production and marketing for declining return on investment and bad marketing.**

   What quality of management do you think the company is lacking? Explain briefly. What steps should the company management take to bring the company back on track?

Ans. Coordination is missing. Steps company should take to bring the company back on track:
   (a) Integrate the efforts of individuals and departments.
   (b) Reconcile differences in approach of different individuals.
   (c) Create balance between all the departments as they are inter-dependent.
   (d) Harmonise individual goal with organisational goal.

2. A company wants to modernise its product. What functions or decisions should be taken by each level to carry on this task?

Ans. Modernisation of product is the need of today's dynamic business environment.

To modernise the product each level must divide their work.

Top level management:

(i) They must plan the technique of modernisation.

(ii) They must organise and assemble necessary resources.

(iii) They must coordinate the efforts of all the departments towards modernisation.

Middle level management:

(i) They must implement the plans made by top level in their respective departments.

(ii) They must interpret the plans to their subordinates.

(iii) They must recruit and select necessary employees to carry on the task.

(iv) They must motivate the personnel to work towards accomplishment of task.

Lower/Supervisory level:

(i) They must assign the task to work force.

(ii) They must supervise that the task is carried on in the right direction.

(iii) They must maintain the quality of work and reduce the wastage.

(iv) They must make efforts to improve the loyalty of workers.

3. A firm plans in advance and has a sound organisation structure with efficient supervisory staff and control system. On several occasion it finds that plans are not being adhered to. It leads to confusion and duplication of work. Advise remedy.

Ans. In this case plans are not implemented properly. As the question says it has effective supervisory and control system is no problem at supervisory level and top level.

Problem is seen in middle level.

Explain functions of middle level.

TEST YOURSELF

Short Answer Questions

1. Describe management as a process.
2. Define the term management.
3. Why management is considered pervasive?
4. Define the term coordination.
5. Discuss the need of coordination in management.
6. Why is management not considered as a full-fledged profession like medical and legal profession? Explain.
7. Name the levels of management engaged in:

   (a) Overseeing the activities of the workers.

   (b) Taking key decisions.

   (c) Liaison with outside world.

   (d) Selection of employees.

8. Who are considered as operating managers in an organisation?
9. State any three functions of top level management.
10. Explain briefly management as an art.
11. Briefly explain planning and organising functions of management.
12. How is management a social science?
13. Comment on "Management as a Profession—A trend."
14. Explain the nature of management.
15. Explain the significance of management in running of a modern organisation.
16. Why is management considered as a multi-faceted function?
17. A successful enterprise has to achieve its goals effectively and efficiently. Explain.

Long Answer Questions

1. Management is both a science and an art. In the light of this statement explain the nature of management.
2. Lack of proper management results in wastage of time, money and effort. Explain the importance of management in the light of this statement.
3. Management is critical ingredient of a nation's growth. Comment.
4. Coordination is needed at all the levels of management. Explain this statement.
5. "Coordination is regarded as an essence of management rather than a separate function of manager." Do you agree with this statement? Give reasons.
6. Your father has retired as the purchase manager of a company. At what level of management was he working? What functions do you think he was performing at that level of management?
7. "Management is both science as well as an art." Explain this statement.
8. Describe briefly multi-dimension functions of management.
9. 'Management is a series of continuous interrelated functions.' Comment.
10. In the absence of management all the resources of an organisation remain as resources only and never become production. Explain the importance of management in the light of this statement.

Previous Years' Examination Questions (2014-2019)

One Mark Questions

1. What is meant by 'efficiency' in management? *[CBSE (D) 2015]*
2. What is meant by 'co-ordination' in management?
3. What is meant by 'effectiveness' in management?
4. 'Is Management concerned only with doing the right task, completing activities and achieving goals without taking into consideration the cost benefit?' Give reason in support of your answer. *[CBSE (AI) 2016, (F) 2016]*
5. Give the meaning of 'organising as a process'. *[CBSE (AI) 2016]*
6. How does management help in achieving personal objectives? State. *[CBSE (D) 2015]*

7. 'Management is the process of getting things done.' State the meaning of the term 'process' used in this statement. [CBSE (D) 2016]
8. Explain, how management helps in the development of society. [CBSE (AI) 2015]
9. Das is the Managing Director of 'Gamut Ltd.', manufacturing different varieties of cheese. He has an efficient team working under him consisting of Rajat the Production manager, Vinay – the Marketing manager and Adit – the Finance manager. They understand and interpret the policies made by Das, ensure that their departments have adequate manpower, assign them the necessary duties and motivate them to achieve the desired objectives. State one more function other than those mentioned above, that this team may perform at the level they are working. [CBSE 2019 (66/2/1)]
10. Define 'Efficiency'. [CBSE 2019 (66/3/1)]
11. State any two functions to be performed at supervisory level of management. [CBSE 2019 (66/3/1)]
12. Explain any five points which highlight the importance of management. [CBSE 2019 (66/3/1)]
13. Explain any five features of 'Co-ordination'. [CBSE 2019 (66/3/1)]
14. Various input resources are required by management to complete a task effectively and efficiently. Name any two. [CBSE 2019 (66/5/1)]

Three Marks Questions

15. State any four functions of operational management. [CBSE Sample Paper 2016]
16. Mita has a successful ice cream business at Bikaner, namely 'Smartflavours'. Her ice creams are utterly delicious. She makes ice creams from fresh milk and the same are available in a wide range of flavours and packs. She sets viable business objectives and works with the same in mind in order to ensure that the customers will come back for purchasing.

    Having the first mover advantage, her business was doing well. To earn higher profits, she started cutting down costs. This would sometimes lead to delay in delivery and the ice cream was not reaching the market in time. Over a period of time, the demand for her ice cream declined and because of it the competitors entered the market. She lost some of her market share to competitors.

    At the beginning of summer season, she got back to back orders for supply of 4,000 ice cream packs of different flavours for special occasions. To ensure that the task was completed and orders delivered in time she hired additional workers. She was, thus able to produce and deliver the ice cream packs but at a high production cost.

    While completing activities and finishing the given task for achieving goals, Mita realised that she was ignoring one of the important aspects of management.

    Identify the aspects of management that has been ignored by Mita. Also explain the same with the help of an example. [CBSE 2019 (66/1/1)]
17. Science is a systematized body of knowledge that explains certain general truths or the operation of general laws.' In the light of this statement, describe management as a science. [CBSE 2019 (66/1/1)]
18. Management is a complex activity that has three main dimensions. Explain these dimensions. [CBSE 2019 (66/1/1)

Four Marks Questions

19. What is meant by 'Management'? State any three objectives of management. *[CBSE (AI) 2015]*

20. Explain any four points of importance of management. *[CBSE (D) 2016]*

21. Explain any four features of management. *[CBSE (F) 2016]*

22. Chandrika Bhattacharya is working in Olax Ltd., a company manufacturing room heaters. She is responsible for all the activities of the business and for its impact on the society. Her job demands long hours and commitment to the organisation.

(a) Identify the level at which Chandrika Bhattacharya is working.

(b) State three more functions required to be performed by Chandrika Bhattacharya at this level. *[CBSE (F) 2017]*

23. What is meant by 'Management'? Explain its any three features that establish it as an Art. *[CBSE (AI) 2017]*

Five/Six Marks Questions

24. Mega Ltd. was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was just sufficient to meet its costs. To increase the revenue, the company analysed the reasons of less revenues. After analysis the company decided:

(i) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.

(ii) to start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly. This will not only help in covering the risks, but also help in meeting other objectives too.

Identify and explain the objectives of management discussed above. *[CBSE 2014]*

25. Describe any four characteristics of 'co-ordination'. *[CBSE (AI) 2016, 2019 (66/5/1)]*

26. What is meant by co-ordination? State its any four features. *[CBSE 2018 (66/1-2-3)]*

27. Explain any five characteristics of 'Co-ordination'. *[CBSE 2019 (66/2/1), (66/4/1)]*

28. Explain any five characteristics of 'Management'. *[CBSE 2019 (66/2/1)]*

29. Explain any five points of importance of management. *[CBSE 2019 (66/4/1)]*

Hints of the Answers for Case Studies

9. The team is working at middle level and the function the team may perform other than those mentioned is—Co-operate with other departments for smooth functioning of the organisation.

16. Efficiency: Efficiency means doing the task correctly and with minimum cost.

Example: Say, a company's target production is 5,000 units in a year. The manager wants to achieve the production target by cutting down costs. He was able to cut down costs but could not achieve the target production. In this case, the manager was efficient but not effective.

22. Top Level.

Functions of the top level of management: (Any three)

1. To co-ordinate the activities of different departments.
2. To be responsible for welfare and survival of the organisation.

3. To formulate overall organisational goals and strategies for their achievement.
4. To be responsible for all the activities of the business and for its impact on the society.

24. The objectives discussed in above para are
(i) Organisational objectives
(ii) Social objectives. (Refer on page no. 18)

ANSWERS OF MCQs AND CASE STUDIES

Page 13–14

1. (b) Efficiency ad Effectiveness

2. (d) Management

3. (i) Effective but not efficient.
(ii) Difference on Page 12.

4. (a) Mohan is effective but he lacks efficiency.
Ravi is efficient but he lacks effectiveness.
(b) Third worker is effective as well as efficient.
(c) Management prefer third worker as management always insist on achievement of goal effectively as well as efficiently.

Page 17

1. (b) 'Management of people'

2. (d) Management is a goal oriented process

3. Yes, the characteristics which signify this is "management is pervasive". *Explanation on page no. 14*.

4. Management of people.

5. Management is dynamic. (For other characteristics refer page nos. 14, 15.)

Page 20

1. (a) Social objective

2. (b) Organisational and social

3. 1. Ogranisational objectives
Relevant lines "The revenue earned ..... generate higher sales".
2. Social objectives
Relevant lines "decided to employ ..... that area".
3. Personal objectives
Relevant lines "to private training ..... their knowledge."

Page 22

1. (c) Management creates a dynamic organisation
2. The importance highlighted in above para are:
   1. Management creates a dynamic organisation.

      Line: "Managers planned to add new variety of food items in their MENU".
   2. Management help in achieving personal objectives.

      Line: "Management sent their efficient employees abroad for training".
   3. Management increases efficiency.

      Line: "Supervisors take special care that there is minimum wastage and maximum utilisation of resources".

Page 26

1. (d) Presence of professional associations
2. (a) Systematic body of knowledge
3. (i) Management as Science: systematic body of knowledge

   Line: "There are number of books."

   (ii) Management as an Art: Based on Practice and Creativity

   Line: "Success depend upon creative application."

   (iii) Service motive

   Line: "Companies have started giving importance to corporate social responsibility."

Page 31

1. (c) Supervisory level
2. (b) Middle level
3. Top level

   Functions of the top level of management: (Page nos. 27, 28)
4. Middle level

   Functions required to be performed by Rishitosh Mukerjee: (Page no. 28)

Page 33

1. (a) Planning
2. (b) Organising
3. (i) Organising

   ''fixed target and gave them all authority''.

(ii) Controlling

"expected and actual results of sales executives were compared".

(iii) Planning

"future course of action was decided".

Page 37

1. (c) Coordination
2. (d) Coordination
3. (i) Coordination.

   (ii) Give features of coordination: [Refer to page no. 35.]

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (c)	2. (b)	3. (a)	4. (c)	5. (d)
6. (c)	7. (b)	8. (a)	9. (c)	10. (b)
11. (b)	12. (c)	13. (d)	14. (b)	15. (c)
16. (c)	17. (a)	18. (a)	19. (c)	20. (c)

Fill in the Blanks

1. Management	2. Organising	3. Planning	4. Middle
5. Dynamic	6. Multiple	7. Efficiency	8. Effectiveness
9. Organisational	10. Deliberate		

True or False

1. (F) – Management is a process.
2. (F) – It is pervasive.
3. (F) – It has multiple objectives.
4. (T)
5. (F) – It is the essence of management.
6. (T)
7. (F)
8. (F)
9. (T)
10. (T)

2 PRINCIPLES OF MANAGEMENT

Contents as per Latest CBSE Syllabus

- Principles of Management—Concept and Significance
- Fayol's Principles of Management
- Taylor's Scientific Management—Principles and Techniques

2.1 MEANING OF PRINCIPLES OF MANAGEMENT

A principle refers to a statement which reflects the fundamental truth about some phenomenon based on cause and effect relationship.

Management principles are broad and general guidelines for decision making and behaviour of managers.

Management Principles vs. Pure Science Principles

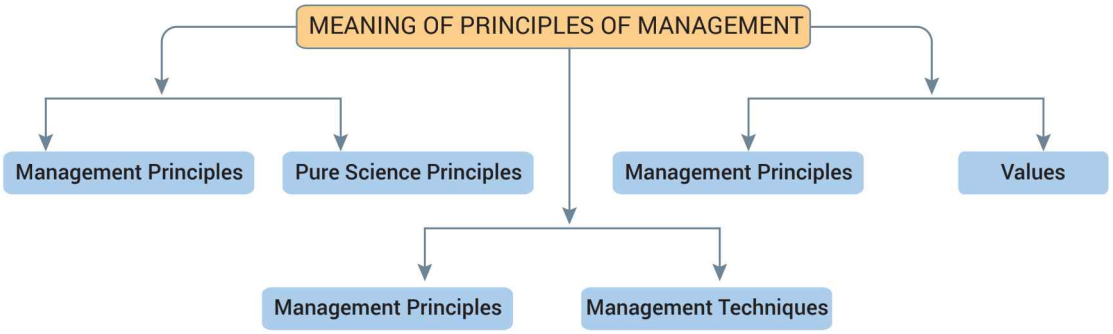
Management Principles	Pure Science Principles
1. Very Flexible	1. Rigid
2. Management Principles are applied with creativity	2. Scientific Principles are applied in absolute or static manner.
3. Management Principles have to keep pace with changes in environment	3. Scientific Principles do not change with time

Management Principles vs. Management Techniques

Management Principles	Management Techniques
1. Management Principles are guidelines for action.	1. Management techniques are methods and procedures. Which involve series of steps to be performed to accomplish goal.
2. Management Principles are more flexible.	2. Management techniques are less flexible.

Management Principles vs. Values

Management Principles	Values
1. Management Principles are guidelines for managerial action	1. Values are guidelines for human behaviour.
2. Management Principles are technical in nature	2. Values are ethical in nature.



Keywords

Principles of Management

(a) Guidelines for managerial actions

(b) Formed by observation and experiments

2.2 NATURE/FEATURES/CHARACTERISTICS OF MANAGEMENT PRINCIPLES

The principles of management have been developed on the basis of live experiences of happenings of the past.

The main features of management principles are given below:

1. **Universal application (Pervasive).** The principles of management are universal in nature that means they can be applied to all types of organisations irrespective of their size and nature.

   Business as well as nonbusiness small as well as large public sector as well as private sector.

   For example, principle of division of work is applied in government offices, private companies, hospitals, schools, clubs everywhere. Only the degree of spcialisation vary from organisation to organisation.

2. **General guidelines.** Management principles are guidelines to actions but these principles do not provide readymade solution for any problem.

   For example, the principle of stability of tenure consist on giving a stable time period to employees to settle down but how much time period to be given 6 months, 1 year, etc. vary from company to company.

3. **Formed by practice and experiments.** The management principles are developed only after deep and thorough research work. They are not developed overnight. Proper observations and experiments are conducted before developing them. Therefore they are evolutionary in nature.

   For example, Principle of Division is not developed overnight but principle was developed when, it was observed that dividing the work result in improved performance and then this was tried and tested in different organisation and when majority organisation got result of specialisation then this principle was made.

4. **Flexible.** Management principles can be applied differently under different conditions. Some changes can be made in application of principles according to the requirement of the company. These are not set of rigid statements. These can be modified by the managers who are using them.

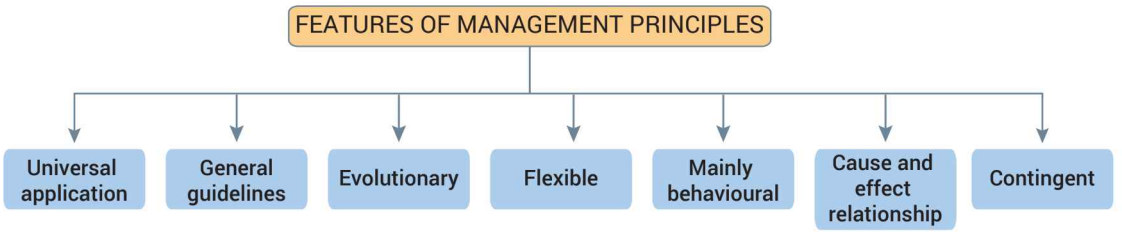
5. **Mainly Behavioural.** Management principles are formed to guide and influence the behaviour of employees. These principles insist on improving relationship between superior, subordinates and all the members of organisation. They also establish relations between human and material resources.

   For example, principle of discipline improves commitment of employees towards the organisation and principle of Esprit de corps mould the behaviour of employees towards team spirit.

6. **Cause and effect relationship.** Management principles are based on cause and effect that means these principles tell us if a particular principle is applied in a situation, what might be the effect. Although these principles cannot state perfectly absolute result because these are applied on human being but it helps in knowing some idea about the effect.

7. **Contingent.** Management principles are contingent or dependent upon the situations prevailing in organisation. Their application and effect depend upon the nature of organisation. The application of principle has to be changed with change in situation.

   For example, principle of team spirit is very important for an organisation where work is carried out by a group of people whereas it is of no use in the companies where work is performed by individual and not by a group.



Keywords

Characteristics of Principles

(i) Universal Applicable: Pervasive applied in business/non-business small/large, i.e., all organisations.

(ii) General Guidelines: Do not offer readymade solution.

(iii) Evolutionary: Not developed overnight evolved in deep observation and repeated experiments.

(iv) Flexibility: It can be changed and modified.

(v) Behavioural in Nature: Mould behaviour of employees. Principles are applied on employees to motivate them to work towards achievement of group goal.

(vi) Cause effect relation: Effect or result of every principle is anticipated before application.

(vii) Contingent: Application of principle varies from situation to situation.

MCQs and Case Studies

1. Management Principles provides

(a) Readymade solutions to Managerial Problems

(b) Guidelines for managerial action

(c) Both (a) and (b)

(d) None of the above

2. The effect of managerial principles vary from situation to situation. It is related to which characteristic of management principle

(a) Flexible (b) Cause and effect Relationship

(c) Contingent (d) Universal application

3. Ram is a class twelfth commerce student in a reputed school in Punjab. Mohan is his elder brother who is doing his Masters in Hospital administration from Delhi after completing his B. Sc course. During vacations when Mohan comes home, Ram shows him the business studies project that he is preparing on the topic 'Principles of Management'. Mohan tells him that these principles are also a part of MBA course curriculum at the beginner's level as they form the core of management in practice. But he finds these principle different from those of pure science.

In context of the above case:

(i) Outline the feature of principle of management highlighted above.

(ii) Why does Mohan find the principle of management different from those of pure science?

(iii) How management principles are formed?

4. **After finishing her BBA degree course, Tanya gets a job of Assistant Manager in a retail company through the reference of her cousin Taruna who works in the same company as a Senior Manager. Taruna decides to guide Tanya through her experience by making her aware of the important facts about management in practice. She tells her that neighter the principles of management provide any readymade, straitjacket solutions to all managerial problems nor they are not rigid prescriptions, which have to be followed absolutely.**

In context of the above case:

(i) Identify the two features of principles of management mentioned in the above paragraph by quoting lines from the paragraph.

(ii) Why do the principles of management not provide readymade, straitjacket solutions to all managerial problems?

(*Answers at Page no. 117*)

2.3 SIGNIFICANCE/IMPORTANCE OF MANAGEMENT PRINCIPLES

Proper understanding of management principles is very necessary and helpful for managers as these principles act as guidelines for managerial activities. By practising principles managers can avoid various mistakes while dealing with people in the organisation.

The significance of management principles is due to following reasons:

(1) Providing managers with useful insight into reality. Management principles act as guidelines for the managers. These principles improve knowledge, ability and understanding of managers under various managerial situations. The effects of these principles help the managers to learn from their mistakes. These principles guide managers to take right decision at the right time.

(2) Optimum utilisation of resources. The management principles insist on planned activities and systematic organisation of men and materials in the organisation. Principles are designed to get maximum benefits from the human efforts and other resources.

For example, scientific principles suggest to cut down the wasteful movements and setting up of standard time to complete a task. By saving time, energy and efforts activities can be made economical and result in maximum utilisation of resources.

(3) **Scientific decisions.** Managers have to take number of decisions every day. The management principles enable the managers to approach various problems systematically and scientifically.

For example, Taylor's principles always insisted on replacement of rule of thumb by scientific approach, *i.e.*, he suggested to conduct the time study to set up the standard time required to perform a job rather than leaving it at the discretion or will of manager.

(4) **Meeting changing environment requirement.** Every businessman has to make changes in the organisation according to changes taking place in the business environment. Management principles train the managers in implementing the changes in right direction and at right level in the organisation. Although management principles are relative and general guidelines yet by modifying these principles changes can be made in the organisation.

(5) **Effective administration.** Administration is the function of top level management. In this function major plans and policies are formed. The management principles act as guidelines and base to form various administrative policies to have systematic working in the organisation.

For example, principle of unity of command, scalar chain, unity of direction leads to systematic and smooth functioning of the organisation as unity of command avoids confusion of more bosses. Unity of direction unifies the efforts of all the employees in common direction and scalar chain results in systematic flow of information. So all these principles definitely bring effective and efficient administration.

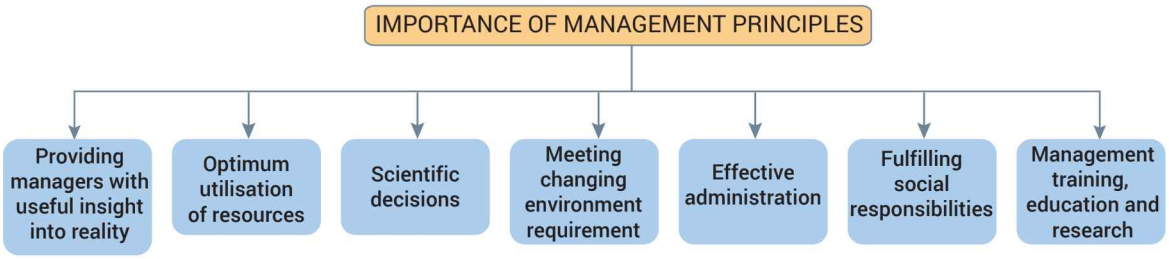
(6) **Fulfilling social responsibilities.** A business is creation of society and makes use of resources of society so it must do something for society also by performing some social responsibilities. Management principles not only act as guidelines for achieving organisational objectives but these principles also guide the managers to perform social responsibilities.

For example, the principle of fair remuneration insists on adequate salary to employees and takes care of interest of employees also.

(7) **Management training, education and research.** The management principles stress on scientific judgements and logical thinking. As a result these principles act as base of doing research and development in management studies. As these principles provide organised body of knowledge to perform research work and generate more and more knowledge, they have provided new ideas, imagination and base for research and development.

Principles of management are at the core of management theories. These act as base for management training and education.

Professional courses such as BBA, MBA also teach these principles as part of their curriculum. All the management institute take aptitude test and these tests are based on management principles only.



Keywords

Importance of Management Principles

(i) Providing managers with useful insight into reality — Improving Intelligence level of manager.

(ii) Optimum utilisation of resources. — No wastage, minimum cost

(iii) Scientific decisions. — Develop logic, Cause and effect

(iv) Meeting changing environment requirement. — Help in bringing changes

(v) Effective administration. — Help top level to take various decisions

(vi) Fulfilling social responsibilities. — Doing task to uplift society

(vii) Management training, education and research. — Principles are base for training and is part of education syllabus.

2.4 FAYOL'S PRINCIPLES OF MANAGEMENT

2.4.1 Background and History of Fayol

Henry Fayol was born in France in 1841. He got degree in mining engineering in 1860 and started working as engineer in a coal mining company. In 1888, he was promoted as the managing director of the company. At that time the company was in the situation of insolvency. He accepted the challenge and applied his managerial techniques to bring out the company from this situation and he succeeded. When he retired after 30 years the company was a leading coal-steel company with strong financial background.

2.4.2 Major Contributions of Fayol

Henry Fayol became famous as "Father of Management Studies and Thoughts", because of the following contributions:

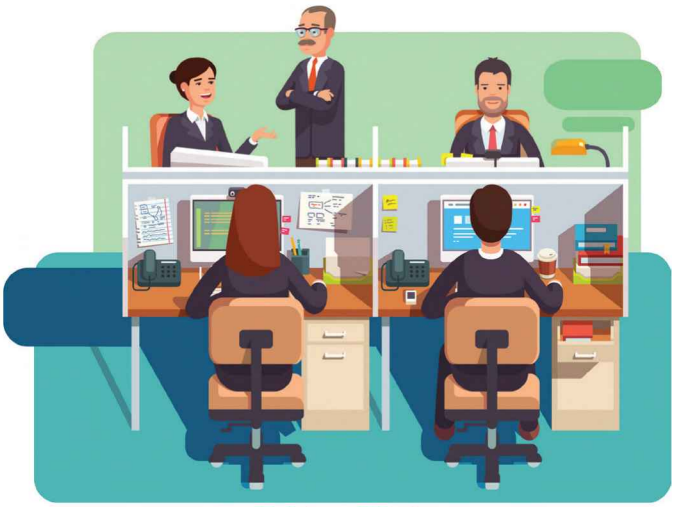
(a) He made clear distinction between technical and managerial skill.

(b) He identified the main steps in the process of management which are considered the major functions of management—planning, organising, staffing, directing, controlling.

(c) He developed fourteen principles of management which act as guidelines for managers to perform managerial activities.

2.4.3 Principles of Management Developed by Fayol

(i) **Division of Work.** According to this principle the whole work must be divided into small tasks or units and instead of assigning the whole work to one person one task or unit of work should be assigned to one person according to the capability, qualification and experience of the person. When a person is performing a part of job again and again he will become perfect and specialised in doing that and the efficiency level will improve.



Division of Work

Fayol said not only the factory work but technical, managerial and skill jobs should also be divided into small segments for specialisation.

In bank one person is receiving cash, one is giving cash, one is making entry in pass book, one is giving loan, one is doing F.D., etc. So work is divided and bank operates efficiently.

Positive effects of principle of division of work:

1. **Specialisation.** Whenever work is divided according to qualifications then automatically it leads to specialisation.
2. **Improves efficiency.** When employee is performing only one part of job then he becomes expert in that and results in less wastage of resources.

Consequences of violation of this principles:

1. Lack of efficiency.
2. There will be no specialisation.
3. Chances of duplication of work.

Keywords

Division of Work

(a) Dividing the work in smaller units
(b) Creating departments
(c) Allocation of work as per capabilities of employees
(d) Base of functional foreman technique
(e) Base of delegation concept

Case Studies

1. Manager of ABC Ltd. does not allocate work as per the capability of workers, which principle is violated by them.
2. **Production manager of Beta Ltd. took special care of the interest and ability of his subordinates while distributing work among them. He was of the firm opinion that a worker should be given one work again and again so that he may become expert in it.**

   State the principle of management followed here?

(*Answers at Page no. 117*)

(ii) Authority and Responsibility. Authority means power to take decision. Responsibility means obligation to complete the job assigned on time. According to this principle, there must be balance or parity between the authority and responsibility. Excess of authority without matching responsibility may bring negative results and excess of responsibility without matching authority will not allow the worker to complete his job on time.

An organisation should build safeguards against misuse or abuse of managerial power. A manager should have the right to punish the subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to a subordinate for giving his/her arguments.

For example, if a person is given responsibility to produce 100 units in one week time but he is not given authority to purchase the raw materials. If there is no raw material available in the store-room as a result he could not complete the target of producing 100 units on time. The worker cannot be blamed for not completing on time because he was given only the responsibility and not the matching authority to carry on the work. Excess of responsibility with less authority results in non-completion of job.

Positive effects of this principle:

1. No misuse of authority.
2. Helps in meeting responsibilities on time without any delay.

Consequences of violation of this principle:

1. Delay in work or in completion of work due to less authority.
2. Misuse of authority due to excess authority.
3. Overburden with work with excess responsibility.

Keywords

Authority and Responsibility

(a) Match, parity, equality and balance between authority and responsibility
(b) Allocation of authority as per work assigned to individual
(c) Giving authority matching to target or responsibility of employees.

Case Studies

1. A manager should have the right to punish a subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to his/her case. Identify the principle of management highlighted here.
2. The salesman of ABC Ltd. could not achieve his sales target of 1000 units on enquiry it was found that he was not allowed to take decision related to give discount or credit to any of his customer. State the Principle of Management violated in this case.

(Answers at Page no. 117)

(iii) Discipline. Discipline refers to

- Following code of conduct, rules regulations of employment agreement.
- Good superior at all levels.
- Clear and fair agreement among subordinate and superior.
- Meeting commitments at all levels.
- Judicious application of penalties.

Fayol insists that discipline is required at superior as well as subordinate level. The disciplinary rules shall not be applicable only on subordinates but discipline requires good superiors at every level, clear and fair agreement between superior and subordinates and judicious application of penalties.

For example, the employees must honour their commitments towards the organisation by working effectively and efficiently. On the other hand, superiors must also meet their commitments by meeting their promises of increments, promotions, wage revisions, etc.

Positive effects of this principle:

1. Systematic working in the organisation.
2. Improves efficiency.

Consequences of violation of this principle:

1. Disorder, confusion and chaos.
2. Wastage of resources in absence of discipline.
3. Delay in work due to absence of rules and regulations.

Keywords

Discipline

(a) Framing of rules and regulations
(b) Following a code of conduct
(c) Meeting of commitments by subordinates as well as by superior
(d) Clear and fair agreement between superior and subordinates
(e) Judicious application of penalties.

Case Study

1. **Voltech India Ltd. is manufacturing LED bulbs to save electricity and running under heavy losses. To revive from the losses, the management thought of shifting the unit to a backward area where labour is available at a low cost. The management also asked the workers to work overtime without any additional payment and promised to increased to wages of the workers after achieving its mission. Within a short period the company started earning profits because both the management and the workers honoured their commitments.**

   State the principle of management described in the above para.

(*Answers at Page no. 117*)

(iv) Unity of Command. According to this principle an employee should receive orders from one boss superior and should be accountable to one superior only because if he is receiving orders from more than one boss then he will get confused and will not be able to understand that whose orders must be executed first.

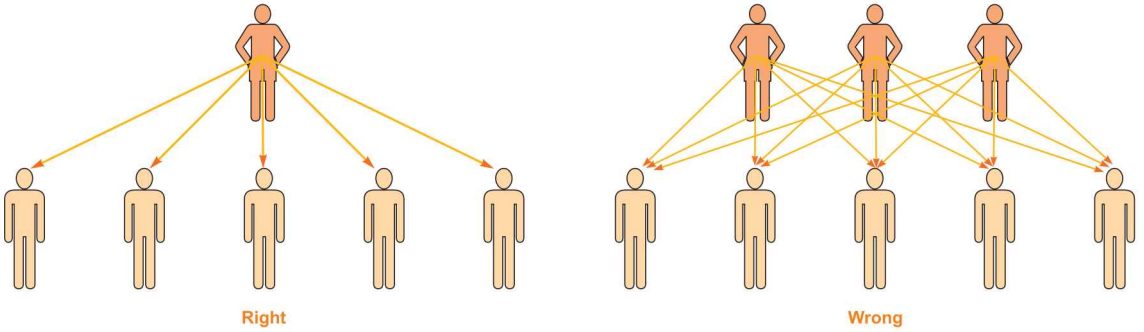
For example, if employee of production department is asked to go slow in production to maintain quality standard by the production incharge and sales incharge instructs the employee to fasten the production to meet the pending orders. In this situation employee will get confused as to whose instructions must be followed by him.

Positive effects of this principle:

1. No confusion in the mind of subordinate.
2. No ego clashes.
3. Improves effectiveness in working.

Violation of this principle will lead to following consequences:

1. Confusion in the mind of employee.
2. Subordinate will get chance to escape from his responsibilities by giving excuses.
3. Ego clashes among the different superiors.
4. Difficulty in maintaining discipline in the organisation.



Keywords

Unity of Command

(a) Orders from one boss only
(b) More than one boss confuse the subordinates
(c) Contradicts functional formanship technique

Case Study

1. **Vijay work as a Plant Superintendent in a shoe manufacturing company. Due to increase in demand the sales manager insisted the workers to faster the production, the production manager asked the workers to work overtime instead of increasing the speed to maintain the quality of production. Whereas the finance manager is strictly against this practice of overtime. Because it will increase the cost of production.**

   Identify and explain the principle of management violated in above case.

(*Answers at Page no. 117*)

(v) Unity of Direction. According to this principle "one unit means one plan", that is the efforts of all the members and employees of organisation must be directed towards one direction that is the achievement of common goal. If this principle is applied it leads to coordination. Each department and a group having common objective must have one head and one plan only.

For example, if an organisation is producing different lines of products: cosmetics, medicines and confectionery items each product has its own market and its own 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 on no account should the working of different departments overlap.

Positive effects of this principle:

1. Achievement of organisational goal.
2. Efforts of all the employees get unified towards one direction only.

Consequences of violation of this principle:

1. Lack of coordination.
2. Wastage of efforts and resources by working in different directions.
3. Difficulty in achieving organisational goal.

Difference between Unity of Command and Unity of Direction

S.No.	Principle of Unity of Command	Principle of Unity of Direction
1.	This principle insists on one boss on one subordinate.	This principle insists on one unit/division on one plan.
2.	The main purpose of unity of command is to avoid confusion and fix up responsibility on 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.
3.	This principle is related to functioning of employees with clarity in mind.	This principle is related to functioning of organisation as a whole or as one unit.
4.	This principle results in systematic working and improves efficiency by removing confusion and chaotic conditions.	This principle results in co-ordination of activities of different personnels.

Keywords

Unity of Direction

(a) One unit one plan

(b) Efforts of all the employees must be directed towards one goal

(c) Unification of efforts towards one direction

(d) Base of coordination concept

Case Study

1. **Suraj was engaged in the business of carpet making. Since company was making handmade carpet as well as machine made carpet. There were lot of overlapping of activities, so the production manager advised there should be two separate division for both of them where in each division should have its own inchange, plans and execution.**

   Identify the principle of management insisted by Production Manager.

(Answers at Page no. 117)

(vi) Subordination of Individual Interest to General Interest. According to this principle the interest of organisation must supersede the interest of individuals or employees. In the organisation all the employees are working with some objective and there is always an objective of organisation. If the objectives of individual are in the same direction of organisation then there is no problem but if the objectives of both the groups are in different directions then manager must try to reconcile individual interest with organisational goal and if it is not possible then individual goal must be sacrificed for achieving organisational goal.

Manager must take all the decisions in the organisation by giving priority to organisational interest and not his personal interest. The manager can ensure this by his exemplary behaviour by not misusing is authority for personal favours.

For example, before buying raw materials the manager must compare the prices and qualities of all the supplier and give order to best rather than giving order to his own relative by misusing his power.

Positive effects of this principle:

1. Achievement of organisational goal.
2. Coordination between individual and organisational goal.

Consequences of violation of this principle:

1. No achievement of organisational goal.
2. Even employees will also suffer in long run.

Keywords

Subordination of Individual Interest to General Interest

(a) Organisation's interest is more important than personal interest of employees.

(b) While taking decisions managers must give priority to benefits of organisation and not to personal benefit.

(c) Try to achieve personal goal with organisational goal not by sacrificing organisational goal.

(d) Managers should not take unfair decisions by taking bribes or by giving benefits to their relatives but decisions must be for benefit of organisation.

(e) Employees must sacrifice their leaves or attending family function if organisation need the presence of employee.

Case Study

1. **Mr. Malhotra, Finance manager of ABC Ltd. applied for leave to attend a family function in Amritsar. The director of the company requested him to cancel his leave as there is an important meeting schedule on that date. Mr. Malhotra immediately agreed and cancelled his trip as he thought attending meeting is more important for company's benefit.**

   Which principle of Fayol is applied by Mr. Malhotra?

(*Answers at Page no. 118*)

(vii) Remuneration of Persons. According to this principle employees in the organisation must be paid fairly or adequately to give them maximum satisfaction. The employees should be paid fair wages and salaries, which would give atleast a reasonable standard of living. At the same time it should be with in the paying capacity of the company. The fair wage is determined according to:

1. Financial capacity of the concern.
2. By keeping in mind the minimum wage act of government.
3. The wages and salaries paid by the competitors.

For example, if in a particular year the organisation has earned more profit than apart from giving extra profit to shareholders and owners, some part of profit must be given to employees also in the form of bonus. This will encourage and motivate to put more efforts and increase the profit of the company.

Positive effects of this principle:

1. Employees get motivated.
2. Devotion and commitment of employees improves.

Consequences of violation of this principle:

1. Increase in turnover of employees.
2. Dissatisfaction and demotivation of employees.

Keywords

Remuneration of Persons

(a) Pay fair and adequate wages and salary
(b) Pay fair wages so that employees can maintain minimum standard of living.
(c) With increase in profit and prosperity of organisation increase employees' salaries and wages also.
(d) Sharing of gains with employees.
(e) Match with scientific principle of harmony not discord.
(f) Pay as per financial capacity of your firm.
(g) Employees are not working only for happiness in organisation they are working for remuneration.

Case Study

1. **Mr. Ram started a small business with limited investment, he hired labour and them very less wages over the time with broad vision of Ram and hard work of his employees. The business started earning very good revenue but with increase in earning capacity of company also Ram did not increase the wages and salary of his employees, they were not able to maintain a reasonable standard of living.**

   Identify the principle of management, overlook by Mr. Ram.

(Answers at Page no. 118)

(viii) Centralisation and Decentralisation. Centralisation refers to concentration of authority or power in few hands at the top level. Decentralisation means evenly distribution of power at every level of management. *According to Fayol a company must not be completely centralised*

or completely decentralised but there must be combination of both depending upon the nature and size of the organisation. A small organisation can be well organised and managed with centralised technique but in large organisation there is need for decentralisation. Secondly, if employees are efficient and competent then they can be trusted by having decentralisation but if employees are not fully developed and are less in number then there must be centralisation. Fayol advised not to have complete centralisation or complete decentralisation but a combination of both.

Example: Panchayat in our country have been given more powers to decide and spend funds granted to them by the government for welfare of villagers. This is decentralisation at National level.

Positive effects of this principle:

1. Benefits of centralisation as well as decentralisation.
2. Fast decisions at operational level and strict control by top level.

Consequences of violation of this principle:

1. Complete centralisation will result in delay in decision.
2. Complete decentralisation will result in misuse of authority.

Difference between Centralisation and Decentralisation

Point of difference		Centralisation	Decentralisation
1.	Meaning	It refers to concentration of power or authority at higher level only.	It refers to every distribution of powers and authority at every level of management.
2.	Authority at different levels	Top management retains maximum authority. The authority with middle and lower management is very low.	The authority is systematically divided at every level.

Keywords

Centralisation and Decentralisation

(a) Combination of centralisation and decentralisation

(b) Key decisions should be taken by top management and routine decisions can be taken by managers working at middle and lower level.

Case Study

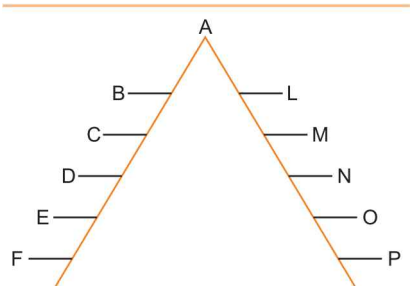
1. **ABC Limited permits their sales to give discount upto 10% as per their discretion and credit to their regular customer. If the sales men wants to give more than 10% discount for special order then they have to take permission from top level.**

   This is related to which principle of management.

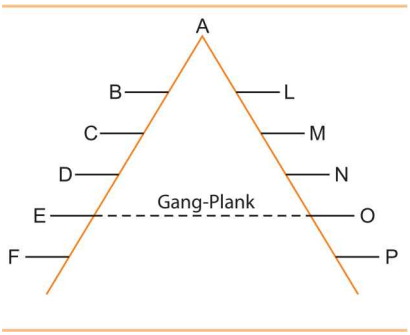
(Answers at Page no. 118)

(ix) Principle of Scalar Chain. Scalar chain means line of authority or chain of superiors from highest to lowest rank. Fayol insists that this chain must be followed strictly in the organisation. Every information must pass through every key of this chain, no skipping of any one key should be allowed.

Fig. explains the principle:



According to scalar chain principle if E wants to contact O he has to move through E — D — C — B — A — L — M — N and then O. If this chain is broken then there are chances of communication gap in the organisation but sometimes following scalar chain becomes a long process and if some important information has to be passed, it gets delayed so in case of emergency and urgent information, Fayol permitted a short cut in the chain which is called *"Gang-Plank"*. Gang-plank permits direct communication between the employees working in different position without following the scalar chain.



For example, if E wants to pass some urgent information to O then instead of following the long route of scalar chain, he can directly communicate with O by constructing a gang-plank, generally workers cannot directly communicate with CEO but through gang-plank it is possible.

Positive effects of this principle:

1. Systematic flow of information.
2. No communication gap in the organisation.

Consequences of violation of this principles:

1. There may be communication gap.
2. No clarity in authority responsibility relationship.

Keywords

Principle of Scalar Chain

(a) Following line of authority or hierarchy of managers for communicating every information.
(b) Report to your immediate boss only.
(c) Take order from immediate boss and give orders to immediate subordinate.
(d) For urgent information the chain may be broken through gang plank. If employee has habit of approaching senior officials, ignoring his immediate boss, he is violating scalar chain principle.

Case Study

1. **In a school principal makes sure that every instruction, order or information given by him must be passed to vice-principal then Head of the department and then to teachers and students must be informed by respective teachers only. He never allows teachers to directly communicate with him.**
   (i) State the Principle of Henry Fayol followed by the school principal.
   (ii) In case of emergency which concept of Scalar Chain can be used by teacher to pass urgent message directly to principal.

(Answers at Page no. 118)

(x) Principle of Order. In this principle order does not mean command but it refers to orderly arrangement of men and material that is a fixed place for everything and everyone in the organisation. Fayol insists that there must be a fixed place to keep every material and thing used in the organisation and fixed place or seat or cabin for every employee of the organisation so that no time and energy is wasted in search of any material or any person.

For example, if a worker is in need of a tool he must know in which box or tool-room it will be found and if he needs guidance from supervisor he must know the fixed cabin of supervisor. If no fixed place is given then worker will waste his time and energy in search of tools or supervisor.

Positive effects of this principle:

1. No wastage of time in search of men or material.
2. Smooth and systematic working of organisation.

Consequences of violation of this principles:

1. Wastage of time and energy in search of men and material.
2. Not able to contact the people at the right time.

Keywords

Principle of Order

(a) Fixed and right place for every man and every material
(b) No wastage of time in search of a person and material
(c) Systematic and orderly arrangement of physical and human resources
(d) Fixed and right place for every employee—social order
(e) Fixed and right place for every material—material order

Case Study

1. **In a school books are kept in office, chalks in the library, officer records and files in staff room.**

   Which principle of management is violated here.

(*Answers at Page no. 118*)

(xi) Principle of Equity. Equity refers to kind, fair and just treatment to employees. Employees will put their maximum efforts only when they are treated with kindness and justice. If a manager is biased in dealing with employees then employees will get dissatisfied and will not contribute to their maximum capacity. Equity does not mean equal salary to a peon and supervisor but equity means application of same disciplinary rules, leave rules in the same way irrespective of their grade, position and gender.

Equity means no discrimination on account of sex, religion, language, caste, belief or nationality.

Example: In multinational companies people of various nationalities work together without any discrimination as we find a person of Indian origin Sunder Pichai became CEO of Google. Sunil Sood became the CEO of Vodaphone.

Positive effects of this principle:

1. Employees get satisfied.
2. Motivate the employees and boost up the morale of the employees.

Consequences of violation of this principle:

1. Dissatisfaction in employees
2. Increase in turnover.
3. Unhealthy relation between superior and subordinates.

Keywords

Principle of Equity

(a) Fair, kind and just treatment to employees.
(b) No discrimination with employees on the basis of cast, creed or gender.
(c) Same policies and rules and regulations for all the employees.
(d) No preference to male or a person of special religion for promotion.
(e) Contradicts technique of differential piece wage system.

Case Study

1. **Tina and Anshu completed their MBA and started working in a multinational company at the same level. Both are working hard. Anshu has the habit of backbiting and wrong reporting about his colleagues to impress the boss. All the employees in the organisation know about it. At the time of performance appraisal also Tina's performance was rated better than Anshu. Even then their boss decided to promote Anshu stating that being a female, Tina will not be able to handle the complications of higher post.**

   Identify and explain the principle of management that was not followed by this company.

(*Answers at Page no. 118*)

(xii) Stability of Tenure of Personnel. It refers to no frequent termination and transfer. According to this principle the management must provide the feeling of job security among the employees because with the feeling of insecurity for the job, the employees cannot contribute their maximum. Frequent turnover of employees is bad for organisation and such decision must be taken when they are almost unavoidable.

Not only turnover but frequent transfer or rotation should also be avoided because it takes some time to a person to learn and get settled on a job and by the time he gets settled and he receives transfer order then it will be wastage of resources and employee will not be able to contribute his best for organisation.

Positive effects of this principle:

1. Improves efficiency level of employees.
2. No wastage of time and resources.

Consequences of violation of this principle:

1. Wastage of resources in learning the new job.
2. Frustration and dissatisfaction among employees.

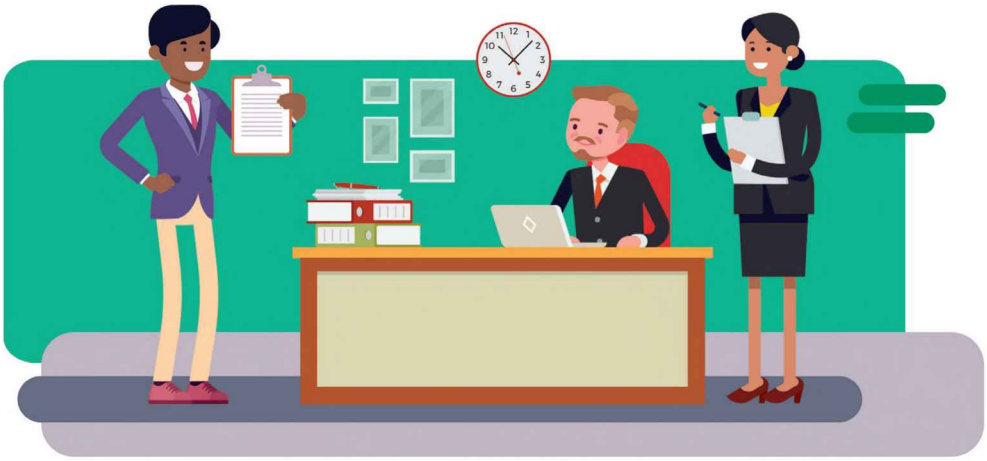
Keywords

Stability of Tenure of Personnel

(a) No frequent transfer or termination.
(b) Giving a minimum time to employees to settle down.
(c) Providing job security.
(d) Violation of this principle increases the turnover of employees.
(e) Wastage of resources in training the employees if they are transferred or terminated frequently.

(xiii) Initiative. Initiative refers to taking the first step with self-motivation. Fayol suggested that employees in the organisation must be given an opportunity to take some initiative

in making and executing a plan. It gives immense satisfaction to employees. So managers must welcome the suggestions and ideas of employees before framing the plan. The initiative does not mean disobedience, *i.e.*, once decisions are taken by management then every employee must follow it whether it is according to employee's suggestion or not.



Employee suggestion system:
Encourage initiative among trainee managers.

For example, before setting up of plan the manager must welcome the suggestions and ideas of employees to allow their maximum participation. But once the plan is made every employee must follow it and implement it.

Positive effects of this principle:

1. Develops feeling of belongingness in employees.
2. Employees achieve the target on time if they are set up with their consultation.

Consequences of violation of this principle:

1. Employees will not work to the best of their ability.
2. Demotivation among employees.

Keywords

Initiative

(a) Chalk out the plan and implement.

(b) Keep motivation, spirit of employee high

(c) Encouraging employees to give suggestions.

(d) Match with scientific principle of "cooperation not individualism".

(e) Develop feeling of belongingness and motivate employees.

Case Study

1. **Mr. Rajiv the senior manager of Unique enterprise considered himself very wise and used to take all the decisions himself without consulting the employees, he never used to help any one nor he used to take help of anyone. The employees of unique enterprise were not working efficiently and company's profit margin started declining to tackle the problem, the company appointed a new manager from IIM Bangalore. The new manager after joining made a policy that all the decisions will be taken after consulting employees in the meeting. All employees must give some suggestions and best suggestions will be rewarded with financial and nonfinancial incentives. This policy had a very positive effects on company.**

   State and explain the principle of Henry Fayol used by new manager.

(*Answers at Page no. 118*)

(xiv) Esprit De Corps: Management must encourage and promote team spirit, unity and harmony. This will bring coordination and cooperation in organisation. A manager should replace "I" with "We". This will give rise to mutual trust and belongingness among team members. It will minimise the need for using penalties.

For example, if the production manager assigned a target of manufacturing 100 units to a group of 10 members, divided the target among themselves to produce 10 units each, principle of team spirit says that each member of the group should not concentrate only on achieving his individual target of 10 units but they must concentrate on achieving group target of 100 units so if two workers of that group fall sick, then the other eight members must divide their individual target among themselves and try to achieve the target of their group.

Positive effects of this principle:

1. Develops team spirit.
2. Achievement of group goal.

Consequences of violation of this principle:

1. Team goal may not be achieved.
2. No team spirit and more stress on individualism.

Keywords

Esprit De Corps

(a) Union is strength.
(b) Work with Team spirit.
(c) Follow principle of united we stand, divided we fall.
(d) This principle was used in movie 'Chak De'.
(e) Replace 'I' with 'We'.

MCQs and Case Studies

1. **The principle which minimise employee turnover is called-**
   (a) Principle of Equity
   (b) Principle of Fair Remuneration
   (c) Subordination of individual interest to general interest
   (d) Stability of Tenure of Personnel.

2. **The following principle of management prevents overlapping of activities-**
   (a) Fair Remuneration (b) Unity of command
   (c) Unity of Direction (d) Equity

3. **Right place for resources is indicated in-**
   (a) Principle of order (b) Principle of discipline
   (c) Principle of division of work (d) None of the above

4. **Kindness and justice in behaviour of managers is related to-**
   (a) Principle of Discipline (b) Principle of Equity
   (c) Principle of fair Remuneration (d) Principle of order.

5. **Violation of this principle will create Insecurity among the employees. This statement is related to**
   (a) Espirit De Corps (b) Remuneration
   (c) Stability of Personnel (d) Authority and Responsibility

6. **School principal announced in a meeting that every month there will an inter-class competition to check the cleanliness, discipline and decoration of class board. All the class teachers requested the students that each one of you must take care of cleanliness, discipline and decoration. But Miss Aditi, formed three team in class and made them incharge of cleanliness, discipline and decoration, there was a spirit of unity and harmony among the students and all members supported each other as a result Miss Aditi's class got best class trophy.**

   Identify the principle of management used by Miss Aditi.

7. **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.

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.

State four principles of management given by Fayol.

8. **Alpha Ltd. was engaged in business of garment manufacturing and selling its products under a popular brand. The demand for their product was increasing. In order to keep the market share in short run, the company directed its existing workforce to work overtime but this resulted in many problems. Due to increase pressure of work the efficiency of workers declined. Sometimes workers worked under more than one superior. The departments which were producing one product were asked to produce more than one type of products. This resulted in lot of overlapping and wastage. The workers were becoming indisciplined. The spirit of team was also reducing. Workers were feeling cheated and their morale was declining. The quality of garments started declining and market share decreased. Based on this case answer the following questions:**

Identify which principles of Henry Fayol were violated in above case.

(*Answers at Page no. 118*)

2.5 SCIENTIFIC MANAGEMENT DEVELOPED BY F.W. TAYLOR

2.5.1 Background and History of F.W. Taylor

F.W. Taylor was born in 1856 in USA. In 1878 he joined Midval Steel Company as a mechanical engineer. Using his engineering background Taylor set out scientific studies and techniques. He was primarily concerned about the efficiency of workers and optimum utilisation of resources. Taylor's principles and techniques were based on the observations he conducted in factories where methods of production lack planning and working methods were haphazard.

2.5.2 Contributions of Taylor

F.W. Taylor became famous as a father of scientific management. His main contributions which made him so popular were:

(i) Taylor published books and research papers explaining his scientific view on industrial organisation and management.

(ii) His major contribution was publishing of "Shop Management", "Piece Rate System" and "Principles of Scientific Management."

(iii) He emphasised on adoption of scientific methods to the problems of management.

2.5.3 Meaning of Scientific Management

Scientific management can be defined as *"application of science for each and every element of management."* In general language it means apply scientific tools, methods and trained personnel in order to increase the output. Scientific management insists on replacement of role of thumb by science that means decisions in the organisation should not be taken on the basis of wills and wishes of manager but decisions must be based on scientific studies conducted by using scientific tools.

Definitions of Scientific Management

- "Scientific management means knowing exactly what you want men to do and seeing that they do it in the best and cheapest way." —***F.W. Taylor***
- "It is the art and science of preparing, organising and directing human effort applied to control the forces and utilise the materials of nature for the benefits of man." —***Association of Mechanical Engineers, U.S.A.***
- "It is the operational study of work, the analysis of work into its simplest element and the systematic improvement of the workers' performance of each element." —***Peter F. Drucker***

2.5.4 Scientific Principles of Management

Taylor formulated four principles of scientific management which are explained below:

(i) **Science, not rule of thumb.** According to this principle Taylor insists that each job performed in the organisation should be based on scientific enquiry and not on intuition, experience and hit and miss methods. He says that there must be thinking before doing which is not in case of rule of thumb. Rule of thumb means dictatorship of manager whereas scientific decisions are based on cause and effect and scientific measurement of methods and ways of production.

Taylor insisted on introduction of scientific inquiry into the domain of management practice. Taylor believed that there is only one best method to maximise efficiency this method can be developed through work study and analysis. The method so developed should be substitute of *rule of thumb.*

For example, in rule of thumb the standard time required to do a particular job is decided by the managers on the basis of his past experience. Taylor insists that standard time for a job should be set up scientifically by performing time study in the organisation and then the day's target should be fixed.

Keywords

Science, not rule of thumb

(a) Use of science for each and every element of management.

(b) There is only one best method to maximise efficiency and this method could be developed by study and analysis not by rule of thumb.

(c) Manager should not take decisions based on his intuitions, will or experience.

(d) Take every decision scientifically.

Case Study

1. **Rohan is desirous of setting up a small factory to manufacture packing materials. He planned to use logical approach and take every decision with fact and figure, with proper reasoning rather than relying an Hit or Miss method.**

   State the principle of Scientific Management used by Rohan.

(Answers at Page no. 118)

(ii) Harmony, not discord. According to this principle those who work together in an organisation must work in harmony that is with mutual give and take and proper understanding. Generally in every organisation there are two groups of people—workers group and management group and both the groups work as rivals of each other as workers always feel that they are underpaid and are overburdened with the work and management always feels that workers are good for nothing. In this principle **Taylor insists that there is need for both the groups to change their attitudes for each other. He insists on *mental revolution* which means complete change of attitude and outlook for each other.** They must develop positive thinking for each other and work with harmony and avoid discord as their objectives are in one direction only.

Management should share the gains of the company with workers at the same time workers must contribute to their best level. Taylor feels that prosperity of organisation depends upon prosperity of employer as well as employees.

Sharing of Gains between Management and Workers Leading to Complete Harmony.

For example, the main objective of workers is to earn more and the objective of management is to maximise production; instead

of discord for each other's objective workers can earn more by producing more which will help in maximising the production also.

There must be paternalistic style of management as in case of Japanese companies.

In Japanese companies this principle is practised as here managers treat workers as part of their family and workers also do not show their agitation by going on strike rather they tie a black ribbon to show their dissatisfaction and gain sympathy of managers. Managers must work almost side by side with the workers, helping and encouraging them.

Keywords

Harmony, not discord

(a) Management should share gain of the company if any with the workers.

(b) Workers should work hard and be willing to accept change for the good of the company.

(c) Interest of workers and management is same.

(d) Prosperity for employer cannot exist for long time unless it is accompanied by prosperity for employees.

(e) Mental Revolution in management and workers should transform their thinking.

(f) Unification/harmony/Integration between workers and management.

(g) Matching to principle of remuneration.

Case Study

1. **ABC Ltd., a tyre manufacturing concern has been established for more than ten years. Having made good profits in the past, company wanted to expand further and hence did not declare bonus for the previous year. The workers got agitated and trade union declared strike and demanded bonus and other facilities. The management decided not to give into their demands.**

   Which principle of scientific management is overlooked in the given case?

(*Answers at Page no. 118*)

(iii) Cooperation not individualism. This principle is the extension of the harmony not discord. According to this principle work must be carried on in co-operation with each other, with mutual confidence and understanding for each other. Workers and managers must work in co-operation. The management must take workers in confidence before setting up the standard task for them because when standards or targets are set up in consultation of workers, then they will try their best to achieve it.

To have cooperation management should welcome good suggestions of employees and they should be rewarded for their suggestion. At the same time workers should not go on strike and make unreasonable demands. There must be open communication system.

According to Taylor, there should be an almost equal division of work and responsibility between workers and management. All the day long the management should work almost side by side with workers helping, encouraging and smoothing the way for them.

For example, while assigning job to workers if management asks them about their interest and then work is assigned according to their interest, definitely the workers will perform it more efficiently.

Keywords

Cooperation not individualism

(a) Extension of principle of harmony not discord.
(b) Welcome suggestions of employees.
(c) Reward employees for their suggestions.
(d) There should be open communication and no need even for trade union.
(e) Paternalistic style of management.
(f) Equal division of work and responsibility between and management.
(g) Management should work side by side with workers.

Case Study

1. **The principles of Taylor and Fayol are mutually complementary. One believed that management should not close its ears to constructive suggestions made by the employees while the other suggested that a good company should have an employee suggestion system whereby suggestions which result in substantial time or cost reduction should be rewarded.**

Identify and explain the principles of Taylor and Fayol referred to in the above paragraph.

(*Answers at Page no. 119*)

(iv) Development of workers to their greatest efficiency and prosperity. Industrial efficiency depends upon the efficiency of workers. Worker's efficiency depends upon proper training and their selection. Taylor insisted due care should be taken while selecting the employees and after selecting they must be given job according to their qualification. Employees must be sent for training from time to time to update their knowledge. This will ensure greatest efficiency and prosperity for both company and workers.

Keywords

Development of each and every person to his or her greatest efficiency and prosperity

(a) Workers training is essential.
(b) Each person should be scientifically selected.
(c) Work assigned to workers should suit his/her capabilities.

MCQs and Case Studies

1. **Which of the following principle is extension of Harmony not Discord**
   (a) Principle of Science not Rule of Thumb
   (b) Cooperation not Individualism
   (c) Development of workers to their greatest efficiency
   (d) None of the above
2. **Sharing of gain is related to which scientific Principle of Management**
   (a) Harmony not Discord
   (b) Cooperation not individualism
   (c) Development of workers to their greatest efficiency
   (d) Science not Rule of Thumb
3. The top level management of ABC Ltd. organise regular training session of their employes and even during selection process, they make sure only capable and competent persons join their organisation. State the scientific principle followed by ABC Ltd.

(*Answers at Page no. 119*)

2.5.5 Scientific Techniques of Taylor

Alongwith scientific principles Taylor developed some scientific techniques by conducting various experiments at his work place.

The common techniques are:

(i) **Functional foremanship.** In this technique Taylor suggested the division of factory in two departments: planning department and production department as Taylor felt that workers must be free from the burden of planning and they must concentrate on work and production. To develop specialisation in the productivity, Taylor suggested under each department there must be some functional experts to supervise, guide and instruct the worker. As one foreman cannot be expert in every aspect of work so Taylor stressed on minimum eight specialists or functional experts to supervise and give orders to workers. Each boss will be specialised in one aspect of work and while observing and instructing the worker there will be definitely specialisation. So this technique is the extension of principle of division of labour. Taylor said foreman must be intelligent, educated, energetic, honest, specialised or profession expert. All these qualities cannot be found in one person so Taylor stressed on having minimum eight experts, four under each department to order and guide the workers. [Fig.]

The eight functional experts suggested by Taylor are:

Under planning department:

(a) *Route clerk.* This foreman is responsible to fix up the sequence of steps for performing mechanical or manual job.

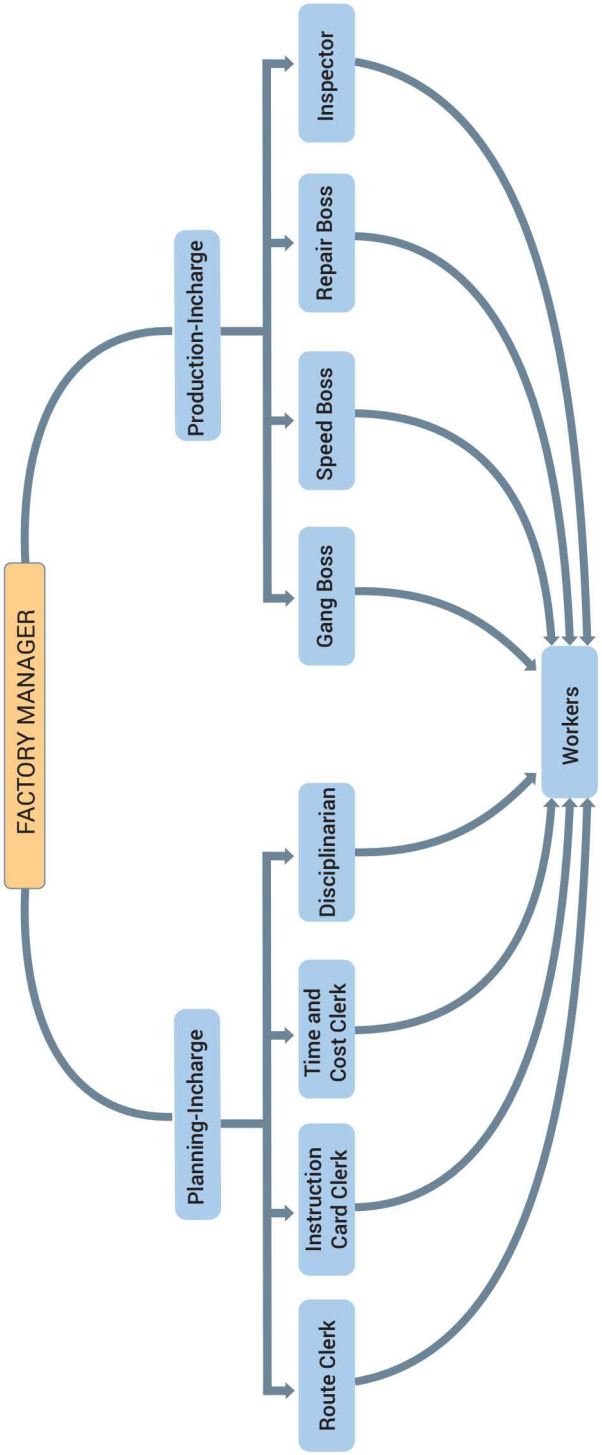


Diagram of functional foremanship.

(b) Instruction card clerk. This foreman is responsible for giving general instructions necessary to carry on the job in a specified manner.

(c) Time and cost clerk. This foreman is responsible to fix up the time for starting and completion of job. He also prepares the cost sheet for every job.

(d) *Disciplinarian.* This foreman is responsible for performance of job in orderly and systematic way.

Four foremen under operational department:

(a) *Gang boss.* He arranges all the machines, tools and other resources required for performance of the job so that there is no delay.

(b) *Speed boss.* This foreman assures timely completion of job.

(c) *Repair boss.* This boss ensures that machines and tools are kept in working conditions.

(d) *Inspector*. This boss keeps a check on quality control of the output.

Taylor emphasised that when every foreman instructs and orders, the worker's efficiency will improve.

Keywords

Functional Foremanship

(a) Appointment of specialised persons.
(b) Separation of planning and execution function.
(c) Based on elementary principle of division of work.
(d) Violate principle of unity of command.

(ii) Standardisation and simplification of work. Scientific management always emphasises on maintaining standards relating to every step of business operation. Standardisation of output is possible if standard is maintained right from selection of tools, equipment and machine to use, maximise the output by keeping in mind the quality standards. Standardisation does not mean only quality standard but it refers to setting up standards for size, type, weights, measures and quality of product.

According to Taylor scientific methods of production must be selected to develop standard. To set up standard the managers must make use of work study technique which includes time study, motion study and fatigue study. Even modern techniques such as Kaizen, six sigma, etc. can be used to set up standards. Companies like Nokia, Apple, Nike, Videocon, etc. are using technique of standardisation.

The objectives of standardisation are:

(a) To reduce a given line of product to fixed type, size and characteristics.

(b) To allow interchangeability of manufactured parts and output among different departments and branches.

(c) To maintain quality standards.

(d) To set up performance standards of men and machine.

Simplification emphasises on elimination of unnecessary diversity of products, size and types:

As more varieties mean more inventory, more type of machinery, more labour cost etc.; by simplifying the task there can be economy in use of machine, labour, inventory maintenance, etc. It will also help in improving the quality and reduction of cost.

For example, a paper manufacturing company in USA reduced its varieties from 2,000 to 200 which brought positive results for the company.

A fruit can manufacturing co. reduced varieties from 200 to 32 and got efficient and effective results.

Keywords

Standardisation and Simplification, Standardisation

(a) Bring uniformity.
(b) Allows interchangeability.
(c) Setting quality standards.
(d) Setting standard for every business activity.
(e) To reduce given line of product to fix type, size and characteristics.
(f) To establish standard for performance of men and machines.

(iii) Work study: It ensures maximum production at minimum cost and getting best contribution from every factor. It include:

(a) Fatigue study. This technique of scientific management is conducted to find out: (i) The frequency of rest intervals. (ii) The duration of rest intervals. (iii) The number of rest intervals.

A person is bound to get tired when he is performing a job for long period of time. There is always need for rest interval. Taylor suggested that the time period and frequency of rest interval should not be decided by the wish and experience of manager but to give a scientific approach, fatigue study must be conducted. To conduct fatigue study Taylor suggested to observe an average worker when he is performing a job and note down the time when that worker starts getting tired and when his efficiency level starts decreasing, then give him break. This time can be noted to decide frequency of rest interval and during break after how much time the worker became fresh to rejoin the work can be the time for rest interval. So if frequency and time for rest interval is fixed by observing workers definitely it will be more scientific.

For example, if there are 3 shifts of work, if after one shift worker gets tired he can be assigned 1st and 3rd shift and given rest interval in 2nd shift. During one shift also small pauses of rest intervals can be given if it is observed that within a shift worker becomes more fresh with small breaks.

Keywords

Fatigue study

(a) To set rest intervals.

(b) To set number, frequency and duration of rest intervals.

(b) Method study. The method study technique of scientific management is conducted to find out the one best method or way of performing the job which keeps production cost minimum and makes maximum use of resources of the organisation.

Taylor suggested that method of production should not be decided by rule of thumb method but all the methods must be tried in the organisation and the one which brings maximum benefits with minimum cost must be selected.

To determine the best way there are certain parameters right from procurement of raw materials till the final product is delivered. Taylor developed the concept of assembly line by using method study. The objective of method study is to minimise the cost of production and maximise the quality and customer satisfaction. Ford motors used this concept very successfully.

For example, for production of shoes there can be labour intensive method and machine intensive method. To find out which is best management must evaluate the cost of production with both the methods and compare both the methods with the available resources of the company. The method which involves minimum cost and exploits maximum resources must be selected as the best method of production.

Keywords

Method Study

(a) Finding the best way of doing a job

(b) Selection of method which minimises the cost and maximises the quality and satisfaction of customers.

(c) Devising the concept of assembly line.

(c) Time study. The technique of time study is conducted to determine or the objectives of time study are:

(i) The standard time required to perform a job.

(ii) Setting up the standard target for workers.

(iii) Determining the number of workers required to perform a job.

(iv) Categorising the workers in efficient and inefficient categories.

Taylor suggested that the time required to perform the job should not be decided by intuition, will and wish of manager, but Time Study must be conducted to determine the standard time scientifically. To conduct Time Study Taylor suggested to observe an average worker when he is performing the job with a stop watch in hand and note down the average time taken by the worker in completion of job. Taylor suggested to repeat the same observations for 100 times and then take out the average time. This time should be considered the average time for performance of the job. Keeping this time in mind the targets for workers should be fixed and the workers who are able to achieve their targets in standard time are average workers. If the worker is able to achieve target before standard time then he is an efficient worker and if the worker failed to achieve target in standard time then he is an inefficient worker.

Keywords

Time Study

(a) To find out standard time to perform a job.

(b) To set the standard target for workers.

(c) To determine number of workers to be employed.

(d) Motion study. The scientific technique of motion study is conducted or the objectives of motion study are:

(a) To determine the movements of workers when they are performing the job.

(b) To differentiate between productive and unproductive movements.

(c) For cutting down unproductive and wasteful movements.

(d) To design suitable equipment and tools to minimise the unproductive movements of workers.

To conduct motion study Taylor suggested to observe an average worker when he is performing the job and note down all the movements he is doing. How many times he is getting up from his place, how many times he is bending down, etc. Repeat it for 100 times with different workers. After Writing all the movements classify them in productive and unproductive movements and make the strategy to cut down or minimise the unproductive movements.

Taylor and his associate Frank Galiberth were able to reduce motions in brick layering from 18 to just 5. Taylor demonstrated increase in productivity by four times by this process.

For example, while observing an average worker, if it is observed that worker has to bend frequently to pick up the tools from the tool box placed under his table, then a stool can be placed near his seat to keep the tool box so that worker does not waste his energy in bending again and again. Same energy he can use for improving his production capacity or efficiency level.

Time study + Motion study + Method study + Fatigue study.

Keywords

Motion Study

(a) To differentiate between productive non-productive and incidental movements.
(b) To eliminate unproductive movement.
(c) To design the equipment tools furniture which minimise unproductive movements.

(iv) Differential piece wage system. The scientific technique of differential piece rate system emphasises on paying different rate of wage for efficient and inefficient employees. The technique of differential wage rate system insists on:

(a) Paying different rate of wage to efficient and inefficient employees.

(b) Extra wages paid to efficient employees will motivate them to remain efficient.

(c) Extra wages paid to efficient employees will motivate inefficient employees to come in the category of efficient employees.

(d) When payment is given according to number of units produced automatically the production will be maximised.

This technique is a strongest motivator for employees to perform efficiently.

To conduct or adopt differential wage system Taylor suggested that the company must fix a standard rate of wage for workers producing standard output or their target. The workers who produce more than the standard-target must be paid with a higher rate of wage and those who are producing less than standard output must be paid with a rate less than standard rate.

For example, if the standard target is 10 units per day and standard rate is ₹50 per unit:

The worker who is producing 10 units must be paid ₹500 (Standard rate × Standard output).

The worker who is producing 12 units must be paid with a rate higher than standard rate say ₹60 per unit.

So he will receive 12 × 60 = ₹720 (Higher output × Higher rate).

The worker who is producing less than standard output must be taxed and penalised by paying less than standard rate say ₹40 per unit.

So he will receive ₹8 × 40 = ₹320 (Lower output × Lower rate).

This difference in wages will motivate the workers to become efficient and earn more.

Keywords

Differential Piece Wage System

(a) Strongest motivator for workers

(b) To differentiate between efficient and inefficient workers.

(c) Violates principle of equity.

(v) Mental revolution. The objectives of mental revolution are:

(a) Change in mental attitudes of workers and management towards each other.

(b) Co-operation between workers and management.

(c) Ruling out feeling of suspicion or prejudice from the minds of workers and management to adapt systematic thinking.

Taylor said that generally in every organisation workers feel that management exploits them, overburdens them with excess work and pays them less; on the other hand, management feels that workers always grumble, they follow go slow policy, damage the equipment and work carelessly. Both the groups suspect each other. In the technique of mental revolution Taylor stressed that there is need to change the attitude of both the groups drastically. He referred to change as a revolution of mind to develop positive thinking and feeling of co-operation for each other.

MCQs and Case Studies

1. **The Foreman responsible for quality of work is**
   (a) Repair Boss (b) Disciplinarian
   (c) Inspector (d) Gang Boss
2. **Rest intervals in job are decided by**
   (a) Method Study (b) Fatigue Study
   (c) Motion Study (d) Time Study
3. **Uniformity in production can come by using following technique of Taylor**
   (a) Simplification (b) Method Study
   (c) Standardisation (d) Time Study
4. **Functional Foremanship is the extension of**
   (a) Division of Work (b) Discipline
   (c) Unity of Direction (d) Unity of Command
5. **Sanchit, after completing his entrepreneurship course from Sweden returned to India and started a coffee shop 'Aroma Coffee Can' in a famous mall in New Delhi. The speciality of the coffee shop was the special aroma of coffee and a wide variety of flavours to choose from. Somehow, the business was neither profitable nor popular. Sanchit was keen to find out the reason. He appointed Sandhya, an MBA from a reputed college, as a manager to find out the causes for the same.**

Sandhya 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 in between which could be eliminated. She fixed a standard time for processing the order.

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

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

(*Answers at Page no. 119*)

2.5.6 Advantages of Scientific Management

Scientific management brings following benefits:

(a) Improves efficiency of business through simplification and specialisation.

(b) Helps in reducing cost of production by eliminating all types of wastages.

(c) Due to decrease in price firm is enable to capture a bigger share in the market.

(d) Mutual understanding and cooperation brings workers and management closer.

(e) More trainings to improve the skill of workers.

(f) Enables the workers to earn more with the introduction of differential price wage system.

2.5.7 Modern Scientific Techniques

In present era many new scientific techniques are developed. The common new techniques are:

(a) *Operations research.* It was developed during 2nd world war to optimise the deployment of war.

(b) *Lean manufacturing.* This technique focuses on reducing seven wastes of overproduction, *i.e.*, waiting time, transportation, processing, motion, inventory, scrap and any manufacturing process.

(c) *Kaizen.* It is a Japanese word which means change for better. It is a daily activity which eliminates hard and difficult task by experimenting scientific methods.

(d) *Six sigma.* It refers to improving efficiency by reducing quality variations.

(e) *Just in time manufacturing.* It is an inventory management strategy to improve return and reduce cost.

Difference between Time Study and Motion Study

S.No.	Basis	Time Study	Motion Study
1.	Meaning	Time study is conducted to find out the standard time for performing a task.	Motion study is conducted to find out total movements of workers while they are performing the task.
2.	Purpose	The purpose of time study is to find out standard time to fix a fair day's work for the workers.	The purpose of motion study is to eliminate wasteful and unproductive movements of workers to increase their efficiency level.
3.	Method of conducting	It is conducted with the help of a stop watch.	It is conducted with the help of a movie camera which keeps eye on worker's movements.

2.6 COMPARISON BETWEEN TAYLOR AND FAYOL

The contributions of Taylor and Fayol can be differentiated on the following ground.

S.No.	Point of Difference	Taylor	Fayol
1.	Concern	Taylor's techniques and principles are concerned with worker's efficiency.	Fayol's principles are concerned with management efficiency.
2.	Level/Perspective	Taylor started his studies and approach from lowest level in the organisation.	Fayol started his studies and approach from the highest level in the organisation.
3.	Emphasis	Taylor laid great emphasis on standardisation of work.	Fayol laid great emphasis on functions of managers.
4.	Focus	Taylor laid focus on eliminating wasteful movements and saving energy of workers. It forces on increase in productivity.	Fayol's focus was on development of principles for better management. It focuses on improving overall achieve station.
5.	Major contribution	Taylor's main contribution was development of scientific techniques and scientific principles.	Fayol's main contribution was development of fourteen principles of general management.
6.	Personality	Taylor developed a personality of scientist and became famous as father of scientific management.	Fayol developed the personality of a researcher and practitioner. He became famous as *father of general management*.
7.	Unity of Command	Did not follow this principle as Taylor insisted on minimum 8 bosses.	Strictly followed this principle, *i.e.*, only one boss for one employee.
8.	Expression	Taylor's techniques are expressed as scientific management.	Fayol's techniques are expressed as general theory of administration.
9.	Applicability	Applicable to specialised situation.	Applicable universally.

Relevance of Taylor and Fayol's Principles (Similarities between Taylor and Fayol):

Taylor and Fayol's principles are **complementary to** each other because both have relevance in the business due to following reasons:

(1) The main aim of Taylor's as well as Fayol's principles is maximising the efficiency.

(2) Both insist on cooperation between employees and employers.

(3) Both give more importance to organisational interest over the individual interest.

(4) Both suggested division of work for specialisation.

(5) The principles of both are used as basis for research in the field of management studies.

Quick Revision

- **Meaning.** Management principles are the statements of fundamental truth which act as the guidelines for taking managerial actions and decisions.

  Nature. Management principles are:

  (a) Universal application,
  (b) General guidelines,
  (c) Evolutionary formed by practice and experiments,
  (d) Flexibility,
  (e) Behavioural in nature,
  (f) Based on cause and effect relationship,
  (g) Contingent.

- **Significance.** Understanding of management principles helps the managers to:

  (a) providing managers with useful insight into reality,
  (b) optimum utilisation of resources,
  (c) scientific decisions,
  (d) meeting changing environment requirement,
  (e) effective administration,
  (f) fulfilling social responsibilities,
  (g) management training, education and research.

- **Fayol's Principles of Management.** Fayol the Father of Management Studies contributed a great research work in the field of management. He developed fourteen major principles which are:

  (i) **Division of work.** Dividing the whole work into small segments to get specialisation.
  (ii) **Authority and responsibility.** Match or balance between the authority and responsibility is must.
  (iii) **Discipline.** Respect for agreements, which are directed at achieving obedience, applying full energy for achieving organisational goals.
  (iv) **Unity of command.** Orders or commands from a single boss.
  (v) **Unity of direction.** Efforts of all the employees to be directed towards common direction of achieving organisational goal.
  (vi) **Subordination of individual interest to general interest:** Organisational interest must supersede over individual interest.
  (vii) **Remuneration of persons.** Fair or adequate wages to workers.
  (viii) **Centralisation and decentralisation.** Proper combination of centralisation and decentralisation at different levels.
  (ix) **Scalar chain.** Line of authority to be followed in the organisation.

(x) **Order**. Orderly placement of men and materials in the organisation.

(xi) **Equity.** Kind, fair and just treatment to employees.

(xii) **Stability of tenure of personnel.** Avoid frequent turnover and rotation of employees.

(xiii) **Initiative.** Encouraging employees to give suggestions.

(xiv) **Esprit de corps.** Work with team spirit.

Scientific Management. Taylor, popularly known as Father of Scientific Management developed various scientific principles and scientific techniques. His scientific principles are:

(i) **Science, not rule of thumb.** Scientific approach to every element of management.

(ii) **Harmony not discord.** Working with team spirit and mutual co-operation.

(iii) **Cooperation, not individualism.** Workers and management must work with cooperation and mutual give and take.

(iv) Development of workers to their greatest efficiency and prosperity.

Scientific Techniques of Taylor

(i) **Functional foremanship.** Appointment of eight functional experts to instruct, guide and observe the workers.

(ii) **Standardisation.** Maintaining quality standards.

(iii) **Simplification of work.** Cutting down unnecessary dimensions and varieties of one line of product.

(iv) **Fatigue study.** Technique conducted to fix up frequency and time period of rest intervals.

(v) **Method study.** Finding one best method to perform the job.

(vi) **Time study.** To find out the standard or average time to perform a job.

(vii) **Motion study.** To cut down the unnecessary and wasteful movements.

(viii) **Work study.** To ensures maximum production at minimum cost.

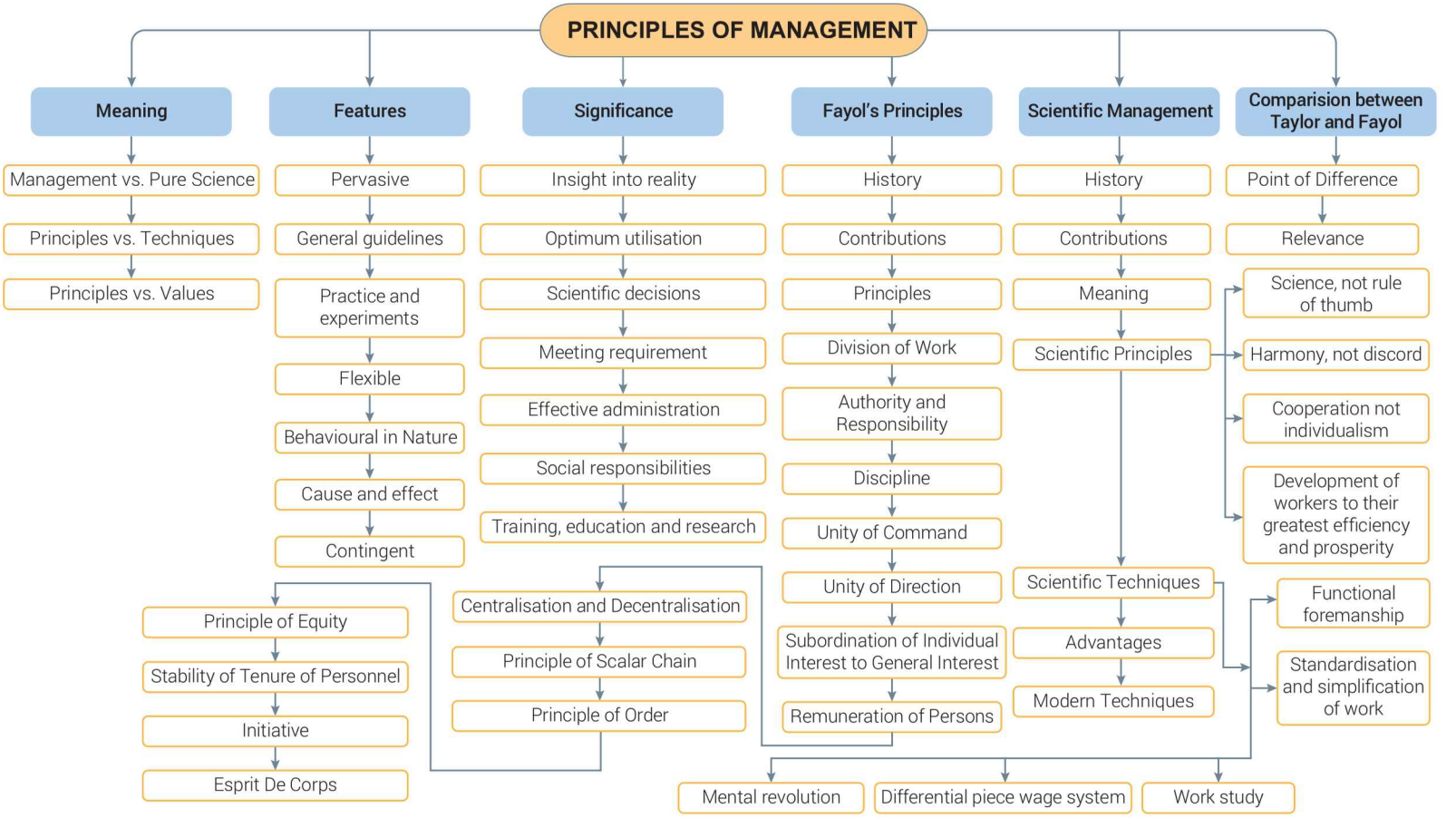
(ix) **Differential piece wage system.** Payment to efficient and inefficient workers with different rates.

(x) **Mental revolution.** Change of attitude of workers and managers for each other.

Difference between time study and motion study.

Difference between Taylor and Fayol. We can compare Taylor and Fayol on the following points: Concern, prospective, emphasis, focus of major contribution, personality, unity of command, expression and applicability.

Principles of Management — A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. When a superior does not fulfil the promise to raise the salary/wages of workers on achievement of target effectively and efficiency, it is violation of
   (a) Principle of Renumeration (b) Principle of Discipline
   (c) both (a) and (b) (d) None of the above
2. Management Principles provide
   (a) Readymade solution to managerial problems
   (b) Guidelines for managerial action
   (c) Guarantee for success of an organisation
   (d) All of the above
3. Gang Plank permits direct communication between
   (a) Employees working at same level (b) Any employees irrespective of their level
   (c) Employees of same department only (d) None of the above
4. Organisation Interest supersede employees interest is indicated in
   (a) Principle of Subordination of Individual Interest to General Interest
   (b) Principle of Espirit De Corps (c) Principle of Initiative
   (d) Principle of Discipline
5. The employees should be judiciously penalised for their actions against the organisation is indicated in
   (a) Principle of Equity (b) Principle of Responsibility, Authority
   (c) Principle of Discipline (d) None of the above
6. Principle of Responsibility and Authority insists on
   (a) Responsibility > Authority (b) Authority > Responsibility
   (c) Responsibility = Authority (d) All of the above
7. Frequent transfer and turnover of employees lead to violation of
   (a) Principle of Espirit De Corps (b) Principle of Discipline
   (c) Principle of Initiative (d) Principle of Stability of Personnel
8. Principle of Initiative-
   (a) Boosts up the morale of employees (b) Brings down the morale of employees
   (c) Does not effect on morale of employees (d) None of the above
9. Unity of Command insists on
   (a) One Boss One employee (b) Orders from a single superior
   (c) Match between orders of different bosses (d) All of the above
10. If a manager is biased in dealing with people from different states, he is violating
    (a) Principle of Discipline (b) Principle of Espirit De Corps
    (c) Principle of Renumeration (d) Principle of Equity
11. Simplification technique insists on
    (a) Using simple method of production (b) More varieties of product
    (c) Elimination of unnecessary diversity of products, size and types
    (d) All of the above

12. The main objective of Fatigue Study is
    (a) To eliminate tiring movements of workers
    (b) To decide number, duration and frequency of break intervals
    (c) To differentiate productive and non-productive movements of workers
    (d) All of the above
13. Unity of Direction insists on
    (a) One unit one plan
    (b) Efforts of all employees should be directed in one direction only
    (c) No overlapping of different department
    (d) All of the above
14. Technique of mental revolution is based on the principle of
    (a) Harmony not discord (b) Science not rule of thumb
    (c) Principle of responsibility and authority (d) All of the above
15. Principle of Order insists on
    (a) Orders from single superior
    (b) Fix and right place for every men and material
    (c) Employees must work as per order of superior only
    (d) One boss one command
16. According to Fayol
    (a) Organisation must use policy of centralisation
    (b) Organisation must use policy of decentralisation
    (c) Organisation must use combination of centralisation and decentralisation
    (d) None of the above
17. The principles of management can be changed according to the prevailing situation in organisation. This shows that management principles are
    (a) Flexible (b) Behavioral
    (c) Scientific (d) Universal
18. The principle which states that there should be good supervisors at all levels for smooth and systematic working of an organisation is:
    (a) Equity (b) Initiative
    (c) Discipline (d) Order
19. " Panchayats in our country have been given more powers to decide and spend funds granted to them by the government for welfare of villages". Identify the principle of management highlighted in the statement:
    (a) Equity (b) Centralisation and decentralisation
    (c) Authority and responsibility (d) Espirit De Corps
20. Administrative principles were given by
    (a) FW Taylor (b) Henry Fayol
    (c) Abraham Maslow (d) WW Taylor

(Answers at Page no. 120)

Fill in the Blanks

1. _____ scientific technique insists on hiring specialised or expert for each job.
2. _____ scientific technique brings uniformity in products and permits interchangeability.

3. Sharing of gain between employee and management is indicated in .
4. Sharing of work is indicated in scientific principle
5. Sequence of steps to be followed is decided by functional expert.
6. scientific technique is the strongest motivator for workers to perform efficiently.
7. The purpose of time study is to find out to perform a job.
8. scientific technique help in finding one best way of doing a job.
9. Management principles can be modified as per the requirement of an organisation as they are _____.
10. _____ refers to taking first step with self motivation.

(Answers at Page no. 120)

True or False

1. Management principles offer readymade solutions for managerial problems. (True/False)
2. Management principles are rigid statements like scientific principles. (True/False)
3. Management principles are useful for business as well as non-business organisation. (True/False)
4. Management principles can be formed overnight. (True/False)
5. The application and result of management principles remain same in all organisations. (True/False)
6. Fayol focus on workers. (True/False)
7. Espirit De Corps replace I with We. (True/False)
8. Motion study improve speed of workers. (True/False)
9. Differential piece wage system violates principle of equity. (True/False)
10. Workers should be given only responsibility. (True/False)

(Answers at Page no. 120)

Remembering and Understanding-based Questions with Answers

Q. 1. Explain the following principles of management given by Fayol:
(a) Unity of command (b) Order. *[CBSE Sample Paper 2014]*

Ans. **Unity of command**

There should be one and only one boss for every individual employee.

If an employee gets orders from two supervisors at the same time, the principle is violated.

Consequences of violation-authority is undermined, discipline is in jeopardy, order disturbed, stability threatened.

Order (3)

People and materials must be in suitable places at appropriate time for maximum efficiency.

A place for everything (everyone) and everything (everyone) in its (her/his) place i.e orderliness.

Benefits of the principle–no hindrance in the activities of business, increased productivity and efficiency.

Q. 2. Enumerate any two techniques of scientific management. *[CBSE Sample Paper 2015]*

Ans. **Techniques of Scientific Management (any two)**

Functional Foremanship: 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.

Motion Study: 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.

Standardisation and Simplification of Work: 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.

Method study the objective of method study is to find the one best way of doing the work

Time study 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

Fatigue study. This study seeks to determine the amount and frequency of rest intervals in completion of a task.

Differential piece wage system. 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.

Q. 3. What did Taylor want to communicate through mental revolution? *[CBSE Sample Paper 2016]*

Ans. 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.

Q. 4. Give any one point of difference between management principles and scientific principles.

Ans. The management principles are flexible but scientific principles are rigid.

Q. 5. Give any one difference between Management principle and values.

Ans. Management principles are guidelines for managerial actions whereas values are rules for behaviour of individual in society.

Q. 6. Give any one point of difference between management principles and techniques.

Ans. Management principles are guidelines for managerial actions whereas management techniques are methods and procedures which involve series of steps to be performed to accomplish the goal.

Q. 7. Give any two features of management principles.

Ans. (i) Management principles are solved by practice and experiments.

(ii) Management principles are general guidelines.

Q. 8. Are the principles of management static?

Ans. No, they are not static. These can be changed according to the nature of organisation.

Q. 9. List any two principles of 'scientific management' formulated by Taylor for managing any organisation scientifically? *[CBSE Sample Paper]*

Ans. (i) Science, not rule of thumb, (ii) Harmony, not discord.

Q. 10. How are management principles derived?

Ans. Management principles are derived by:

(i) Deep observation, (ii) Repeated experiments.

Q. 11. Why are that management principles universal?

Ans. Management principles are said to be universal because these are applicable in all types of organisations, at all levels and at all times.

Q. 12. Which principle of management insists in orderly arrangement of men and material?

Ans. Principle of order.

Q. 13. An organisation is following the principle of scalar chain and principle of equity. What are the positive effects of these principles?

Ans. **Positive effects of scalar chain:**

(i) Smooth flow of communication (ii) No communication gap

Positive effects of equity:

(i) Satisfaction of employees (ii) Boosts up the morale of employees.

Q. 14. Name the foreman who arrange all the resources input and setup to start the work smoothly.

Ans. Gang boss.

Q. 15. In a company there are four departments for finance, marketing production and human resource development. Identify the principle of management used in this company.

Ans. Division of work.

Q. 16. Which principle of Fayol cannot be applied when organisation is following technique of functional foremanship?

Ans. Unity of command.

Q. 17. Describe the meaning of *"replacement of rule of thumb with science."*

Ans. Replacement of rule of thumb with science refers to making use of scientific approach for every element of management that means not relying on intuition, experience and wish of manager but taking decisions more scientifically.

Q. 18. How do the techniques of time study and motion study help in improving the efficiency level?

Ans. The techniques of time and motion study help in improving efficiency by:

(i) Setting-up standard time required to perform a job.

(ii) Setting-up daily, weekly targets on the basis of standard time calculated scientifically.

(iii) By cutting down the wasteful and unproductive movements.

(iv) Saving the energy of employees spent on unproductive movements.

Q. 19. Which principle of management is violated in following situations:

(a) When a worker receives orders from more than one boss?

(b) When the employee is given responsibility to achieve target production of 500 units with no authority to access over raw materials?

(c) When worker is wasting time in search of tool box in the organisation?

(d) When manager grants one month medical leave to a supervisor with pay and only one week medical leave to accountant?

Ans. (a) Unity of command. (b) Authority and responsibility.

(c) Order. (d) Equity.

Q. 20. Why does the principle of unity of command not hold good in an organisation using technique of functional foremanship?

Ans. Principle of unity of command insists on orders from one and only one boss.

The principle of functional foremanship insists on orders and instructions from minimum eight bosses.

So, if an organisation has appointed eight functional experts, four each in planning and operational department, then it is not possible to allow only one boss to give orders.

So at a time organisation can apply only one of these principles as both are contradictory or in contrast to each other.

Q. 21. Taylor's techniques of management are universally applicable. Do you agree? Give four reasons to support your answer.

Ans. Yes, I agree with this statement because Taylor's techniques are developed through scientific approach and not by rule of thumb.

Any principle developed scientifically is universally applicable because these are not affected by personal feelings, intuitions of manager, these are based on pure scientific approach. The techniques which facilitate the universal applicability of Taylor's principles are:

(a) Time study (b) Motion study
(c) Method study (d) Standardisation
(e) Fatigue study (f) Mental revolution

But some techniques of Taylor are not universally applicable under some situations. These are:

(i) *Functional foremanship*. This technique is not applicable in the organisations adopting principle of unity of command.
(ii) *Differential piece rate system*. This technique is not possible in organisations following principle of equity.
(iii) *Simplification*. This technique is not suitable for organisations having objective of diversification and expansion of line of products and varieties.

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. Briefly explain work study techniques that help in developing standards to be followed **throughout the organization.** *[CBSE Sample Paper 2016]*

Ans. Techniques of work study includes the following:

1. Time study 2. Motion study
3. Fatigue study 4. Method study

Q. 2. Which technique of Taylor insists on hiring specialist for every job? Explain that technique.

Ans. Functional foremanship. *For explanation refer page no. 87*

Q. 3. Which technique of Taylor insists in paying higher wages to efficient employees?

Ans. Differential piece rate system.

Q. 4. Which technique of Taylor insists in using most optimum way of doing a job?

Ans. Method study.

Q. 5. Fayol points out the danger and cost of unnecessary labour turnover in one of his principles of management. Name that principle.

Ans. Stability of tenure.

Q. 6. Identify the techniques of Taylor which bring uniformity and standardisation in work.

Ans. Technique of standardisation.

Q. 7. Name the device which permits direct communication between employees working at same level.

Ans. Gang plank.

Q. 8. Specify the consequence of violating principle of remuneration.

Ans. Employees will get demotivated.

Q. 9. Which principle of management insists "workers should be encouraged to develop and carry out their plans for development"? Explain that principle.

Ans. Principle of initiative.

For explanation refer page no. 79

Q. 10. The management of a company promises the workers to pay extra wages if they work overtime, but later on management refuses to pay extra wages. Which principle is violated in this case?

Ans. Principle of discipline.

Q. 11. *'A manager should replace "I" with "we" in all his conversation to encourage team spirit.'* Identify the principle of management emphasised here.

Ans. Principle of 'Esprit de corps'.

Q. 12. Which technique of Taylor overlooks the principle of equity?

Ans. Differential piece rate system.

Q. 13. On which principle of Fayol, Taylor's technique of functional foremanship is based?

Ans. Division of work.

Q. 14. Purchase manager of ABC Ltd. gave order to supply raw material @ ₹ 1000 per quintal to his relative whereas same quality raw material is available @ ₹ 900 per quintal by another supplier. This is violation of which principle of management? Explain that principle.

Ans. It is violation of Principle of "subordination of individual interest to general interest." *For explanation refer to page no. 72.*

Q. 15. Name the technique of Taylor which is the strongest motivator for workers to reach standard performance.

Ans. The technique of "differential piece rate system."

Q. 16. Which principle of management suggests that employees should not leave the organisation frequently? Give two adverse effects of this principle is violated.

Ans. The Principle of "Stability of Tenure." The two adverse effects of violation of this principle are:

(i) wastage of resources

(ii) demotivation and frustration of employees.

Q. 17. The management and workers have entered into an agreement that workers will do overtime to cover up losses of the company. In return the manager will increase the wages but management later refused to increase the wages. Name the principle related to above situation.

Ans. Principle of discipline. As managements fail to fulfill their commitment.

Q. 18. In one of the principles of scientific management, Taylor emphasises that there should be equal division of work and responsibility between workers and management and management should work almost side by side with workers helping them. Identify the principle.

Ans. *"Cooperation not individualism"* as management fail to fulfill their commitment.

Q. 19. Name any two companies who have successfully applied standardisation and simplification of work.

Ans. Nokia, Microsoft, Ford.

Q. 20. Explain the technique of scientific management that is the extension of principle of division of work and specialisation.

Ans. Functional foremanship explanation. (*Refer page no. 87*)

Q. 21. Beena, a student of management, likes to relate what she learnt in class to real life situations. She observed many situations while watching educational programmes on television that remind her of concepts of Scientific Management. In one such programme, factories manufacturing

parts for products like automobiles, computers and mobile phones were being telecast. Name the technique of Scientific management that should be adhered to, while manufacturing parts for such products.

Ans. Standardisation and Simplification of work.

Q. 22. A sales person is asked to finalize a deal with customer. The marketing manager allows him to give a discount of up-to 10% but the Finance Manager allows him to give discount of upto 25%. Which principle is violated here?

Ans. Unity of command.

Q. 23. Principles of Taylor and Fayol are mutually complementary. One believed that the management should share the gain with the workers while the other suggested that employees compensation should depend upon the earning capacity of the company and should give them a reasonable standard of living. Identify and explain the principles of management by Tayol and Fayol referred to in para?

Ans. Fayol — Remuneration,

Taylor — Harmony not Discord (Mental Revolution).

Q. 24. A manager should have the right to punish a subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to his/her case. Identify the principle of management highlighted here.

Ans. Authority and Responsibility.

Q. 25. Fayol insists that good sense and experience are needed to ensure fairness to all employees who should be treated as fairly as possible. Identify the principle of management.

Ans. Equity.

Q. 26. Voltech Ltd. is engaged in producing electricity from domestic garbage. There is almost equal division of work and responsibility between workers and management. The management even takes workers into confidence before taking important decisions. All the workers are satisfied as the behaviour of management is good.

State the principles of management described in above para.

Ans. "Authority & Responsibility" and "Initiative".

Q. 27. 90% staff of 'Work Well Ltd.' consists of male employees. The female employees are employed for very basic jobs like receptionists etc. The management is of opinion that female employees cannot contribute at par with male employees. They pay much lesser salaries to female staff despite the fact that they work for same number of hours.

(a) Name the principles of management that is being violated here.

(b) State the values ignored by management of Work Well Ltd. (Any two)

Ans. (a) Principles of "Equity" and "Remuneration".

(b) Right of Equality, gender equality, being humans.

Q. 28. Production manager of Beta Ltd. took special care of the interest and ability of his subordinates while distributing work among them. He was of the firm opinion that a worker should be given one work again and again so that he may become expert in it. One day he took round of his department and noticed that the workers were not doing their job quickly. On enquiry, he learnt that the workers worked non-stop which main cause of their slow speed. He immediately issued an order that during their working hours, the workers will have an interval to take rest.

(a) State the principle of management followed here? Explain.

(b) Which technique of scientific management is indicated in above para?

Ans. (a) Principle of Division of work. (b) Fatigue study.

Q. 29. Nowadays in schools, students or parents can file their complaints or requests to the respective class teachers and if needed class teacher may discuss the issue with head of department followed by Vice-Principal and if the issue is extremely serious it may taken to the Principal. Which principle of management is indicated here? Explain it with its exception.

Ans. Scalar chain.

Student ⟶ Teacher ⟶ Vice-principal ⟶ Principal

This systematic chain is being followed here in the case of emergency gang plan may be followed.

Q. 30. In one of his principles, Taylor suggested that job performance should be based on scientific enquiry and not on will/wish or personal intuition of manager?

(i) Name that principle.

(ii) What values can be followed by using this principle?

Ans. (i) Principle of "Science not rule of thumb."

(ii) If manager is using this technique he can follow the value of objectivity it as when decisions are taken scientifically he cannot be biased.

Q. 31. In one of the principles of scientific management, Taylor emphasises that there should be equal division of work and responsibility between workers and management and management should work almost side by side with workers helping them:

(i) Identify the principle.

(ii) State any other two scientific principles.

Ans. (i) The principle referred in above para is "Cooperation not individualism."

(ii) Other scientific principles are:

(i) Science not rule of thumb, (ii) Harmony not discord.

Q. 32. The management and workers have entered into an agreement that workers will do overtime to cover up losses of the company. In return the manager will increase the wages but management later refused to increase the wages.

Name the principle related to above situation.

Ans. Principle of discipline. As managements fail to fulfill their commitment.

Q. 33. The production department of Alpha Ltd. was not performing well on detailed analysis, it was observed that the workers of that department were overburdened. They were forced to work for longer hours without any break. So the management planned to replace the production manager. They appointed Mr. Hari as the new Production Manager. He observed the average worker and note down their times. He noted down the time they worked and the time they required to be fresh to join back the work. Based on this observation, he set the break intervals for workers. He gave small breaks to workers to recharge their energy.

Name and explain the technique of scientific management used by Mr. Hari.

Ans. Fatigue study.

Q. 34. One of the principles of Scientific management emphasizes to make the employee efficient, by training the workers. It further insists that each employee must be scientifically selected and work assigned to employees should suit their physical, mental and intellectual capabilities.

(i) Name and explain the principle of scientific management involved in above case.

(ii) Name the value emphasized by this principle.

Ans. (i) Principle of "Development of workers to their greatest efficiency."
(ii) Value of growth, prosperity of workers and company.

Q. 35. In the staff meeting the principal of the school raised objection that teachers start the teaching after 5 to 10 minutes in third floor classes. He warned them as students are complaining about this. The teachers explained the principal that when we climb steps from ground to third floor. We get some tiredness and need 5 to 10 minutes rest before starting the lecture. The principal planned to install a lift in school so that teachers do not waste their energy on wasteful activity of climbing steps.

1. State the techniques of scientific management used by principal.
2. State any other technique of scientific management.

Ans.
1. "Technique of motion study."
2. Other two techniques:
   (a) Functional foremanship (b) Time study.

Q. 36. In a factory the toolbox was kept under the table of every worker, whenever worker needs tools he had to bend tape out tool from tool box and keep it back after use. The newly appointed supervisor observed it and suggested to keep a stool near every worker's chain where toolbox can he placed so that workers do not waste their energy in bending again and again.

1. Which technique of scientific management is used by New Supervisor.
2. State the objective of motion study.

Ans.
1. Motion study.
2. The objective of motion study is to eliminate unproductive movements of workers.

Q. 37. Mr. Mukesh used to manufacture shoes by employing labour who were easily available. When his son after completing his MBA joined the business, he analysed that if we use capital intensive method by using a machine it will reduce the cost and the quality of shoes will also improve.

1. Which technique of Scientific management is used by his son.
2. What is the objective of that technique.

Ans. 1. Method Study 2. Finding the best way of doing thing.

Q. 38. Neeraj is selected for the post of software developer in an IT Company. On the first day of his joining Mehul, his project manager tells Neeraj that during the course of his work he will come across many such opportunities which may temp him to misuse his powers for individual or family's benefit at the cost of larger general interest of the company. In such situations, he should rather exhibit exemplary behaviour as it will raisae his stature in the eyes of the company. Also, for interacting with anyone in the company on official matters, he should adopt the formal chain of authority and communication.

In context of the above case:

Identify the various principles of management that Mehul is advising Neeraj to follow while doing his job.

Ans. The various principles of management that Mehul is advising Neeraj to follow while doing his job are as follows:

1. Subordination of Individual Interest to General Interest
2. Scalar Chain

Q. 39. Pawan is working as a Production Manager in CFL Ltd. which manufactures CFL bulbs. There is no class-conflict between the management and workers. The working conditions are very good. The company is earning huge profits. As a policy, the management shares the profits earned with the workers because they believe in the prosperity of the employees.

State the principle of management described in the above paragraph.

Ans. The principle of management described in the above paragraph is 'Harmony, not discord'.

Q. 40. Mr. Rajiv is the owner of 'Laxmi Dairy.' He is producing various milk products. He always tests various ways of producing different products and chooses the best and most economical way of production. He is also very particular about fixing a place for everything and he makes sure that all the employees are given a fixed place so that there is no wastage of time and delay in production.

1. Which technique of scientific management is applied by Mr. Rajiv?
2. Which principle of Henry Fayol is followed by him?

Ans. 1. Method Study 2. Principle of order

Q. 41. Mr. Rajiv the senior manager of Unique enterprise considered himself very wise and used to take all the decisions himself without consulting the employees, he never used to help any one nor he used to take help of anyone. The employees of unique enterprise were not working efficiently and company's profit margin started declining to tackle the problem, the company appointed a new manager from IIM Bangalore. The new manager after joining made a policy that all the decisions will be taken after consulting employees in the meeting. All employees must give some suggestions and best suggestions will be rewarded with financial and nonfinancial incentives. This policy had a very positive effects on company.

State and explain the principle of Henry Fayol used by new manager.

Ans. 1. Principle of initiative 2. "Cooperation not individualism."

Q. 42. In a school principal makes sure that every instruction, order or information given by him must be passed to vice-principal then Head of the department and then to teachers and students must be informed by respective teachers only. He never allows teachers to directly communicate with him.

1. State the Principle of Henry Fayol followed by the school principal.
2. In case of emergency which concept of Scalar Chain can be used by teacher to pass urgent message directly to principal.

Ans. 1. Scalar Chain. 2. Gang-plank.

Guidelines to NCERT Questions

Multiple Choice Questions

1. Principles of management are not

(a) Universal (b) Flexible
(c) Absolute (d) Behavioural

2. How are principles of management formed?

(a) In a laboratory (b) By experience of a manager
(c) By experience of customers (d) Adaptation to changing technology

3. The principles of management are significant because of

(a) increase in efficiency (b) Initiative
(c) Optimum utilisation of resources (d) Adaptation to changing technology

4. Henry Fayol was a

(a) Social Scientist (b) Mining engineer
(c) Accountant (d) Production engineer

5. Which of the following statements best describes the principle of 'Division of Work'?

(a) Work should be divided into small tasks. (b) Labour should be divided.
(c) Resources should be divided among jobs. (d) It leads to specialisation.

6. She/he keeps machines, materials, tools, etc., ready for operations by different workers. Whose work is described by this sentence under functional foremanship?
   (a) Instruction card clerk (b) Repair boss
   (c) Gang boss (d) Route clerk
7. Which of the following is NOT a Principle of Management given by Taylor?
   (a) Science, not rule of the Thumb (b) Functional foremanship
   (c) Maximum not restricted output (d) Harmony not discord.
8. Management should and 'one best way' to perform. Which technique of scientific management is defined in this sentence?
   (a) Time study (b) Motion study
   (c) Fatigue study (d) Method study
9. Which of the following statements best describes 'Mental Revolution'?
   (a) It implies change of attitude.
   (b) The management and workers should not play the game of one upmanship.
   (c) Both management and workers require each other.
   (d) Workers should be paid more wages.
10. Which of the following statements is false about Taylor and Fayol?
   (a) Fayol was a mining whereas Taylor was a mechanical engineer.
   (b) Fayol's principles are applicable in specialised situation whereas Taylor's principles have universal application.
   (c) Fayol's principles were formed through personal experience whereas Taylor's principles were formed through experimentations.
   (d) Fayol's principles are applicable at the top level of management whereas Taylor's principles are applicable at the shop floor.

Short Answer Type Questions

1. How is the principle of 'Unity of Command' useful management? Explain briefly. [Refer on Page No. 69]
2. Define scientific management. State any three of its principles. [Refer on Page Nos. 82-86]
3. If an organisation does not provide the right place for physical and human resources in an organisation, which principle is violated? What are the consequences of it? [Ans. Principle of order.] [Refer on Page No. 76]
4. Explain any four points regarding significance of Principle of Management. [Refer on Page Nos. 63-64]
5. Explain the principle of 'Scalar Chain' and gang plank. [Refer on Page No. 75]

Long Answer Type Questions

1. Explain the Principle of Scientific management given by Taylor. [Refer on Page Nos. 82-86]
2. Explain the following Principle of Management by Fayol with examples:
   (a) Unity of direction [Refer on Page Nos. 70-71]
   (b) Equity [Refer on Page No. 77]
   (c) Esprit De Corps [Refer on Page No. 80]
   (d) Order [Refer on Page No. 76]

(e) Centralisation and Decentralisation [Refer on Page No. 74]
(f) Initiative. [Refer on Page No. 78-79]

3. Explain the technique of 'Functional Foremanship' and the concept of 'Mental Revolution' as enunciated by Taylor. [Refer on Page Nos. 87 and 94]
4. Discuss the following techniques of Scientific work study:
   (a) Time study [Refer on Page No. 91-92]
   (b) Motion study [Refer on Page No. 92]
   (c) Fatigue study [Refer on Page No. 90-91]
   (d) Method study [Refer on Page No. 91]
   (e) Standardisation and simplification of work. [Refer on Page No. 89-90]
5. Discuss the relevance of Taylor and Fayol's contribution in the contemporary business environment. [Refer on Page No. 96]

Previous Years' Examination Questions (2014-2019)

One Mark Questions

1. What is determined by 'Time-Study'? [CBSE 2014]
2. How do principles of management help managers in taking decisions scientifically? State. [CBSE (D) 2017(C)]
3. How do principles of management help managers in fulfilling social responsibility? State. [CBSE (D) 2017(C)]
4. How do principles of management help managers in meeting the requirements of the changing environment? State. [CBSE (D) 2017(C)]
5. State the role of 'route clerk' in functional foremanship. [CBSE (AI) 2016]
6. Why is it said that principles of management are mainly behavioural in nature? [CBSE (F) 2015]
7. State the role of 'gang boss' in functional foremanship. [CBSE (D) 2016]
8. State the role of Inspector in functional foremanship. [CBSE (F) 2016]
9. Appliances India Ltd is engaged in manufacturing and distribution of home appliances since 1987. It has a good name in the market as the company is producing good quality appliances. It has separate departments for manufacturing, finance, sales, maintenance services and technical services to achieve specialisation.
   Since the areas of operation of the company have increased and customers have become more demanding, the company decided to modify the existing principle of management to meet the changing requirements of the environment. State the general principle of management which the company wants to modify to meet the changing requirements.[CBSE 2019 (66/1/1)]
10. Principles of management equip the managers to foresee the cause and effect relationships of their decisions and actions so that the wastages associated with a trial and error approach can be overcome.
    Identify the point of significance of principles of management highlighted here. [CBSE 2019 (66/4/1)]

Three Marks Questions

11. Explain briefly 'Unity of Direction' and 'Order' as principles of general management. [CBSE (AI) 2017]

12. Explain 'unity of command' and 'equity' as principles of general management. [CBSE (D) 2017]
13. Explain briefly 'discipline' and 'scalar chain' as principles of general management. [CBSE (D) 2017]
14. Explain 'order' and 'initiative' as principles of general management. [CBSE (D) 2017]
15. Explain briefly 'Initiative' and 'Esprit de Corps' as principles of general management. [CBSE (AI) 2017]
16. Explain briefly 'Remuneration of Employees' and 'Scalar Chain' as principles of general management. [CBSE (D) 2017]

Four Marks Questions

17. State any four features of 'Principles of Management'. [CBSE 2015]
18. What is meant by principles of management? State any three points of their importance. [CBSE 2015]
19. 'Aapka Vidyalaya' believes in holistic development of students and encourages team building through a mix of curricular, co-curricular and sports activities. On its founders day a stage performance had to be put up. A committee of ten prefects was constituted to plan different aspects of the function. They all decided to use recycled paper for decoration. There was a spirit of unity and harmony and all members supported each other. With mutual trust and belongingness the programme was systematically planned and executed. Kartik, one of the prefects realized that unknowingly the group had applied one of the principles of management while planning and executing the programme. He was so inspired by the success of the function that he asked his father to apply the same principle in his business. His father replied that he was already using this principle.
    (a) Identify the principle of management applied for the success of the programme.
    (b) State any two features of management highlighted in the above para. [CBSE (D) 2015]
20. Damini D'souza took over the reins of 'Kinsa Retail' as its Managing Director in India. Kinsa Retail with its headquarters at Japan has been in retail business for the last 40 years. It has regional offices in many countries with each regional office taking care of the shops in that particular region. As it is a large organisation, the regional officers have been given the powers to decide and spend funds sanctioned to them by the headquarter for the welfare of the customers of their region. Kinsa Retail wants the highest possible standards of ethical conduct being followed for which a code of conduct is in place for putting values into practice. All employees as well as Board members are required to act in accordance with the highest standards of personal and professional integrity when acting on behalf of the company. Non-compliance involves a heavy penalty including termination of employment.
    State two principles of general management being followed by Kinsa Retail. [CBSE 2019 (66/3/1)]
21. Define 'Management'. Explain how management is a multidimensional activity. [CBSE 2019 (66/5/1)]

Five/Six Marks Questions

22. Explain the following principles of management:
    (i) Scalar chain. (ii) Harmony, not discord. [CBSE 2015]
23. Karan Nath took over 'D'north Motor Company' from his ailing father three months ago. In the past the company was not performing well. Karan was determined to improve the company's

performance. He observed that the methods of production as well as selection of employees in the company were not scientific.

He believed that there was only one best method to maximize efficiency. He also felt that once the method is developed, the workers of the company should be trained to learn that 'best method'.

He asked the Production Manager to develop the best method and carry out the necessary training. The Production Manager developed this method using several parameters right from deciding the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers. This method was implemented throughout the organization. It helped in increasing the output, improving the quality and reducing the cost and wastage.

Identify and explain the principles and the technique of scientific management followed by the Production Manager in the above case. [CBSE 2018]

24. Explain the following principles of management :
(a) Harmony, not discord (b) Discipline. [CBSE (F) 2015]

25. With the help of a diagram explain 'Functional Foremanship' as a technique of scientific management. [CBSE (D) 2015]

26. Explain any four characteristics of 'principles of management.' [CBSE (D) 2016]

27. Explain the following principles of management:
(a) Science, not rule-of-thumb. (b) Discipline. [CBSE (AI) 2015]

28. Explain any four points that highlight the importance of principles of management. [CBSE (F) 2016]

29. Explain any five points of significance of Principles of Management. [CBSE 2019 (66/1/1)]

OR

Explain the following Techniques of Scientific Management:
(a) Fatigue Study
(b) Differential Piece Wage System [CBSE 2019 (66/1/1)]

30. Explain the following techniques of scientific management:
(a) Time Study; (b) Motion Study; and
(c) Functional Foremanship. [CBSE 2019 (66/2/1)]

OR

Explain the following principles of general management:
(a) Division of Work; (b) Authority and Responsibility; and
(c) Discipline [CBSE 2019 (66/2/1)]

31. Vishesh completed his MBA at a reputed business school in Lucknow. He was impressed by the Principles and Techniques of Scientific Management developed by F.W. Taylor. On completing his MBA, he wanted to apply scientific Management in his family's business of fast food chain of restaurants named 'Burger Mania'.

His main goal was to reduce costs with increased output. To begin with, he wanted to develop a standard method which would be followed throughout the organisation. So, he investigated traditional methods through work study and unified the best practices. The standard method, i.e. the best way of doing the job was then developed taking into account all parameters right from the procurement of raw materials till the delivery of the final product to the customer. Vishesh also believed that each person should not only be scientifically selected but should also be given the required training to increase efficiency. For this, he set up a Special Training Unit called 'Hamburger' in Bengaluru where the workers were given the required training to increase efficiency. For this, he set up a workers were given the required training to learn the best method. At the factory, the ingredients making up a burger were strategically placed to

reduce the time taken for excess movements. The standard time and other parameters were determined on the basis of work study and Vishesh rewarded the workers for meeting the standard output.

Now, 'Burger Mania' has standardised processes, raw material, time, machinery, product and working conditions that ensure the food they send out to their customers has the same high standards of excellence and level of quality in every chain or franchise. The application of Scientific Management to every aspect of restaurant operations led to ''Burger Mania's' widespread success. Quoting the lines from the above, explain the Principles and Techniques of 'Scientific Management' used by 'Burger Mania'. *[CBSE 2019 (66/4/1)]*

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

Quoting the lines from the above paragraph, identify and explain the two techniques of Scientific Management. *[CBSE 2019 (66/5/1)]*

33. Explain any four points highlighting the nature of principles of management. *[CBSE 2019 (66/5/1)]*

Hints of the Answers for Case Studies

9. The general principle of management which the company wants to modify is the Principle of Division of work which states that the work should be divided into small tasks/ jobs each performed by a specialist.

10. Optimum utilization of resources and effective administration.

19. (a) Principle of management - Espirit de corps.

(b) Features of management: - (Any two)

(i) MANAGEMENT IS PERVASIVE.
(ii) MANAGEMENT IS A GROUP ACTIVITY
(iii) MANAGEMENT IS GOAL-ORIENTED.
(iv) MANAGEMENT IS MULTI-DIMENSIONAL
(v) MANAGEMENT IS INTANGIBLE

20. Principles of General management being followed by Kinsa Retail are:

(i) Discipline which refers to obedience to organizational rules and employment agreement that are necessary for the working of the organization. It requires good superiors at all levels, clear and fair agreement and judicious application of penalties.

(ii) Centralisation and Decentralisation which suggests that there is a need to balance subordinate involvement through decentralisation with managers retention of final authority through centralisation.

23. Principles of management followed in the above case:

(a) Science not rule of thumb

- It states that there was only one best method to maximise efficiency.
- This method can be developed through scientific study and analysis of each element of a job and should substitute 'Rule of Thumb'.

- This standard method then should be followed throughout the organisation.

(b) Development of each and every person to his greatest efficiency and prosperity

- This principle is concerned with efficiency of employees which could be built in right from the process of employee selection.

- The work assigned to employees should suit their capabilities. They should be given the required training to increase their efficiency.
- Efficient employees would produce more and earn more. This will ensure their greatest efficiency and prosperity for both the company and the workers.

Technique of scientific management followed in the above case:

Method Study

- It is a study to find out one best way of doing the job.
- It helps to minimize the cost of production, improve the quality and maximize satisfaction of the customer.
- It includes all activities from procurement of raw materials till the final product is delivered to the customer.

31. The Principles and Techniques of 'Scientific Management' used by 'Burger Mania' are: (Any six)

Principles of scientific management

- Science, not rule of thumb

"To begin with, he wanted to develop a standard method which would be followed throughout the organisation. So, he investigated traditional methods through work study and unified the best practices."

- Development of each and every person to his/her greatest efficiency and prosperity

"Vishesh also believed that each person should not only be scientifically selected but should also be given the required training to increase efficiency."

Techniques of scientific management

Method study

"The standard method, i.e. the best way of doing the job was then developed taking into account all parameters right from the procurement of raw materials till the delivery of the final product to the customer."

Motion study

"At the factory, the ingredients making up a burger were strategically placed to reduce the time taken for excess movements."

Time study

"The standard time and other parameters were determined on the basis of work study

Standardization (Standardization and Simplification of Work)

"Now, 'Burger Mania' has standardised processes, raw material, time, machinery, product and working conditions that ensure the food they send out to their customers has the same high standards of excellence and level of quality in every chain or franchise."

Differential piece wage system

"Vishesh rewarded the workers for meeting the standard output."

32. Time Study

'One of the techniques helps to determine labour costs'

- It is a technique to determine the standard time taken by a worker of reasonable skill and efficiency to perform a well-defined job.

- It helps in deciding the number of workers to be employed, frame suitable incentive schemes and determine labour costs.

Differential Piece Wage System

'Another technique recognises those workers who are able to accomplish/exceed the fair day's work and is based on the premise that efficiency is the result of the joint efforts of the managers and the workers'

- Differential Piece Wage System is a technique which differentiates between efficient and less efficient workers. It rewards the efficient workers and motivates the less efficient ones to improve their efficiency.
- In this plan, there are two piece rates – a higher piece rate for those workers who produce the standard output or more, and a lower one for those who produce less than the standard output.

ANSWERS OF MCQs AND CASE STUDIES

Page 62-63

1. (b) Guidelines for managerial action
2. (c) Contingent
3. (i) Feature highlighted in above situation is "Management Principles are pervasive".
   (ii) Management principles are flexible whereas scientific principles are regid.
   (iii) Management principles are formed by deep observation and repeated experiments.
4. (i) The two features of principles of management mentioned in the above paragraph are as follows:
   (a) General guidelines (b) Flexible
   (ii) As the real business situations are very complex and dynamic and are a result of many factors, the principles of management not provide readymade, straitjacket solutions to all managerial problems.

Page 67

1. Principle of Division of Work
2. Principle of Division of work.

Page 68

1. Authority and Responsibility
2. Principle of authority and responsibility.

Page 69

1. The principle of management described in the above para is Discipline.
   Discipline is the obedience to organizational rules and employment agreement which are necessary for the working of the organization.

Page 70

1. Principle of unity of Command.

Page 71

1. Unity of Direction.

Page 72

1. Principle of subordination of individual interest to general interest.

Page 73

1. Principle of remuneration as it states the compensation of employees depend on the earning capacity of the company and should give them reasonable standard of living.

Page 74

1. Principle of centralisation and decentralisation.

Page 76

1. (i) Scalar Chain. (ii) Gang-plank.

Page 77

1. Principle of Order

Page 78

1. Company is violating the "Principle of Equity."

Page 80

1. Principle of initiative

Page 81-82

1. (d) Stability of Tenure of Personnel.
2. (c) Unity of Direction
3. (a) Principle of order
4. (b) Principle of Equity
5. (c) Stability of Personnel
6. Principle of "Espirit De Corps".
7. Principles of management
   (i) Stability of Personnel (ii) Initiative
   (iii) Discipline (iv) Espirit de corps
8. In the above case following principles of management are violated:
   (i) Division of work (ii) Discipline
   (iii) Unity of command (iv) Initiative
   (v) Esprit de Corps.

Page 84

1. 'Science not rule of Thumb'

Page 85

1. Harmony, not Discord

Page 86

1. The principles of Fayol and Taylor referred to in the above paragraph respectively are
   (i) Initiative
   (ii) Cooperation and Not Individualism

Page 87

1. (b) Cooperation not Individualism
2. (a) Harmony not Discord
3. Principle of Development of each and every person to their greatest efficiency and prosperity.

Page 94-95

1. (c) Inspector
2. (b) Fatigue Study
3. (c) Standardisation
4. (a) Division of Work
5. Techniques of Scientific management used by Sandhya to solve the problem were:

   (i) Motion Study

   Meaning: It is a technique to study the movements that are necessary for doing a well defined job.

   It seeks to eliminate unnecessary and wasteful movements so that it takes less time to complete a job efficiently.

   (ii) Time Study

   Meaning: It is a technique to determine the standard time taken by a worker of reasonable skill and efficiency to perform a well-defined job.

   It helps in deciding the number of workers to be employed, frame suitable incentive schemes and determine labour costs.

   (iii) Simplification of Work

   Meaning: It is a technique to eliminate superfluous varieties, sizes and dimensions of products.

   It leads to reduced inventories, fuller utilization of equipment and increased turnover to reduce costs.

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (b)	2. (b)	3. (b)	4. (a)	5. (c)
6. (c)	7. (d)	8. (a)	9. (b)	10. (d)
11. (c)	12. (b)	13. (d)	14. (a)	15. (b)
16. (c)	17. (a)	18. (c)	19. (b)	20. (b)

Fill in the Blanks

1. Functional formanship
2. Standardisation
3. Principle of Harmony not discard
4. Cooperation not individualism
5. Route Clerk
6. Differential piece wage system
7. Standard time
8. Method study
9. Flexible
10. Initiative

True or False

1. (F) – Management principles provided only guidelines.
2. (F) – Management principles are flexible.
3. (T) – Management principles are pervasive.
4. (F) – Management principles are formed as a result of deep observation and repeated experiments.
5. (F) – Management principles are contingent. Their application vary from organisation to organisation depending upon conditions and situations.
6. (F) – His focus is on manager.
7. (T) –
8. (F) – Motion study eliminate non productive movement.
9. (T) –
10. (F) – There must be parity or balance between Responsibility and Authority.

3 BUSINESS ENVIRONMENT

Contents as per Latest CBSE Syllabus

- Business Environment—concept and importance
- Dimensions of Business Environment—Economic, Social, Technological, Political and Legal
  Demonetization—concept and features
- Impact of Government policy changes on business with special reference to liberalization, privatization and globalization in India

3.1 MEANING OF BUSINESS ENVIRONMENT

Business environment refers to forces, factors, individuals and institutions which are outside the control of business enterprise but these may effect its performance.

In simple words, the business environment is the surroundings in which business exists.

Thus, the economic, social, political, technological, legal and other forces which operate outside business enterprise are part of business environment.

Although these environment forces exists outside the enterprise but they influence the business enterprises for example.

1. Increase in taxes by government make things expensive to buy.
2. Technological changes may make existing products obsolete.
   - Changes in fashions and tastes of consumers may shift the demand in market from existing products to new one.
   - Increase in competition in the market may reduce profit margins in the firms.

Since environment factors influence business enterprise so it become essential for businessmen to do environment scanning.

Environment scanning refers to complete awareness and understanding of business environment. With environment scanning business enterprises can anticipate the effect of environment forces and factors on their enterprise.

Business Environments provide **constraints** as well as **opportunities** for the businessman. **For example,** the regulation such as MRTP Act and wealth restriction put constraints on the businessman. On the other hand, the liberalisation policies, import relaxation policies bring opportunities for the businessman.

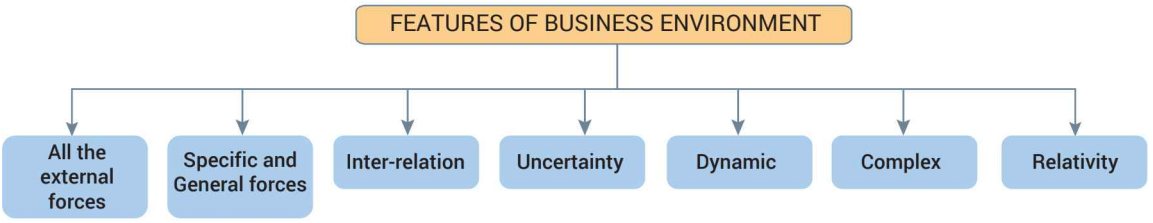
Constraints or threats refers to conditions which restricts business activities, opportunities refers to conditions which allows growth and expansion of business activities.

3.2 FEATURES/CHARACTERISTICS/NATURE OF BUSINESS ENVIRONMENT

The main features of Business Environment are:

1. **All the external forces.** Business environment includes all the forces, institutions and factors which are external to business organisations.
2. **Specific and general forces.** Business environment includes both specific and general forces.

   Specific forces affect business enterprises directly and immediately in their day to day working. These include supplier, investors, customers, general forces are social, political, legal, technological conditions have impact on all the enterprises and effect individual firms only indirectly.
3. **Inter-relation.** All the forces and factors of Business Environment are inter-related to each other. **For example**, with inclination of youth towards western culture, the demand for fast food is increasing.
4. **Uncertainty.** It is very difficult to predict the changes of Business Environment. As environment is changing very fast for example in IT, fashion industry frequent and fast changes are taking place.
5. **Dynamic.** Business environment is highly flexible and keep changing. It is not static or rigid that is why it is essential to monitor and scan the business environment continuously.
6. **Complex.** It is very difficult to understand the impact of Business environment on the companies. Although it is easy to scan the environment but it is very difficult to know how these changes will influence Business decisions. Sometime change may be minor but it might have large impact. **For example**, a change in government policy to increase the tax rate by 5% may affect the income of company by large amount.
7. **Relativity.** Business environment differ from country to country, region to region as political conditions, cultures are different in different countries. **For example,** there may be more demand for sarees in India as compare to USA or UK. Same condition in the environment may have different effect on different enterprises. **For example,** when consumer organisation found pesticides in cold drink. It came as constraint for cold drink industry but it was an opportunity for juice industry.



Keywords

Nature of Business Environment

(i) All external forces–Factors outside business organisation are included in Business Environment, Internal factors such as relation between employees, superior/subordinate relationship etc. are not part of Business Environment.

(ii) Specific/general–Specific–which effect your business only/general-which effect all the businesses.

(iii) Inter relation–All components of Business environment are interdependent.

(iv) Uncertainty–No one can predict Business environment 100% accurately.

(v) Dynamic–Condition in environment keep on changing.

(vi) Complex–it is difficult to scan environment.

(vii) Relativity–Same condition has different impart on different business.

MCQs and Case Studies

1. **Unique Ltd. is an electronic goods manufacturing company situated in Uttar Pradesh. It is earning low revenue in comparison to another electronic company 'Pace Ltd.' situated in Delhi. Both the enterprises are affected by the investors customers, competitors and suppliers in their respective locations. At the same time both are also affected by economic condition, change in technology, etc.**

   Identify the features of business environment discussed in above paragraph:

   (a) Relativity and complex
   (b) Complex and all external forces
   (c) Specific and general and dynamic
   (d) Relativity and specific and general.

2. **"It may be difficult to know the extent of the relative impact of the social economic, political, technological or legal factors on change in demand of a product in the market."**

   Which feature of business environment is highlighted by this point?

3. **Two big banner movies were scheduled to be released on the same date. On the last moment release of one of the movies had to be postponed due to opposition of a group of people due to some unethical contents related to their religion was shown in the that movie. The other movie released on time and made huge profit as there was no competition and movie which was postponed suffered loss.**

   (i) Which feature of business environment is highlighted here?

   (ii) Identify the dimension of business environment, which delayed the release of movie.

(Answers at Page no. 155)

3.3 IMPORTANCE OF BUSINESS ENVIRONMENT

The understanding and awareness of business environment is must for every businessman as ignorance about business environment can throw the businessman out from the market. Proper understanding and awareness about the business environment brings lots of benefits for the businessman and these benefits are:

1. **Enables the Firm to Identify Opportunities and Getting First Mover Advantage.** The businessmen who are able to understand and scan the opportunities of business environment at early stage they get maximum benefit or they can capture a big share in the market. They can go much ahead of their competitors. **For example**, Maruti was the first company to recognise the need for small cars in an environment of rising petrol prices and large middle class population in India so they became the leader in the small car market. **Same Way:** WhatsApp was the first application for mobile chat. Afterwards, many other applications came but still WhatsApp is No. 1 in mobile chat.
2. **Helps the Firm to Identify the Threats and Early Warning Signal.** The businessmen who are able to scan and understand the business environment on time get a warning signal to deal with the constraints or the negative policies of business environment. Timely scanning of business environment and the qualitative information which businessmen get is taken as warning signal and changes in the companies are made. For example, on scanning the business environment, the Maruti Udyog company got the qualitative information that more foreign car manufacturing companies are going to set up their business in India. They took it as a warning signal and started increasing their production capacity. The Maruti Company accepted the entry of foreign car companies as warning signal and increased their production to supply the cars without any waiting period to compete with the new companies.
3. **Helpful in Tapping and Assembling Resources.** Businessmen have to supply the goods to market according to the demand in market. To supply output they need input, raw materials, etc. They acquire raw materials and other resources keeping in mind the output demanded in the environment. They select resources according to availability in environment and demand of output in environment. For example, with the demand of LED, 3D T.V. Manufacturers are collecting resources necessary to manufacture LED & 3D T.V. rather than collecting resources of Black and White T.V. or flatscreen T.V., etc.

   They use the scanning report as input to make changes in the output which suits the taste of present day customer.

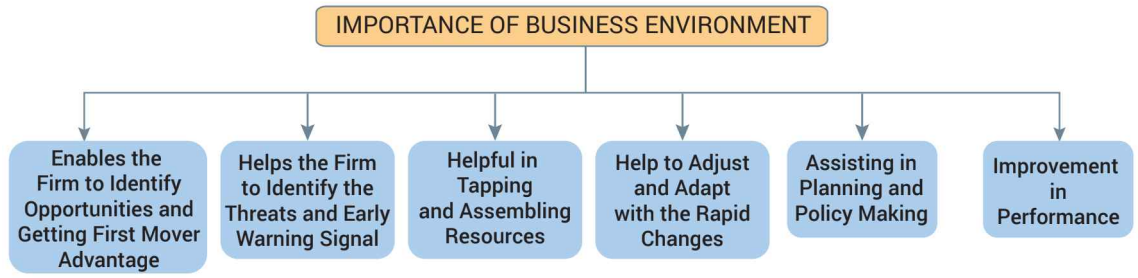
   It helps in tapping useful resources. Business enterprise assembles various resource, such as finance machines, raw materials, power, water, labour, etc. The organisation have to make policies so that it get the resources that it need to convert into output desired by environment and this can be done only by understanding what environment has to offer.

4. **Help to Adjust and Adapt with the Rapid Changes.** Today changes are taking place very fast and these changes have great impact on Business. So it is essential to understand these changes as early as possibly. Business environment scanning helps the companies to scan and understand these changes with environment scanning. Businessmen make changes in their internal environment also to match the external environment. So environment scanning helps in coping with the rapid changes.

   For example, due to increasing competition customers are becoming more demanding and it has become essential for business enterprises to adapt rapidly change by technological environment.

5. **Assisting in Planning and Policy Making.** The major strategies or plans and policies in the organisation are formed keeping in mind business environment because the policies and strategies have to be implemented in the presence of environmental factors. So, these must be made keeping in mind the environmental factors. Scanning of environmental factors helps in finding out the opportunities of business and strategies can be made to grab these opportunities. For example, on scanning the Indian Business Environment we find there is great scope for tourism industry in our country. So, businessmen are planning strategies to grab these opportunities. Various hotels of private, public sector, ITC group are making new strategies for tourists. There is a separate travel segment set up and separate leisure and fun segment is set up to get the benefit of upcoming tourist industry.

6. **Improvement in Performance.** With continuous scan of Business environment companies can easily improve their performance. By making changes in the internal environment matching to external environment, organisations can prosper and improve their market share.



Keywords

Importance of Business Environment

Be the 1st one to introduce any product or technology or change.

(i) **First Mover Advantage–** Maximum benefits or profit by grabbing the opportunity at the earliest.

(ii) **Warning Signal–** Come to know in advance for the coming constraints or threats of Business due to scan of environment.

(iii) **Help in Tapping Resources–** Collecting right type of resources as per present requirement of business by foreseeing the requirement due scan of Business Environment.

(iv) **Help to Adapt Changes–** Bringing changes in your organisation as per changes in environment.
Being innovative and adopt latest technology latest method of production, etc.

(v) **Help in making Planning and Policy–** Making plans and policies Keeping in mind conditions prevailing in environment.

(vi) **Improvement in Performance–** With timely changes and innovation performance improves.

MCQs and Case Studies

1. **With the introduction of mineral water bottle in India, Bisleri was able to capture the big market share in India. Which importance of Business Environment is highlighted here.**
   (a) Helps in Policy Making
   (b) Identifying threat and getting warning signals
   (c) Helps in tapping resources
   (d) Help to identify opportunities and getting first mover advantage.

2. **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 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.**
   (i) State any two features of business environment as discussed by Professor Mehta with Naman and Govind.
   (ii) State any two importance of business environment referred in above para.

(Answers at Page no. 155)

3.4 DIMENSIONS OF BUSINESS ENVIRONMENT

Dimensions of business environment mean all the factors, forces and institutions which have direct or indirect influence over the business transactions.

General Environment is the most important dimension of business environment as businessman cannot influence or change the components of general environment rather he has to change his plans and policies according to the changes taking place in general environment.

Major Components of General Environment are:

(i) **Economical Environment.** Economic Environment refers to all the forces and factors which directly influence the economy of your country. Economic Environment consists of Gross Domestic Product, Income level at national level and per capita level, Profit earning rate, Productivity and Employment rate, Industrial, monetary and fiscal policy of the government, etc.

Some aspects of Economic Environment are:

1. Increase in GDP result in rise in disposable income of people and further increased in demand for product.
2. High inflation rate set as constraint as they increase the cost of production.
3. Decrease in interest rate is beneficial and increase demand for home loans and borrowing money.
4. Passing of GST Bill will affect almost all the business organisation.
5. Demonetisation of ₹ 500 and ₹ 1,000 note recently hit the Indian economic environment.
6. Banking sector reform has led to many attractive schemes of deposits and lending money. The Banks are offering loans at very nominal rate of interest and with minimum formalities to be completed.
7. Recent changes in economic and fiscal policy of country have encouraged NRIs and foreign investors to invest in Indian companies.
8. Lots of economic reforms are taking place in leasing and financing institutions. The private sector is allowed to enter in financial institutions, as a result customers are gaining.
9. Role of private and public sector
10. Rate of saving and investment
11. Balance of trade & Balance of Payment
12. Money supply in the economy
13. International debt

(ii) **Social Environment.** Social Environment consists of the customs and traditions of the society in which business is existing. It includes the standard of living, taste, preferences and education level of the people living in the society where business exists. The businessman

cannot overlook the components of social environment as these components may not have immediate impact on the business but in the long run the social environment has great impact on the business.

Examples of Social Environment:

The celebration of Diwali, Id, Christmas, Guruparv, etc. increase the sale of sweets, greeting-cards, etc.

The common factors of Indian Social Environment are:

1. Demand for reservation in jobs for minority and women.
2. Demand for equal status of women by paying equal wages for male and female workers.
3. Demand for automatic machines and luxury items in middle class families.
4. The social movements to improve the education level of girl child.
5. Health and Fitness trend has become popular.

Some Aspects of Social Environment:

6. Change in quality of life.
7. Importance or place of women in workforce.
8. Birth and death rates & population
9. Attitude of customers towards innovation, life style, etc.
10. Education and literacy rates.
11. Tradition, customs and habits of people.

Impact of shifts with the presence of women in the workforce

(iii) **Political Environment.** Political environment constitutes all the factors related to government affairs such as type of government in power, attitude of government towards

different groups of societies, policy changes implemented by different governments, etc. The political environment has immediate and great impact on the business transactions so businessman must scan this environment very carefully. The businessman has to make changes in his organisation according to the changing factor of political environment.

The common factors and forces which have influenced the Indian political environment are:

1. Swachh Bharat Abhiyan started by BJP government.
2. Skill India Movement started by BJP government.
3. Political stability encourage business enterprises to invest in long term projects.
4. Present political system & profile of political leaders.
5. Constitution of the country.
6. Government intervention in business.
7. Foreign policy of government.
8. Values and ideology of political parties.

(iv) Legal Environment. The management of every business enterprise has to obey the law of land. Therefore, it is essential for every business enterprise to have adequate knowledge of rules and regulations framed by government.

Legal environment includes:

1. Various Laws and Legislative act.
2. Administrative order issued by government authorities.
3. Court judgements, as well as the decisions rendered by various commissions and agencies at every level of the government—Centre, State or Locals.

To work successfully in India the business enterprises must have detail about—Companies Act 1956, Industrial Act 1951, FEMA, Trade Union Act 1926, Factories Act, Industrial disputes Act, Consumer Protection Act 1986, Competition Act 2002, etc.

Some Aspects of Legal Environment:

4. Legal policies related to licensing and foreign trade.
5. Statutory warnings essential to be printed on label. **For example**, Packets of cigarettes must have statutory warning.
6. Foreign exchange regulation and management act.
7. Laws to keep a check on advertisements. **For example**, The advertisement of alcohol products is prohibited. Advertisement on baby food must inform that mother's milk is the best, etc.

(v) Technological Environment. Technological environment includes forces related to scientific improvements and innovations which provide new ways of producing goods and services and new way of operating business.

Few examples of recent technological changes which have effected Indian business:

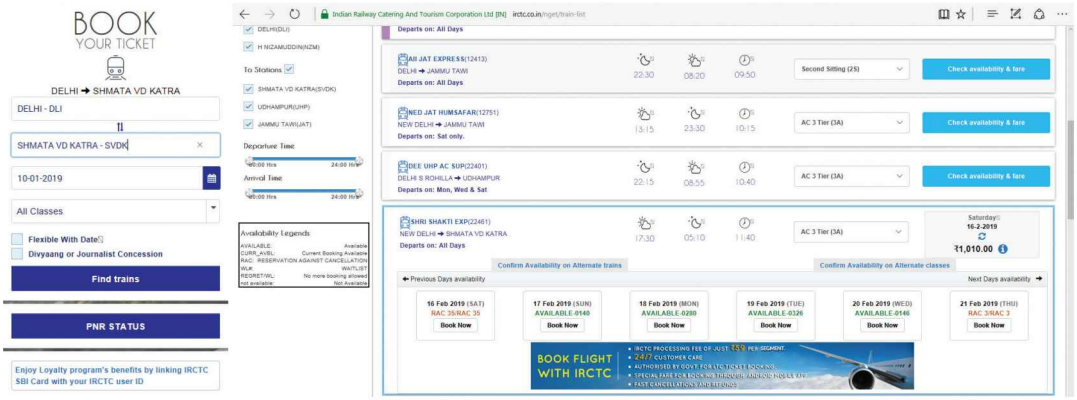
1. Companies have started using new ways of advertising such as CD-ROMs, computerised information kiosks, internet, etc., due to technological advancement is computers and electronics.
2. Online sale of grocery items is becoming very common.
3. Online booking of air tickets, movie tickets, not only booking you can see your seat number.
4. Due to technological advancement customer can compare the fare prices of various airlines, hotels, etc. and select the most economical.
5. Continuing innovation in different scientific and engineering fields such as lasers, robotics, biotechnology, food preservatives, medicines, etc. have provided lots of opportunities and threats for many enterprises.
6. Shift from vacuum tubes to transistors.
7. Shift from typewriter to word processors.
8. Shift from carbon paper to photocopier, etc.
9. Various innovations, inventions and scientific improvement.
10. Developments in IT sector, Technological advantages in computers.
11. Import and export of technology.
12. Online booking of tickets (rent, air, movies).

INDIAN RAILWAY CATERING AND TOURISM CORPORATION LTD.

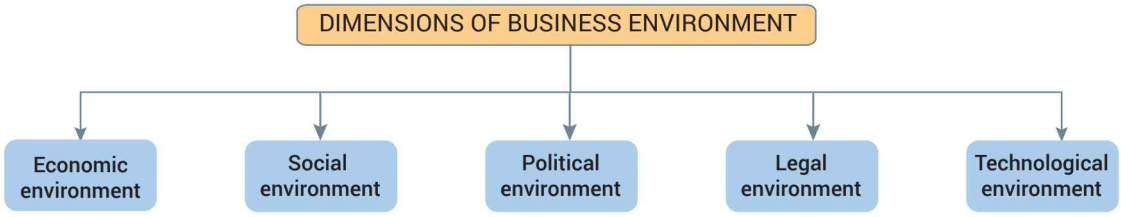
(A Government of India Enterprise)

E-TICKET BOOKING ON THIS WEBSITE: A GUIDE

- Register as an individual. Registration is FREE.
- Login by entering your user name and password.
- The 'plan my travel and book tickets' page appears.
- Use 'HELP' option for any help required to book tickets.
- Fill in the details, by following the guidelines given below.



- Because of technological advancement, it has become possible to book railway tickets through Internet from home, office, etc.



Keywords

Economic Environment

(i) Any change in taxes
(ii) Any change in interest rate
(iii) Any change in income/saving/investment
(iv) Any change in inflation rate
(v) Any change in value of rupee
(vi) Stock market indices
(vii) GDP, per capita income, national income, etc. RBI is the key regulator of economic environment.

Social Environment:

(i) Change in taste, fashion
(ii) Change in social trend
(iii) Increase in number of working women
(iv) Customs and Traditions

(v) Values followed
(vi) Celebration of festivals
(vii) Celebrations of various festivals
(viii) Standard of living
(ix) Change in education/literacy rate

Political Environment:

(i) Attitude of elected government representatives.
(ii) General stability and peace in political condition of country.
(iii) Policies changes implemented by different government.
(iv) Agenda of political parties.
(v) Political ideology and practices of ruling party.
(vi) Relation of our country with foreign country.
(vii) Constitution of the country.

Legal Environment:

(i) Any act, statute, legislature.
(ii) Court judgement.
(iii) Administrative orders issued by government authorities.
(iv) Decisions taken by government at every level in centre, state or local.
(v) Making any order compulsory.

Technological Environment:

(i) Change in method of production.
(ii) New machinery, new equipment.
(iii) New method of working for improvement.
(iv) Scientific improvements and innovations.
(v) New techniques and methods of operating business.

MCQs and Case Studies

1. **The Reserve Bank of India reduces CRR (Cash Reserve Ratio) by 0.5% to control recession. This is related to which dimension of Business Environment**

   (a) Political Environment
   (b) Economic Environment
   (c) Social Environment
   (d) Legal Environment

2. **Introduction of mobile phones have negatively effected the business of cameras and watches it is related to**

   (a) Social Environment
   (b) Economic Environment
   (c) Technological Environment
   (d) Political Environment

3. **'Mamta Rice Food Ltd.' is a well-known rice producing company. The sales have been falling down from the beginning of the year. The managing director Mr. Bhuvan is worried about this situation. With a view to find out the solution of this problem he made a team to find out the reasons for downfall of sales. The team conducted the survey and gave following four reasons for the downfall of company's sale.**

(i) On account of increase in export duty made by the government, the foreign demand has gone down.

(ii) Due to availability of other eatable substitute the taste of people is diverted from rice.

(iii) The competitor's imported new technology machine and are producing better quality rice.

(iv) Due to strain with neighbouring country's government and our country's government export is effected.

Identify the dimension of Business Environment discussed in the above case.

(*Answers at Page no. 155*)

3.5. THE FEATURES OF NEW ECONOMIC POLICY 1991

3.5.1 Three Major Components or Elements of New Economic Policy

There are three major components or elements of new economic policy:

1. Liberalisation,
2. Privatisation,
3. Globalisation.

1. **Liberalisation.** Liberalisation refers to end of licence, quota and many more restrictions and controls which were put on industries before 1991. Indian companies got liberalisation in the following way:

(a) Abolition of licence except in few.

(b) No restriction on expansion or contraction of business activities.

(c) Reduction of tax rate and lifting of unnecessary controls over the economy.

(d) Liberalisation in import and export.

(e) Easy and simplifying the procedure to attract foreign capital in India.

(f) Freedom in movement of goods and services.

(g) Freedom in fixing the prices of goods and services.

2. **Privatisation.** Privatisation refers to giving greater role to private sector and reducing the role of public sector. To execute policy of privatisation government took the following steps:

(a) Disinvestment of public sector, *i.e.*, transfer of public sector enterprise to private sector.

(b) Setting up of Board of Industrial and Financial Reconstruction (BIFR). This board was set up to revive or close sick units in public sector enterprises suffering loss.

(c) Dilution of Stake of the Government. If in the process of disinvestments private sector acquires more than 51% shares then it results in transfer of ownership and management to the private sector.

3. **Globalisation.** It refers to integration of various economies of world. Till 1991 Indian government was following strict policy in regard to import and foreign investment in regard to licensing of imports, tariff, restrictions, etc. but after new policy government adopted policy of globalisation by taking following measures:

   (i) **Import liberalisation.** Government removed many restrictions from import of capital goods.

   (ii) **Foreign exchange regulation act (FERA)** was replaced by foreign exchange management act (FEMA)

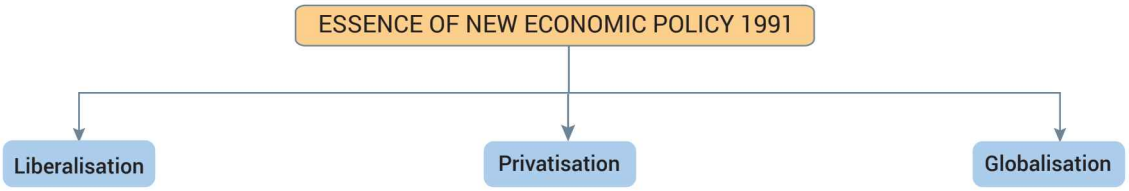
   (iii) Rationalisation of tariff structure.

   (iv) Abolition of export duty.

   (v) Reduction of import duty.

   As a result of globalisation physical boundaries and political boundaries remained no barriers for business enterprise. Whole world becomes a global village.

   Globalisation involves greater interaction and interdependence among the various nations of global economy.



Keywords

Liberalisation

(i) Removal of Restrictions, licencing, etc. and simplifying procedures.

(ii) Reduction in tariff, tax structure.

(iii) Giving more freedom.

Privatisation

(i) Increasing participation of private sectors.

(ii) Reducing number of industries and sector reserved for public sector.

(iii) Sale of securities of public sector to private sector.

Globalisation

(i) Integration of different countries of world.

(ii) Easy entry of foreign companies.

Case Study

1. **"Zero Defect Zero Effect" (ZED) is a slogan coined by the Prime Minister of India, Narendra Modi with reference to the Make in India initiative launched by the government. The slogan reflects the efficiency of production processes, i.e. the products have no defects and the process through which the product is made has zero adverse environmental and ecological effects. The Zed model aims to make India the manufacturing hub of the world and prevent the products developed in India from being rejected by the global market. Moreover, before the initiative was launched, the limits of foreign direct investment in various sectors had been relaxed. The application for licences was made available online and the validity of licences was increased to three years. Various other norms and procedures were also relaxed by the government.**

   In the light of the above paragraph, identify and explain the major components of New Economic Policy of 1991 that are being referred to by quoting lines from the paragraph.

(*Answers at Page no. 155*)

3.5.2 Impact of Changes in Economic Policy on the Business or Effects of Liberalisation and Globalisation

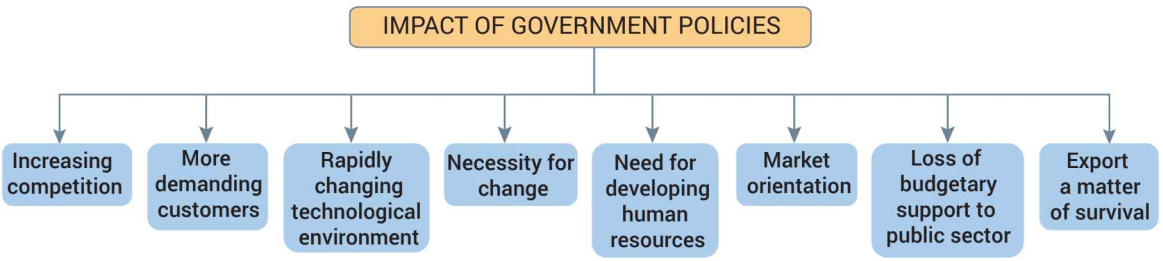
The factors and forces of business environment have lot of influence over the business. The common influence and impact of such changes in business and industry are explained below:

1. **Increasing Competition.** After the new policy, Indian companies had to face all round competition which means competition from the internal market and the competition from the MNCs. The companies which could adopt latest technology and which were having large number of resources could only survive and face the competition. Many companies could not face the competition and had to leave the market.

   For example; Prior to 1991, Banking sector, Insurance telecommunication, etc. was only with public sector enjoying the monopoly whereas now so many private banks, airlines and telecommunication companies have entered in the race of competition.

2. **More Demanding Customers.** Prior to new economic policy there were very few industries or production units. As a result there was shortage of product in every sector. Because of this shortage the market was producer-oriented, *i.e.*, producers became key persons in the market. But after new economic policy many more businessmen joined the production line and various foreign companies also established their production units in India. As a result there was surplus of products in every sector. This shift from shortage to surplus brought another shift in the market, *i.e.*, producer market to buyer market. The market became customer-oriented and many new schemes were made by companies to attract the customer. Nowadays products are produced/manufactured keeping in mind the demands of the customer.

3. **Rapidly Changing Technological Environment.** Before or prior to new economic policy there was a small internal competition only. But after the new economic policy the world class competition started and to stand this global competition the companies need to adopt the world class technology. To adopt and implement the world class technology the investment in research and development department has to increase.
4. **Necessity for Change.** Prior to 1991 business enterprises could follow stable policies for a long period of time but after 1991 the business enterprises have to modify their policies and operations from time to time.
5. **Need for Developing Human Resources.** Before 1991 Indian enterprises were managed by inadequately trained personnels. New market conditions require people with higher competence skill and training. Hence Indian companies felt the need to develop their human skills.
6. **Market Orientation.** Earlier firms were following selling concept, *i.e.*, produce first and then go to market but now companies follow marketing concept, *i.e.*, planning production on the basis of market research, need and want of customer.
7. **Loss of Budgetary Support to Public Sector.** Prior to 1991 all the losses of Public sector were used to be made good by government by sanctioning special funds from budgets. But today the public sectors have to survive and grow by utilising their resources efficiently otherwise these enterprises have to face disinvestment. On the whole the policies of Liberalisation, Globalisation and Privatisation have brought positive impacts on Indian business and industry. They have become more customer focus and have started giving importance to customer satisfaction.
8. **Export a Matter of Survival.** The Indian businessman was facing global competition and the new trade policy made the external trade very liberal. As a result to earn more foreign exchange many Indian companies joined the export business and got lot of success in that. Many companies increased their turnover more than double by starting export division. **For example,** the Reliance company, Videocon, MRF, Ceat Tyres, etc. got a great hold in the export market.



Managerial Response to Changes in Business Environment

On the whole the impact of government policy changes particularly in respect of liberalistaion, privatisation and globalisation has been positive:

(1) **Diversification:** The first response seen after new policy is the companies are going for diversification. For example, state owned BHEL said that with new wave of economic changes we will diversify our portfolio that will include solar energy, transportation and water business. Even companies like Reliance, Voltas, LG, Samsung are diversifying their activities by adding more products in their portfolio.

(2) **Joint ventures/Collaboration and Consolidation of Multinationals:** Most of the multinational companies came to India through joint venture. As:

(a) Ford enters with Mahindra and Mahindra.

(b) Jaguar enters with Tata Motors.

(c) Honda enters with Siel.

(d) General Motors with Hindustan Motors.

(e) Vodafone is planning to merge Idea, etc.

(3) **Brand Building:** After new economic policy the brand building, goodwill and Image of company has become an important element for promotion of company. Now, companies are spending huge amount on various promotional activities such as advertisement, sales promotion, etc. for brand building. Specially in consumer durable industry such as Samsung, LG, Sony, etc.

(4) **Use of Latest Technology:** To get the first mover advantage companies are trying to get the latest technology first in their product. The expenditure on research and development department is increased by all the companies change in technology is very important for all the companies, specially companies in IT, computer, laptop, phone manufacturing.

(5) **Improved Compensation Level:** With the entry of MNCs there is lot of change seen in the salary packages of all the employees in managerial as well as technical services. The starting salaries for engineers and management graduates have risen significantly. Companies are following performance link bonus schemes, incentives for better performance is becoming common.

(6) **Customer Focus:** The focus of market is totally shifted from producer to consumer . Today consumer is the keep in the market all companies are coming with various schemes to attract the customers.

Even after sale service has become very important to satisfy the customers companies are providing 24×7 complaint registration services through toll free numbers, etc.

There is tremendous difference in the nature and quality of products offered to customer today. Public relation has become a very important element of promotion.

CONCLUSION

Managerial Response to changes in Business Environment Management of 21st Century has understood that—In today's business environment a businessman can survive and remain In the market only by:

1. Appointing qualified professional experts;
2. By adopting the latest technology keeping in mind the global competition;
3. By building or creating a brand image in the mind of customer;
4. By understanding the requirements and needs of the customers and always trying to satisfy the customers;
5. By keeping their employees satisfied by paying them fair compensation.

Demonetisation

November 8, 2016 was the day when '500' and '1000' denomination notes were withdrawn from circulation. It resulted in withdrawal of 86% currency in circulation. People were advised to go to the bank to replace old notes with new upto a limit.

There was a restriction on cash withdrawal.

The main aim of demonetisation was to curb corruption, check on use of notes for illegal activities and specially the accumulation of black money generated by not declining in income to income tax authorities.

Features of Demonetisation

1. **Demonetisation as a tax administration measures**–Due to demonesation people had to declare their cash holding to get it exchange from bank.

   So, those having black money had to declare their unaccounted wealth and pay taxes at penalty.

2. **Non tolerance of tax evasion**–Demonetisation also indicated that government will no longer accept tax evasion.

3. **Tax administrating and channelising saving into formal financial system**–Demonetisation led to tax administration, channelising savings into the formal financial system. As much of the cash deposited by people for exchange will be offered to people for loan under new schemes.

4. **Creating less cash or Digital Cash lite economy**–Another feature of demonetisation is to create a less cash or cash-lite economy i.e., channelising more saving through the formal financial system and improving tax compliance.

   Although there are arguments against these digital transactions.

1. They require use of cell phones for customers and POS machines for Businessmen.
2. Requirement of Internal connectivity.

These disadvantages are counter balanced by an understanding that it helps people into the formal economy there by increasing financial savings and reducing tax evasion.

Impact of Demonetisation

	Area	Impact
1.	Money/Interest rates	1. Decline in cash transactions. 2. Bank deposits Increased. 3. Increase in financial savings
2.	Private Wealth	Declined, since some high denomination notes of 500 and 1000 were not returned and real estate prices fell.
3.	Public Sector Wealth	No effect
4.	Digitisation	Digital transactions among users (RUPAX/AEPS) increased.
5.	Real Estate	Price declined.
6.	Tax collection	Rise in tax collection because of increased disclosure.

MCQs and Case Studies

1. **Free Flow of goods and services between different countries of the world is an example of**
   (a) Globalisation (b) Privatisation
   (c) Liberalisation (d) Demonetisation

2. **Liberalisation is**
   (a) Free Flow of goods and services
   (b) Increase participation of private sector
   (c) Reduction in formalities, taxes and tariff
   (d) Unity among Political Parties

3. **Which of the following does not explain the impact of government policy changes on business and industry?**
   (a) More demanding customers (b) Change in agricultural prices
   (c) Increase in competition (d) Market orientation

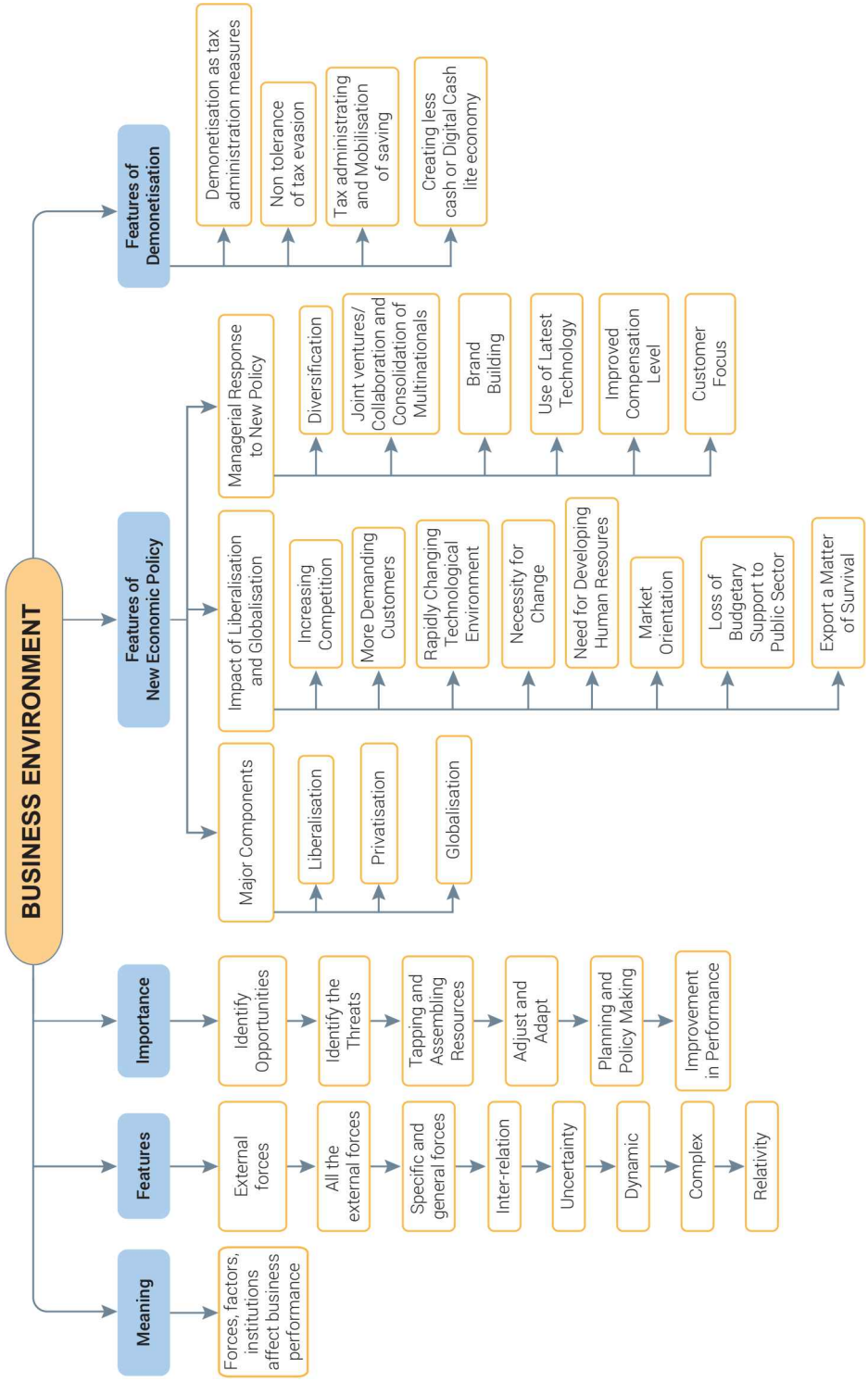
4. **Amaira is a seven year old girl. She planned with her father to give a gift on her mother's birthday. She took her piggy bank to shopkeeper with her father. She selected a purse for her mother and when she took out one note of ₹1000 from the piggy bank the shopkeeper refused to take that note—saying that it is no longer a valid currency. Her father explained her that shopkeeper is saying right.**
   (i) Identify the concept discussed in above para.
   (ii) State three features of that concept.

(Answers at Page no. 156)

Quick Revision

- **Meaning.** The environment of any organisation includes all condition, events and influences that surround and affect it.
- **Classification.** Business environment can be classified into two major categories:
  1. Economic environment.
  2. Non-economic environment.
- **Importance.** Understanding business environment is essential because:
  1. Enables the firm to identify opportunities and getting first mover advantage.
  2. Helps the firm to identify the threats and early warning signal.
  3. Helpful in tapping and assembling resources.
  4. Help to adjust and adapt with the rapid changes.
  5. Assisting in planning and policy making.
  6. Improvement in performance.
- **Dimensions.** The environment of an organisation is generally divided into following categories:
  (a) Economic environment
  (b) Social environment
  (c) Political environment
  (d) Legal environment
  (e) Technological environment.
- **The Features of New Economic Policy 1991**
  (i) **Liberalisation.** Liberalisation refers to removal of restrictions and strict rules, i.e., giving more freedom to trade and industry.
  (ii) **Privatisation**. Privatisation refers to giving more resources in the hands of private sector, giving entry to private sector in the areas which are reserved for public sector.
  (iii) **Globalisation**. Globalisation refers to integration of activities of whole world, i.e., encourage Foreign private participation in industrial development.
- **Impact of Changes in Economic Policy on the Business or Effects of Liberalisation and Globalisation**
  1. Increasing competition.
  2. More demanding customers.
  3. Rapidly changing technological environment.
  4. Necessity for change.
  5. Need for developing human resources.
  6. Market orientation.
  7. Loss of budgetary support to public sector.
  8. Export a matter of survival.

Business Environment – A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. Business environment includes
   (a) Surroundings of Business
   (b) Forces, Factors, Institutions which directly or indirectly effect business
   (c) Customers and Employees
   (d) None of the above

2. The forces in Business Environment that effect all the business houses are known as
   (a) General (b) Specific
   (c) Particular (d) Influential

3. The conditions in Business Environment keep changing as it is
   (a) External Environment (b) Complex
   (c) Dynamic (d) None of the above

4. The environment scanning helps to identify
   (a) Opportunities (b) Threats
   (c) Both (a) and (b) (d) None of the above

5. The importance of business environment which helps to know in advance forthcoming constraints and threats of business is
   (a) Helpful in getting first mover advantage (b) Early warning signals
   (c) Assist in planning and policy making (d) All of the above

6. Change in taxes is part of
   (a) Economic Environment (b) Political Environment
   (c) Legal Environment (d) Social Environment

7. Demonetisation had direct impact on
   (a) Social Environment (b) Political Environment
   (c) Economic Environment (d) None of the above

8. It is compulsory that advertisement on baby food must inform that mother's milk is the best is related to
   (a) Social Environment (b) Economic Environment
   (c) Political Environment (d) Legal Environment

9. Relaxation or removal of strict rules and regulations is part of
   (a) Liberalisation (b) Globalisation
   (c) Privatisation (d) All of the above

10. Opening doors for private sector in the area reserved for public sector is known as
    (a) Privatisation (b) Liberalisation
    (c) Globalisation (d) None of the above

11. Swachh Bharat Abhiyan started by BJP government is part of
    (a) Legal Environment (b) Social Environment
    (c) Political Environment (d) Economic Environment

12. Creating a website and selling online is related to
    (a) Social Environment (b) Political Environment
    (c) Economic Environment (d) Technologic
13. Attitude of customers towards innovation, lifestyle, etc. is part of
    (a) Technological Environment (b) Social Environment
    (c) Political Environment (d) Legal Environment
14. Change in sensex and Nifty during election is part of
    (a) Political Environment (b) Social Environment
    (c) Legal Environment (d) Economic Environment
15. Shift of youth in India towards packed food, online buying is part of
    (a) Political Environment (b) Social Environment
    (c) Legal Environment (d) Technological Environment
16. Through environmental scanning, business firms can enjoy .
    (a) Competition (b) First mover advantages
    (c) Benefit of Tax (d) Tapping useful resources
17. Face book, Twitter and Whatsapp is the result of .
    (a) Political Environment (b) Economic Environment
    (c) Social Environment (d) Technological Environment
18. "Sudden announcement of demonetisation by our Prime Minister" is an example of this feature of business environment.
    (a) Relativity (b) specific and general forces
    (c) Inter related (d) uncertain

(Answers at Page no. 156)

Fill in the Blanks

1. refers to end of licence quota and many more restrictions.
2. Freedom in fixing the prices of goods and services is part of .
3. refers to giving greater role to private sector and reducing the role of public sector.
4. refers to integration of various economies of world.
5. The main aim of demonetisation was to curb .
6. The first response seen after New Economic Policy is companies are going for _____.
7. After New Economic Policy firms shifted from selling concept to _____ concept.
8. The business environment has impact on different Business Enterprise.
9. All the forces of Business Environment are .
10. Maruti Company was the first company to understand the need of middle class people and launched the small car concept and availed .

(Answers at Page no. 156)

True or False

1. Demonetisation was launched on 1st November 2016. (True/False)
2. Conditions prevailing in business environment have same effect on all the organisation. (True/False)
3. After New Economic Policy, the customers became more demanding. (True/False)
4. After New Economic Policy, brand building, goodwill and image of company as become an important element for promotion of a company. (True/False)
5. With entry of MNC, there is no change in the salary packages of all the employees. (True/False)
6. Liberalisation refers to becoming liberal with people related to law. (True/False)
7. Business environment include internal as well as external factors. (True/False)
8. Conditions affecting business vary from region to region. (True/False)

(*Answers at Page no. 156*)

Remembering and Understanding-based Questions with Answers

Q. 1. Define Business Environment. State any three of its features. [*CBSE Sample Paper 2014*]

Ans. The term 'business environment' means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

Features of business environment: (*any three*)

(i) Totality of external forces
(ii) Specific and general forces
(iii) Inter relatedness
(iv) Uncertainty
(v) Complexity
(vi) Relativity
(vii) Dynamic nature.

Q. 2. List any two example of business environment.

Ans. Economic environment, social environment.

Q. 3. List the major impacts of new industrial policy.

Ans. (i) Liberalisation (ii) Globalisation (iii) Privatisation.

Q. 4. Give one example of opportunity and one example of threat offered in Indian economic environment.

Ans. Opportunity—liberalisation in external trade.

Threat—MRTP Act.

Q. 5. Define business environment.

Ans. Business environment refers to all the forces, factors, institutions and conditions external to a business unit under which it operates.

Q. 6. Define political environment.

Ans. Political environment comprises those elements that are related to government affairs in the type of government in power.

Q. 7. What were the reasons to implement new economic policy of India?

Ans. The main reasons to adopt new economic policy of 1991 were the following crises which Indian economy had to face:

(i) Fiscal crisis.
(ii) Rise in internal debt.
(iii) Fall in growth rate of GNP.
(iv) Negative growth in agriculture sector.

(v) Rise in inflation rate.
(vi) Shrinking of foreign trade.
(vii) Fall in foreign reserve.
(viii) Fall in credit-worthiness of financial institutions from AAA to BBP.
(ix) Pledge of gold by RBI and SBI.

Q. 8. "*Business environment is dynamic.*" Comment by mentioning these examples.

Ans. It is right to say that business environment is dynamic as every day new changes are taking place in that business environment. These changes are so fast and effective that the companies, which are able to scan them or recognise them on time, only survive in the market.

Examples:

(i) Rapidly changing technology has affected the business world. Large number of new products are being introduced in market such as refrigerator with bio fresh technology or door cooling technology, etc.

(ii) The spread of literacy and public consciousness has contributed in rousing the aspirations of people and today companies give priority to customer's preference and demands.

(iii) With new legislation and policies of deregulation of industries, there is increase in the foreign direct investment in capital market.

Q. 9. Explain any five positive effects of liberalisation and globalisation on business and industry in India. [*CBSE (D) 2005*]

Ans. The positive effects of liberalisation and globalisation on Indian business and industry are:

(i) All round competition.
(ii) Export became matter of survival.
(iii) World class technology.
(iv) Buyer's market.
(v) Increase in production capacity. [*Explain these points*]

Q. 10. Explain any five negative impacts of liberalisation and globalisation on business and industry in India. [*CBSE (D) 2005*]

Ans. The negative impacts of globalisation and liberalisation are:

(i) Destabilisation of protected environment.
(ii) Threat from MNCs.
(iii) Corporate vulnerability.
(iv) Past failures fail to guide.
(v) Acquisitions and mergers. [*Explain these points*]

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. "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. [*CBSE Sample Paper 2015*]

Ans. **Importance of understanding business environment: (*Any four*)**

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.

Q. 2. Under which environment does change in taste, fashion and trend fall in?

Ans. Social environment.

Q. 3. List two examples of change in social environment which affect business organisation.

Ans. (i) Belief and customs of people, (ii) Education system.

Q. 4. What is L.P.G. in context of business environment?

Ans. In business environment L.P.G. stands for:

(i) L : Liberalisation, (ii) P : Privatisation,

(iii) G : Globalisation.

Q. 5. List any two impacts of Government policy changes on business and industry.

Ans. (i) Increased competition, (ii) World class technology.

Q. 6. The people of some regions translated the slogan of "*Come Alive*" used by Pepsi company as "*Come out of the grave.*" As a result company lost its market share rather than picking up. This is the effect of which environment and how does this dimension of environment affect the business?

Ans. This is the effect of social environment. As people misunderstood the meaning of slogan and it hurt their sentiments so they decided to stop the use of this product which is playing with their sentiments.

The social environment has great influence over the demand of customers because social environment constitutes taste, preference, tradition and expectations of customers, the customer is the king pin in present day market and you can win over your competitor only by winning large segment of customers. Although changes in the social environment may affect the business slowly or quickly but the cost of ignoring the customs, traditions, tastes and preferences of the people could be very high.

Q. 7. How would you argue that the success of a business enterprise is significantly influenced by its environment?

Ans. It is correct to say that the success of business enterprises is greatly influenced by the force and factors prevailing in environment by analysing and scanning the business environment. Businessmen get the following benefits:

(i) First mover advantage. (ii) Warning signal.

(iii) Helps in tapping business resources. (iv) Assisting in planning and policy formation.

(v) Improvement in performance. (vi) Helps to adopt rapid changes.

Q. 8. Name the term/process which means integrating the economy with the rest of the world.

Ans. Globalisation.

Q. 9. Name the term/process under which reduction in tax rates and lifting of unnecessary control over the economy was undertaken.

Ans. Liberalisation.

Q. 10. If new products are introduced in market by new technique, which type of environment is indicated by it?

Ans. Technological environment.

Q. 11. The project of Nano car reestablished in Gujarat is indicated by which factor of environment?

Ans. Political factor.

Q. 12. The Finance Minister reduced the repo rate to overcome recession. This is related to which dimension of business environment?

Ans. Economic environment.

Q. 13. ABC Ltd., a book publishing house published books on various subjects based on CCE pattern before any other publishing house could print it. What advantages will this publishing house get?

Ans. ABC Ltd. will get the benefits of "First mover advantage."

Q. 14. The sale of greeting cards, sweets, chocolate, etc. increases in India during Diwali, Id, Guruparv and Christmas. Name the dimension of environment related to this.

Ans. Social environment.

Q. 15. 'Understanding of environment by business managers enables them no only to identify and evaluate, but also to react to the forces external by their firms.' In the light of this statement, 'explain by giving any five point why in the present day competitive market; it is essential for a business enterprise to remain alert and aware of its environment.

Ans. Give Importance of Business Environment (Refer to page nos. 124, 125).

Q. 16. Mr. Ajay after completing MBA from USA comes to India to start a new business under the banner Ecom Creations Ltd. He launches a new product in e-learning for Senior Secondary School students in Commerce stream, which already has an established market in UK and USA but not in India. His business starts flourishing in India. Now more Indian companies entered into the market with other subjects also.

Identify and quote the lines from above para which highlight the significance of understanding business environment. *[CBSE Sample Paper 2014]*

Ans.
1. "Comes to India to start a new business.....launches a new product in e-learning for senior secondary school students in Commerce stream it helps in".
   (a) Assisting in planning and policy formulisation.
   (b) It enables the firm to identify opportunities and getting the first mover advantage.
2. "His business starts flourishing in India"
   (c) It helps in improving performance.
3. Now more Indian companies entered into the market with different subjects also.
   (d) It helps the firm to identify threats and early warning signals.

Q. 17. Identify the type of dimension of environment to the following are related:

(i) Banks reduces the interest rate on house loans.
(ii) No. of working women is increasing.
(iii) Reservation of Tickets by Internet.
(iv) Prohibition of alcohol beverages to be advertised.
(v) Winning of Aam Admi Party has built up confidence in economically weaker section people.

Ans. (i) Economic environment (ii) Social environment
(iii) Technological environment (iv) Legal environment
(v) Political environment.

Q. 18. Government of India is seriously thinking to allow oil marketing public sector, undertaking to fix their own price for petrol and diesel.

(i) Name the economic reform related to this decision of government.
(ii) Name other two reforms recommended in new economic policy.

Ans. (i) Liberalisation
(ii) Other two reforms: Privatisation and Globalisation.

Q. 19. Recently many companies have planned for significant investment in organised retailing in India. Various factors which have encouraged companies to take these decisions are customer income is increasing, rise in standard of living of people. People are ready to pay high price for quality goods, government policy of liberalisation regarding MNC entry and FDI, etc.

(a) Explain briefly changes in business environment under different heads that have facilitated the companies' decision to plan significant investment in retailing.

(b) What has been the impact of these changes with regards to globalisation and privatisation?

Ans. (a) Explain recent changes in various environment heads, *i.e.*, economic, social, political, legal and technological.

(b) Explain the topic, impact of change in government policy/economic policy.

Q. 20. After winning the election, Prime minister Mr. Narender Modi launched a Campaign of 'Swachh Bharat' and invited various celebrities to be a part of this Abhiyaan. This spread awareness among the people in society and in general, people started becoming more careful and aware about the cleanliness around their area. To continue its impact, a new service tax for Swachh Bharat was also started. The government is planning to import new and better technology to adopt new methods of treating the garbage and waste.

State the various dimensions of business environment mentioned in the above para quoting the lines from the above para.

Ans. (i) Political Environment *"After winning election ..... campaign of Swachh Bharat."*

(ii) Social Environment *"People in society ..... around their area."*

(iii) Economic Environment *"A new service tax ..... started."*

(iv) Technological Environment *"Import new technology ..... garbage."*

Q. 21. Even after opening up of Indian Economy, foreign companies found it extremely difficult to cut through the bureaucratic and red tapism in government offices. This discourages them from investing in India

Identify the dimension of environment mention in above para.

Ans. Political Environment.

Q. 22. Just after the declaration of Lok Sabha Elections in 2014, the Bombay Stock Exchange Index rose by 1000 points.

Identify the dimension of business environment.

Ans. Political Environment.

Q. 23. Which component of business environment requires that in every packet of cigarette there must be a horrified picture and a statutory warning.

Ans. Legal Environment.

Guidelines to NCERT Questions

Multiple Choice Questions

1. Which of the following does not characterise the business environment?

(a) Uncertainty (b) Employees

(c) Relativity (d) Complexity

2. Which of the following best indicates the importance of business environment?

(a) Identification (b) Improvement in performance

(c) Coping with rapid changes (d) All of them

3. Which of the following is an example of social environment?

(a) Money supply in the economy (b) Consumer protection act

(c) The constitution of the country (d) Composition of family

4. Liberalisation means
   (a) Integration among economies
   (b) reduced government controls and restrictions
   (c) Policy of planned disinvestment
   (d) none of them
5. Which of the following does not explain the impact of Government policy changes on business and industry?
   (a) More demanding customers
   (b) Increasing competition
   (c) Change in agricultural prices
   (d) Market orientation

Short Answer Type Questions

1. What do you understand by business environment? [Refer on Page No. 121]
2. Why is it important for business enterprises to understand their environment? Explain briefly. [Refer on Page Nos. 124-126]
3. Mention the various dimensions of business environment. [Refer on Page Nos. 127-130]
4. Briefly explain the following:
   (a) Liberalisation. [Refer on Page No. 133]
   (b) Privatisation. [Refer on Page No. 133]
   (c) Globalisation. [Refer on Page Nos. 134]

Long Answer Type Questions

1. How would you characterise business environment? Explain, with example, the difference between general and specific environment. [Refer on Page No. 122]
2. How would you argue that the success of a business enterprise is significantly influenced by its environment? [Refer on Page Nos. 124-125]
3. Explain, with examples, the various dimensions of business environment. [Refer on Page Nos. 127-130]
4. What are the essential features of:
   (a) Liberalisation [Refer on Page No. 133]
   (b) Privatisation [Refer on Page No. 133]
   (c) Globalisation [Refer on Page Nos. 134]

TEST YOURSELF

Very Short Answer Questions

1. What do you mean by business environment?
2. Define environment scanning.
3. Enumerate the two categories of business environment and give the example of both.
4. What constitutes the general environment of business?
5. "Environment provides with constraints and opportunities." Discuss with the help of an example.
6. Enumerate the dimensions of business environment.
7. "Companies that fail to adopt to their environment are unlikely to survive in long run." Discuss with an example.

8. "Understanding of business environment gets a first mover advantage." Discuss.
9. Distinguish between economic and non-economic environment.
10. How is economic environment different from social environment?

Short Answer Questions

1. Explain the key components of general environment.
2. Do changes in environment influence the business decisions?

Long Answer Questions

1. What changes were made in the Industrial policy in recent past?
2. Explain the three impacts of changes in government policy on business and industry.

Previous Years' Examination Questions (2014-2019)

One Mark Questions

1. What is included in 'Political Environment' of business? State. *[CBSE 2014]*
2. What is included in 'Legal Environment' of Business? State. *[CBSE 2014]*
3. What is meant by business environment? *[CBSE (AI) 2015]*
4. What is meant by 'Privatisation'? *[CBSE (F) 2015]*

Four Marks Questions

5. Why is the understanding of business environment important for managers? Explain with the help of any four points. *[CBSE 2014]*
6. With change in the consumption habits of people, Neelesh, who was running a sweet shop shifted to chocolate business. On the eve of Diwali he offered chocolates in attractive packages at reasonable prices. He anticipated huge demand and created a website chocolove.com for taking orders online. He got lot of orders online and earned huge profit by selling chocolates. Identify and explain the dimensions of business environment discussed in the above case. *[CBSE (AI) 2016]*
7. What is meant by 'business environment'? State any three points of its importance. *[CBSE (D) 2015]*
8. A recent rate cut in the interest on loans announced by the Banks encouraged Amit, a science student of Progressive School to take a loan from State Bank of India to experiment and develop cars to be powered by fuel produced from garbage. He developed such a car and exhibited it in the Science Fair organized by Directorate of Education. He was awarded first prize for his invention.

   Identify and explain the dimensions of business environment discussed in the above case. *[CBSE (D) 2016]*
9. Beni, after completing her MBA, took up a job with a multinational company named 'Fortio'. The company was paying good salary and perks to its employees. The wages were within the paying capacity of the company that provided the employees a reasonable standard of living. The company also had a good work-culture and the behaviour of superiors was very good towards their subordinates. Beni was very happy in this organization, but due to long working

hours she did not have time to cook her meals. She had to depend on outside food, which was deteriorating her health.

She observed that this problem was faced by many of her colleagues, not only in her company but also in many other companies. This was because of increase in the number of working women and non-availability of hygienic home-cooked food. She identified this as a great opportunity and decided to give up her job to supply packaged home-cooked food to office goers at a reasonable price. At the end of the day she was also distributing the left-over food in the nearby night-shelters.

(a) State the dimension of business environment being discussed above.

(b) State the principle of management being followed by 'Fortio'. [CBSE (AI) 2015]

10. 'Accent Electronics Ltd.' was operating its business in Malaysia. The company started exporting its products to India when the Prime Minister announced relaxation in import duties on electronic items. The company appointed retailers in India who had direct online links with the suppliers to replenish stocks when needed.

Identify and explain the dimensions of business environment discussed in the above case. [CBSE (F) 2016]

11. Mahinder Agro Ltd. started a new venture for distribution of harmful and chemical free fertilizers vegetables. They conducted a survey to find out consumer preferences for such vegetables. They found that most of the consumers were concerned about the harmful chemicals being used in growing the vegetables. They found out that 90% of the households were searching for alternatives. The company contacted a group of agricultural experts to lay down the procedure for growing the vegetables by the farmers. They decided to train the farmers in new technology to grow chemical free vegetables according to new innovative methods. The experts also suggested soil management techniques through which farmers would be able to create an abundant and lasting harvest.

Identify and explain the two dimensions of business environment highlighted in the above para. [CBSE 2019 (66/1/1)]

12. Explain any four features of business environment. [CBSE 2019 (66/2/1)]

OR

Explain any four features of 'demonetization'. [CBSE 2019 (66/2/1)]

13. In an environment of rising petroleum prices and a large middle class population in India, KV Motors Ltd. recognized the need for small cars in India. It created a product far superior than their competitors not only in terms of quality but also in terms of overall driving experience. It soon became the leader in the small car market. As the Indian government was encouraging foreign investment, MNCs having a big name in car manufacturing entered the Indian market.

KV Motors further expanded its service network and quality creating an entry barrier for the competitors. It depicted its strengths through various brandbuilding activities. As a result, the market share of KV Motors is refusing to go down in spite of all major automakers as its competitors.

(a) Identify the economic reforms highlighted in the above case.

(b) Quoting the lines, explain any two points of importance of Business Environment being highlighted in the above case. [CBSE 2019 (66/4/1)]

14. Give the meaning of 'Business Environment'. Explain any three features of Business Environment. [CBSE 2019 (66/5/1)]

Five/Six Marks Questions

15. The court passed an order that all schools must have water purifier for the school children as:

(i) Society in general is more concerned about quality of life.

(ii) Innovative techniques are being developed to manufacture water purifier at competitive rates.

(iii) Incomes are rising and children at home are also drinking purified water. The government is also showing positive attitude towards the water purifier business.

Identify the different dimensions of business environment by quoting from the above details. *[CBSE (D) 2014]*

16. The court passed an order to ban polythene bags as

(i) These bags are creating many environmental problems which affect the life of people in general.

(ii) Society in general is more concerned about quality of life.

The government decided to give subsidy to jute industry to promote this business. Innovative techniques are being developed to manufacture jute bags at low rates. Incomes are rising and people can afford to buy these bags.

Identify the different dimensions of Business Environment by quoting the lines from the above particulars. *[CBSE (AI) 2014]*

17. State any five features of business environment. *[CBSE (D) 2017(C)]*

18. Explain any five points of impact of government policy changes on business and industry. *[CBSE (D) 2017(C)]*

19. 'Konark Ltd.' is an electric goods manufacturing enterprises situated in Shivpuri, Madhya Pradesh. It is earning a very low revenue in comparison to a competing electronic goods manufacturing enterprise, 'Nova Ltd.' situated in Mumbai. Both Konark's and Nova's operations are affected directly by the investors, customers, competitors and suppliers, which are unique to their respective locations. In addition to this, individual forms of this field are affected indirectly by the factors like the money supply in the economy, composition of the families, the technological changes, etc.

(a) Identify and state the feature of the concept discussed in the above paragraph.

(b) Also, state any four points of importance of this concept. *[CBSE (AI) 2018]*

20. 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. *[CBSE (AI) 2017]*

21. India's craft heritage continues because if its customs and traditions. Crafts are used not only in the country by craftsmen in Rajasthan, Gujarat and Assam but are also exported to USA, Germany, UK and France. The volume of exports and imports give India an advantage in balance of payments and the much needed foreign exchange reserves. The Prime Minister desires that the handicraft industry should be expanded by linking it with technology. Focus should be on changing the manufacturing process, ensuring durability and adapting innovations.

Quoting the lines from the above para, explain four dimensions of the business environment. *[CBSE 2019 (66/3/1)]*

Hints of the Answers for Case Studies

6. (i) Social Environment (ii) Technological environment

8. Dimensions of business environment:

(i) Economic environment (ii) Technological environment

9. (a) Social environment which includes social forces like customs and traditions, values, social trends, etc.

(b) Remuneration of employees states that the overall pay and compensation should be fair to both employees and the organisation.

'The company was paying good salary and perks to its employees. The wages were within the paying capacity ... standard of living'.

10. (i) Political environment (ii) Technological environment

11. Dimensions of business environment highlighted above are:

(i) Social Dimension: Social Environment includes social forces like custom and traditions, values, social trends and society's expectation from business.

(ii) Technological Dimension: Technological Environment of business 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.

13. (a) Liberalisation and Globalisation

(b) Importance of Business Environment (*Any two*)

(i) It helps the firm to identify opportunities and get the first mover advantage.

"KV Motors Ltd. recognized the need for small cars in India."

(ii) It helps the firm in improving performance.

"It created a product far superior than their competitors not only in terms of quality but also in terms of overall driving experience. It soon became the leader in the small car market.

(iii) It helps the firm in planning and policy formulation.

"KV Motors further expanded its service network and quality creating an entry barrier for the competitors. It depicted its strengths through various brand-building activities."

15. (i) Legal Environment (ii) Social Environment
(iii) Technological Environment (iv) Economic Environment

16. Same as Ans 15

19. (a) Feature discussed in above para is "specific and general forces".

(a) Importance of Business Environment. Refer to page no. 124, 125, 126

20. (a) Two major concepts related to government policy are:

(i) Liberalisation: Liberalisation means removal of unnecessary controls and restrictions on business.

(ii) Globalisation: Globalisation means integrating the various economies of the world leading towards the emergence of a cohesive global economy.

(b) Impact of these concepts on Indian business and industry: (Any three)

(i) Increasing competition
(ii) More demanding customers
(iii) Rapidly changing technological environment
(iv) Necessity for change
(v) Need for developing human resources.
(vi) Market orientation
(vii) Loss of budgetary support to the public sector.

21. Dimensions of business environment are:

(a) Social environment: India's craft heritage continues because if its customs and traditions

Social Environment includes social forces like custom and traditions, values, social trends and society's expectation from business.

(b) Economic environment: The volume of exports and imports give India an advantage in balance of payments and the much needed foreign exchange reserves

Economic environment refers to factors like interest rates, inflation rates and changes in disposable income of people etc. which have an impact on business enterprise.

(c) Political environment: The Prime Minister desires that the handicraft industry should be expanded by linking it with technology

Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

(d) Technological environment: Focus should be on changing the manufacturing process, ensuring durability and adapting innovations

Technological Environment of business 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.

ANSWERS OF MCQs AND CASE STUDIES

Page 123

1. (d) Relativity and specific and general
2. Complex
3. (i) Feature highlighted is ..... 'relativity'.

   (ii) The dimension is ..... 'social environment'.

Page 126

1. (d) Help to identify opportunities and getting first mover advantage.
2. (i) (a) Specific and general forces.

   (b) Dynamic nature

   (ii) (a) It helps the firm to identify threats and early warning signals.

   (b) It helps in planning and policy formulation.

Page 132-133

1. (b) Economic Environment
2. (c) Technological Environment
3. (i) Economic Environment (ii) Social Environment

   (iii) Technological Environment (iv) Political Environment.

Page 135

1. The major components of New Economic Policy of 1991 that are being referred to are as follows:

   (i) Liberalisation: The economic reforms signaled the end of the licence permit quota raj and were aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions.

   "Moreover, before the initiative was launched, the limits of foreign direct investment in various sectors has been relaxed. The application for licences was made available online and the validity of licences was increased to three years. Various other norms and procedures were also relaxed by the government.

   (ii) Globalisation: Globalisation means the integration of the various economies of the world leading towards the emergence of a cohesive global economy.

   "The ZED model aims to make India the manufacturing hub of the world and prevent the products developed in India from being rejected by the global market."

Page 139

1. (a) Globalisation
2. (c) Reduction in formalities, taxes and tariff
3. (b) Change in agricultural prices
4. (i) Concept of Demonetisation

   (ii) Features: Refer to page no. 138.

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (b)	2. (a)	3. (c)	4. (c)	5. (d)
6. (a)	7. (c)	8. (d)	9. (a)	10. (a)
11. (c)	12. (d)	13. (b)	14. (a)	15. (b)
16. (b)	17. (d)	18. (d)		

Fill in the Blanks

1. Liberalisation	2. Liberalisation	3. Privatisation
4. Globalisation	5. Corruption	6. Diversification or Export
7. Marketing	8. 'Relative'	9. Inter-related
10. First Mover advantage		

True or False

1. (F) – It was launched on 8th November 2016
2. (F) – They have Relative different impact on all enterprises
3. (T)
4. (T)
5. (F) – There is increase in salary packages of employees, with entry of MNC
6. (F)
7. (F)
8. (T)

4 PLANNING

Contents as per Latest CBSE Syllabus

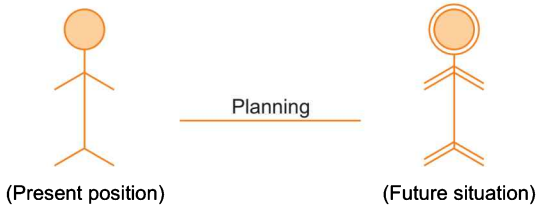
- Concept, importance and limitation
- Planning process
- Single use and standing plans. Objectives, Strategy, Policy, Procedure, Method, Rule, Budget and Programme

INTRODUCTION

All organisations whether it is the government, a private business or a small businessman require planning. To turn their dreams of increase in sale, earning high profit and getting success in business, all businessmen have to think about future; make predictions and achieve target. To decide what to do, how to do and when to do, they do planning.

4.1 MEANING OF PLANNING

Planning can be defined as *"thinking in advance what is to be done, when it is to be done, how it is to be done and by whom it should be done."* In simple words we can say, planning bridges the gap between where we are standing today and where we want to reach.



Planning involves setting objectives and deciding in advance the appropriate course of action to achieve these objectives so we can also define planning as setting up of objectives and targets and formulating an action plan to achieve them.

Another important ingredient of planning is time. Plans are always developed for a fixed time period as no business can go on planning endlessly.

Keeping in mind the time dimension we can define planning as "*Setting objectives for a given time period, formulating various courses of action to achieve them and then selecting the best possible alternative from the different courses of actions.*"

Definitions of Planning by different authors:

- "Planning is the thinking process, the organised foresight, the vision based on facts and experience that is required for intelligent action." **–Alfred and Beatty**
- "Planning is the function that determines in advance what should be done. It consists of selecting the enterprise objectives, policies, programmes, procedures and other means of achieving those objectives. In his planning the manager must decide which of the alternative plans are to be followed and executed. Planning is intellectual in nature. It is mental work. It is looking ahead and preparing for the future." **–Theo Haimann**
- "Planning is chalking out plan of action, i.e., the result envisaged in the line of action to be followed, the stages to go through the methods to use." **–Fayol**
- "Planning is deciding in advance what to do, how to do and who is to do it. Planning bridges the gap from where we are to where we want to go. It makes it possible for things to happen." **–Koontz and O'Donnell**

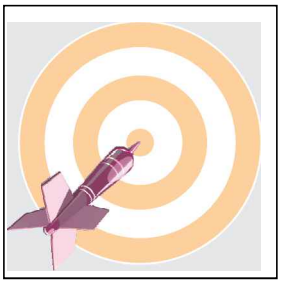
Keywords

Meaning of Planning

(i) Thinking in advance (ii) Involve choice
(iii) Whenever more than one alternatives are given and one is selected
(iv) Primary function (v) Base of all functions
(vi) Standard for controlling (vii) Bringing innovative ideas

4.2 FEATURES/NATURE/CHARACTERISTICS OF PLANNING

1. **Planning contributes to objectives.** Planning starts with the determination of objectives. We cannot think of planning in absence of objective. After setting up the objectives, planning decides the methods, procedures and steps to be taken for achievement of set objectives.



2. **Planning is primary function of management.** Planning is the primary or first function to be performed by every manager. No other function can be executed by the manager without performing planning function because objectives are set up in planning and other functions depend on the objectives only.

For example, in organising function, managers assign authority and responsibility to the employees and level of authority and responsibility depends upon objectives of the company. Similarly, in staffing the employees are appointed. The number and type of employees again depends on the objectives of the company. So planning always proceeds and remains at no.1 as compared to other functions.

3. **Pervasive.** Planning is required at all levels of the management and in all types of organisations. It is not a function restricted to top level managers only but planning is done by managers at every level. Formation of major plan and framing of overall policies is the task of top level managers whereas departmental managers form plan for their respective departments. And lower level managers make plans to support the overall objectives and to carry on day to day activities.
4. **Planning is futuristic/forward looking.** Planning always means looking ahead or planning is a futuristic function. Planning is never done for the past. All the managers try to make predictions and assumptions for future and these predictions are made on the basis of past experiences of the manager and with the regular and intelligent scanning of the general environment.
5. **Planning is continuous.** Planning is a never-ending or continuous process because after making plans also one has to be in touch with the changes in changing environment and in the selection of one best way. So, after making plans also planners keep making changes in the plans according to the requirement of the company. **For example**, if the plan is made during the boom period and during its execution there is depression period then planners have to make changes according to the conditions prevailing.

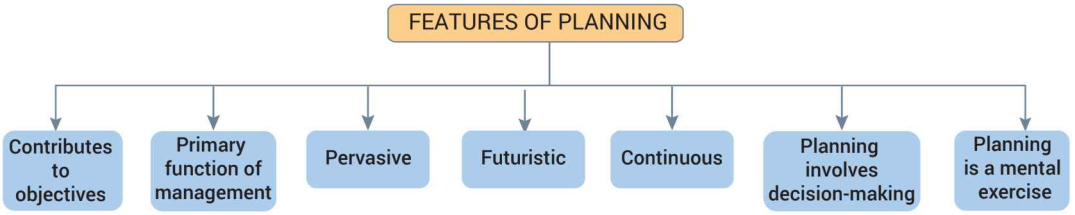
Planning: the first step to management.

6. **Planning involves decision-making.** The planning function is needed only when different alternatives are available and we have to select most suitable alternative. We cannot imagine planning in absence of choice because in planning function managers evaluate various alternatives and select the most appropriate. But if there is one alternative available then there is no requirement of planning. For example, to import the technology if the licence is only with STC (State Trading Co-operation) then companies have no choice but to import the technology through STC only. But if there are 4-5 import agencies included in this task

then the planners have to evaluate terms and conditions of all the agencies and select the most suitable from the company's point of view.

7. **Planning is a mental exercise.** It is a mental exercise. Planning is a mental process which requires higher thinking, that is why it is kept separate from operational activities by Taylor. In planning assumptions and predictions regarding future are made by scanning the environment properly. This activity requires higher level of intelligence. Secondly, in planning various alternatives are evaluated and the most suitable is selected which again requires higher level of intelligence. So, it is right to call planning an intellectual process.

Brain



Keywords

Features of Planning

(i) Planning contributes to objectives. Planning contributes to objectives — goal-oriented, set up target and make sure the target/goal is achieved.

(ii) Planning is primary function of management. Basic function or First function of management before carrying on other functions, first planning is done.

(iii) Pervasive. Planning is done in business as well as non-business organisations. It is used everywhere. It is required at all the level.

(iv) Planning is futuristic/forward looking. Plans are made for future and involve thinking in advance.

(v) Planning is continuous. It is never ending, on going process. Start from beginning of organisation and continue till end.

(vi) Planning involves decision-making. Planning involves choice, whenever we select or choose one option from various that is planning.

(vii) Planning is a mental exercise. Planning is an intellectual task. It involves brain storming, highly, qualified professionals are hired for planners, job position.

MCQs and Case Studies

1. **To get success in business all managers need to work hard in thinking about future, in making business prediction and achieving targets. The above line describe one of the concept, name that**

   (a) Planning (b) Coordination

   (c) Management (d) None of the above

2. **Planners are suppose to be highly intellectual as they have to analyse environment to make predictions regarding future, compare various alternatives and select the best. It is related to which feature of planning**

   (a) Planning involve decision making

   (b) Planning is forward looking

   (c) Planning is a mental exercise

   (d) Planning is primary function of management

3. **Anupam joins as a sales manager of a company dealing with garment manufacturing. Being professional in his approach, he knew that without good planning he will not be able to organise or perform any other managerial function effectively or efficiently. Only on the basis of sales forecast, he can prepare annual plan for its production or sales, beside he will have to prepare sales plan regularly on weekly, monthly, quarterly and half yearly basis. While preparing the sales forecast, he undertakes intellectual thinking, involving foresight visualisation rather than guess work and he has to make sure that all these planning activities coincide with the purpose for which business is being carried out.**

   In the context of the above case, identify the various features of planning highlighted in the above para by quoting lines from it.

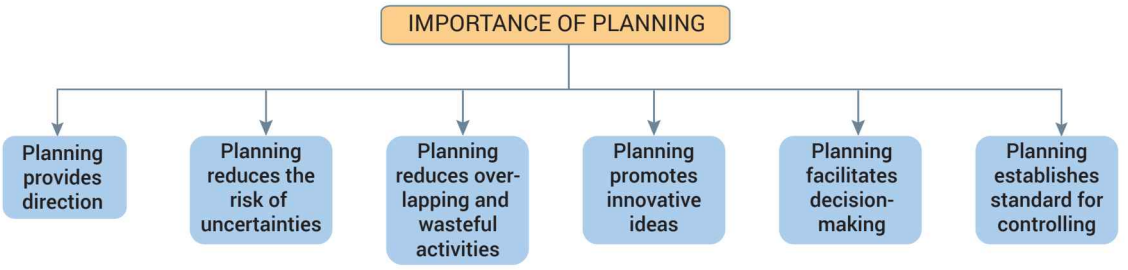
(*Answers at Page no. 195*)

4.3 IMPORTANCE/SIGNIFICANCE OF PLANNING

1. **Planning provides direction.** Planning is concerned with predetermined course of action. It provides the directions to the efforts of employees. Planning makes clear what employees have to do, how to do, etc.

   By stating in advance how work has to be done, planning provides direction for action. Employees know in advance in which direction they have to work. This leads to Unity of Direction also. If there were no planning, employees would be working in different directions and organisation would not be able to achieve its desired goal.

2. **Planning reduces the risk of uncertainties.** Organisations have to face many uncertainties and unexpected situations every day. Planning helps the manager to face the uncertainty because planners try to foresee the future by making some assumptions regarding future keeping in mind their past experiences and scanning of business environments. The plans are made to overcome such uncertainties. The plans also include unexpected risks such as fire or some other calamities in the organisation. The resources are kept aside in the plan to meet such uncertainties.
3. **Planning reduces overlapping and wasteful activities.** The organisational plans are made keeping in mind the requirements of all the departments. The departmental plans are derived from main organisational plan. As a result there will be co-ordination in different departments. On the other hand, if the managers, non-managers and all the employees are following course of action according to plan then there will be integration in the activities. Plans ensure clarity of thoughts and action and work can be carried out smoothly.
4. **Planning promotes innovative ideas.** Planning requires high thinking and it is an intellectual process. So, there is a great scope of finding better ideas, better methods and procedures to perform a particular job. Planning process forces managers to think differently and assume the future conditions. So, it makes the managers innovative and creative.
5. **Planning facilitates decision-making.** Planning helps the managers to take various decisions. As in planning goals are set in advance and predictions are made for future. These predictions and goals help the manager to take fast decisions.
6. **Planning establishes standard for controlling.** Controlling means comparison between planned and actual output and if there is variation between both then find out the reasons for such deviations and taking measures to match the actual output with the planned. But in case there is no planned output then controlling manager will have no base to compare whether the actual output is adequate or not. For example, if the planned output for a week is 100 units and actual output produced by employee is 80 units then the controlling manager must take measures to bring the 80 unit production upto 100 units but if the planned output, *i.e.*, 100 units is not given by the planners then finding out whether 80 unit production is sufficient or not will be difficult to know. So, the base for comparison in controlling is given by planning function only.



Keywords

Importance of Planning

(i) Planning provides direction: Focus on end result, move and direct all the activities towards the achievement of goal.

(ii) Planning reduces the risk of uncertainties: Uncertainties do not come as a shock, planning prepares the organisation to face the uncertainties.

(iii) Planning reduces overlapping and wasteful activities: With clear indication in plan what is to be done, who will do it, etc. same work will not be done by two people therefore, three would be no duplication of task.

(iv) Planning promotes innovative ideas: To make predictions and assumptions regarding future, highly innovative thinking is required.

(v) Planning facilitates decision-making: Planners check the pros and cons of all options and then take a decision.

(vi) Planning establishes standard for controlling: The base or yardstick or the standard for comparing actual performance in controlling is given by planning.

MCQs and Case Studies

1. **Due to planning changes in Business environment do not come as shock and surprise. This is related to which importance of planning.**
   (a) Planning facilitate decision making
   (b) Planning promotes innovative idea
   (c) Planning reduces the risk of uncertainties
   (d) Planning provides direction

2. **After completing the diploma in bakery. Priya started an outlet in food court of a mall she decided to sell five types of pizzas and low sugar muffins with proper planning she was ready to face the uncertainties and also there was no duplication of work. In short period only her business got a name in the market.**

   Identify the points of importance of planning highlighted in above para.

(Answers at Page no. 195)

4.4 LIMITATIONS OF PLANNING

Internal Limitations of Planning

1. **Planning leads to rigidity.** Once plans are made to decide the future course of action the manager may not be in a position to change them. Following pre-decided plan when circumstances are changed may not bring positive results for organisation. This kind of rigidity in plan may create difficulty.

2. **Planning may not work in dynamic environment.** Business environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent.

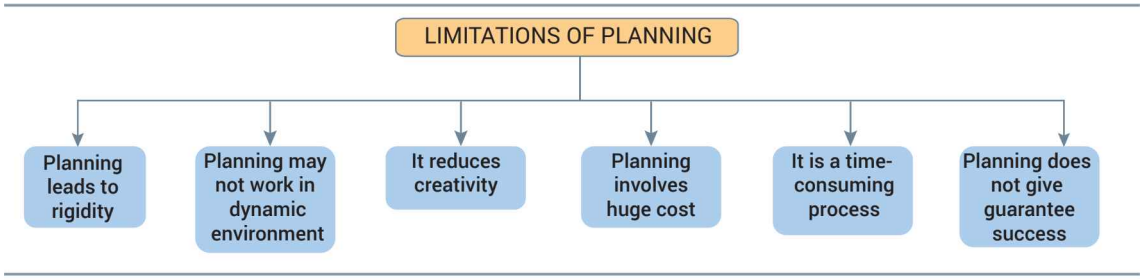
   The environment consists of number of segments and it becomes very difficult for a manager to assess future changes in the environment. For example, there may be change in economic policy, change in fashion and trend or change in competitor's policy. A manager cannot foresee these changes accurately and plan may fail if many such changes take place in environment.

3. **It reduces creativity.** With the planning, the managers of the organisation start working rigidly and they become the blind followers of the plan only. The managers do not take any initiative to make changes in the plan according to the changes prevailing in the business environment. They stop giving suggestions and new ideas to bring improvement in working because the guidelines for working are given in planning only.

4. **Planning involves huge cost.** Planning process involves lot of cost because it is an intellectual process and companies need to hire the professional experts to carry on this process. Along with the salary of these experts the company has to spend lot of time and money to collect accurate facts and figures. So, it is a cost-consuming process. If the benefits of planning are not more than its cost then it should not be carried on.

5. **It is a time-consuming process.** Planning process is a time-consuming process because it takes long time to evaluate the alternatives and select the best one. Lot of time is needed in developing planning premises. So, because of this, the action gets delayed. And whenever there is a need for prompt and immediate decision then we have to avoid planning.

6. **Planning does not give guarantee success.** Sometimes managers have false sense of security that plans have worked successfully in past so these will be working in future also. There is a tendency in managers to rely on pretested plans. It is not true that if a plan has worked successfully in past, it will bring success in future also as there are so many unknown factors which may lead to failure of plan in future. Planning only provides a base for analysing future. It is not a solution for future course of action.



Keywords

Limitations of Planning

(i) Rigidity:
(a) Difficult to make changes
(b) Does not permit new way of doing once the plan is implemented

(ii) May not Work in Dynamic Environment: Plans may fail due to changes taking place in environment (due to external limitations of planning)

(iii) Reduces Creativity:
(a) Middle and lower level become dull
(b) Employees loose creativity
(c) Employees stop giving suggestions and new ideas of doing the work.

(iv) Involve Huge Cost: Spending more amount on planning more expenses in gathering information.

(v) Time Consuming: Lot of time is wasted in listing and evaluating various alternatives.

(vi) Does not guarantee success: Plan which brought success in past may fail in future. Last year successful plan, may fail in present year.

(vii) There is no guarantee that plan which brought success in previous year will be successful in future also.

MCQs and Case Studies

1. **Which limitation is highlighted here once plan decided the future course of action, and manager may not be in a position to change it:**
   (a) Planning may not work in dynamic environment
   (b) Creates Rigidity
   (c) Reduces Creativity
   (d) Time Consuming

2. **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 its 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.

3. **Alpha Ltd. has a plan of increasing profit by 20%. The company spent a lot of time and money to frame and implement this plan. The competition increased, so it could not change its plan to beat its competitors because huge amount of money is already spent. The plan failed and company suffered huge loss.**

   State any two limitations of planning.

(*Answers at Page no. 195*)

4.4.1 External Limitations of Planning

Sometimes planning fails due to following limitations on which managers have no control:

(i) **Natural calamity.** Natural calamities such as flood, earthquake, famine, etc. may result in failure of plan.

(ii) **Change in competitors' policies.** Sometimes plan may fail due to better policies, product and strategy of competitor which was not expected by manager.

(iii) **Change in taste/fashion and trend in the market.** Sometimes plans may fail when the taste/fashion or trend in market goes against the expectation of planners.

(iv) **Change in technologies.** The introduction of new technologies may also lead to failure of plans for products using old technology.

(v) **Change in government/economic policy.** Managers have no control over government decisions. If government economic or industrial policies are not framed as expected by manager then also plans may fail.

CONCLUSION

The above points show that planning is not a substitute for success of an organisation because it suffers from many limitations. But it does not mean that managers should not perform planning function, rather they should perform planning function keeping in mind the limitations of planning and then try to overcome these limitations.

4.5 PLANNING PROCESS

1. **Setting-up of the objectives.** In planning function manager begins with setting up of objectives because all the policies, procedures and methods are framed for achieving objectives only. The managers set up very clearly the objectives of the company keeping in mind the goals of the company and the physical and financial resources of the company. Managers prefer to set up goals which can be achieved quickly and in specific limit of time. After setting up the goals, the clearly defined goals are communicated to all the employees.
2. **Developing premises.** Premises refer to making assumptions regarding future. Premises are the base on which plans are made. It is a kind of forecast made keeping in view existing plans and any past information about various policies. There should be total agreement on all the assumptions. The assumptions are made on the basis of forecasting. Forecast is the technique of gathering information. Common forecast are made to find out the demand for a product, change in government or competitor policy, tax rate, etc.

3. **Listing the various alternatives for achieving the objectives.** After setting up of objectives the managers make a list of alternatives through which the organisation can achieve its objectives as there can be many ways to achieve the objective and managers must know all the ways to reach the objectives.

   For example, if the objective is to increase in sale by 10% then the sale can be increased:

   (a) By adding more line of products;

   (b) By offering discount;

   (c) By increasing expenditure on advertisements;

   (d) By increasing the share in the market;

   (e) By appointing salesmen for door-to-door sale, etc.

   So, managers list out all the alternatives.

4. **Evaluation of different alternatives.** After making the list of various alternatives along with the assumptions supporting them, the manager starts evaluating each and every alternative and notes down the positive and negative aspects of every alternative. After this the manager starts eliminating the alternatives with more of negative aspect and the one with the maximum positive aspect and with most feasible assumption is selected as best alternative. Alternatives are evaluated in the light of their feasibility.

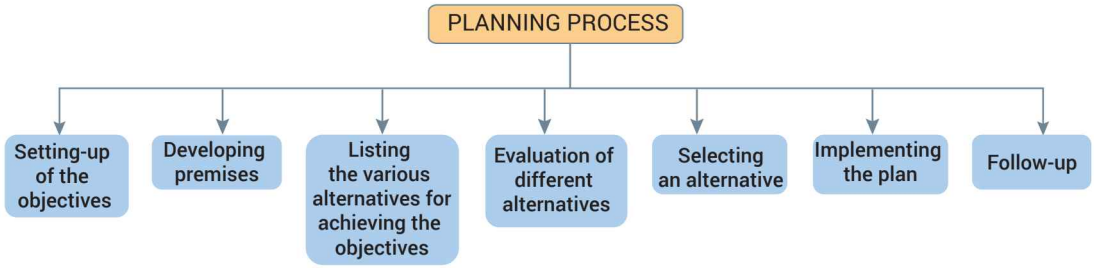
5. **Selecting an alternative.** The best alternative is selected but as such there is no mathematical formula to select the best alternative. Sometimes instead of selecting one alternative, a combination of different alternatives can also be selected. The most ideal plan is most feasible, profitable and with least negative consequences.

   After preparing the main plan, the organisation has to make number of small plans to support the main plan. These plans are related to performance of routine jobs in the organisation. These are derived from the major plan. So, they are also known as **derivative plans.** These plans are must for accomplishing the objective of main plan. The common supportive plans are plans to buy equipment, plan for recruitment and selection of employees, plan to buy raw material, etc.

6. **Implementing the plan.** The managers prepare or draft the main and supportive plans on paper but there is no use of these plans unless and until these are put in action. For implementing the plans or putting the plans into action, the managers start communicating the plans to all the employees very clearly because the employees actually have to carry on the activities according to specification of plans. After communicating the plan to employees and taking their support the managers start allocating the resources according to the specification of the plans. **For example**, if the plan is to increase in sale by increasing the expenditure on advertisement, then to put it into action, the managers must allot more funds to advertisement department, select better media, hire advertising agency, etc.

7. **Follow-up.** Planning is a continuous process so the manager's job does not get over simply by putting the plan into action. The managers monitor the plan carefully while it is

implemented. The monitoring of plan is very important because it helps to verify whether the conditions and predictions assumed in plan are holding true in present situation or not. If these are not coming true then immediately changes are made in the plan. During follow up many adjustments are made in the plan. **For example,** if the expenditure planning is done keeping in mind 5% inflation rate but in present situation if the inflation rate rises to 10% then during follow up the managers make changes in the plans according to 10% inflation rate.



Keywords

Planning Process

(i) Setting-up of the objectives: Set target and results.

(ii) Developing premises: Assumptions, predications regarding future

(iii) Listing the various alternatives for achieving the objectives: Finding various options available to achieve objective.

(iv) Evaluation of different alternatives: Comparing all the available option with their pros and cons.

(v) Selecting an alternative: Choosing one or combination of two or three alternatives for achieving goal.

(vi) Implementing the plan: Put the plan in action, doing work as per direction of plan.

(vii) Follow-up: Checking keeping an lye to find out whether planers one working sources fully or not.

MCQs and Case Studies

1. **In which step of planning process the best and most feasible plan will be choosen to be implemented**

   (a) Selecting an alternative (b) Developing Premises

   (c) Evaluating alternative course of action (d) Setting up objective

2. **In which step of planning process pros and cons of each alternative is examined**

   (a) Selecting an alternative premises (b) Developing Premises

   (c) Evaluating alternative course of action (d) Setting up objective

3. **"Mobile Ltd." is a well-known automobile manufacturing company in India. The company plans to increase the sale of its Sedan Cars by 20% in the next quarter. In order to achieve this target, the marketing department of the company considered the impact of government policy on the diesel vehicles and they also anticipated the level of competitions they might have to face. The team explored the various available options for increase in sale like offering more discounts, providing zero per cent finance, offering free accessories, free service for three years, etc.**

   A thorough analysis of each option was done and finally company decided to offer free service for next three years. In order to implement the plan, they made various packages of service coupons and communicated the same to their dealers. They also started giving the advertisements to make the customers aware of their scheme through various print and electronic medias.

   A separate team was formed to keep a close watch on the revenue and impact of new scheme on the sale.

   In the context of the above case . . . . . .

   (a) Name the function of management which is being described in above paragraph.

   (b) Identify and explain the any four steps involved in the process of the function of management as identified in the above para, by quoting the lines from it.

(*Answers at Page no. 195*)

4.6 PLAN

Plan is a document that outlines how goals are going to be met. It is a specific action proposed to help the organization achieve its objectives. There may be more than one way and means of reaching a particular goal but with the help of logical plans, objectives of an organization could be easily achieved.

4.6.1 Single Use Plans

Single use plans are one time use plan. These are designed to achieve a particular goal that once achieved will not reoccur in future. These are made to meet the needs of unique situations. The duration or length of single use plan depend upon the activity or goal for which it is made. It may last one day or it may last for weeks or months if the project for which it is made is long.

Features of Single Use Plan

1. Single use plans are used only once.
2. Prepared to meet the demand of specific situation.
3. These are discarded when the situation is over.
4. Every time a new plan is prepared for new situation, e.g., budget, programme, projects.

4.6.2 Standing Plans

Standing plans are also known as Repeat Use Plans. These plans focus on situations which occur repeatedly. Standing plans are used over and over again. They are made once but retain their value over a period of years. Although some revisions and updates are made in these plans from time to time.

Features of Standing Plans

1. These are recurring plans used for an indefinite period.
2. Standing plans are stable in nature.
3. These plans act as guidelines for smooth functioning of the organisation, *e.g.*, policy, procedure, rules, methods, etc.

   There are other types of plans which are usually not classified as single use or standing plans. These are strategy, objectives as these plans are prepared by top management and serve as guide for overall planning whereas single use and standing plans are part of the operational planning process.

Difference between Single Use and Standing Plan

S. No.	Single use plan	Standing plan
1.	Single use plan is used only once.	Standing plan is used again and again.
2.	Single use plan is developed for one time event such or course of action is not likely to repeat.	Standing plan is made for activities that occur regularly over a period of time.
3.	It is discarded when the project is over.	It is usually developed once, but used over and over again with necessary modifications from time to time.
4.	Single use plans include—budget, programme and projects.	Standing plans includes policies, procedures, methods, rules, etc.

Keywords

Plan

(i) Single Use Plans — one time use, everytime a new plan is prepared.

(ii) Standing Plans — once made is used for many years.

4.7 TYPES OF PLANS

Planning is a pervasive function which means it is not the task of top level managers only but managers working at different levels perform planning function. The plans framed by top level manager may differ from the plans formed by middle and lower level managers. The different types of plans or common plans formed by the managers at different levels are:

1. Objectives
2. Strategy
3. Policies
4. Procedures
5. Methods
6. Rules
7. Programmes
8. Budgets

1. Objectives (Neither Single use nor Standing plan)

Objectives should be SMART as

S — Specific

M — Measurable

A — Achievable

R — Relevant

T — Time bound

For example, increase in sale by 10% by six months or decrease in rejections by 2% by one month.

Features of Objectives

(a) Determine what is to be done?

(b) Is the end result of planning?

(c) All activities are guided towards objectives.

(d) Serve as guide for overall business planning.

(e) Define the future state of affairs which the organisations strives to realise.

(f) These are usually set by top level management.

2. Strategy (Neither single use nor standing plan)

A strategy is a comprehensive plan to achieve the organisational objectives. The dimensions of strategy are:

(i) Determining long term objectives.

(ii) Adopting a particular course of action.

(iii) Allocating resources for achieving the objectives.

Strategy formulation is the task of top level people and it is must to scan and understand clearly the business environment before framing the strategy. The common decisions in strategy are whether to introduce a new product or not. If to introduce then how, finding out customer for your products, making changes in existing products, etc. All the strategic decisions are greatly influenced by the business environment. Strategy defines the future decisions regarding the organisation's direction and scope in the long run.

For example, choice of advertising media, sales promotion techniques, which channels of distribution to be used, who are the customers, what is the demand, etc.

Features of Strategy

(a) Is the blueprint of the business and provides outline of business?

(b) Strategy is influenced by business environment.

(c) Strategy directs future decision making and scope in long run.

(d) A strategy provides the broad contours of an organisation in business.

(e) Strategies usually take the course of forming the organisation's identity in the business environment.

(f) Major Strategic decisions will include decisions like whether the organization will continue in same kind of business or combine new lines of activities or seek to acquire dominant position in the same business.

3. Policies (Standing plan)

Policy can be defined as organisation's general response to a particular problem or situation. In simple words, it is the organisation's own way of handling the problems. Policies are made at every level because the managers at every level need to decide or predetermine the way of handling a situation and policy acts as a guide to take decisions in unexpected situation. Policy formation always encourages initiatives of employees because employees have to deal with situations and the way of handling the situation is decided in consultation with the employees. Then they will be able to handle the situation in a much better way. Major policies are made to known to all the stakeholders like customers, clients, competitor, supplier, etc., whereas minor policies are for internal use and are made to known to insiders only with minute detail. **For example,** purchase policy may include—From how many suppliers company should purchase, what is the criteria for choosing among the suppliers.

"No credit sale policy", Make or buy policy.

Features of Policies

(a) Based on objectives.

(b) Guides managers to implement strategy.

(c) Policy is organisation's customised way of handling problems.

(d) Policies define broad parameters within which a manager may function.

4. Procedures (Standing plan)

Procedures are required steps established in advance to handle future conditions. The sequence of steps to be followed by employees in different situations must be predetermined so that everyone follows same steps. The procedure can be defined as the exact manner in which an activity has to be accomplished.

For example, the procedure for admission in a particular school can be:

Procedures are made common for all the departments to co-ordinate their activities. So procedures cut across all the departmental lines. **For example,** the procedure to handle the order by manufacturing department may involve sales department also.

Features of Procedures

(a) Sequence of steps to carry on different activities.

(b) Generally meant for insiders only.

(c) Are mostly in a chronological order.

(d) The sequence of steps or actions to be taken to enforce a policy and attain pre-determined objectives.

(e) Exact manner in which an activity has to be done.

Policy and procedures are interlinked with each other. Procedures are steps to be carried out within the broad policy framework.

5. Methods (Standing plan)

Methods can be defined as formalised or systematic way of doing a jobs. The managers decide in advance the common way of doing a job. So that,

(a) There is no doubt in the minds of employees;

(b) There can be uniformity in actions of the employees;

(c) These help in applying the techniques of standardisation and simplification;

(d) Act as guide for employees.

(e) Method deals with task comprising one step of a procedure and specifies how this step has to be performed.

(f) Selection of proper method saves time, money and efforts and increases efficiency.

If the common way of doing the job is not decided in advance, then there will be confusion, and comparison will not be possible. **For example,** for valuation of depreciation whether to use straight line or diminishing balance method of depreciation.

Features of Methods

(a) Standardised way in which a task has to be performed.

(b) Selection of right method saves time, money and increases the efficiency.

(c) Methods vary from task to task.

6. Rules (Standing plan)

Rules spell out special actions or non-actions of the employees. There is no discretion allowed in rules, *i.e.*, they must be followed strictly and if rules are not followed then strict actions can be taken against employees who are disobeying the rules. Rules are spelt out to create the environment of discipline in the organisation. **For example,** there can be rule of no smoking in the organisation. Rules generally guide the general behaviour of the employees and employees cannot make any changes in them.

Features of Rules

(a) Code of conduct or general instructions in any organisation.

(b) Specifies what to do and what not to do.

(c) Are rigid, stringent and compulsive in nature.

(d) They are usually the simplest type of plan.

7. Programmes (Single use plan)

Programmes are the combination of objectives, policies, procedures and rules. All these plans together form a program. The programmes are made to get a systematic working in the organisation. The programmes create relation between policies, procedures and goals. The programmes are also prepared at different levels. A primary programme is prepared by the top level and then to support the primary programme supportive programmes of different levels are prepared for smooth function of the company.

For example, construction of shopping mall, opening of new department.

Features of Programmes

(a) Detailed statement about a project.

(b) Is a combination of objectives, policies, procedures and rules.

(c) Is prepared for various activities.

(d) Ensure systematic working in an organisation.

(e) Include entire gamut of activities.

(f) In programme, minutest details are worked out its procedure, rules, budgets, within the broad policy framework.

8. Budgets (Single use plan)

Budget is the statement of expected result expressed in numerical terms. In budgets, the results are always measurable and most of the time, these are financial in nature but it does not mean that company prepares only financial budget. Along with financial budget capital budget, is prepared to find out the expected capital requirement. Operational budget is prepared where instead of finance hourly units are used stating expected hours the employees will be working. Budgets are prepared by managers at every level and lower level managers generally prepare operational budgets.

For example, Sale budget

Sales in unit = ₹ 1,00,000

Price per unit = ₹20

Total sale budget = ₹ 20,00,000

Features of Budgets

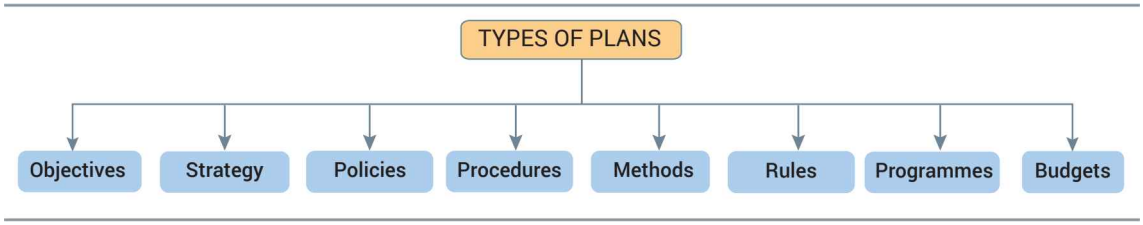
(a) Statement of expected result expressed in numerical terms.

(b) Serves as standard for measuring and comparing actual performance.

(c) Quantifies future facts and figures.

(d) Budgets are prepared by managers at every level.

(e) It is a controlling device from which deviations can be taken care of.



Keywords

Objectives

(i) end result
(ii) aim
(iii) all other activities are directed towards
(iv) written statements of desired results to be achieved within a given time period

Strategy

(i) Contours of business
(ii) Involve environment scanning
(iii) Include: (a) Determination of long term objectives
(b) Determining course of action
(c) Allocation of resources

Policies

(i) Organisation's style of working
(ii) Organisation's way of solving problem
(iii) Guide to thinking

Procedures

(i) Sequence of steps
(ii) Chronological order
(iii) Guide to action
(iv) Step by step way of doing a work

Rules

(i) Code of conduct
(ii) Specify dos and don'ts
(iii) Most rigid
(iv) Penalty for not observing rules

Methods

(i) Way of doing a job
(ii) Bring uniformity, standardisation
(iii) Bring systematic working
(iv) Bring clarity in mind of workers how to do the work

Programmes

(i) Gamut of all activities
(ii) Involve—Objectives, procedures, policies and rules

Budget

(i) Expressed in numerical terms
(ii) Controlling device from which deviations are taken care of
(iii) Provide standard or expected results

MCQs and Case Studies

1. **Mansi, after completing her course in fashion designing planned to start designer boutique. She had to address issues like her target customers, channels of distributions to be used, pricing policy etc. The type of plan Mansi need to develop to get a blue print of the business venture is**

   (a) Policy (b) Programme

   (c) Strategy (d) Objective

2. **'Pace Ltd.' is an enterprise selling T.V. sets, they have decided to buy LED screens only from vendors using Japanese technique of manufacturing. This is related to which type of Plan**

   (a) Objective (b) Policy

   (c) Strategy (d) Rule

3. **Flipkart is an e-commerce company founded in the year 2007 by Sachin Bansal and Binay Bansal. The company is registered in Singapore, but has its head quarters in Bengaluru, India. The company seeks to increase traffic on their site (more clicks on their product, and boost sale by next quarter).**

   Flipkart was the first company to offer 'Cash on Delivery' facility. Before giving this offer, company scanned the environment and allocated huge fund to implement this offer. The company offer in general Two Weeks' Return option, but it may vary from product to product.

   After receiving the order, the company follows a chronological sequence of steps till the delivery of product to customer. The company offers, various options of payment such as cash on delivery, Debit/Credit card, net banking, etc. This year company plans to spend ₹ 50 crore for advertisement to increase the sale. Flipkart reserve the right to terminate your membership or refuse to deliver product if it is discovered that you are under age of 18. This is because as per Indian Contact Act the minors are not eligible to use websites.

   In context of above case, identify and explain different types of plans being used by Flipkart by quoting the lines from the para.

(*Answers at Page no. 196*)

4.8 DIFFERENCES BETWEEN POLICIES AND OBJECTIVES, POLICIES AND PROCEDURES, PROCEDURES AND METHODS, POLICIES AND RULES, RULES AND METHODS, STRATEGY AND POLICY

	Policies	Objectives
(a)	Policies are organisation's own way of solving a particular problem.	Objectives are end results of an organisation.
(b)	Policies describe how the work is to be done.	Objectives describe what is to be done.

(c)	Policies explain the mode of achieving the objectives.	Objectives are end points of planning.
(d)	Policies are framed by top, middle and lower level managers.	Objectives are generally formed by top level managers only.

	Policies	Procedures
(a)	Policies are organisation's own way of tackling the problem.	Procedures are step by step way of doing a job.
(b)	Policies are guide to think for decision-making.	Procedures are guide to actions.
(c)	Policies are derived from objectives of the company.	Procedures are required for implementation of policy.
(d)	Policies are more rigid.	Procedures are less rigid.
(e)	Policies are expressed in general terms.	Procedures are expressed in specific terms.
(f)	**Example:** School's policy to give admission to students securing more than 60% marks.	**Example:** Procedure for maintaining admission can be: 1. Separate file, 2. Keeping admission forms in file, 3. Checking data, filled in form with original document, etc.

	Procedures	Methods
(a)	Procedures are sequences of steps to be followed for performing some important jobs.	Methods are formalised way of doing a routine and repetitive jobs.
(b)	Procedures are more rigid.	Methods are less rigid or flexible.
(c)	Procedures help in implementation of policy.	Methods help for standardisation and co-ordination of activity.
(d)	**Example:** Procedure for giving admission in school or giving contracts to an outside agency.	**Example:** Methods of valuation of stock or method of production.

	Policies	Rules
(a)	Policies are organisation's own way of handling a problem.	Rules are norms regarding actions and non-actions of employees.
(b)	Policy is a general statement.	Rule is a specific statement.
(c)	Policy is a guide for decision making and thinking.	Rule is a guide to behaviour of employees.
(d)	Policy describes what is to be done under different situations.	Rules describe what is to be done and what is not to be done by the employees.
(e)	Policies are less rigid.	Rules are very rigid.
(f)	**Example:** Policy of giving admission to students securing more than 60% marks.	**Example:** No smoking in office premises.

	Rules	Methods
(a)	Rules are norms for action and non-action of employees.	Methods are formalised way of doing routine and repetitive jobs.
(b)	Rules are very specific or very rigid also.	Methods are specific but flexible.
(c)	Rules improve the behaviour of the employees.	Methods bring quantity improvement and standardisation.
(d)	If rules are not followed then there is strict penalty for it.	If methods are changed then there can be warning but no penalty.
(e)	**Example:** Rule—No Smoking	**Example:** Follow straight line method of depreciation.

	Strategy	Policy
(a)	It is a comprehensive plan which includes various steps.	It is a single plan.
(b)	It is formulated for solving challenging and unforeseen problems.	It is formed to carry out routine function.
(c)	Every time a new strategy is prepared to solve different problems.	Common policy is used for all the routine problems.
(d)	It is adhoc or temporary in nature.	It is permanent in nature.
(e)	It allocates human and other resources.	It uses the resources for decision-making

Quick Revision

Meaning. Planning can be defined as thinking in advance what is to be done, when it is to be done, how it is to be done, and by whom it should be done. It bridges the gap between where organisation is standing today and where it wants to reach.

Features of Planning

1. Planning contributes to objectives.
2. Planning is primary function of management.
3. Pervasive.
4. Planning is futuristic/forward looking.
5. Planning is continuous.
6. Planning involves decision-making.
7. Planning is a mental exercise.

Importance of Planning

1. Planning provides direction.
2. Planning reduces the risk of uncertainties.
3. Planning reduces overlapping and wasteful activities.
4. Planning promotes innovative ideas.
5. Planning facilitates decision-making.
6. Planning establishes standard for controlling.
7. Focuses attention on objectives of the company.

Limitations of Planning

1. Planning leads to rigidity.
2. Planning may not work in dynamic environment.
3. It reduces creativity.
4. Planning involves huge cost.
5. It is a time consuming process.
6. Planning does not give guarantee success.
7. Lack of accuracy.

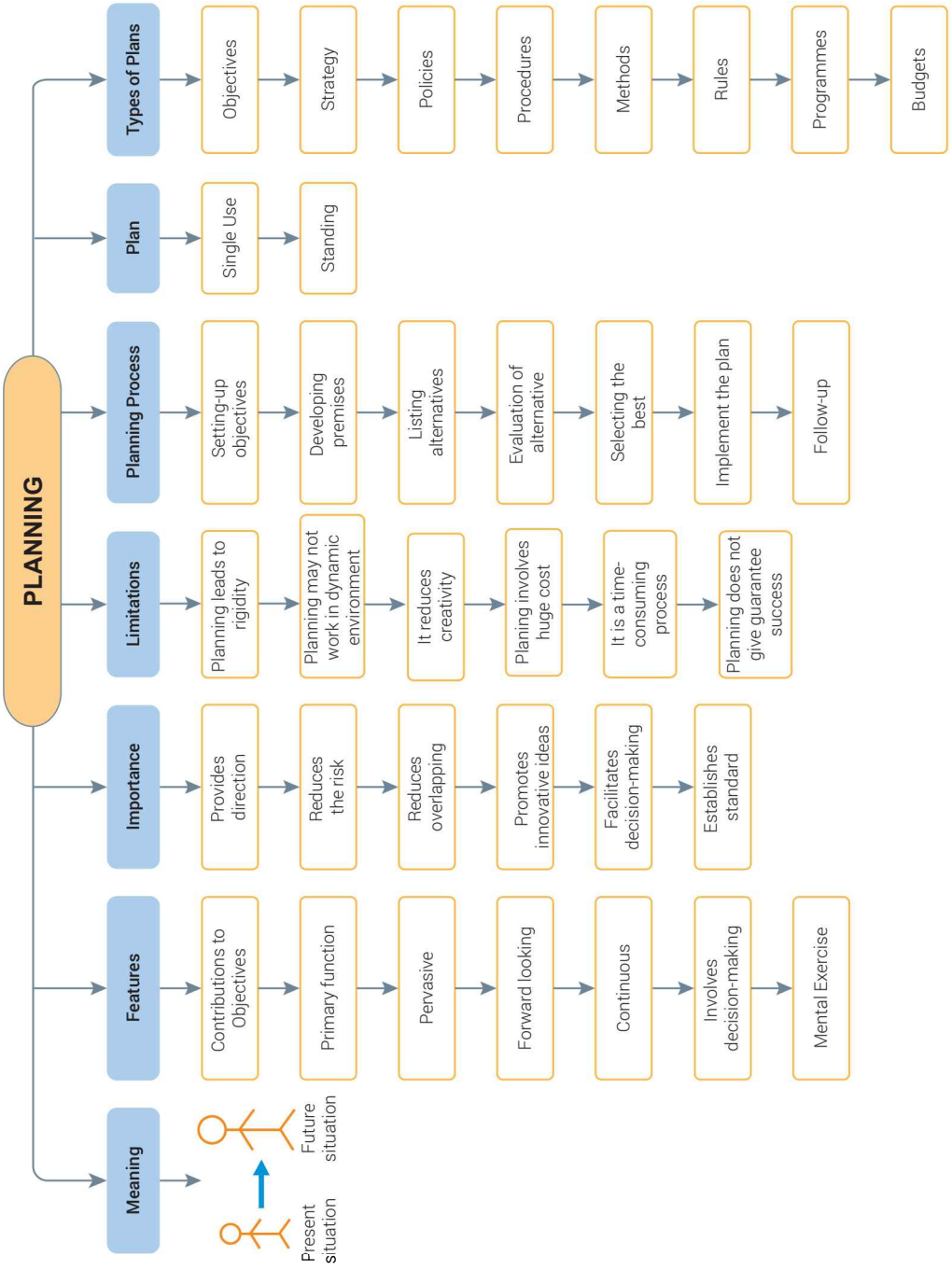
Planning Process. Planning process involves

1. Setting-up of the objectives.
2. Developing premises.
3. Listing the various alternatives for achieving the objectives.
4. Evaluation of different alternatives.
5. Selecting an alternative.
6. Implementing the plan.
7. Follow-up.

Types of Plans

1. Objectives
2. Strategy
3. Policies
4. Procedures
5. Methods
6. Rules
7. Programmes
8. Budgets

Planning – A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. Planning is the
   (a) Primary/First function of manager (b) Last function of manager
   (c) Both (a) and (b) (d) None of the above
2. Making assumptions for future is called
   (a) Making derivative plans (b) Making policy
   (c) Setting planning premises (d) All of the above
3. The composite plan which involves setting up of long term objective finding course of action and allocation of resources is called
   (a) Policy (b) Strategy
   (c) Programme (d) Procedure
4. The plan which includes objective, policy, procedure and rule is called
   (a) Strategy (b) Budget
   (c) Programme (d) All of the above
5. Standardised way in which a task has to be performed is called
   (a) Policy (b) Procedure
   (c) Strategy (d) Method
6. The sequence of steps or actions to be taken to enforce a policy and attain pre-determined objectives is called
   (a) Objective (b) Policy
   (c) Procedure (d) Strategy
7. Organisations own customised way of handling problems or taking decisions is called
   (a) Strategy (b) Policy
   (c) Budget (d) Rule
8. End Results towards which all the activities are directed is called
   (a) Policy (b) Strategy
   (c) Objective (d) Programme
9. Controlling device from which deviations can be taken care of is
   (a) Procedure (b) Strategy
   (c) Policy (d) Budget
10. Planning is performed at
    (a) Top Level (b) Middle Level
    (c) Supervising Level (d) All Level
11. Planning is
    (a) Routine Activity (b) Mental exercise
    (c) None of the above (d) All of the above
12. After implementation of plan
    (a) Planning ends (b) New plan is made
    (c) Follow up is done (d) None of the above

13. Standing Plan
    (a) Stands as an example for other planner (b) Recurring plans
    (c) Discarded after use (d) All of the above
14. Single use plan
    (a) Used only once (b) Used for one single department
    (c) Used by single individual (d) All of the above
15. Planning establish base or standard for
    (a) Organising (b) Staffing
    (c) Directing (d) Controlling
16. A company is manufacturing garments. The manager wants to increase profits by purchasing new high speed machines or increasing the sale price or using waste materials in manufacturing stuffed toys. He decided that "using waste material" is the best solution for him.
    Identify the concept of management involved.
    (a) Directing (b) Coordination
    (c) Planning (d) Organising
17. Rahim wanted to start with a stationery app. to help students of schools and college to provide stationery to them. He felt that students were not able to get the needed stationery easily and hence wanted to provide the stationery directly to students in the school. He list out the various ways of setting up this business and finally selected the best way to set up this business is by developing an app. Suggest what should be the next step of him:
    (a) Developing premises (b) Identifying the alternative course of action
    (c) Implementation of plan (d) Follow up action
18. What are certain assumptions about the future on the basis of which the plan will be ultimately formulated?
    (a) Method premises (b) Planning premises
    (c) Esteem needs (d) Management premises

(Answers at Page no. 196)

Fill in the Blanks

1. Planning contributed to .
2. Planning involves .
3. Once plans are made, it is difficult to change them, so planning leads to _____.
4. Employees become blind followers of plans, so planning reduces _____.
5. Plans work successfully in past, may not work successfully in future also as planning does not give .
6. The blue print of business is called .
7. _____ spell out actions and non actions of employees.
8. _____ includes entire gamut of activities.
9. Planning bridges the gap between where we are standing and where we want to .
10. Repeat use plans are known as .

(Answers at Page no. 196)

True or False

1. Planning involves choice. (True/False)
2. Planning is a function of Top Level managers. (True/False)

3. Planning gives guarantee of success. (True/False)
4. Planning is time consuming and involves huge cost. (True/False)
5. Supportive plans are derived from main plan. (True/False)
6. Budget is a standing plan. (True/False)
7. Policy is the organisation's way of working. (True/False)
8. Planning provides base/standard for controlling. (True/False)
9. Methods and procedures are same type of plan. (True/False)
10. Programme is a comprehensive plan including objective, policy, procedure, etc. (True/False)

(Answers at Page no. 196)

Remembering and Understanding-based Questions with Answers

Q. 1. Define 'Planning premises'. *[CBSE Sample Paper 2014]*

Ans. The Manager is required to make certain assumptions about the future, which are the base material upon which plans are to be drawn. These assumptions are called planning premises.

Q. 2. What is meant by single use plan? *[CBSE Sample Paper 2015]*

Ans. A single use plan is developed for a one time event. Such a course of action is not likely to be repeated in future.

Q. 3. State the main aspects in the concept of planning. *[CBSE Sample Paper 2016]*

Ans. (1) Setting objectives for a given time period.
(2) Formulating various courses of action to achieve them.
(3) Selecting the best possible alternative from among the various courses of action available.

Q. 4. A company needs a detailed plan for its new project—construction of shopping mall. What type of plan is it? *[CBSE Sample Paper]*

Ans. Programme.

Q. 5. Which function of management is considered as the base of all other functions?

Ans. Planning.

Q. 6. Name any two features of planning.

Ans. (i) Goal-oriented (ii) Forward looking

Q. 7. Define policy.

Ans. Policy refers to organisation's own style of tackling the problems.

Q. 8. Which limitation of planning suggests that the employees stop thinking and become the blind followers of plan?

Ans. Reduces creativity or adverse effect on initiative, suggests that employees become the blind followers of plan.

Q. 9. State any two types of plans.

Ans. (i) Objectives (ii) Policy

Q. 10. In which type of plan the sequences to perform a job are determined?

Ans. Procedure.

Q. 11. Which plan suggests actions and non-actions of employees?

Ans. Rules.

Q. 12. No smoking—this statement is related to which type of plan?

Ans. Rule.

Q. 13. McDonald co. does not give its franchise to any other co. which is running food business. This is related to which type of plan?

Ans. It is related to policy of the company.

Q. 14. **In which step of planning process the planners make predictions and assumptions regarding future?**

Ans. Setting up of planning premises for all the alternatives predictions are made.

Q. 15. **Define derivative plans.**

Ans. Small plans which are derived from main plan to give support to main plan are known as derivative plans.

Q. 16. **A company wants to introduce a new product. What type of plan should it prepare?**

Ans. Strategy.

Q. 17. **Which plan helps in analysing competitor's policy?**

Ans. Strategy.

Q. 18. **At which level of management more time is consumed on planning as compared to other levels?**

Ans. Top level.

Q. 19. **Planning function of management is conducted at which level of management?**

Ans. At all the three levels.

Q. 20. **Give two examples of limitations of planning, which are beyond the control of an organisation.**

Ans. (i) Natural calamity,

(ii) Change in taste, fashion or trend in the market.

Q. 21. ***'No enterprise can achieve its objectives without systematic planning.'* Do you agree with this statement? Give any five reasons in support of your answer.**

Ans. Yes, I agree with the statement. The planning is a primary function of every organisation. The objectives of the organisations are set up in planning function and steps are taken in planning function to achieve the set objectives. Planning function is necessary to get the objective achieved because of following reasons. Give five reasons for importance of planning?

[Refer to page nos. 161-162]

Q. 22. ***"Planning is not a guarantee of success of a business."* Comment.**

Ans. It is right to say that planning is not a guarantee of success of a business because planning function is based on certain assumptions regarding future and no one can give guarantee that assumptions regarding future are hundred per cent accurate. The planning function suffers from certain limitations which is any five limitations of planning.

Q. 23. ***'Sometimes planning fails in spite of the best efforts of management.'* Do you agree? Give any five reasons in support of your answer.**

Ans. Yes, I agree with the statement that planning fails inspite of the best efforts of management. The planning may fail because of following reasons. Give five limitations of planning.

[Refer to page nos. 163-164]

Q. 24. **Describe the features of an ideal plan.**

Ans. The features of an ideal plan are:

(i) It should be goal-oriented.
(ii) It must be futuristic.
(iii) It should be flexible.
(iv) It should be a continuous process.
(v) It must involve choice.

[**Hint:** Give explanation from the features of planning; only little variations in headings has to be done.]

Q. 25. **Give two examples of objective and policy.**

Ans. **Objective:**

1. Increase in production by 10% in six months, 2. Increase in sale by 5%.

Policy:

1. Policy of school to give admission to students securing more than 60% marks.
2. Policy of McDonald, not to give franchise to a businessman, who is already having a restaurant.

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. On the introduction of Goods and Services Tax Act, experts in the field of business started analysing and forecasting its impact on various sectors and industries. Vivek, an established businessman, attended a few seminars and conferences organised by such experts to familiarise himself with this information. He wanted to use these forecasts to reduce the uncertainty in making decisions for the future in his business.

Name the step in the planning process that is being discussed in the above paragraph.

Ans. Developing premises

Q. 2. Does mere planning ensure success? Explain why?

Ans. 'No'.

[*For explanation of limitation of planning refer page nos. 163-164.*]

Q. 3. Give two examples of internal premises.

Ans. (i) Premises related to requirement of capital, (ii) Requirement of raw materials.

Q. 4. Give two examples of external premises.

Ans. (i) Assumption regarding government policy, (ii) Assumption regarding competitor.

Q. 5. Name the type of plan which serves as guide for overall business planning and defines the end result which organisation strives to achieve. Also give difference between this plan and policy.

Ans. Objective. *For difference refer page no. 176.*

Q. 6. 'ABC Ltd.' decides to advertise their product on T.V. and radio. What type of plan should it prepare?

Ans. Strategy.

Q. 7. *'Infosys Ltd. decided to give 20% of jobs to women'*. What type of plan is it? Explain this plan.

Ans. Policy. *For explanation refer page no. 172.*

Q. 8. An employee will retire at the age of 60 years. What type of plan is it?

Ans. Policy.

Q. 9. What type of plan is defined as long range blue print of an organisation's desired image, direction and destination?

Ans. Strategy.

Q. 10. A firm wants to increase its sales by 25% for the coming year. Which type of plan is involved in it?

Ans. Objective.

Q. 11. ABC Ltd. gives promotion on the basis of seniority. Which type of plan is it?

Ans. Policy.

Q. 12. Name the type of plan in which minutest details are worked out, *i.e.*, procedures, rules, budgets, etc.

Ans. Programme.

Q. 13. Name the type of plan which provides the basis for interpreting the strategy.

Ans. Policy.

Q. 14. Name the type of plan which provides directions for all decisions, and actions.

Ans. Objective.

Q. 15. Which type of plan has least flexibility?

Ans. Rules.

Q. 16. Name the type of plan which is time bound and linked with measurable outcome.[*CBSE (D) 2012*]

Ans. Objective.

Q. 17. "Swachh Bharat Abhiyan" started by government of India is an example of which type of plan? Explain it.

Ans. Programme for explanation refer page no. 174

Q. 18. 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, Lavender, Mogra, Lemon Grass, Green Apple, Strawberry, etc. The Unique Selling Proposition (USP) was to promote eco-friendly living in the contemporary lifestyle. The company decided to allocate ₹ 30 crores to achieve the objective.

Identify the type of one of the functions of management mentioned above which will help the company to acquire dominant position in the market. [*CBSE Sample Paper 2015*]

Ans. Strategy

Q. 19. After completing her studies in product design, Sarita wishes to start her own business to design products to cater to the mobility and communication requirements of persons with special needs. She told her friend that she wanted to focus on supplying high-quality products at affordable prices. The Unique Selling Proposition (U.S.P) of the products would be sensitivity to the challenges and needs of the differently abled people. She wants to employ only differently abled persons in her factory and sales offices across the country. This decision of Sarita provides the base for interpreting her strategy. This also defines the broad parameters within which the company may recruit the persons. Sarita has also to decide about the exact manner and the chronological order of how the selection of the differently abled applicants will be done. In the above lines, Sarita is discussing about one of the functions of management. This function has several types. Identify and explain the types Sarita is discussing in the above lines. [*CBSE (D) 2017(C)*]

Ans. Types of plans Sarita is discussing in the above lines are:

(a) **Policy:** Policy is a general guideline which brings uniformity in decision-making for the achievement of predetermined objectives.

(b) **Procedure:** It consists of sequence of routine steps on how to carry out activities. It details the exact manner in which any work is to be performed.

Q. 20. Rajeev, the owner of Pathways Constructions decided to start a campaign to create awareness among people for developing clean surroundings in their area. He formed a team of 10 members to list the different ways for cleaning the surroundings. One suggested to take the help of local residents, another suggested that they may involve school-going children in their venture. One more suggestion was to take the help of unemployed youth. On evaluation of different ways, it was decided to take the help of local residents. To achieve the desired goal various activities were identified like:

(a) Purchase of necessary items like dustbins, garbage bags, brooms, etc.;

(b) Collection of garbage;

(c) Disposal of garbage, etc.

After identification of different activities the work was allocated to different members.

(i) Identify the concepts of management involved in the above situation and quote the lines which help in their identification.

(ii) Also identify the values which the company wants to communicate to the society.

[*CBSE Sample Paper 2014*]

Ans. (i) **Concepts involved:** Planning and organising.

Lines for planning:

'one suggested.....unemployed youth'

'on evaluation..... local residents'

'campaign to create awareness.....surroundings'

Lines for organising:

'to achieve..... disposal of garbage, etc.'

'after identification of different activities..... different members'

(ii) **Values:** (*any two*)

Respect for environment:

Team work

Fulfilling social responsibility

Q. 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 analysing 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. [*CBSE Sample Paper 2016*]

(b) Also briefly discuss any three limitations of the function discussed in the case.

Ans. (a) Planning.

Characteristics of planning (*any one*)

(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) Limitations of planning (*Any three*)

(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.

Q. 22. A company is manufacturing garments. The manager wants to increase profits by purchasing new high speed machines or increasing the sale price or using waste materials in manufacturing stuffed toys. He decided that "using waste material" is the best solution for him.

(a) Identify the concept of management involved.

(b) Mention the steps involved in the above process by quoting the lines from the question.

Ans. (a) Planning. (b) Steps (Refer page nos. 166-167)

Q. 23. In 'Chak De' movie, Shah Rukh Khan becomes the coach of the girl's hockey team. He knows that he has to prepare the girls for the international hockey match and win the cup. For this, he prepares a long term plan and thinks of ways of how to beat the opponent team. He coaches the girls to play in different ways like defensive, offensive, etc.

At the outset of the match, he explains who will open the match, and how the ball will be passed by one player to another step by step.

Identify all the types of plans mentioned above. State them along with lines which refer to them in the above paragraph.

Ans. Objective, strategy, procedure, method.

Q. 24. The production manager of a company received the complaint that the quality of the goods was not good. After investigation, it came to light that the machines had become very old. That is why, they were unable to achieve standardised quality. The production manager developed several options by way of solution to this problem. Example, getting the machines repaired, purchasing new local machines, purchasing new imported machines, if possible taking machines on rent, etc. The CEO of the company wanted the list of options to be smaller, so that a thorough study could be made for them. In order to make the list of optional ways smaller, he decided to give up all those options which required the investment of more than ₹10 crores.

(a) Identify the concept described in the paragraph given above.

(b) What do you understand from the fact of company fixing the maximum investment limit on options?

Ans. (a) Planning Process (b) Developing Premises

Q. 25. Procter and Gamble Ltd. is offering a free bucket on every purchase of Tide Washing Powder. In response to this Hindustan Unilever Ltd. started a new scheme of giving free one kg of Rin Washing Powder with every purchase of five kg of Rin Washing Powder. Identify the plan stated in the above paragraph and explain it.

Ans. Strategy. (Refer page no. 171)

Q. 26. "KOHINOOR FOODS Ltd. has banned smoking in the factory premises."

(a) Identify the plan stated in above lines.

(b) State the features of this plan.

(c) Differentiate between policy and this plan.

Ans. (a) Rule (b) (Refer page nos. 173)

(c) (Refer page no. 177)

Q. 27. PK Ltd. has been well-known for delay in decision-making and overlapping of work done. Identify the management function lacking in the organisation and state the importance of this function.

Ans. Planning. (Refer page nos. 161-162)

Q. 28. Rahul, a worker is given a target of assembling two computers per day. Due to his habit of doing things differently, an idea struck him, which would not only reduce the assembling time of computer but also reduce the cost of production. But instead of appreciating his idea, his supervisor scolded him and asked him to complete the work as per the prescribed technique. Identify and describe the limitations of planning stated here.

Ans. Reduce creativity limitation. (Refer page nos. 163-164)

Q. 29. A company gave its sales executives, the directives that they would sell goods on credit but told the employees to strictly inform the customer that if they will not make payment within one month they will have to pay an interest of 10% per annum. In the above given paragraph, two types of plans have been mentioned. Identify them and explain them with their features.

Ans. Policy and Rule (Refer page no. 172-173)

Q 30. Bhuvan Ltd. is a garment manufacturing company. The company regularly scans business environment and constantly adapts itself to the changes in environment. With all these efforts also it became difficult for company to foresee future trends. Competition in the market effects the financial plan of the company, sales targets have to be revised which in turn effect the cash budget.

(i) Name and explain the limitation of planning highlighted in the above para.

(ii) Identify the two types of plans mentioned in above para.

Ans. (i) Planning may not work in dynamic environment.

(ii) Plans: (a) Strategy (b) Budget

Q. 31. A company is manufacturing garments. The manager wants to increase the profit by:

(a) Purchasing new high speed machine

(b) Increasing the sale price

(c) Using waste material in manufacturing stuff toys

He decided that using waste material to increase the profit is the best solution for him.

(i) Identify the concept of management involved

(ii) State any four features of that concept.

Ans. (i) Planning (ii) Features (Refer page nos. 158-160)

Q. 32. An electronic company 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 price models for mass consumers. Who are price sensitive? For quality conscious consumers company is introducing new model with added features and new technological advancements.

(i) Prepare a model business plan for this company. Specify which type of plan you are preparing.

Ans. The type of plan needed to be prepared under this situation is strategy and the steps involved in preparing this plan are:

(a) *Setting-up of objective.* The company may set up a long term objective of capturing more and more quality conscious consumers or becoming a leader in quality and trend setter in market by one year time.

(b) *Adopting a particular course of action.* The company must import latest technology or spend more on research and development department to innovate latest technology to make their goods superior than competitor's goods.

(c) *Allocating resources for achieving the objectives.* Company must take permission for importing technology and must allocate extra funds to their R and D section and appoint people with latest knowledge to innovate new technology.

(ii) Identify the limitations of such plans.

Ans. The common limitations of these plans are:

(a) It may involve huge cost. (b) It is a time-consuming process.

(c) There is no guarantee of success. (d) It may not fit in dynamic environment.

[*Explain the above points from the topic limitations of planning page nos. 163-164*]

(iii) How will you remove these limitations?

Ans. To overcome these problems, we may take the following steps:

(a) Prepare budget to carry on this plan and function within the revenue allocated in the budget.

(b) Fix a time limit to achieve the plan and then to execute the plan within that time limit only.

(c) Scan the environment properly before implementing the plan.

(d) Use the plan with caution and care.

Q. 33. Palvinder, is working as a supervisor in Alpha Ltd. To achieve the target, he wants to try a new method and a different way of allocating the work. His superior did not permit him and forced him to do the work strictly as per the plan.

(i) Name the limitation of planning indicated in the above para.

(ii) Name the value overlook by Palvinder's superior.

Ans. (i) 'Planning reduces creativity.'

(ii) Value of motivating and encouraging employee to increase initiative level.

Q. 34. The management of ABC Ltd. set up the target of selling 10,000 units per week and made all their plans based on this target. But due to change in technology adapted by competitors which reduced their cost, the ABC Ltd. could not achieve their target.

(i) Identify the limitation of planning discussed in the above para.

(ii) State any other two limitations.

Ans. (i) Planning may not work in dynamic environment.

(ii) Any two limitations:

1. Planning reduces creativity
2. Planning involve huge cost

Q. 35. Alpha Ltd. spent a lot of money to hire specialised people for framing their plans and collecting important facts from environment. The company cut down their cost by cancelling the employee's trip for recreation.

(i) Name the limitation of planning mentioned in above para.

(ii) Name the value overlook by management.

Ans. (i) **Limitation:** 'Planning involves huge cost'

(ii) **Value overlook:** Psychological need of employees.

Q. 36. ABC Ltd. announced a plan that nobody would smoke in the organisation premises and they further added that certain penalty will be imposed on employees, overlooking this.

(i) Name the type of plan related to above para.

(ii) Name the feature of that plan.

(iii) Name the values emphasised by the company.

Ans. (i) 'Rule' is the type of plan. (ii) Rules are very rigid.

(iii) **Values:** (a) Respect towards environment

(b) Follow discipline and order

Guidelines to NCERT Questions

Short Answer Type Questions

1. What are the main points in the definition of planning? [Refer on Page Nos. 157-158]
2. How does planning provide direction? [Refer on Page No. 161]
3. Do you think planning can work in a changing environment? [Refer on Page No. 164]
4. If planning involves working out details for the future, why does it not ensure success? [Refer on Page No. 164]
5. Why are rules considered to be plans?
   [Rules are considered as plan because they are made in advance for smooth functioning of an organisation]
6. What kind of strategic decisions are taken by business organisations? [Refer on Page Nos. 171-172]

Long Answer Type Questions

1. Why is it that organisations are not always able to accomplish all their objectives? [Refer on Page No. 163-164]
2. What are the main features to be considered by the management while planning? [Refer on Page Nos. 158-160]
3. What are the steps taken by management in the planning process? [Refer on Page Nos. 166-168]
4. Is planning actually worth the huge costs involved? Explain. [Refer on Page No. 164]

Previous Years' Examination Questions (2014-2019)

One Mark Questions:

1. Give the meaning of 'Policy' as a type of plan. [CBSE (D) 2014]
2. Give the meaning of 'Objective' as a type of plan. [CBSE 2015]
3. Define Planning. [CBSE 2015]
4. Give the meaning of 'Programme' as a type of plan. [CBSE 2015]
5. Give the meaning of 'Method' as a type of plan. [CBSE 2014, (AI) 2018]
6. Saurabh decided to start a chocolates manufacturing business. He set the target of earning 10% profit on sales in the first year. As a good businessman, he was concerned about the future of the business, which was uncertain. He gathered information that the demand for chocolates is increasing day by day. He used this information as the base for future planning and shared it with his team. On the basis of the gathered information, he scheduled a meeting in the following week to find innovative ways to achieve the objectives. List the first two steps, which have been followed by Saurabh that are related to the process of one of the functions of management. [CBSE (AI) 2018]
7. Define 'method' as a type of plan. [CBSE (F) 2015]
8. Define 'Planning Premises'. [CBSE (D) 2015]
9. Varsha Jain after completing her fashion designing course from Indian Institute of Fashion Technology planned to enter into designer clothing venture. She had to address issues like her target customers, channel of distribution to be used, pricing policy etc. Identify the type of plan that Varsha Jain needs to develop to provide direction and scope to her organisation in the long run. [CBSE 2019 (66/1/1)]
10. What is meant by 'Rule'? [CBSE 2019 (66/2/1)]
11. Differentiate between 'Single Use Plan' and 'Standing Plan' on the basis of meaning. [CBSE 2019 (66/3/1)]
12. As a part of its comprehensive plan 'Neerja Ltd.' decided to combine a new line of activity with its existing footwear business. Identify the type of plan. [CBSE 2019 (66/3/1)]
13. How are 'Policies' and 'Procedures' interlinked? [CBSE 2019 (66/4/1)]

    OR

    What is meant by 'Developing Premises' in the process of planning? [CBSE 2019 (66/4/1)]
14. All business firms would like to increase their sales and earn profits to be successful. All managers dream of these. To turn their dreams into reality, managers need to work hard in thinking about the future, in making business predictions and achieving targets. The above lines describe one of the functions of management. Identify and define this function. [CBSE 2019 (66/5/1)]

Three Marks Questions:

15. Define 'Planning.' Explain the first two steps in the process of planning. [CBSE (AI) 2016]
16. State any three features of 'Planning.' [CBSE (D) 2017]
17. Explain any three points of importance of planning function of management. [CBSE 2019 (66/2/1)]
18. Explain any three limitations of planning function of management. [CBSE 2019 (66/2/1)]
19. How is 'planning a pervasive function of management'. Explain. [CBSE 2019 (66/4/1)]

Four Marks Questions:

20. What are the main features to be considered by the management while planning?

OR

Explain any five features of planning. [CBSE 2014, 2015]

21. Define 'Planning'. State any four points of importance of planning. [CBSE 2014]

22. Give the meaning of 'Objectives' and 'Budget' as types of plans. [CBSE (D) 2017]

23. Give the meaning of 'Procedure' and 'Rule' as types of plans. [CBSE (D) 2017]

24. Give the meaning of 'Policy' and 'Strategy' as types of plans. [CBSE (D) 2017]

25. Give the meaning of 'Strategy' and 'Rule' as types of plans. [CBSE (AI) 2017]

26. Give the meaning of 'Policy' and 'Budget' as types of plans. [CBSE (AI) 2017]

27. Give the meaning of 'Objectives' and 'Procedure' as types of plans. [CBSE (AI) 2017]

28. Give the meaning of 'Procedure' and 'Method' as types of plans. [CBSE (F) 2017]

29. In 2015, Naveen left his luxurious life in Mumbai, where he worked as a manager for Bluebirds Ltd. He shifted to Begampur, Chhattisgarh to fulfill his grandmother's dream of converting their 25 acre ancestral land into a fertile farm. For this he set out specific goals along with the activities to be performed to achieve the goals.

Every activity was a challenge since he was clueless about farming. He learnt every activity from filling the land to sowing the seeds. To aid farmers he launched his own company 'Innovative Agriculture Solutions Pvt. Ltd.'

It was difficult initially as no one trusted an urban youth telling farmers about farming. But when everything was discussed in detail the farmers started taking interest. He wanted to ensure that the future events meet effectively the best interests of the company. Through sales forecasting, he prepared an annual plan for production and sales. He also found that the farmers grew only paddy, which was an activity of 3-4 months and the land remained idle for the rest 8-9 months of the year. He not only identified but evaluated various alternatives through which the farms could be utilized for the remaining months of the year. Through correct foresight and logical and systematic thinking based on analysis of all facts, all alternatives were examined and evaluated. He presented a plan to the farmers, where after harvesting paddy, vegetables could be grown.

The above case highlights the features of one of the functions of management. By quoting lines from the above identify and explain these features. [CBSE 2018 (66/1-2-3)]

30. Mega Ltd. holds an Annual Management Programme every year in the month of March in which the top managerial personnel formulate plans for the next year by analysing and predicting the future to meet future events effectively.

As they are responsible for providing direction to the organisation, facts are thoroughly checked through scientific calculations. Detailed plans are prepared after discussion with professional experts. Preliminary investigations are also undertaken to find out the viability of the plan.

Since it is an intellectual activity requiring intelligent imagination and sound judgement, it is mainly done by the top management. Usually rest of the members just implement the plans. Middle level managers are neither allowed to deviate from the plans nor are they permitted to act on their own. The top management ensures that the expenses incurred in formulating the plans justify the benefits derived from them.

State two limitations and two features of planning discussed above. [CBSE 2019 (66/1/1)]

Five/Six Marks Questions:

31. Two years ago, Madhu completed her degree in food technology. She worked for sometime in a company manufacturing chutneys, pickles and murabbas. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulated action plan to achieve the same.

One of her objectives was to earn 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices, etc. will be purchased on three months credit from farmers cultivating organic crops only. She also decided to follow the steps required for marketing of the products through her own outlets. She appointed Mohan as a Production Manager who decides the exact manner in which the production activities are to be carried out. Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year. Madhu informed Mohan about her sales target for different products, areawise for the forthcoming quarter. While working on the production table a penalty of ₹100 per day for not wearing the caps, gloves and apron was announced.

Quoting lines from the above para, identify and explain the different types of plans discussed. *[CBSE (D) 2016]*

32. State any five features of 'Planning'. *[CBSE (D) 2015]*

33. Saurabh Jain set up a telecom business in Nasik ' Ketone' with an ambitious target of reaching out to 90% of the Indian population within one year. He chose this business on the belief that the demand for data services will increase 4 times within the next 2-3 years. To fulfill such an ambitious target, he had to either acquire an existing telecom business or collaborate or go independent aggressively in the light of tough competition.

He assessed the proposals of different companies vis-a-vis earnings per share, taxes, dividends paid etc. and their future projections knowing fully well that the projections may change if the country's economic policies get modified.

The above paragraph discusses some of the steps of one of the functions of management. By quoting the lines from the above paragraph, explain these steps in chronological order.

[CBSE 2019 (66/3/1)]

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

Identify and explain the two types of plans discussed above. *[CBSE 2019 (66/5/1)]*

Hints of the Answers for Case Studies

6. First two steps in process of planing:

(i) Setting up of Objectives. (ii) Developing Premises.

9. Strategy

12. Plan

14. Planning: Planning is defined as the process of setting objectives for a given time period, formulating various courses of action to achieve them and then selecting the best possible alternative from among the various courses of action available.

29. Features of planning are:

(i) Planning focuses on achieving objectives

'He set out specific goals along with the activities to be performed to achieve the goals'

Planning focuses on achieving objectives as specific goals re set out in the plans along with activities to be undertaken to achieve the goals.

(ii) Planning is futuristic

'He wanted to ensure that the future events meet effectively the best interests of the company'

OR

'Through sales forecasting, he prepared an annual plan for production and sales'

Planning is futuristic as it involves looking ahead and preparing for the future.

(iii) Planning involves decision making

'He not only identified but evaluated various alternatives through which the farms could be utilised for the remaining months of the year'.

OR

'.... all alternatives were examined and evaluated'

Planning involves decision making as it involves a choice from among the various alternative courses of action.

(iv) Planning is a mental exercise

'Through correct foresight and logical and systematic thinking based on analysis of all facts...'.

Planning is a mental exercise as it is intellectual activity of thinking rather than doing.

30. Two limitations of planning discussed above are:

(i) Planning reduces creativity as it is mostly done by the top management; rest of the members just carry out orders and think on the same lines as others.

(ii) Planning involves huge costs in terms of time and money. The costs incurred sometimes may not justify the benefits derived from the plans.

Two features of planning discussed above are:

(i) Planning is futuristic as it involves looking ahead and preparing for the future to meet future events effectively to the best advantage of the organisation.

(ii) Planning is a mental exercise as it requires application of mind involving foresight, intelligent magination and sound judgement. It is an intellectual activity of thinking rather than doing.

31. The different types of plans are:

(i) **Objective.**

'One of her objective is to earn 10% profit on the amount invested in the first year'.

(ii) **Policy.**

'It was decided that raw materials like fruits, vegetables, spices etc. will be purchased on three months credit from farmers cultivating organic crops only'.

(iii) **Procedure.**

'She also decided to follow the steps required for marketing of the products through her own outlets'.

OR

'She appointed Mohan as a Production Manager who decides the exact manner in which the production activities are to be carried out'.

(iv) Budget

'Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year'.

OR

'Madhu informed Mohan about the sales target for different products, areawise for the forthcoming quarter'.

(v) Rule

'While working on the production table, a penalty of ₹100 per day for not wearing the caps, gloves and aprons was announced'.

33. Steps discussed in the above case are:

(i) Setting objectives: 'Saurabh Jain set up a telecom business in Nasik 'Ketone' with an ambitious target of reaching out to 90% of the Indian population within one year'.

Objectives may be set for the entire organisation and each department or unit within the organisation.

They specify what the organisation wants to achieve.

(ii) Developing premises: 'He chose this business on the belief that the demand for data services will increase 4 times within the next 2-3 years'

A manager is required to make certain assumptions about the future called premises. Assumptions are the base material upon which plans are to be drawn.

(iii) Identifying alternative courses of action: 'To fulfill such an ambitious target, he had to either acquire an existing telecom business or collaborate or go independent aggressively in the light of tough competition'

As there may be many ways to achieve the objectives, all the alternative courses of action should be identified and thoroughly discussed.

(iv) Evaluating alternative courses: 'He assessed the proposals of different companies vis-a-vis earrings per share, taxes, dividends paid etc. and their future projections knowing fully well that the projections may change if the country's economic policies get modified.'

The pros and cons of each alternative are weighed in the light of the objective to be achieved, their feasibility and consequences.

34. The two types of plans discussed above are:

(a) Objectives (b) Strategy

Objectives

- Objectives are the ends, which the management seeks to achieve.
- Objectives needs to be expressed in specific terms that is quantified and is to be achieved within a given time period.
- They are usually set by top management of the organisation and focus on broad, general issues.

Strategy

- A strategy is a comprehensive plan for accomplishing an organisation's objectives taking business environment into consideration.
- It provides the broad contours of an organisations business and defines the organisation's direction and scope in the long run.
- It includes determining long term objectives, adopting a particular course of action, and allocating resources necessary to achieve the objectives.

ANSWERS OF MCQs AND CASE STUDIES

Page 161

1. (a) Planning
2. (c) Planning is a mental exercise
3. 1. Planning is a primary function. "He knew that without planning . . . . . function".
   2. Planning is continuous. "Beside he will have to prepare . . . . . half yearly basis."
   3. Planning is a mental exercise. "He undertakes intellectual thinking . . . guess work."
   4. Planning focuses on achieving objectives. "All these planning activities . . . purpose for which business is being carried out.''
   5. Planning is futuristic. "On the basis of sales forecast, he can prepare annual plan."

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1. (c) Planning reduces the risk of uncertainties
2. Points of importance highlighted in above para are
   (i) Planning reduces the risk of uncertainties. – " Ready to face uncertainties...."
   (ii) Planning reduces overlapping and wasteful activities. "No duplication....

Page 165-166

1. (b) Creates Rigidity
2. (i) Planning does not guarantee success.
   (ii) Planning may not work in dynamic environment.
3. (i) Planning involve huge cost.
   (ii) Planning is time consuming.
   (iii) Planning may not work in dynamic environment.

Page 168-169

1. (a) Selecting an alternative.
2. (c) Evaluating alternative course of actions.
3. (a) Planning is the function of management, which is described in above paragraph.
   (b) The various steps involved in the above process are:
   1. Setting objectives. "The company plan to increase sale . . . . . by next quarter".
   2. Developing premises. "In order to achieve this target . . . . . might have to face".
   3. Listing the various alternatives for achieving the objectives. "The team explored the various available options . . . . three years, etc".
   4. Evaluating different alternatives. "A thorough analysis of each option was done".
   5. Selecting an alternative. "Finally company decided . . . . . three years".
   6. Implement the plan. "In order to implement the plan, they made various packages of services .....electronic medias".
   7. Follow-up. "A separate team was . . . . . on the sale".

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1. (c) Strategy
2. (b) Policy
3. 1. Objective, "The company seeks to increase . . . . . sale".
   2. Strategy, "Flipkart card was the first company to give Cash on Delivery . . . . . this offer".
   3. Policy, "The company in general offer two week return option".
   4. Procedure, "After receiving . . . . . till the delivery".
   5. Method, "The company offers various options . . . . . net banking, etc."
   6. Budget, "The company plans to speed ₹50 crore. . . . . ..this year".
   7. Rule, "Flipkart reserve . . . . . use website".

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (a)	2. (c)	3. (b)	4. (c)	5. (d)
6. (c)	7. (b)	8. (c)	9. (d)	10. (d)
11. (b)	12. (c)	13. (b)	14. (a)	15. (d)
16. (c)	17. (c)	18. (b)		

Fill in the Blanks

1. Objectives
2. Decision Making or Choice
3. Rigidity
4. Creativity
5. Guarantee of success
6. Strategy
7. Rules
8. Programme
9. Reach
10. Standing plans

True or False

1. (T)
2. (F) – It is the task of all level
3. (F) – No due to uncertainties and change in environment.
4. (T)
5. (T)
6. (F)
7. (T)
8. (T)
9. (F)
10. (T)

5 ORGANISING

Contents as per Latest CBSE Syllabus

- Concept and importance
- Organising Process
- Structure of organisation—functional and divisional concept. Formal and informal organisation—concept
- Delegation: concept, elements and importance
- Decentralization: concept and importance

5.1 MEANING OF ORGANISING

Organising can be defined as "*identifying and grouping different activities in the organisation and bringing together the physical, financial and human resources to establish most productive relations for the achievement of specific goal of organisation.*"

Definitions of Organising:

- "To organise a business is to provide it with everything useful to its functioning: raw materials, machines and tools, capital and personnel." —***Henry Fayol***
- "In its broadcast sense organising refers to relationship between various factors present in a giving endeavour or enterprise." —***William Spriegel***
- "Organising is the establishing of effective authority relationships among selected work, persons and work places in order for the group to work together efficiently." —***G.R. Terry***

In general words, organising refers to arranging everything in orderly form and making most efficient use of resources. When the managers are performing organising function it results in creation of an organisational structure which shapes the system of working.

Example. Your school plans to conduct Sports Day or annual function. All the teachers and students are assigned different duties, various resources are arranged and a coordinator is appointed whom every one report for the work done and pending. This whole arrangement is called organising.

5.2 ORGANISING PROCESS

The process of organising consists of following steps:

1. **Identification and Division of Work.** The first step in the organising is identifying and dividing the work as per plan. The division of work make sure there is no duplication of work and there is no burden of work on one person. Work can be shared among the employees. The manager divides the work into smaller units and each unit of work is called a job.

   For example, in a bank every individual is assigned a job. One cashier accepts cash, one cashier makes payments, one person issues cheque books, one person receives cheques, etc. With division of work into jobs the banks work very smoothly and systematically.

2. **Departmentalisation.** After dividing the work in smaller jobs, related and similar jobs are grouped together and put under one department. The departmentation or grouping of jobs can be done by the organisation in different ways. But the most common two ways are:

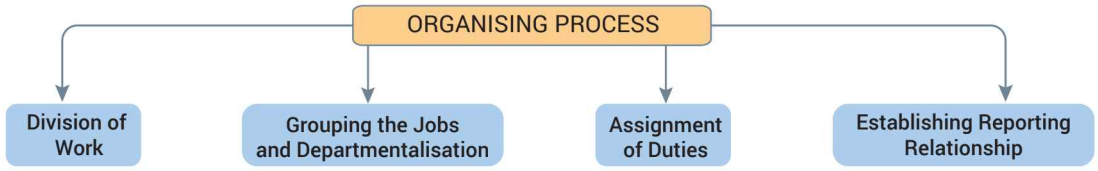
   (a) **Functional departmentation.** Under this method jobs related to common function are grouped under one department. **For example**, all the jobs related to production are grouped under production department, jobs related to sales are grouped under sales department and so on.

   (b) **Divisional departmentation.** When an organisation is producing more than one type of products then they prefer divisional departmentation. Under this jobs related to one product are grouped under one department. **For example**, if an organisation is producing cosmetics, textile and medicines then jobs related to production, sale and marketing of cosmetics are grouped under one department, jobs related to textile under one and so on.

3. **Assignment of Duties.** After dividing the organisation into specialised departments each individual working in different departments is assigned a duty matching to his skill and qualifications. The work is assigned according to the ability of individuals. Employees are assigned duties by giving them a document called **job description**. This document clearly defines the contents and responsibilities related to the job.

4. **Establishing Reporting Relationship.** After grouping the activities in different departments the employees have to perform the job and to perform the job every individual needs some authority. So, in the fourth step of organising process all the individuals are assigned some authority matching to the job they have to perform. The assignment of the authority results in creation of superior-subordinate relationship and the question of who reports to whom is clarified. The individual of higher authority becomes the superior and with less authority becomes the subordinate. With the establishment of authority, managerial hierarchy gets created (chain of command) and principle of scalar chain follows this hierarchy. The establishment of authority also helps in creation of managerial level. The managers with maximum authority are considered as top level managers, managers with little

less authority become part of middle level management and managers with minimum authority are grouped in lower level management. So with establishment of the authority the individuals can perform their jobs and everyone knows who will report to whom.



Keywords

Organising Process

(a) Identifying and division of work or activities
(b) Grouping the activities
(c) Creating departments
(d) Assigning duties
(e) Giving or assigning responsibility or authority
(f) Creating a framework within which operational and managerial activities are performed
(g) Creating superior-subordinate relationship
(h) Creating managerial hierarchy
(i) Determining style of working of an organisation
(j) Creating relationship between authority and responsibility

MCQs and Case Studies

1. **Organising doesn't include**
   (a) What will be done (b) By whom will be done
   (c) When will be done (d) How will be done

2. **Which of the following is not a part of organising process**
   (a) Division of work (b) Assignment of responsibilities
   (c) Specialisation (d) Establishing reporting relationship

3. **Pawan, Navin and Sachin have decided to start a business of manufacturing toys. They identified the following main activities which they have to perform:**
   (i) Purchase of raw materials (ii) Purchase of machinery

(iii) Production of toys

(iv) Arrangement of finance

(v) Sale of toys

(vi) Identifying the areas where they can sell their toys

(vii) Selection of employees

In order to facilitate the work they thought that four managers should be appointed to look after.

(a) Production (b) Finance

(c) Marketing (d) Personnel

(A) Identify the function of management involved in the above mentioned para.

(B) Quote the lines from the above para which help you in identifying this function.

(C) State the steps followed in the process of this function of management.

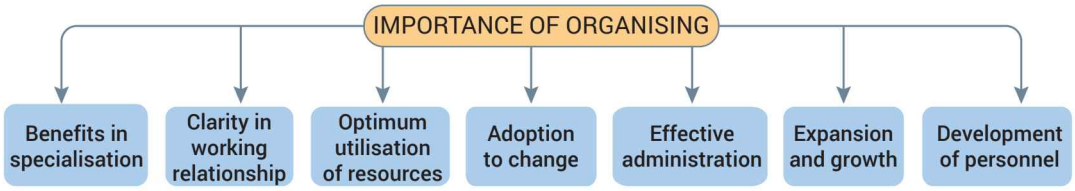
4. **Ramdas, aged 49 is working in an aviation company. He is the senior most employee in his division. He is even senior to the division manager, Kanaputti. Ramdas is considered one of the most committed, capable and hard-working employees. As a result of his abilities and seniority, he generally received 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.**

   1. Identify and state the step of organising process which has not been carried out properly and contributed to this problem.
   2. State the two steps of the organising process which have been taken by Kanaputti to respond to the complaint of Ramdas.
   3. Also state two points of importance of organising as reflected in the above case.

(Answers at Page no. 243)

5.3 IMPORTANCE/SIGNIFICANCE OF ORGANISING

1. **Benefits in specialisation.** In organising, every individual is assigned a part of total work and not the whole task. Due to this division of work into smaller units and assignment of units according to the qualification leads to specialisation. The specialisation automatically comes when an individual is performing one job repeatedly.
2. **Clarity in working relationship.** In the organising function, it is clearly defined that what all and how much power and authority is enjoyed by different individuals or managers. Each manager knows very clearly to whom he can give order and from whom he has to receive the order. The superior-subordinate relation is clearly defined in organising.
3. **Optimum utilisation of resources.** In the organising function, there are very few chances of duplication of work or over-lapping of work because the jobs are assigned to different individuals by clearly defining the job in job description document. So, there are no chances that the same work is performed by two or more individuals.
4. **Adoption to change.** Whenever the changes take place in the business environment then with the help of organising function these changes can be adopted systematically because organising function creates different departments and group related activities under each department. With this, changes can be adopted only in that area which may be affected by these changes and changes can be easily communicated to whole organisation through departments. Organisational structures can be suitably modified according to changes.
5. **Effective administration.** In the organising function, the similar and related jobs are grouped under one department which leads to unification of efforts and harmony in work. The organising function establishes relation between different departments keeping in mind the co-ordination among different departments. By bringing clarity in working relationship administrative efficiency improver.
6. **Expansion and growth.** With optimum utilisation of resources and proper division of work and departmentation, companies can easily meet the challenges and can expand their activities in a planned manner.
7. **Development of personnel.** Delegation of authority is an important part of organising. By delegating the routine the managers can concentrate to develop new methods and ways of performing job. It gives them time to innovate new technologies and areas for growth of the companies. Delegation not only reduces the work load of managers but it also helps them to use and realise their full potential for more creative work.



5.4 ORGANISATIONAL STRUCTURE

5.4.1 Meaning and Consideration

When the managers are performing organising function an organisational structure gets created automatically which defines the job positions, the authority, responsibilities of different employees.

Organisational structure can be defined as *"Network of job positions, responsibilities and authority at different levels."* Or it can be called *as a frame work within which managerial and operational tasks are performed.* It specifies the relations between people, work and resources. Span of management gives shape to organisational structure.

Narrow span of management results in tall structure where as wide span result in flat structure.

Span of management means how many employees or subordinates can be effectively managed by one manager or how many subordinates can be effectively controlled by one superior. When the authority and responsibility relationships are established in organising process then the managers must keep in mind the span of control.

After deciding the span a scalar chain is developed of all the superiors and subordinates because the span of control clearly specifies who has to report to whom.

Importance of Organisational Structure

1. Structure organises properly all the operations of business and ensures better flow of communications.
2. A clear structure makes it easy to check the responsibility of each part of business.
3. A clear idea about the working style of an enterprise can be known from organisational structure.
4. Organisational structure allows correlation and co-ordination among human, physical and financial resources.
5. It clearly defines the levels of management and span of control under each level.

Keywords

Organisational structure

(a) Outcome of organising function
(b) Determine style of working
(c) Framework within which operational and managerial activities are performed
(d) Skeleton of organisation

Span of Management

(a) Give shape of organisational structure
(b) Number of subordinates/workers under one superior

MCQs and Case Studies

1. **A Tall structure has**
   (a) A narrow span of management (b) No span
   (c) Informal organisation (d) Wide span of management
2. **Who report to whom is made clear by**
   (a) Organising process (b) Planning process
   (c) Management process (d) None of the above
3. Name the framework within which managerial and operational activities are performed. State any 3 reasons for the importance of that framework.

(*Answers at Page no. 243*)

5.4.2 Types of Organisational Structure

Whenever the manager is performing organising functions, it results in formation of an organisational structure, which depicts the working style of an organisation.

The organisational structure can be defined as "*A network of job positions, responsibilities and authority at different levels of organisation.*"

This structure shows the authority-responsibility relationship between the people working at different job positions. This structure makes clear who is reporting to whom? Or who is the boss and who is the subordinate?

The organisational structure can mainly be of two types which are:

(i) Functional Structure

(ii) Divisional Structure

(i) Functional Structure

When the activities or jobs are grouped keeping in mind the functions or the job then it is called functional structure. For example, all the jobs related to production are grouped in production department, related to sales in sales department, related to purchase in purchase department and so on. Within the departments also grouping is done on the basis of specialised functions. Even Territory wise grouping is also included infunctional structure, e.g., North region South west, etc.

For example, the production department can be further classified into store department, quality control department, assembly department, etc. Within each department and sub-department a chain of superior and subordinates is created to work systematically.

Advantages

1. **Occupational Specialisation:** Since in functional structure emphasis is placed on specific functions. This promotes efficiency in utilisation of manpower as by performing similar jobs their performance improves and they become specialised in their task.
2. **Promotes control and coordination within department:** Due to similar activities grouped in one department there is easy supervision and better control.
3. **Increases managerial and operational efficiency:** Minimum cost leads to increase in profit.
4. **It leads to minimum duplication of efforts:** This results in economies of scale and lowering of cost.
5. **Easy and effective training:** As training focuses only in limited skills or one function only.
6. **Due attention to different function:** Each function gets due attention under functional structure.

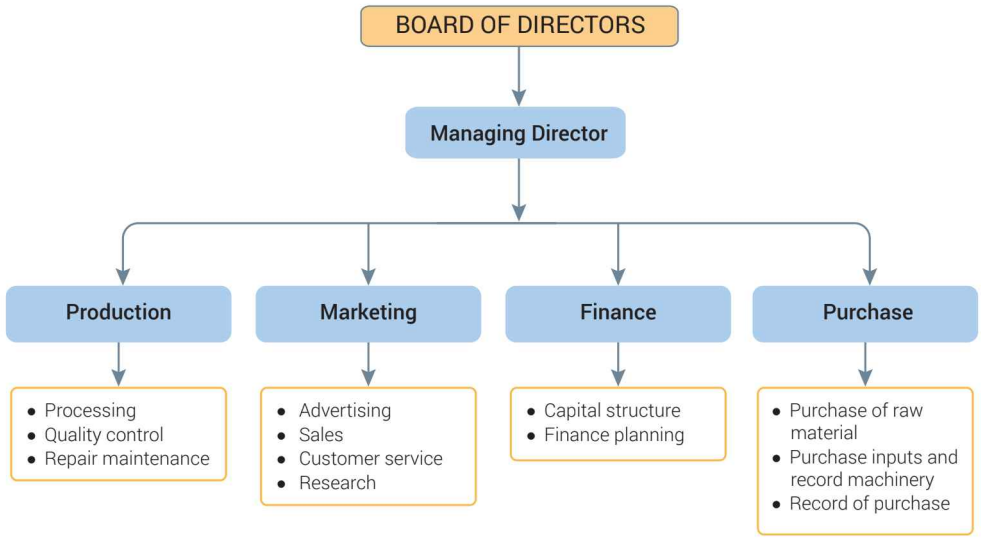
Disadvantages

1. **Places less importance to overall objective of organisation:** Functional structure places less emphasis on overall enterprise objectives than the objectives pursued by functional head.

   They fail to give priority to organisational interest. This may lead to pursuing departmental interest at the cost of organisational interest.
2. **Problems of coordination:** As each department is specialised in their own function so they feel to understand the priority of other department.
3. **Inflexibility:** In functional structure, employees develop, narrow perspective as they get training in one area or skill only. They cannot be transferred to other departments.

   Functional heads do not get training for top management positions as they are unable to gather experience in diverse areas.
4. **Conflict of interest:** There can be conflict of interest between different departments. **Example:** Sales department insists on giving discount to interest sale. Finance department puts objection as it will reduce the revenue.
5. **Difficult to fix accountability:** In case of failure of organisational objective, the departmental head blames other departments as all departments are inter-related and it is very difficult to find out which department is going against the organisational goal.

   Example: The sales department may blame production for poor quality, production output may pass blame on purchase for low quality raw materials purchase may due to less finance given by finance department and so on.



Suitability

Functional Structure are suitable for:

1. Division of work as per functions
2. Specialisation in every function
3. Grouping of similar nature of jobs
4. Uniproduct or single or one type of product manufacturing company

(ii) Divisional Structure

When the organisation is large in size and is producing more than one type of product then activities related to one product are grouped under one department.

For example, if an organisation is producing soap, textiles, medicine, cosmetics, etc. then all the activities related to medicine will be grouped under medicine department, all the activities of textiles in textiles department and so on.

Divisional structure is suitable only to multiproduct manufacturing large organisation.

Advantages

1. **Product specialisation.** All the activities related to one type of product are grouped under one department only which brings integration and co-ordination in the activities.
2. **Fast decision-making.** The decisions are taken much faster in divisional structure because there is no dependence on other departments for taking decisions.
3. **Accountability.** In this type of structure, the performance of individual departments can easily be assessed and you can hold the department accountable for non-accomplishment of objectives.

4. **Flexibility.** Fast decision-making leads to flexibility.
5. **Expansion and growth.** New departments can be added without disturbing existing departments.

Disadvantages

1. **More resources required.** Each department will require all the resources as every division will be working as an independent unit.
2. **Product focus department.** Each department focuses on their product only and they fail to keep themselves as a part of one common organisation.
3. **Conflict.** Conflict may arise among department on allocation of resources.
4. **Increase in cost.** It may lead to increase in cost due to duplication of activities, providing each division with separate set of similar functions increases expenditures.

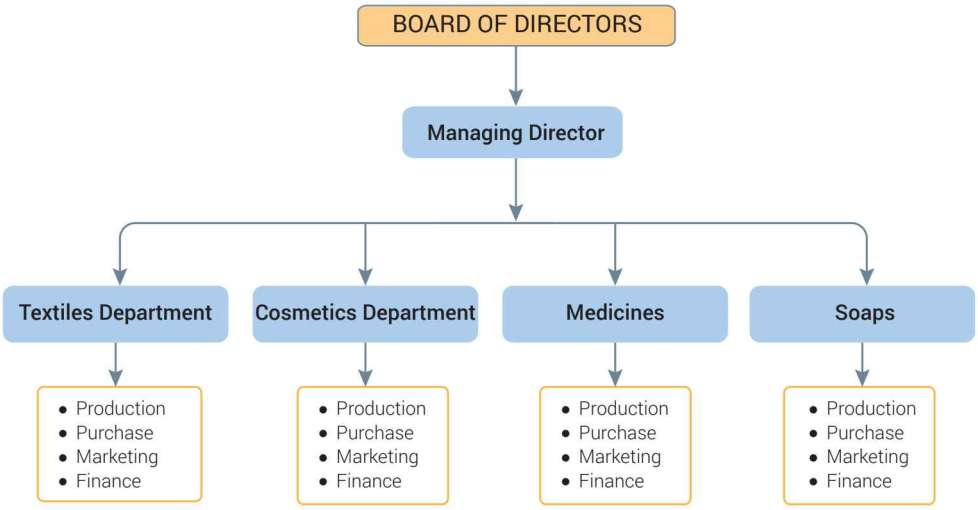
Suitability

Divisional structure are suitable for:

1. Organisations producing multi-product or different line of products.
2. Organisations which require product specialisation.
3. Organisations which require each division to be self contained as under divisional structure each department has production, sale finance department.
4. Growing companies which plan to add more line of products in future.

Difference between Functional and Divisional Structure

S.No.	Points of Difference	Functional Structure	Divisional Structure
1.	Basis of Formation	This structure is formed on the basis of function.	This structure is formed on the basis of product.
2.	Accountability and Responsibility	Difficult to make accountable as departments are interdependent.	Easy to fix the accountability as departments work independently.
3.	Economy Cost	It is economical.	It is not very economical because all the resources are required in different departments.
4.	Development of Managers	Less chances as manager becomes specialised in one function only.	More chances as managers perform multifunctions.
5.	Specialisation	This type of structure brings functional specialisation.	It brings product specialisation.
6.	Co-ordination	Compared to Divisional less when company is producing more products.	Better co-ordination because all the activities related to one product are in one department only.
7.	Autonomy of operations	Less autonomy of action.	More autonomy.
8.	Suitable	It is suitable for all types of organisations.	It is suitable for multiproduct or diversified firms.



Keywords

Functional Structure

1. Division of work as per functions
2. Specialisation in every function
3. Grouping of similar nature of jobs
4. Uniproduct or single or one type of product manufacturing company

Divisional Structure

(a) Division of work as per product
(b) Grouping of jobs related to common products
(c) Specialisation in each product
(d) Multiproduct manufacturing companies
(e) Organisations adding more lines of products
(f) Organisations planning for expansion and diversification

MCQs and Case Studies

1. **Grouping the activities on the basis of product line is a part of**
   (a) Functional structure (b) Divisional structure
   (c) Formal orgainisation (d) Informal organisation
2. **Every Divisional Structure has a functional structure in it.** (True/False)
3. **Vimal Cloth Ltd. was manufacturing only fabrics. After having great success in fabric business the directors of Vimal Cloth Ltd. acquired three new manufacturing units and started selling multi-products in market. (Electronics, Mobile phone, Cements)**

They decided that an individual who has capability and competence to handle responsibility would head each unit. The vacant position will be filled by women candidate only.

(a) State the type of organisation structure Vimal Cloth Ltd. have followed as a producer of single product.

(b) Suggest which type of organisational structure Director must adopt now and explain its advantages.

(Answers at Page no. 243)

5.5 FORMAL AND INFORMAL ORGANISATION

5.5.1 Formal Organisation

When the managers are carrying on organising process then as a result of organising process an organisational structure is created to achieve systematic working and efficient utilisation of resources. This type of structure is known as formal organisational structure.

Formal organisational structure clearly spells out the job to be performed by each individual, the authority, responsibility assigned to every individual, the superior-subordinate relationship and the designation of every individual in the organisation. This structure is created intentionally by the managers for achievement of organisational goal.

Features of Formal Organisation:

(1) The formal organisational structure is created intentionally by the process of organising.

(2) The purpose of formal organisation structure is achievement of organisational goal.

(3) In formal organisational structure, each individual is assigned a specific job.

(4) In formal organisation, every individual is assigned a fixed authority or decision-making power.

(5) Formal organisational structure results in creation of superior-subordinate relations.

(6) Formal organisational structure creates a scalar chain of communication in the organisation.

Advantages of Formal Organisation

1. **Systematic working.** Formal organisation structure results in systematic and smooth functioning of an organisation.
2. **Achievement of organisational objectives.** Formal organisational structure is established to achieve organisational objectives.
3. **No overlapping of work.** In formal organisation, structure work is systematically divided among various departments and employees. So there is no chance of duplication or overlapping of work.
4. **Coordination.** Formal organisational structure results in coordinating the activities of various departments.

5. **Creation of chain of command.** Formal organisational structure clearly defines superior subordinate relationship, *i.e.*, who reports to whom.
6. **More emphasis on work.** Formal organisational structure lays more emphasis on work than interpersonal relations.

Disadvantages of Formal Organisation

1. **Delay in action.** While following scalar chain and chain of command actions get delayed in formal structure.
2. **Ignores social needs of employees.** Formal organisational structure does not give importance to psychological and social need of employees which may lead to demotivation of employees.
3. **Emphasis on work only.** Formal organisational structure gives importance to work only, it ignores human relations, creativity, talents, etc.

5.5.2 Informal Organisation

In the formal organisational structure, individuals are assigned various job positions. While working at those job positions, the individuals interact with each other and develop some social and friendly groups in the organisation. This network of social and friendly groups forms another structure in the organisation which is called informal organisational structure.

The informal organisational structure gets created automatically and the main purpose of such structure is getting psychological satisfaction. The existence of informal structure depends upon the formal structure because people working at different job positions interact with each other to form informal structure and the job positions are created in formal structure. So, if there is no formal structure, there will be no job position, there will be no people working at job positions and there will be no informal structure.

Features of Informal Organisation

(1) Informal organisational structure gets created automatically without any intended efforts of managers.

(2) Informal organisational structure is formed by the employees to get psychological satisfaction.

(3) Informal organisational structure does not follow any fixed path of flow of authority or communication.

(4) Source of information cannot be known under informal structure as any person can communicate with anyone in the organisation.

(5) The existence of informal organisational structure depends on the formal organisation structure.

Advantages of Informal Organisation

1. **Fast communication.** Informal structure does not follow scalar chain so there can be faster spread of communication.
2. **Fulfills social needs.** Informal communication gives due importance to psychological and social need of employees which motivates the employees.
3. **Correct feedback.** Through informal structure the top level managers can know the real feedback of employees on various policies and plans.

Strategic Use of Informal Organisation. Informal organisation can be used to get benefits in the formal organisation in the following ways:

1. The knowledge of informal group can be used to gather support of employees and improve their performance.
2. Through grapevine important information can be transmitted quickly.
3. By cooperating with the informal groups the managers can skillfully take the advantage of both formal and informal organisations.

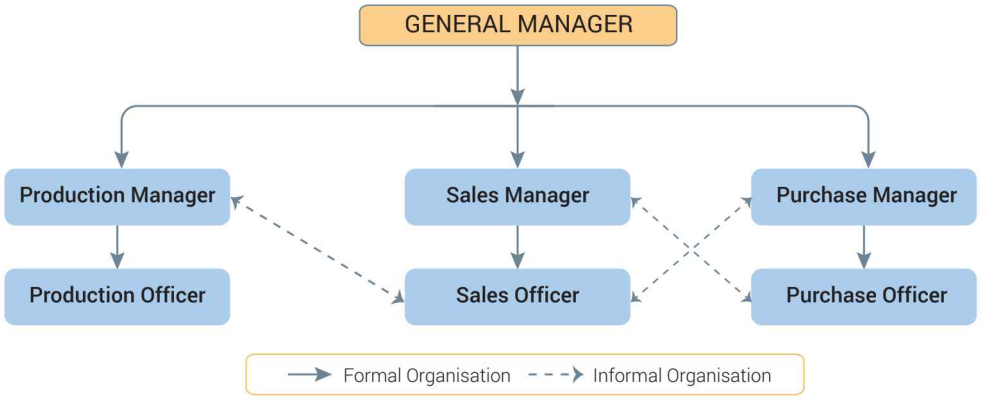
Disadvantages of Informal Organisation

1. **Spread rumours.** According to a survey 70% of information spread through informal organisational structure are rumours which may mislead the employees.
2. **No systematic working.** Informal structure does not form a structure for smooth working of an organisation.
3. **May bring negative results.** If informal organisation opposes the policies and changes of management, then it becomes very difficult to implement them in organisation.
4. **More emphasis to individual interest.** Informal structure gives more importance to satisfaction of individual interest as compared to organisational interest.

S.No.	Basis	Formal	Informal
1.	Formation	Formal organisational structure is formed deliberately in a planned manner.	Informal organisational structure gets created spontaneously without any planning.
2.	Purpose	The purpose of formal organisational structure is to work systematically and achieve the organisational goal.	The purpose of informal structure is to get psychological satisfaction.

3.	Behaviour of members	Under formal organisation structure the behaviour of the employees is decided by the managers.	In informal organisation structure there is no control of the management over the behaviour of members. But if the behaviour of informal group is bringing negative results then the management may interfere.
4.	Structure	Under formal organisation there is well defined organisational structure which decides the scalar chain and defines superior-subordinate relationship.	In case of informal, there is no well defined structure, no fixed superior or subordinate and no scalar chain.
5.	Communication	Under formal structure all the information passes through scalar chain and the managers prefer written channels for communication.	Under informal structure there is no fixed path of passing of information. Information can travel from any side. Mostly oral communication takes place.
6.	Leadership	In formal organisation structure there is direct relation between the authority and leadership. The person with highest authority is considered as the leader. Generally the managers act as leaders.	Under informal structure there is no relationship between the authority and leadership. The person with the lowest authority also can be a leader.
7.	Stability or duration	The formal organisation structure is more stable and durable (lasts for a long period of time) because once the organisational structure is made, it exists till survival of organisation.	Informal organisation structure is not very stable because employees can change their friendly and social group whenever they desire.
8.	Rules and Regulations	Under formal organisation structure the employees strictly have to follow the rules and regulations and in case they are not following the rules and regulations there will be penalty on them.	There are no rules or regulations for the members of informal organisation and if they are not following also there is no penalty.
9.	Inter-dependence	The formal structure is an independent structure which can exist systematically after the organising process is over.	Informal structure depends upon formal organisation structure.
10.	Flow of authority	Authority flows from top to bottom.	Authority can flow in all the directions.

Difference between Formal and Informal Organisation



Keywords

Formal Organisation

(a) Official organisation
(b) Follows scalar chain for communication
(c) Main purpose is achieving organisational goal
(d) Include functional and divisional structure
(e) Created intentionally by managers

Informal Organisation

(a) Gets created automatically
(b) For psychological satisfaction and social needs of employees
(c) Does not follow scalar chain
(d) Include all recreational activities
(e) Cut across official lines of communication

MCQs and Case Studies

1. **The form of organisation known for giving rise to rumours is called**
   (a) Centralised orgainsation (b) Decentralise organisation
   (c) Formal organisation (d) Informal organisation
2. **Name the type of organisation which is deliberately design by top management to achieve a common organisational objective.**
   (a) Informal organisation (b) Corporate organisation
   (c) Formal organisation (d) Divisional organisation
3. **A company is manufacturing washing machines. There is a well-defined system of jobs with a clear and definite authority, responsibility and accountability in the company. But people are not allowed to interact beyond their officially defined roles. As a result, the company is not able to adapt to the changing business environment. The workforce is also not motivated due to lack of social interaction. The company is facing problems of procedural delays and inadequate recognition to creative talents.**
   (i) Suggest how the organisation can overcome the problems faced by it.
   (ii) Give any two benefits it will derive from your suggestion.

(Answers at Page no. 243-244)

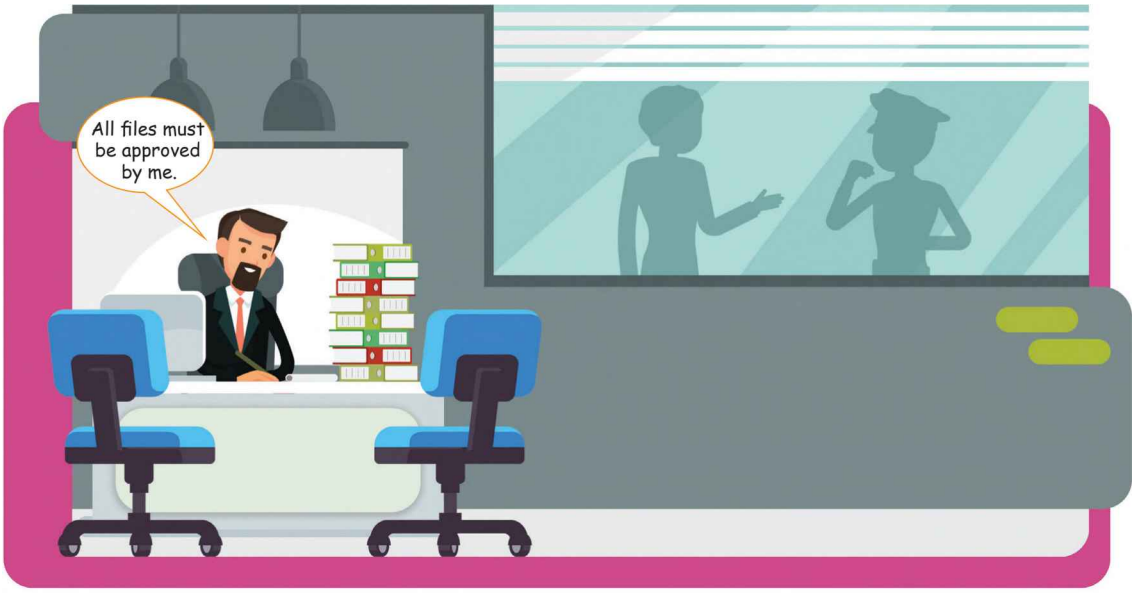
5.6 DELEGATION OF AUTHORITY

In every organisation, managers are assigned lot of work and manager alone cannot perform all the work. He divides the work among different individuals working under him according to their qualification and get the work done from them. The manager begins with sharing of his responsibilities with his subordinates. He deliberately passes some of his responsibilities to his subordinates. After passing the responsibilities the manager also shares some of his authority,

i.e., power to make decision with his subordinates so that the responsibilities can be carried on properly. To make sure that his subordinates perform all the work effectively and efficiently in the expected manner the manager creates accountability and this whole process is known as delegation. So delegation can be defined as:

"A process of entrusting responsibility and authority to the subordinates and creating accountability on those employees who are entrusted responsibility and authority."

In simple words delegation refers to downward transfer of authority from superior to subordinate.



No delegation leads to overburden on Manager

5.6.1 Principle of Absoluteness of Accountability

Delegation is a very important process to carry on the work systematically in the organisation. But delegation is not a process of abdication which means accountability is absolute. It can never be passed or delegated. After creating accountability on subordinates, the superiors also remain accountable. **For example**, if the sales manager is assigned a target of selling 1,000 units in one month, he divided this target among the five salesmen working under him. One of the salesmen fell sick. So, at the end of one month only 800 units could be sold. In such a situation, the accountability lies with the manager although he has delegated or passed this target to his subordinates. But by passing or delegating the responsibilities, he cannot get rid of accountability. He should have checked in between and supervised from time to time whether the work is going in right direction or not and taken timely action.

5.6.2 Elements of Delegation/Process of Delegation

There are three elements of delegation:

1. Responsibility, 2. Authority, 3. Accountability.

1. **Responsibility.** Responsibility means the work assigned to an individual. It includes all the physical and mental activities to be performed by the employees at a particular job position. The process of delegation begins when manager passes on some of his responsibilities to his subordinates which means responsibility can be delegated.

   Features of Responsibility:

   1. Responsibility is the obligation of a subordinate to properly perform the assigned duty.
   2. It arises from superior subordinate relationship because subordinate is bound to perform the duty assigned by his superior.
   3. Responsibility flows upward because subordinate will always be responsible to his superior.

2. **Authority.** Authority means power to take decision. To carry on the responsibilities, every employee need to have some authority. So, when managers are passing their responsibilities to the subordinates, they also pass some of the authority to the subordinates. The delegating authority is the second step of organising process. While sharing the authority, managers keep in mind that the authority matching to the responsibility should only be delegated. They shall not pass all their authority to their subordinates.

   Features of Authority:

   1. In a formal organisation authority arise or originate from an individual's position.
   2. Authority refers to right to take decision due to your managerial position.
   3. Authority determines superior subordinate relationship. As subordinate communicates his decisions to subordinate expecting compliance from him as per his directions.
   4. Authority is restricted by law and rules and regulations of the organisation.
   5. Authority arises from the scalar chain which links various job positions.
   6. Authority flows downward from superior to subordinate.
   7. Authority must be equal to responsibility, *i.e.*,

   Authority = Responsibility

3. **Accountability.** To make sure that the employees or subordinates perform their responsibilities in their expected manner, the accountability is created. Accountability means subordinates will be answerable for the non-completion of the task; creating accountability is the third and final step of delegation process. The accountability cannot be passed or delegated. It can only be shared with the subordinates which means even after delegating responsibility and authority the managers will be accountable for non-completion of task.

   If the production manager is given the target of producing 20 machines in one month's time and he divided this target between four foremen working under him, *i.e.*, 5 machines to

be produced by each foreman but one foreman could not achieve the target and at the end of the month only 17 machines are manufactured, then production manager will be held accountable for non-completion of target as accountability cannot be transferred or shared: it is an absolute term.

Creation of accountability for performance

Features of Accountability:

1. Accountability refers to answerable for the final output.
2. It cannot be delegated or passed.
3. It enforced through regular feedback on the extent of work accomplished.
4. If flows upward, *i.e.*, subordinate will be accountable to his superior.

Difference between Responsibility and Accountability

S.No.	Basis	Responsibility	Accountability
1.	Meaning	Responsibility means all the physical and mental activities to be performed by an individual in the organisation.	Accountability means obligation to complete the job or to meet the responsibilities.
2.	Delegation	Responsibility cannot be entirely delegated as superiors pass their responsibilities to the subordinates.	Accountability can never be delegated. It lies with the superiors as well as with subordinates.
3.	Flow of direction	Responsibilities flow upward.	Accountability flows upward because managers with more authority are more accountable or as you move up in the management, accountability increases.

Difference between Authority and Responsibility

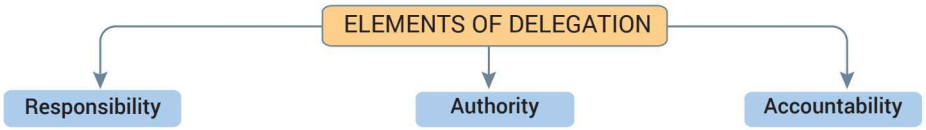
S.No.	Basis	Authority	Responsibility
1.	Meaning	Authority is the power or right to take decision.	It is the duty or task to be performed by an individual.
2.	Origin	Authority arises because of a formal position in the organisation.	Responsibility arises from the superior-subordinate relationship.
3.	Direction of flow	Authority always flows downward from superior to subordinate.	Responsibility flows upward as superior assigns task or responsibility to subordinates.
4.	Delegation	Can be delegated.	Cannot be fully delegated.

Comparative Study of Elements of Delegation

S.No.	Basis	Authority	Responsibility	Accountability
1.	Meaning	Power to take decision.	Obligation to perform a task.	Answerable for the output of assigned task.
2.	Delegation	Can be delegated.	Cannot be fully delegated.	Cannot be delegated at all.
3.	Origin	Arises from formal position.	Arises from delegation of authority.	Arises from responsibility.
4.	Flow of direction	Flows downward from superior to subordinate.	Flows upward from subordinate to superior. (As subordinate will always be responsible to his superior.)	Flows upward from subordinate to superior.

Relation between authority, responsibility and accountability:

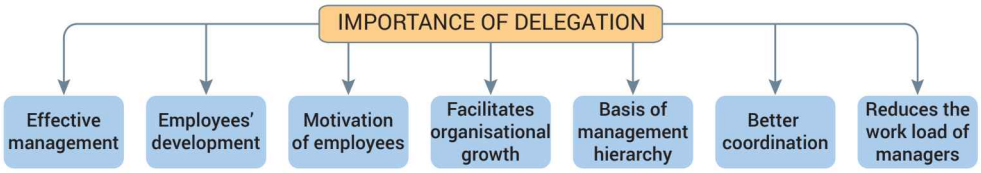
1. Authority is delegated, Responsibility is assumed and Accountability is imposed.
2. Responsibility is derived from authority and accountability is derived from responsibility.



5.6.3 Importance of Delegation

1. **Effective management.** In the delegation process managers pass routine work to the subordinates. So they are free to concentrate on other important matters. The main job of managers is to get the work done effectively and by delegating the authorities and responsibilities managers can get the work done effectively and efficiently from the subordinates.
2. **Employees' development.** As a result of delegation employees get more opportunities to utilise their talents. It allows them to develop those skills which help them to perform complex task. Delegation help in making better future managers by giving them chance to use their skills, gain experience of work related to higher job position.
3. **Motivation of employees.** In the delegation when the manager is sharing his responsibilities and authority with the subordinates it motivates the subordinates as they develop the feeling of belongingness and trust which is shown to them by their superiors. Some employees can be motivated by such kind of non-financial incentives.
4. **Facilitates organisational growth.** In the process of delegation when the managers are passing their responsibility and authority to the subordinates they keep in mind the qualification and capability of all the subordinates. This leads to division of work and specialisation which is very important for organisational growth.

5. **Basis of management hierarchy.** Delegation establishes superior-subordinate relationship which is the base for hierarchy of managers. The extent of power delegated to subordinates decides who will report to whom, and the power at each job position forms the Management Hierarchy.
6. **Better coordination.** In delegation systematically responsibility and authority is divided and employees are made answerable for non-completion of task. This systematic division of work gives clear pictures of work to every one and there is no duplication of work clarity in duties assigned and reporting relationship brings effective coordination in the organisation.
7. **Reduces the work load of managers.** In the process of delegation, the managers are allowed to share their responsibilities and work with the subordinates which help the managers to reduce their work load. With the process of delegation the managers can pass all their routine work to the subordinates and concentrate on important work. Without delegation managers will be overburdened with the work.



Keywords

Delegation

(a) Sharing of authority and responsibility between superior/subordinates
(b) Include two levels only
(c) Main purpose is reducing the burden or work load of managers
(d) Routine activity

Case Study

1. **Ram was given a task by his superior to prepare a plan in 15 days. He asked two of his subordinates to work upon two aspects of his task, one of the subordinate met with an accident and could not complete his work. Who is answerable for this task?**

   (a) Ram is accountable
   (b) Ram's superior is accountable
   (c) Ram's subordinate is accountable
   (d) None of them is accountable

2. **Delegation is**

   (a) Optional
   (b) Compulsory
   (c) Both (a) and (b)
   (d) None of the above

3. **Aman Chadha started 'Bulls Eye' a company for providing cyber security solutions to businesses. Its objective is to prevent, detect and 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 Defence. While working on the project, he found that the volume of work made it impractical for him to handle all the work by himself. He decided to expand the team. The company maintained a close liaison with a local engineering college. During a campus placement, Ishan and Vrinda were appointed to work for the new project.

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

   (i) Identify and briefly explain the concept used by Aman Chadha in the above case which helped him in focusing on objectives.

   (ii) Also, state any four points of importance of the concept identified in (i) above.

   [*CBSE 2017*]

(*Answers at Page no. 244*)

5.7 CENTRALISATION AND DECENTRALISATION

Centralisation and Decentralisation are related terms as an organisation uses both the policies.

Centralisation refers to concentration of power or authority in few hands, *i.e.*, top level.

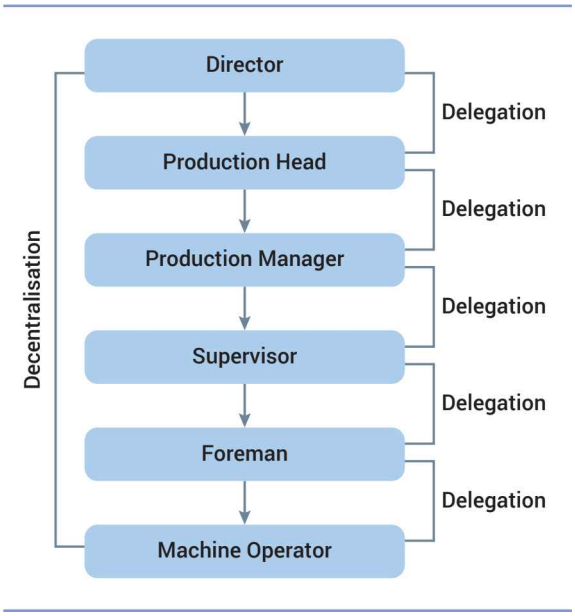
An organisation is centralised when the decision-making authority is in the hands of top level management only.

Decentralisation can be defined as even and systematic distribution of authority at every level of management. Under decentralisation every employee working at different levels gets some share in the authority. Decentralisation is a policy matter and managers plan in advance whether to go for centralised or decentralised policy. Sometimes company follows a mixed policy of centralisation and decentralisation. They keep the important matters such as financial decisions, structural decisions with the top level management only and share the common decisions with the people working at different levels as generally an organisation can never be completely centralised or decentralised.

Features of Decentralisation

1. Decentralisation is much more than a mere transfer of authority to lower level.
2. It implies selective dispersal of authority.
3. It shows the belief that people are competent, capable and resourceful.
4. Decentralisation indicates that employees at middle and lower level can assume the responsibility for effective implementation of their decisions.
5. Decentralisation recognises the need of authority for decision-makers.
6. The top management carefully selects those decisions which will be pushed down to lower level and those that will be retained at higher level.

5.7.1 Relation between Delegation and Decentralisation



I. **Decentralisation is extension of delegation. In delegation, we multiply the authority with two, whereas in decentralisation the authority is multiplied by many** because systematic delegation taking place at every level will result in evenly distribution of authority and responsibility at every level and result in decentralisation. If delegation is restricted to certain levels only then there will be no complete decentralisation also. **For example**, if the directors give the responsibility to production head to complete the target of 50,000 units per annum and authorise him to hire the required workers, decide their salaries and working conditions. The production head further shares his responsibility and authority with the production manager to achieve the target and select the workers. The production manager shares his authority and responsibility with the supervisors who directly deal with the workers and authorise them to select the workers. This sharing of authority and responsibilities between directors and production head, managers and subordinates will result in systematic distribution of authority at every level automatically. That is why we say systematic delegation leads to decentralisation. In delegation the authority is shared between two persons only, *i.e.*, manager and subordinate whereas in decentralisation many people at every level are involved, *i.e.*, directors, production head, manager, subordinates, etc.

II. **Delegation is Necessary in Every Organisation but Decentralisation is Optional** Delegation is an essential part of every organisation. No organisation can work without

using the concept of delegation as there is no individual who can do all the work himself only. Delegation is a tool to get the work done effectively and efficiently through others whereas decentralisation is required when an organisation grows and expands and only top level cannot manage it. Specially in the present era due to liberalisation and globalisation fast decision is needed and quick decisions can be taken through decentralisation only as it provides greater flexibility and freedom of action but still many organisations are working with little or no decentralisation. It is a matter of choice and preference of top level management and not compulsory.

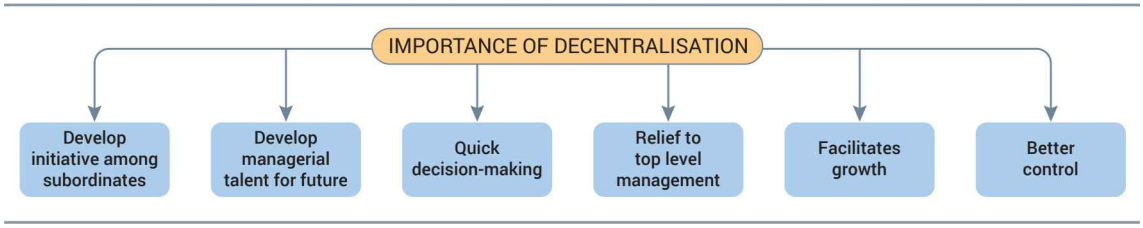
5.7.2 Importance of Decentralisation

1. **Develop initiative among subordinates. Passing of authority at middle and lower level** shows the trust and faith of top level in their subordinates and this trust and faith motivate the employees working at different levels as they are allowed to take decisions without seeking the approval of superiors.
2. **Develop managerial talent for future.** In the decentralisation managers working at lower and middle level also learn the art of making decisions. They get the experience of performing activities of top executives and learn to manage the authority given to them. So decentralisation process prepares the managers working at lower and middle level to perform the task of top level. So, whenever there is vacant job position at top level management, the managers working at lower or middle level can be promoted. This is how it levels talent for future.
3. **Quick decision-making.** In the decentralisation process, decision-making is not restricted in few hands only but decision-making power is entrusted to all the managers who are taking actions or performing the activities. This leads to faster decision because employees who have to perform the activities are allowed to take decision also.
4. **Relief to top level management.** In the process of decentralisation, top level managers are not overburdened with the responsibilities and authority as they systematically pass the authority and responsibilities at different levels and they become free to concentrate on core and important issues.
5. **Facilitates growth.** Decentralisation grants more autonomy or freedom to lower level. This helps the subordinates to do the work in the manner best suited for their department. When each department is doing their best then productivity increases and it will generate more revenue which can be used for expansion.
6. **Better control.** In decentralisation, employees working at different levels take their own decisions and they are personally accountable for their decisions, they cannot pass the blame to their superiors. With decentralisation better control can be exercised through Score Card, Management Information System, etc.

Conclusion

As a conclusion it must be noted that inspite of its benefits decentralisation should be applied with caution and care as it can lead to disintegration of organisation if departments start

operating on their own guidelines, which may be contrary to the interest of the organisation. "**Decentralisation must be balanced with centralisation in areas of major policy decisions.**"

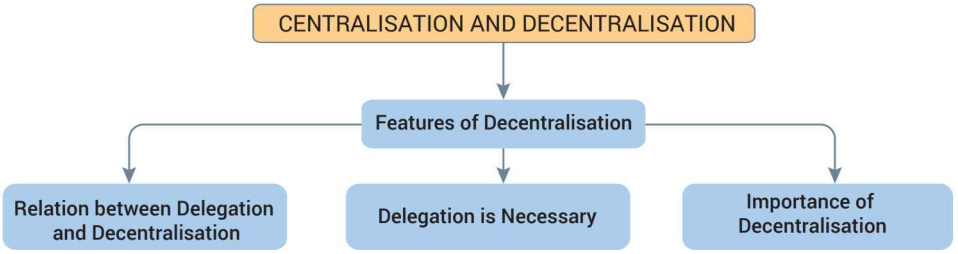


Difference between Delegation and Decentralisation

S.No.	Point of difference	Delegation	Decentralisation
1.	Scope/Parties involved	Delegation is limited in scope because in delegation only two parties are involved. It is confined to manager and his immediate subordinates.	Decentralisation is large or wide in scope because in decentralisation employees working at different levels are involved which means almost all the employees in the organisation are involved in the process of decentralisation. It means pushing down the authority at every marginal level.
2.	Significance status	Delegation is important function but it is the routine function of the managers. Almost everyday managers share their authority and responsibilities with the subordinates.	Decentralisation is more significant because it is a one time decision and it is a policy matter. The top level executives decide whether to follow the decentralised or centralised policy. And once the decision is taken it is very difficult to change the decision.
3.	Freedom of action	In the process of delegation the managers pass the authority and the responsibilities to the subordinates and after that also there is constant and continuous supervision by the managers to keep a check how subordinates are performing their activities.	In decentralisation there is more freedom of action because once the authority is distributed systematically there will be periodic appraisal and not the continuous supervision.
4.	Scope	It is narrow in scope.	It is wide in scope.
5.	Responsibility	It is the responsibility of every manager.	It is the responsibility of top level manager.
6.	Nature/Essential	Delegation is compulsory act because no individual can perform all the tasks on his own.	Decentralisation is an optional policy.
7.	Purpose	To reduce the burden of manager.	To increase the role of subordinates and giving them more autonomy.
8.	Grant of authority	Authority is granted by immediate superior.	Authority is granted by top level.

Difference between Centralisation and Decentralisation

Point of difference		Centralisation	Decentralisation
1.	Meaning	It refers to concentration of power or authority at higher level only.	It refers to every distribution of powers and authority at every level of management.
2.	Authority at different levels	Top management retains maximum authority. The authority with middle and lower management is very low.	The authority is systematically divided at every level.
3.	Suitable	It is suitable for small scale and small size organisations.	It is suitable for large scale organisations.
4.	Freedom of actions	Managers have less freedom of actions.	Managers have more freedom of actions.



Keywords

Decentralisation

(a) Involvement of all levels.

(b) Evenly distribution of authority at every level.

(c) Main purpose is involvement of employees, giving more responsibility to employees at every level.

(d) Allows freedom of operations and independent decision-making at every level.

MCQs and Case Studies

1. Decision making authority can be pushed down to lower level, this is related to

(a) Delegation (b) Centralisation

(c) Decentralisation (d) None of the above

2. Decentralisation is

(a) Optional (b) Compulsory

(c) Both (a) & (b) (d) None of the above

3. At Alpha Ltd. all expenses bills of employees are processed by general manager himself. He feels quite overburdened. He decided to delegate this work to deputy general manager. But after sometime the deputy general manager, disperses this authority to various levels throughout the organisation. Now all bills for travelling are processed through respective department supervisor.

Name the concept of management highlighted in above case before and after delegating the authority.

4. **Samir Gupta started a telecommunication company, 'Donira Ltd.' to manufacture economical mobile phones for the Indian rural market with 15 employees. The company did very well in its initial years. As the product was good and marketed well, the demand of its products went up. To increase production, the company decided to recruit additional employees. Samir Gupta, who was earlier taking all decisions for the company had to selectively disperse the authority. He believed that subordinates are competent, capable and resourceful and can assume responsibility for effective implementation of their decisions. This paid off and the company was not only able to increase its production but also expanded its product range.**

   (a) Identify the concept used by Samir Gupta through which he was able to steer his company to greater heights.

   (b) Also explain any three points of importance of this concept.

(*Answers at Page no. 244*)

Quick Revision

- **Meaning.** Organising refers to the process of identifying and grouping various activities and bringing together physical, financial and human resources and establishing productive relations among them for achievement of specific goals.
- **Organisation Process.** Organising process involves following steps:
  1. Identification and division of work.
  2. Grouping the jobs and departmentalisation.
  3. Assignment of duties.
  4. Establishing reporting relationship.
- **Organisation of Importance.** The function of organising is important in following ways:
  1. Specialisation.
  2. Role clarity.
  3. Clarity in working relationship.
  4. Optimum utilisation of resources.
  5. Coordination and effective administration.
  6. Adoption to change.
  7. Expansion and growth.
  8. Development of personnel.
- **Organisational Structure.** While building an organisational structure, following considerations must be kept in mind:
  1. Job design.
  2. Departmentation.
  3. Span of management.
  4. Delegation of authority.
- **The two most commonly found forms of organisational structure are:**
  1. **Functional structure.** When activities are grouped together under one department according to nature of function they are involved in then it is known as functional structure, ***e.g.***, production department, sales department, finance department, etc.

2. **Divisional structure.** When activities are grouped together on the basis of different products produced by company then it is known as divisional structure, ***e.g.***, cosmetics department, medicine department, soap department, etc.

Formal and Informal/Organisational structure:

1. **Formal organisation.** The formal organisation is designed and established by management to achieve certain goals. It is a system of clearly defined activities and relationship.
2. **Informal organisation.** The informal organisation exists within the formal organisation, the employees develop friendly relationship and form small social groups. The network of these social groups based on friendship is called informal organisation.

Difference between Formal and Informal Organisation. The difference can be discussed on the basis of: Formation, Purpose, Behaviour of members, Structure, Communication, Leadership, Stability and Durability, Adherence to rules and norms and Interdependence.

Delegation of Authority

Concept. Delegation is the process of sharing of responsibilities between superior and subordinates. As manager cannot perform all the tasks himself so he must pass some work to his subordinates. Along with work some powers and rights are also transferred from superior to subordinate and the subordinate becomes accountable for performing the work in desired manner.

Elements of Delegation. There are three elements of delegation:

1. **Responsibility.** Refers to work assigned to subordinate.
2. **Authority.** Powers and rights to use financial, material and human resources.
3. **Accountability.** Obligations to carry out assigned task.

Importance of Delegation. The importance of delegation can be outlined as:

1. Effective management.
2. Employees' development.
3. Motivation of employees.
4. Facilitates organisational growth.
5. Basis of management hierarchy.
6. Better coordination.
7. Reduces the work load of managers.

Decentralisation. It refers to systematic delegation of authority at all levels of management and in all departments of organisation to take decisions.

Importance of Decentralisation. Decentralisation is important in following ways:

1. Develop initiative among subordinates.
2. Develop managerial talent for future.
3. Quick decision-making.
4. Relief to top level management.
5. Facilitates growth.
6. Better control.

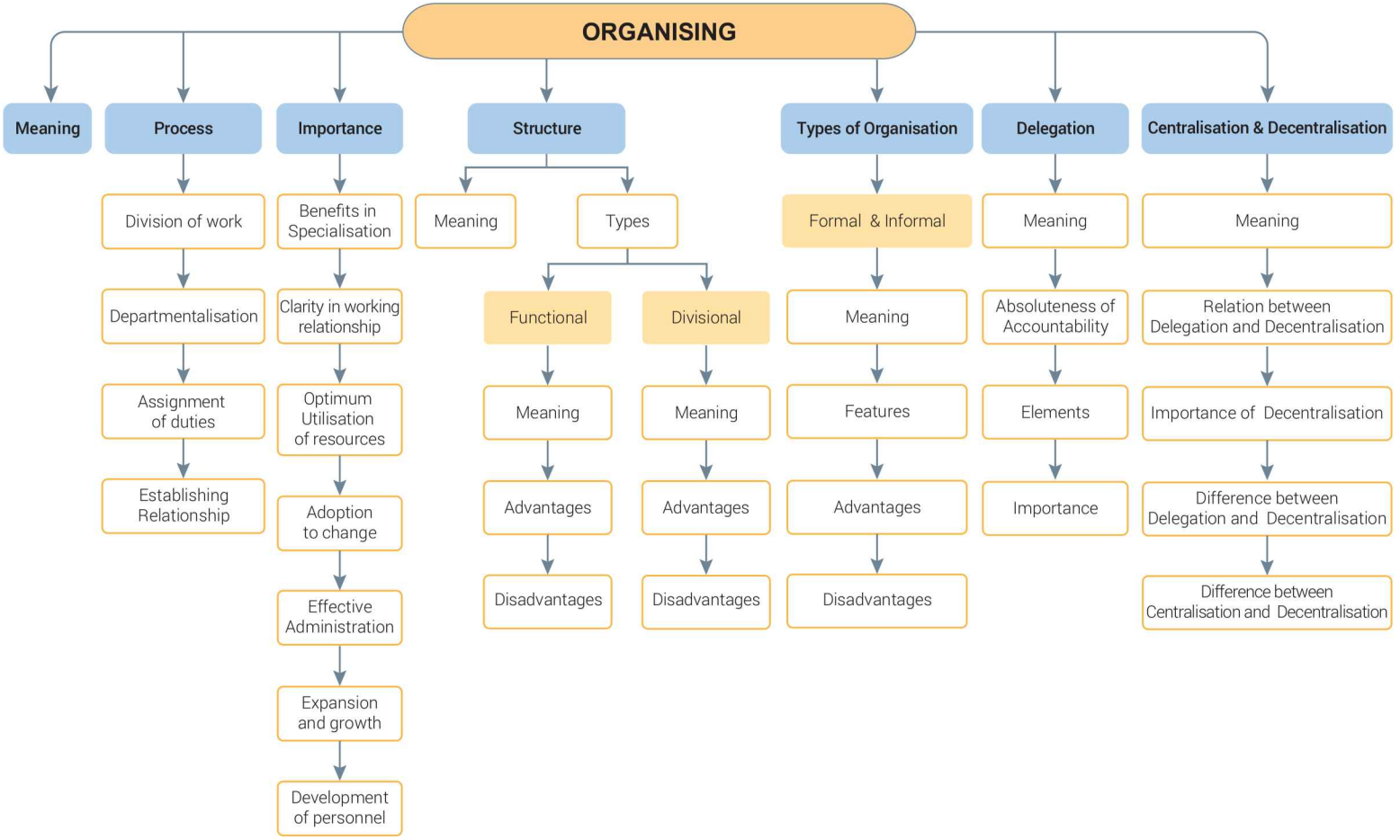
Difference between Delegation and Decentralisation. The difference between both the concepts can be discussed on following points:

1. Scope/Parties involved.
2. Significance Status.
3. Freedom of action.
4. Scope.
5. Responsibility.
6. Nature/Essential.
7. Purpose.
8. Grant of authority.

Difference between centralisation and decentralisation on the basis of:

1. Meaning.
2. Authority at different levels.
3. Suitable.
4. Freedom of actions.

Organising — A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. The organisation producing multiproduct must adapt
   (a) Functional Structure (b) Divisional Structure
   (c) None of the above (d) All of the above
2. Uniproduct manufacturing company must adapt
   (a) Functional Structure (b) Divisional Structure
   (c) Both (a) and (b) (d) None of the above
3. For fast communication and to get correct feedback, the following organisation is suitable.
   (a) Formal Organisation (b) Informal Organisation
   (c) Functional Structure (d) Divisional Structure
4. Organisations having plans of expansion and diversification must adapt
   (a) Functional Structure (b) Divisional Structure
   (c) Both (a) and (b) (d) None of the above
5. Span of management refers to
   (a) Area of responsibilities of a manager
   (b) Manager's accountability
   (c) Number of subordinates who can be effectively controlled by one manager
   (d) None of the above
6. If manager is overburdened then he must use following concept.
   (a) Delegation (b) Decentralisation
   (c) Span of management (d) None of the above
7. Evenly distribution of authority at every level leads to
   (a) Delegation (b) Decentralisation
   (c) Informal Organisation (d) Formal Organisation
8. Fast decision can be taken by using the concept of
   (a) Delegation (b) Formal Organisation
   (c) Decentralisation (d) None of the above
9. Informal organisation is dependent on
   (a) Formal Organisation (b) Delegation
   (c) Decentralisation (d) None of the above
10. Which organisation gets created automatically?
    (a) Formal Organisation (b) Informal Organisation
    (c) Both (a) and (b) (d) None of the above
11. The managerial function which establishes relation between responsibility and authority is
    (a) Planning (b) Staffing
    (c) Organising (d) Directing

12. In Delegation, we have sharing of authority and responsibility between
    (a) Two levels (b) Multiple level
    (c) Department wise (d) None of the above
13. In Decentralisation, we have sharing of authority and responsibility at
    (a) Two levels (b) Multiple level
    (c) Department wise (d) None of the above
14. Which of the following a policy matter
    (a) Decentralisation (b) Delegation
    (c) Formal Organisation (d) Informal Organisation
15. Which of the following is a routine activity
    (a) Decentralisation (b) Delegation
    (c) Formal Organisation (d) Informal Organisation
16. Who reports to whom is decided in the following step of organising process
    (a) Identifying the activities (b) Grouping the activities
    (c) Assignment of duties (d) Establish authority relationship
17. Centralisation refers to
    (a) Retention of decision making authority (b) Opening new branches
    (c) Separation of divisions or levels (d) Dispersal of decision making authority
18. Establishing reporting system leads to
    (a) Specialisation (b) Improved productivity
    (c) Clarity in working relationship (d) Adaptation to change
19. Dividing work into smaller and manageable task as a part of
    (a) Departmentalisation (b) Identification and division of work
    (c) Assigning duties (d) Not assigning duties
20. Grouping of activities in accordance to their nature
    (a) Division of work (b) Departmentalisation
    (c) Specialisation (d) Decentralisation

(Answers at Page no. 244)

Fill in the Blanks

1. _____ is a framework within which organisational activities are performed.
2. Strict Rules and Regulations are followed in _____ organisation.
3. Most of the rumours are spread by _____ organisation.
4. The main purpose of _____ is to reduce the work load of managers.
5. The main purpose of _____ is involvement of all the employees working at different levels.
6. Psychological and social needs get satisfied in _____ organisation.
7. Functional Structure focuses on _____ specialisation.
8. Divisional structure focuses on _____ specialisation.
9. Decentralisation is _____ of Delegation.
10. Selective Dispersal of Authority leads to _____.

(Answers at Page no. 244)

True or False

1. Accountability can be delegated by using the process of delegation.
2. In delegation, we multiply the authority with two, whereas in decentralisation, we mutliply with many.
3. Formal organisation is dependent on informal organisation.
4. As end result of organisation function, a structure gets created automatically.
5. Formal organisation focuses on work only, and ignores human relations.
6. Who reports to whom is made clear in establishing reporting relationship.
7. A network of social and friendly interaction create informal organisation.
8. Span of management define responsibility area of a manager.

(*Answers at Page no. 244*)

Remembering and Understanding-based Questions with Answers

Q. 1. State any three advantages that a functional structure offers to an organisation. [*CBSE Sample Paper 2014*]

Ans. Advantages of functional structure (*any three*):

(i) Functional structure leads to occupational specialisation.
(ii) It promotes control and coordination within the department.
(iii) It helps in increasing managerial and operational efficiency and this results in an increase in profits.
(iv) It leads to minimal duplication of effort.
(v) It makes training of employees easier.
(vi) It ensures that different functions get due attention.

Q. 2. State any three points which highlight the importance of delegation for an organisation. [*CBSE Sample Paper 2015*]

Ans. Importance of Delegation (*any three*):

(i) Delegation leads to effective management through empowerment of employees.
(ii) Delegation helps in employee development by providing them with the chance to use their skills and experience.
(iii) Delegation motivates employees by giving them responsibility which builds their self-esteem.
(iv) Delegation facilitates growth by providing ready workforce to take up any expansion program.
(v) Delegation provides basis of management hierarchy by establishing superior-subordinate relationship.
(vi) Delegation helps in better coordination as it avoids overlapping of duties.

Q. 3. What is meant by span of management? [*CBSE Sample Paper 2016*]

Ans. Span of management refers to the number of subordinates that can be effectively managed by a superior.

Q. 4. Which organisational structure is suitable for a multi-product manufacturing company?

Ans. Divisional structure.

Q. 5. Which organisational structure is suitable for a uni-product manufacturing company?

Ans. Functional structure.

Q. 6. Out of formal and informal organisation, which is dependent upon which?

Ans. Informal is dependent upon formal that is why, first informal is set up, then formal.

Q. 7. How informal organisation is created?

Ans. It is created due to friendly and social interaction of employees.

Q. 8. Name the organisation in which employees are allowed to communicate freely and there are no rules and regulations.

Ans. In informal organisation, employees can communicate freely.

Q. 9. Distinguish between formal and informal on the basis of purpose.

Ans. The purpose of formal organisation is to achieve organisational goal whereas the purpose of informal organisation is psychological satisfaction of employees.

Q. 10. Name the concept which reduces the work load of a manager.

Ans. 'Delegation of authority' reduces the work load of a manager.

Q. 11. Define span of control.

Ans. It refers to the number of subordinates under one superior.

Q. 12. Define job description.

Ans. Job description defines the responsibilities, activities and authority related to a job. It clearly defines the contents of job.

Q. 13. In ABC Ltd. all the decisions are taken by top level management only. Which policy is followed by the organisation? Explain the drawback of this organisation.

Ans. This organisation is following the policy of centralisation and the biggest drawback of this organisation is delay in decision-making.

Q. 14. Which of the following is the ideal situation?

(i) Authority > Responsibility

(ii) Authority = Responsibility

(iii) Authority < Responsibility

Ans. The ideal situation is (ii) Authority = Responsibility.

Q. 15. Whether decentralisation increases the importance of subordinates or reduces it?

Ans. It increases the importance of subordinates by giving them authority.

Q. 16. If responsibility is more than the authority. What would be its impact on working of an organisation?

Ans. It would become difficult to perform the responsibilities.

Q. 17. What is the objective of decentralisation?

Ans. To disperse authority to the lowest level.

Q. 18. What type of structures can a formal organisation have?

Ans. (i) Functional structure

(ii) Divisional structure

Q. 19. Name the type of organisation in which (a) Friendly relationship exists among members (b) Official relationship exists among the members.

Ans. (a) Informal organisation,

(b) Formal organisation.

Q. 20. *"Delegation of authority is based on elementary principle of division of work."* Explain.

Ans. Give meanings of delegation and division of work.

[*Refer to page no.* 213]

In division of work, the work is divided into different units. Same way in delegation the manager divides some of his work and authority with his subordinates. No manager can perform all the functions himself. To get the work done efficiently and in specialised manner, the manager divides

the work among his subordinates according to their qualification and capability. So we can say that delegation is based on elementary principle of division of work. In division of work, the work is divided into different units and in delegation work is divided between superior and subordinate.

Q. 21. **"*An organisation is manufacturing medicines, cosmetics, textiles and soaps.*" What kind of organisational structure is suitable for this organisation and why?**

Ans. This organisation must adopt divisional organisational structure. [*Refer to page no. 205*]

Q. 22. **"*Authority can be delegated but accountability cannot be.*" Explain.**

Ans. Yes, it is right to say that authority or decision-making power can be delegated but the accountability can never be delegated according to the principle of absolute responsibility or principle of abdication. The accountability remains with the manager even after delegating the work.

For example, the directors of a computer manufacturing company have asked their production manager to achieve a target production of 150 computers per day. The production manager has asked his five foremen to achieve this target. Two of them could not achieve the target.

In this case, production manager is responsible and accountable for non-completion of target because by passing authority and work to foremen, manager cannot get rid of his responsibilities and accountability.

Q. 23. **"*The existence of informal organisation depends on the formal organisation.*" Comment.**

Ans. Informal organisation refers to network of social and friendly relations established between the employees working at different job positions. The network of these job positions is known as formal organisation. So the framework within which the informal organisation establishes gets created by formal organisation only.

Q. 24. **"*A manager is of the view that he is not responsible for the quality of work that he has delegated to his subordinate.*" Do you agree with this viewpoint? Justify your answer by giving proper arguments.**

Ans. I do not agree with this viewpoint because authority can be delegated but responsibility can never be delegated—*give same explanation as given in Ans.* 22.

Q. 25. **The directors of Narmade Ltd. have asked their marketing manager to achieve a target sale of 100 units per day. The marketing manager has delegated the task to his deputy sales manager working under him. The deputy sales manager could not achieve the target. Who is responsible for non-completion of task? Explain in brief the relevant principle related to this case.**

Ans. The marketing manager is responsible for non-completion of task—*Explanation as given in Ans.* 22.

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. National Vritech Ltd. has grown in size. It was a market leader but with changes in business **environment and with the entry of MNCs, its market share is declining. To cope up with the situation CEO starts delegating some of his authority to the General Manager, who also felt himself overburdened and with the approval of CEO disperses some of his authority to various levels throughout the organisation. Identify the concept of management discussed above.**

[*CBSE Sample Paper 2014*]

Ans. Decentralisation.

Q. 2. **State whether the principle of Scalar Chain is followed in informal organisation or not?**

Ans. No, it is not followed.

Q. 3. **State whether functional organisation is based on products. Draw the chart of a functional organisation.**

Ans. No. *For drawing a chart refer page no.* 205.

Q. 4. What would be the effect of no delegation of work?

Ans. There will be delay in work and manager will become overburdened.

Q. 5. Name the process of entrusting responsibility, authority and creating accountability of the person whom work has been handed over. Explain the importance of this process.

Ans. Delegation. *For importance of process refer page nos.* 216-217.

Q. 6. State the relationship between authority, responsibility and accountability.

Ans. (i) Authority is delegated, responsibility is assured and accountability is imposed.

(ii) Responsibility is derived from authority and accountability is derived from responsibility.

Q. 7. What should crowing company adapt–centralised or decentralised policy?

Ans. Decentralised.

Q. 8. The number of subordinates that can be effectively managed by a superior refers to which aspect of management?

Ans. Span of management.

Q. 9. Grouping of jobs of similar nature and organising these jobs as separate departments creates a particular type of organisational structure. Name that type of structure and explain any two advantages and disadvantages of that structure.

Ans. Functional structure. *For advantages and disadvantages refer to page no.* 204.

Q. 10. Is organisational structure essential to provide relationship between various positions in the organisation?

Ans. Yes, it is essential.

Q. 11. State any one objective of organising.

Ans. Optimum utilisation of resources.

Q. 12. Kiran Industries is a company manufacturing office furniture. The company 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.

(a) Name the framework, which the diversified organisation should adopt, to enable it to cope up with the emerging complexity? Give one reason in support of your answer.

(b) State any two limitations of this framework. [*CBSE Sample Paper 2015*]

Ans. (a) Divisional Structure:

Reason in support of the answer (*any one*)

(i) Product specialisation helps in the development of varied skills in a divisional head and this prepares him for higher positions.

(ii) Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them.

(iii) It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision-making.

(iv) 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.

(b) Limitations of the Divisional Structure: (*any two*)

(i) Conflict may arise among different divisions with reference to allocation of funds.

(ii) It may lead to increase in costs since there may be a duplication of activities across products.

(iii) Divisional interests may supersede organisational interests.

Q. 13. 'Shan Spices Ltd.' is the manufacturer of different food specific spices like Rajmaa 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.

(a) Identify and state the type of organisation mentioned in the above para.

(b) State one feature of the concept identified in part (a) as mentioned in the above para.

(c) What was the purpose behind the formulation of rules for the employees that restricted their personal communication with the employees of other departments?

[CBSE Sample Paper 2016]

Ans. (a) Formal organisation.

(b) Focus on objective and work performance.

(c) Avoidance of the emergence of informal organisation which may obstruct the fulfilment of organisational goals.

Q. 14. Rohan a sole proprietor was running food catering business in North Delhi. He got great success and profit margin in this business. Due to excess demand in the market he expanded his business and separated departments as purchase, production, finance and marketing.

Which type of organisational structure would you suggest him? Enumerate its two benefits.

Ans. Functional. *[Refer to page no. 204]*

Q. 15. The Principal of ABC Public School ordered the staff that they will be allowed to sit in the staffroom situated in their block. No teacher will be allowed to sit in another staffroom. During school's hours, teachers can meet teachers of their department only for work-related matters. He wants each teacher to strictly work as per rules and directions given by him.

Identify the type of organisation in this and state disadvantage of such organisation.

Ans. Formal organisation. For disadvantages. *[Refer to page no. 209]*

Q. 16. Vishal is a production manager in an auto company. He held a meeting with production unit including supervisor, foreman and employees. He sets the target to produce 1,000 units in one month and assures them to give full co-operation. He delegates powers to operational level to achieve the targets in the time.

(a) Identify organisational activity which Vishal communicated to his subordinates and explain its benefits.

Ans. (a) Delegation. *[Refer to page no. 214-215]*

Q. 17. A Manager increased the production target from 500 units to 700 units per month but the authority to draw raw material was not given by him. The employees were not able to meet the new target. Who should be held responsible for this and which principle has been violated here? Explain.

Ans. Principle of Authority and Responsibility. *[Refer to page no. 213-214]*

Q. 18. **Manager of XYZ Ltd. is over burdened with routine work and is unable to concentrate on its objectives and other important issues of the firm. To solve this problem which management concept should be followed by the manager? Also explain the related function.**

Ans. Delegation [*Refer to page no. 213*]

Q. 19. **"The responsibility of a firm should be divided among various levels such as top level, middle level, and lower level". Identify the concept of management function and state its importance.**

Ans. Decentralisation. [*Refer to page nos. 220-221*]

Q. 20. **Royal Ltd. decided that whenever a person reaches a particular age he will be promoted. Influenced by this plan of the company, several employees from other companies also joined the firm. But within few days they realised that the firm has pre-determined relation structure without free communication.**

On the basis of this, answer the following questions.

(a) Identify the type of organisation described here.

(b) Point out any two limitations of this type of organisation.

Ans. (a) Formal.

(b) Limitations [*Refer to page no. 219*]

Q. 21. **Bhuvan & Co. are running a shoe manufacturing company successfully. So they planned to expand their business activities by adding more line of products, *i.e.*, leather bags, belts and garments. Which type of structure would you recommend after expansion and why?**

Ans. Presently, Bhuvan & Co. are manufacturing only one product so the most suitable organisation structure is functional but on expansion if they are adding more line of products then the suitable organisation structure will be divisional structure as it is a perfect structure for multi-product manufacturing company due to following reasons:

(*Give advantages of divisional structure from page 205-206*).

Q. 22. **A company manufacturing sewing machines set up in 1946 follows formal organisation structure. It is facing lot of problems such as delays in decision-making. As a result, it is not able to adapt to the changing business environment. The work force is also not motivated. There is a problem of red tapism and employees' turnover is very high.**

You advise the company with regard to change it should bring about in its organisation structure to overcome the problems faced by it. Give reasons in terms of benefits it will derive from the changes suggested by you. In which sector can the company diversify keeping in mind the declining market for the product the company is manufacturing. [*NCERT*]

Ans. My advice to the company is to give due importance to informal organisational structure along with formal. They should allow informal structure also to develop. This will help company to overcome the problems of delay in decisions, lack of motivation, etc. As information travel very fast in informal organisational structure.

The company may get following benefits with informal organisational structure.

[*Explain the advantages of informal structure on page* 210].

Company can diversify its activities by introducing embroidery machines, it can also design special machines keeping in mind the requirement of ready-made garment manufacturers, etc. By diversifying in the same field it can get maximum utilisation of existing resources only.

Q. 23. **After completing a course in Travel and Tourism, Vaibhav started his own travel agency. In order to ensure smooth functioning of his business, he decided to create fourteen job positions divided into four departments on the basis of functions namely front office department, including online query, reservation department, accommodation booking department and securing payment department. In order to avoid conflicts, he clearly assigned the line of**

authority and area of responsibilities for each job position.

(a) Which function of management is being described in the above lines?

(b) Identify the framework created by Vaibhav.

(c) Name the type of framework created by Vaibhav.

(d) Give two advantages of that frame work.

Ans. (a) Organising function

(b) Organisational Structure

(c) Functional Structure

(d) Advantages [Refer to page no. 204]

Q. 24. Kirpal Singh owns a pet clinic in Delhi. The clinic is being run by a team of experienced Veterinary professionals for last 25 years.

Kirpal pet in special efforts to improve inter-personal relationships. When he interacts with his employees. He arranges every year a picnic for his staff so that they become fresh from their routine life. He always take employees suggestions towards new plans and policies.

(a) Identify the type of organisation encouraged by Kirpal Singh.

(b) State any three disadvantages of that organisation.

Ans. (a) Informal Organisation

(b) Refer to Page no. 210

Q. 25. Karan opens a retail mart in local market. As he knows it will be impossible for him to handle all work alone, he appoints Johar to perform task on his behalf, thereby reducing the workload. This decision provided Karan with more time to concentrate on important matters. Besides he recruits, eight other persons as support staff. Over the year his business earned a good name for itself. So he opens another outlet in the city. Considering Johar's competence, he gives the independent charge of running the new outlet to him, thereby empowering him atuonomy in functioning of the outlet.

(i) Identify the two concepts which reflect the role of Johar in above case.

(ii) Give four points of difference between both the concepts.

Ans. **(i) (a) Delegation:** When Johar's role is restricted, he is given limited authority to reduce the work load of Karan.

(b Decentralisation: When Johar is given independent charge of new outlet.

(ii) Difference: [Refer to page no. 221-222]

Q. 26. Sita and Gita are twin sisters. After completing a course in Journalism both of them joined a leading newspaper company as sub-editors. Over the years, due to their hardwork, they are promoted to the post of chief editor in different divisions. However, the way of their functioning is totally different. Sita believes in capabilities of her subordinates. Therefore, follows policy of selective dispersal of authority in all levels of other division.

On the other hand, Gita prefers to function through strict control and retains all the decisions making authority with herself.

(i) In the above context, state the concept used by Sita and Gita.

(ii) State any three differences between both the concepts.

Ans. (i) Concept used by Sita — Decentralisation
Concept used by Gita – Centralisation

(ii) Difference [Refer to page no. 222]

Guidelines to NCERT Questions

Multiple Choice Questions

1. Which of the following is not an element of delegation?
   (a) Accountability (b) Authority
   (c) Responsibility (d) Informal organisation
2. A network of social relationship that arises spontaneous due to interaction at work is called
   (a) Formal organisation (b) Informal organisation
   (c) Decentralisation (d) Delegation
3. Which of the following does not follow the scalar chain?
   (a) Functional structure (b) Divisional structure
   (c) Formal organisation (d) Informal organisation
4. A tall structure has a
   (a) Narrow span of management (b) Wide span of management
   (c) No span of management (d) Less levels of management
5. Centralisation refers to
   (a) Retention of decision making authority
   (b) Dispersal of decision making authority
   (c) Creating divisions as profit centers
   (d) Opening new centers or branches.
6. For delegation to be effective it is essential that response be accompanied with necessary.
   (a) Authority (b) Manpower
   (c) Incentives (d) Promotions
7. Span of management refers to
   (a) Number of managers
   (b) Length of term for which a manager is appointed
   (c) Number of subordinates under a superior
   (d) Number of members in top management
8. The form of organisation known for giving rise to rumours is called
   (a) Centralised organisation (b) Decentralised organisation
   (c) Informal organisation (d) Formal organisation
9. Grouping of activities on the basis of product lines is a part of
   (a) Delegated organisation (b) Divisional organisation
   (c) Functional organisation (d) Autonomous organisation
10. Grouping of activities on the basis of functions is a part of
   (a) Decentralised organisation (b) Divisional organisation
   (c) Functional organisation (d) Centralised organisation

Short Answer Type Questions

1. Define 'organising'. [Refer on page no. 197]
2. What are the steps in the process of organising? [Refer on page no. 198]
3. Discuss the elements of delegation. [Refer on page nos. 214-215]
4. What does the term 'span of management' refer to? [Refer on page no. 202]
5. Under what circumstances would functional structure prove to be an appropriate choice? [Refer on page no. 204]
6. Draw a diagram depicting a divisional structure. [Refer on page no. 207]
7. Can a large sized organisation be totally centralised or decentralised? Give your opinion.

   [**Hint:** No, a large firm must have combination of centralisation as well as decentralisation. Some important aspects such as finance, setting up of overall objectives, Policies, etc. can be centralised but routine decisions like buying raw materials, inputs, etc. can be decentralised.]
8. Decentralisation is extending delegation to the lowest level. Comment. [Refer on page nos. 219-220]

Long Answer Type Questions

1. Why is delegation considered essential for effective organisation?
2. What is divisional structure? Discuss its advantages and limitations. [Refer on page nos. 205-206]
3. Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised. [Refer on page no. 220]
4. How does informal organisation support the formal organisation?

   [**Hint:** The existence of informal depends upon the formal structure because people working at different job positions interact with each other to form informal structure and the job positions are created in formal structure. So, if there is no formal structure there will be no job position and no interaction so no informal structures.]
5. Distinguish between centralisation and decentralisation. [Refer on page no. 222]
6. How is a functional structure different from a divisional structure? [Refer on page no. 206-207]
7. A company, which manufactures a popular brand of toys has been enjoying good market reputation. It has a functional organisational structure with separate departments for Production, Marketing, Finance, Human Resources and Research and Development.

   Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging.

   Prepare a report regarding organisation structure giving concrete reasons with regard to benefits the company will derive from the steps it should take. [NCERT]

   [**Ans.** It should change its structure as divisional and give importance of divisional structure.]
8. A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown in size. Its business was very good till 1991. But after the new liberalised environment has seen entry of many MNC's in the sector.

   With the result the market share of X limited has declined. The company had followed a very centralised business model with Directors and divisional heads making even minor decisions. Before 1991 this business model had served the company very well as consumers had no choice. But now the company is under pressure to reform.

What organisation structure changes should be company bring about in order to retain its market share?

How will the changes suggested by you help the firm? Keep in mind that the sector in which the company is FMCG. [NCERT]

[**Ans.** Company must start decentralisation policy.

Importance of Decentralisation Refer to page no. 220]

Previous Years' Examination Questions (2014-2019)

One Mark Questions

1. Give the meaning of 'Authority' as an element of delegation. [CBSE (D) 2016]
2. State any one advantage of 'Formal Organisation'. [CBSE (D) 2014]
3. Name the function of management discussed above. [CBSE (D) 2015]
4. 'Himalaya Ltd.', is engaged in manufacturing of washing machines. The target of the organisation is to manufacture 500 washing machines in a day. There is an occupational specialisation in the organisation which promotes efficiency of employees. There is no duplication of efforts in such type of organisation structure.

   Identify the type of organisation structure described above. [CBSE (AI) 2015]
5. Name the type of 'organisational structure' which promotes efficiency in utilisation of manpower. [CBSE (D) 2016]
6. Define 'organising' as a function of management. [CBSE (F) 2016]
7. Name the organisational structure which helps in increasing managerial and operational efficiency. [CBSE (F) 2016]
8. Name the type of organisational structure which promotes flexibility and initiative. [CBSE (AI) 2016]
9. Define 'Decentralisation'. [CBSE 2018]
10. Differentiate between 'Authority' and 'Responsibility' on the basis of 'flow'. [CBSE 2019 (66/2/1)]
11. Distinguish between 'Responsibility' and 'Accountability' on the basis of 'meaning'. [CBSE 2019 (66/2/1)]
12. Define 'Organising'. [CBSE 2019 (66/2/1)]
13. Differentiate between Formal organisation and Informal Organisation on the basis of 'Nature'. [CBSE 2019 (66/3/1)]
14. Ravi Jain was the Chief Executive Officer of Nath Traders. He was worried about the heavy expenditure on advertising. He asked his Finance Manager, Mohit Verma to know the views of the Sales Manager and his team regarding this expenditure. Mohit Verma was thinking of calling a meeting of the Sales Manager and his team after tea-break. But by chance at the time of tea-break, Mohit Verma met with the Sales Manager and his team in the canteen. They all discussed about this expenditure and finalised to give suggestion to reduce this expenditure.

    Identify the type of organisation which helped the Finance Manager Mohit Verma, the sales Manager and his team in finalising the suggestion. [CBSE 2019 (66/4/1)]
15. Define 'Organising'. [CBSE 2019 (66/5/1)]
16. What is meant by 'Delegation'? [CBSE 2019 (66/5/1)]

Three Marks Questions

17. Harsh started a company 'Tiny-Toys Ltd.' to manufacture economical toys for the Indian rural market, with 20 employees. The company did very well in its initial years. As the products were good and marketed well, the demand of its products went up. To increase the production the company decided to recruit additional employees. Harsh who was earlier taking all decisions for the company had to selectively disperse the authority. He believed that subordinates are competent, capable and resourceful and can assume responsibility for effective implementation of their decisions. This paid off and the company was not only able to increase its production but also expanded its product range with different features.

(a) Identify the concept used by Harsh through which he was able to steer his company to greater heights.

(b) Also explain any three points of the importance of this concept. *[CBSE (F) 2015]*

18. What is meant by ' functional structure' of an organisation? State its any two advantages. *[CBSE (D) 2015]*

19. What is meant by 'Formal Organisation'? State its any two advantages. *[CBSE (AI) 2014]*

20. Differentiate between formal and informal organisation on the basis of (i) origin, (ii) authority, and (iii) flow of communication. *[CBSE 2018]*

21. Distinguish between Formal and Informal organisation on the basis of the following:

(a) Origin; (b) Authority; and (c) Leadership *[CBSE 2019 (66/2/1)]*

22. Distinguish between Functional and Divisional structure on the basis of the following points: *[CBSE 2019 (66/2/1)]*

(a) Coordination; (b) Managerial Development; and (c) Cost

23. Roasted Coffee Corporation is a coffeehouse chain operating in 7 states of India. Through its effective organisational structure, it has grown despite pressure from competitors in the national market.

The company has a Purchase and Production department, Supply chain management and logistics department, Brand management department and Sales department.

This structure has facilitated operational efficiency, as employees became specialists within their own realm of expertise. They could be imparted specialised training as the focus was on limited range of skills.

Identify the organizational structure of Roasted Coffee Corporation. Also state the three advantages of this structure other than those discussed in the above paragraph. *[CBSE 2019 (66/3/1)]*

24. Differentiate between delegation and decentralisation on any three bases. *[CBSE 2019 (66/3/1)]*

25. Kavita Ghai was the Managing Director of a restaurant in Lucknow called 'Healthy Kitchen'. The restaurant was doing well and the volume of work started increasing slowly and steadily. Kavita Ghai was not able to manage all the work on her own. The increasing magnitude of work made it impractical for her to handle it all by herself. Moreover her objective is to open more branches of this restaurant at different places. She appointed Nikhil Gupta, as a General Manager of 'Healthy Kitchen', Lucknow and gave him the right to command his subordinates and to take action within the scope of his position. For smooth running of the restaurant she also gave him authority to hire and train the staff as per the requirements.

Kavita Ghai was satisfied with the work of Nikhil Gupta and was able to open other branches of the restaurant in Agra and Kanpur also.

(a) Identify the concept followed by Kavita Ghai which helped her to open the new branches of the restaurant.

(b) Also, explain briefly the two points of importance of the concept identified in (a) above

[*CBSE 2019 (66/4/1)*]

Four Marks Questions

26. State any four advantages of formal organisation. [*CBSE (D) 2017(C)*]

27. Explain any four differences between 'Delegation' and 'Decentralisation', specifying the bases of difference. [*CBSE (D) 2017(C)*]

28. State any four features of informal organisation. [*CBSE (D) 2017(C)*]

29. Aradhana and Gandharv are heads of two different departments in 'Yumco Ltd.' They are efficient managers and are able to motivate the employees of their respective departments to improve performance. However, their drive to excel in their own sphere of activity instead of giving emphasis on objectives of the enterprise has hindered the interaction between the departments that Aradhana and Gandharv are heading. Often there are inter-departmental conflicts and they have become incompatible. This has proved to be harmful in the fulfillment of the organizational objectives. The situation has deteriorated to such an extent that the CEO of 'Yumco Ltd.' has hired a consultant, Rashmi, to resolve the problem. After studying the situation closely, Rashmi found that the problem has arisen due to inflexibility and a narrow perspective on the part of both Aradhana and Gandhrav. She is of the view that this situation is a result of the type of organizational structure 'Yumco Ltd.' has adopted.

From the above information, identify the organisational structure adopted by 'Yumco Ltd.' and state any three advantages of the structure so identified. [*CBSE 2018*]

30. Vinod Chandla started ' Sunshine Securities' a company providing cyber security solutions to businesses to prevent, detect and 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 the person of integrity and 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 Corporate Affairs. While working on the project, he found that the volume of work made it impractical for him to handle all the work himself. He decided to expand his team. The company maintained a close liaison with a local engineering college. During a campus placement Anishka and Kavya were appointed to work for the new project. He found the new employees capable, enthusiastic and trustworthy. Vinod Chandla was thus able to focus on objectives and with the help Anishka and Kavya, the project was completed on time. Not only this Vinod Chandla was also able to extend his area of operations. Anishka and Kavya also got opportunities to develop and exercise initiative.

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

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

[*CBSE (F) 2017*]

31. 'My Car Ltd.' decided to set up its new car manufacturing factory in the backward area of West Bengal where very less job opportunities were available. People of that area welcomed this effort of 'My Car Ltd.' The company also decided to provide facilities like school, hospital, market, etc. in the factory premises so that the people are attracted to join the factory as workers.

'My Car Ltd.' started earning huge profit. Another competing company asked its production manager Arvind to investigate the reasons of earning huge profits by 'My Car Ltd'.

Arvind found that in both the companies there was systematic coordination among the various activities to achieve organisational goals. Every employee knew who was responsible and accountable to whom. The only difference was in his organisation communication took place only through the scalar chain where as 'My Car Ltd.' was allowing flow of communication in all the directions as per the requirement which led to faster spread of information as well as feed-back.

(a) Identify the type of organisation which permits the flow of communication in all the directions in 'My Car Ltd'.

(b) Also state an advantage of the type of organisation identified in part (a) above.

[CBSE (AI) 2015]

32. Organising involves a series of steps that need to be taken in order to achieve the desired goal. Explain the steps. *[CBSE 2019 (66/1/1)]*

OR

Explain any four points of importance of 'Organising'. *[CBSE 2019 (66/1/1)]*

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

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

An important concept of organizing function is discussed above. Identify the concept and state any three points of its importance. *[CBSE 2019 (66/5/1)]*

Five/Six Marks Questions

34. Give the meaning of 'organising'. State the steps in the process of organising. *[CBSE (AI) 2015]*

35. Explain any four points of importance of delegation. *[CBSE (D) 2014]*

36. Explain the concept of 'Functional Structure'. Also, explain any four disadvantages of functional structure. *[CBSE (D) 2014]*

37. With the help of any four points, explain the crucial role that organising plays in an enterprise. *[CBSE 2014]*

38. Differentiate between 'functional' and 'divisional' structure of organisation on any six basis. *[CBSE (D) 2017(C)]*

39. Explain 'Authority', 'Responsibility' and 'Accountability' as elements of Delegation. *[CBSE (D) 2017(C)]*

40. Anoop Gaur started 'Cat's Eye', a company for providing cyber security solutions to businesses. Its objective 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). [*CBSE (F) 2017*]

41. Voltage fluctuations have been common and quite high in India. They harm our electrical appliances like television, refrigerators and air conditioners, often leaving them in a permanently damaged condition.

N-Guard Company decided to manufacture stabilizers for North India where the voltage fluctuation ranges from 220V-230V. Once the demand for the North India was taken care of, they decided to launch stabilizers of varying voltages from 90 V -260V for meeting the requirements of voltage fluctuations in other regions of India also.

Three engineers were appointed for South, West and East regions of India, as the voltage was different in all the three regions. Though all the engineers were appointed to manufacture stabilizers but the product differed from region to region.

(a) Identify the organisational structure of N Guard Company.

(b) State any two advantages and two limitations of the structure identified in the above para.

[*CBSE 2019 (66/1/1)*]

42. 'E-Solution Ltd.' started its operations in the year 2000. At the time of its inception, the company had only ten employees with two departments, a Production department and an Administration department. The products supplied and the services provided by the company started gaining popularity over the years. The management had faith in the abilities of the employees and thus they allowed them freedom of action. The management recognised that the decision-makers at different levels of the organisation need to be given more autonomy. They took a policy decision that there will be less control of superiors over subordinates. This increased the role of the subordinates in the organisation and now they were in a position to take numerous as well as important decisions. As a result, its business has diversified into many areas. Presently, it has operations throughout the country with seven branches overseas. Its organisational structure has now changed into divisional structure and ten thousand people are working with the company.

(a) Identify the concept of management which helped the company to diversify into many areas and branches abroad.

(b) Explain five points of importance of the concept identified in (a) above. [*CBSE 2019 (66/2/1)*]

43. Differentiate between 'Functional Structure' and 'Divisional Structure' on any six bases.

[*CBSE 2019 (66/4/1)*]

44. Explain any four points of importance of planning function of management.

[*CBSE 2019 (66/4/1)*]

Hints of the Answers for Case Studies

14. Informal organisation

17. (a) Decentralisation.

(b) Importance of decentralisation: (*Refer to Page no. 220*)

23. Functional Structure: Three more advantages Roasted Coffee Corporation would be experiencing by deploying Functional structure:

(a) Occupational specialisation since emphasis is placed on specific functions.

(b) Control and coordination within a department because of similarity in the tasks being performed.

(c) Different functions would be getting due attention.

(d) Lower cost because of minimal duplication of effort.

25. (a) Delegation of authority (b) Importance (any two) (Refer on page no. 216)

29. Functional Structure is the organisational structure adopted by 'Yumco Ltd.'.

Advantages of Functional Structure: (*any three*)

(a) It leads to occupational specialisation since emphasis is placed on specific functions.

(b) It promotes control and coordination within a department because of similarity in the tasks being performed.

(c) It increases managerial and operational efficiency.

(d) It lowers cost as it reduces duplication of effort.

(e) It makes training of employees easier as it focuses on a limited range of skills.

(f) It ensures that different functions get due attention.

30. Delegation.

Delegation is the transfer of authority from superior to subordinate, entrustment of responsibility and creation of accountability for performance which helps a manager to extend his area of operations.

(or any other relevant explanation)

Importance of Delegation: (*Refer to Page no. 216-217*)

31. (a) Informal organisation.

(b) Advantage of informal organisation: (*any one*)

(i) It fulfills social needs.

(ii) It compensates for inadequacies in the formal organisation.

33. Decentralisation: Importance of decentralisation (Refer to page no. 220)

40. Delegation.

Delegation is the transfer of authority from superior to subordinate, entrustment of responsibility and creation of accountability for performance which helps a manager to extend his area of operations.

(or any other relevant explanation)

Importance of Delegation: (*Refer to Page no. 216-217*)

41. (a) Functional structure (b) Advantages and limitations (any two) (Refer on page no. 204)

42. (a) Decentralisation (b) Importance of Decentralisation. (Refer on page No. 220)

ANSWERS OF MCQs AND CASE STUDIES

Page 199-200

1. (d) How will be done
2. (c) Specialisation
3. (A) Organising.

   (B) The lines which helped to identify are:

   (i) Identified the following main activities.

   (ii) In order to facilitate they thought of four managers to look after:

   (a) Production, (b) Finance, (c) Marketing, (d) Personnel.

   (C) The steps involved in the process of organising are:

   (i) Identification and division of work

   (ii) Grouping the jobs and departmentalisation

   (iii) Assignment of duties

   (iv) Establishing reporting relationship
4. 1. Assignment of duties—Defining the work of different job positions and allotting the work according to the skills of the employees.

   2. Kanaputti responded to the complain of Ramdas by

   (a) Assigning the duties (b) Establishing reporting relationship

   3. (a) Clarity in working relationship (b) Benefits of specialisation

   (c) Effective administration

Page 203

1. (a) A narrow Span of Management
2. (a) Organising process
3. The framework within which managerial and operational activities are performed is called organisational structure. This structure is very important due to the following reasons:

   [Refer to Importance of Organisational Structure on page no. 202.]

Page 207-208

1. (b) Divisional structure.
2. True
3. (a) Functional, (b) Divisional.

   Advantages of divisional structure (Refer to page no. 205-206)

Page 212

1. (d) Informal organisation
2. (c) Formal organisation
3. (i) Introduction of informal organisation.

   (ii) Two benefits the firm will derive, are:

   (a) Faster spread of communication and quick feedback.

(b) It helps to fulfil the social needs of the members and enhances their job satisfaction.

(c) Fulfilment of organisational objectives.

Page 217-218

1. (a) Ram is accountable
2. (b) Compulsory
3. (i) **Delegation:** Delegation is the transfer of authority from superior to subordinate, entrustment of responsibility and creation of accountability for performance which helps a manager to extend his area of operations.

   (or any other relevant explanation)

   (ii) **Importance of delegation of authority:** (***any four***) Refer to Page no. 216-217.

Page 222-223

1. (c) Decentralisation
2. (a) Optional
3. Before delegation of authority–centralisation.

   After delegation of authority–decentralisation.
4. (a) Decentralisation

   (b) Importance of Decentralisation: (See on page no. 220)

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (b)	2. (a)	3. (b)	4. (b)	5. (c)
6. (a)	7. (b)	8. (c)	9. (a)	10. (b)
11. (c)	12. (a)	13. (b)	14. (a)	15. (b)
16. (d)	17. (a)	18. (c)	19. (b)	20. (b)

Fill in the Blanks

1. Organisation Structure	2. Formal	3. Informal	4. Delegation
5. Decentralisation	6. Informal	7. Functional	
8. Product	9. Extension	10. Decentralisation	

True or False

1. (F) – It can never be delegated		2. (T)	
3. (F) – Informal is dependent on formal		4. (T)	
5. (T)	6. (T)	7. (T)	8. (F)

6 STAFFING

Contents as per Latest CBSE Syllabus

- Concept and importance of staffing
- Staffing as a part of Human Resource Management—concept
- Staffing process
- Recruitment process
- Selection process
- Training and Development—Concept and importance, Methods of training—on the job and off the job, vestibule training, apprenticeship training and internship training

INTRODUCTION

The success of any organisation does not depend upon the physical or financial resources but it depends upon the utilization of these resources by human resources. So hard working efficient people are the most important asset of an organisation. The key to success of any organisation is right person at the right job position. Staffing function is concerned with bringing right and efficient people in the organisation.

6.1 MEANING OF STAFFING

After planning and organising the next function of managers is to perform staffing function. Through staffing function managers fill all the jobs created by organising function.

"Staffing consists of manpower planning, recruitment, selection, training, compensation, promotion and maintenance of managerial personnel."

Staffing involves, *"finding the right person for the right job having the right qualification, doing the right job at the right time."*

Staffing has been described as *"a managerial function of filling and keeping filled positions in the organisation structure."* This is achieved by identifying number of employees required

followed by recruitment, selection, placement, promotion, appraisal and development of personnel to fill the roles designed into the organisation structure.

Definitions of staffing by different authors:

- "The managerial function of staffing involves manning the organisational structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure." —*Koontz and O'Donnel*
- "Staffing or Human resource management is the recruitment, selection, development, utilisation, compensation and motivation of human resources of the organisation." —*French Wendell*
- "Personnel management of staffing is that phase of the management which deals with the effective control and use of manpower or human resources." —*Dale Yoder*

Keywords

Staffing

(i) Function related to human element or components of an organization.
(ii) Function which make sure your assets walk out and come back next day happily and satisfied.
(iii) Generic function of management.
(iv) Assess the number and type of employees an organization will require in near future.
(v) Place right person at the right job.

6.2 IMPORTANCE/NEED/BENEFITS/ADVANTAGES OF STAFFING

Efficient staff can help to attain number one position in market and inefficient staff can bring you down in market. The performance of an organisation depends upon the performance of its employees.

Proper staffing ensures the following benefits to the organisation:

1. **Filling the roles by obtaining competent personnel.** Staffing function is needed to fill the job position. There will be no use of job position unless and until these are occupied by employees and it is through staffing function only that employees are appointed to fill the vacant job.
2. **Placing right person at the right job.** Staffing ensures higher performance by placing right person on the right job by proper recruitment and selection. Employees are given a place according to their qualifications.
3. **Growth of enterprise.** By appointing efficient staff, staffing ensures continuous survival and growth of the enterprise. As organisation grows with the efforts of its employees only.
4. **Optimum utilisation of human resources.** Through manpower planning and job analysis we can find out the number of employees and type of employees required in the organisation. So there are no chances of overmanning and shortage or underutilisation of personnel.
5. **Helps in competing.** Two organisations can easily acquire same type of physical and financial resources but what helps organisation to win over the other is the efficient staff. The organisation with efficient staff can easily win over its competitors.

6. **Improves job satisfaction and morale of the employees.** Staffing function does not end only with appointment of employees. It includes training, promotion, compensation, etc. All these activities help in motivating the employees and boost up the morale of the employees.
7. **Key to effectiveness of other functions.** No other function of management can be carried out without efficient staffing function because all the functions are performed by human beings and human beings join the organisation by staffing function only.

Keywords

Advantages of Staffing

(i) Qualified, talented and efficient staff is appointed.
(ii) Appointment is as per the requirement of job.
(iii) Efficient employees contribute for growth of an enterprise.
(iv) No over staffing or under staffing is good.
(v) Efficient staff can help you to win over your competitors.
(vi) Staffing motivates employees.
(vii) Success of other functions depend on staffing.

6.3 STAFFING AND HUMAN RESOURCE MANAGEMENT

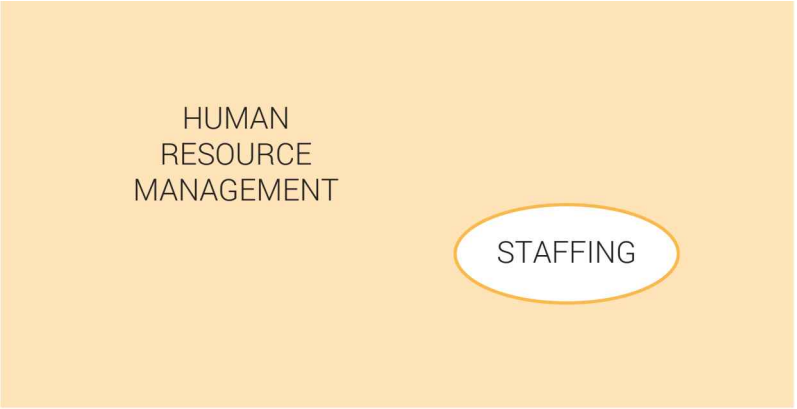
Staffing and HRM

Human resources management is the part of management process which develops and manages the human elements of the enterprise considering their knowledge, skill, creativity, talents and potentials for contributing towards organisational objectives.

Human Resource management involves determining the organisation's need of human resources, recruitment and selecting the best employee, training, developing, compensating and rewarding the employees. It also includes activities related to liaison with government, trade union, etc.

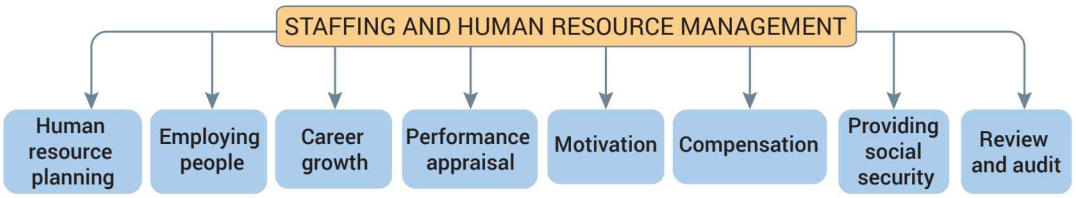
Generally when these functions are carried out at small scale level in small organisations by every manager, we call it as staffing function by line managers but when these functions are performed at large scale in big organisation there is a need to create a separate department called human resources management department.

Staffing is a part of human resource management:



The present day human resource management concept includes the following activities:

1. **Human resource planning.** It means determining the number and type of personnel required to fill the vacant job positions of an organisation.
2. **Employing people,** *i.e.*, recruitment, selection, and placement of personnel.
3. **Career growth,** *i.e.*, training and development of employees.
4. **Performance appraisal** including feedback.
5. **Motivation** by offering financial and non-financial incentives.
6. **Compensation** or remuneration of employees keeping in mind their qualifications and other factors.
7. **Providing social security** and welfare of people.
8. **Review and audit** of personnel policies and procedure.



Keywords

Staffing and HRM

(i) Staffing- used in small organisation.

(ii) Human Resource Management- This concept is for large organisation having separate department for performing staffing function.

6.4 STAFFING PROCESS

Staffing is referred as both line as well as a staff activity. It is referred as line activity because like other functions such as planning, organising, directing, controlling, staffing is also performed by every manager. It is a staff activity because it is an important area of management also like marketing management, financial management, we have human resource management department also in large organisations.

The steps involved in the staffing process are:

1. **Estimating manpower requirement.** Staffing process begins with the estimation of manpower requirement which means finding out number and type of employees needed by the organisation in near future. Manpower requirement is not only to find out number of people needed but also the type of people. Type means what should be the qualification educational background of the people whom we need to appoint. While assessing the type of manpower required company should also make policy regarding number of people to be appointed from backward classes, women force, minority, etc.

   For estimating manpower requirement company will take following three steps:

   (i) Workload analysis.

   (ii) Workforce analysis.

   (iii) Comparing both to find out requirement.

   (i) Workload analysis. This requires finding number and type of employees required to perform various jobs designed in organisational structure.

   (ii) Workforce analysis. It means analysing existing workforce or employees already occupying the job positions and how many of them are overburdened or underburdened.

   (iii) Comparison. After doing work load analysis and workforce analysis, the manager compares both as excess of work load over workforce indicated under staffing and you need to appoint more people whereas excess of workforce over work load indicated over staffing and you need to remove or transfer some employees elsewhere.

   As both overstaffing as well as understaffing are undesirable. The manager tries to find out the manpower requirement by equating workload analysis to workforce analysis.

Over-staffing: More play, less work.

2. **Recruitment.** It refers to the process of inducing the people to apply for the job in the organisation. After assessing the number and type of employee required, the manager tries that more and more people should apply for the job so that the organisation can get more choice and select better candidates.

   If we can fulfill the requirement from inside the organisation through transfers and promotion, then it is very economical and fast but generally organisation has to fulfill its requirement from outside the organisation. To recruit people from outside the organisations contact various placement consultants, employment exchanges, contractors, etc. but the most common way to recruit fresh talent is through advertisement. Company advertises in newspapers, etc. and many job seekers after reading the advertisement apply for the job.

3. **Selection.** It refers to choosing the most suitable candidate to fill the vacant job position. The selection is done through a process, which involves test, interviews, etc.

   In selection number of selected candidate is less than the number of rejected candidates that is why selection is called negative process also. The main objectives of selection are:

   (i) To select the best among the available.

   (ii) To make selected candidate realise that how seriously things are done in the organisation.

4. **Placement and orientation.** Placement refers to occupying of post by the candidate for which he is selected. After selection the employee is given appointment letter and is asked to occupy the vacant job position.

   Orientation refers to introduction of new employees to the existing employees large organisations organise orientation programmes to familiarise the new employees with the existing whereas in small organisations superior takes the new employees on round and introduces him to the existing employees.

5. **Training and development.** To improve the competence of employees and to motivate them it is necessary to provide training and development opportunities for employees so that they can reach to top and keep improving their skill. Organisations may have in house training centres or arrange with some institutions to provide training for their employees. Training and development not only motivate employees but these improve efficiency of work also.

   By offering the opportunities for career advancement to their employees organisations can improve their effectiveness and efficiency.

In most of the large scale organisations there is a separate human resource department which performs staffing function but in small organisations the line managers only perform all the functions. So small organisations in which there is no human resource department include following steps also in the staffing process.

1. **Performance appraisal.** After taking training and performing the job for sometimes there is need that employees' performance must be evaluated. Performance appraisal refers to evaluating the performance of employees against some standards. The standards are made known to employees in advance. Superiors prepare a feedback report on the basis of performance appraisal.

2. **Promotion and career planning.** Promotion refers to being placed at a higher job position with more pay, job satisfaction and responsibility. Generally on the basis of feedback report of employees'. performance they are given promotion and opportunities for higher job positions.

3. **Compensation.** It refers to price of the job. It includes pays, reward and other incentives given to employees. It includes direct as well as indirect payments. Direct payments such as wages, salary, etc. Indirect payments such as medical facility, insurance, etc. The managers must fix the right compensation on the basis of qualification, type of job, etc.

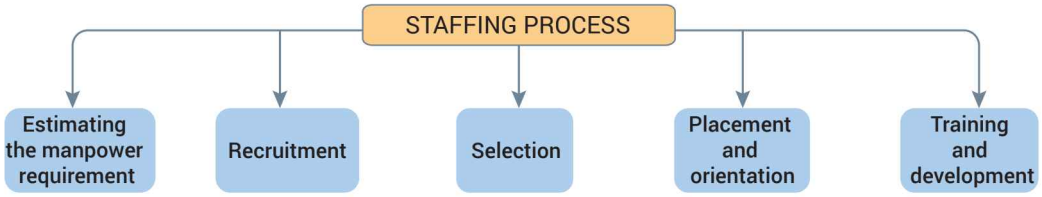
   Direct financial payments are of two types:
   (i) Time based payment,
   (ii) Performance based payment.

   (i) Time based. This plan means salary/wages are paid on daily, weekly or monthly basis.

   (ii) Performance based. Under this method the payment is made to employees on the basis of number of pieces or units produced by the employees.

   Some pay plans use time based payment in combination with some incentives such as bonus, commission, etc.

   Organisations must consider various factors before fixing the compensation such as labour laws, minimum wages payment act, union's policy, competitor's policy, etc.



Keywords

Staffing Process

(i) Estimating manpower requirement- Finding No. and type of employees required.
(ii) Recruitment: Encouraging people to apply for job.
(iii) Selection: Choosing most suitable candidate for job.
(iv) Placement and orientation: Giving job position and familiarising with other members and rules of organisation.
(v) Training and development: Improving skill to job performance.

MCQs and Case Studies

1. **"Appointment is as per the requirement and satisfaction of the job". This is related to which importance of staffing.**
   (a) Filling the roles by obtaining competent persons.
   (b) Placing right person at the right job.
   (c) Optimum utilisation of human resources.
   (d) Improves job satisfaction and morale of the employee.

2. **An analysis that enable an assessment of number of human required in the organisation is**
   (a) Development (b) Promotion
   (c) Workload analysis (d) Workforce analysis

3. **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, Sales, 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.

4. **Aakanksha, Nikita and Parishma are the owners of a handicraft unit in the 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.**

   They followed the functional structure in this organisation with a view to increasing managerial and operational efficiency.

   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.

   State the next three steps that they will have to undertake, for obtaining a satisfied workforce for their handicraft unit.

5. **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.**

   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.

(a) Name and explain the step of staffing process which has not been performed properly.
(b) State the next two stages immediately following the step identified in part 'a'.

(*Answers at Page no. 290-291*)

6.5 COMPONENTS/ELEMENTS/ASPECTS OF STAFFING

Three important components of staffing are:

1. Recruitment,
2. Selection,
3. Training.

Recruitment + Selection + Training = Staffing

6.5.1 Recruitment

Recruitment means inducing or attracting more and more candidates to apply for vacant job positions in the organisation. In general words recruitment means search for candidates who can perform the vacant roles and inducing them to apply and come forward for filling the vacant roles. The recruitment function is very important because the end result of recruitment function is receiving large number of applications to make selection from.

Sources of Recruitment

There are two important sources of recruitment:

1. Internal source of recruitment.
2. External source of recruitment.

1. **Internal Source of Recruitment.** Under Internal source of recruitment, the vacant job positions are filled by inducing the existing employees of the organisation. The vacant job positions are filled by using existing employees only and no outsiders are permitted in internal sources.

   Internal source of recruitment is very popular and common because of its advantages:

   (i) It is economical;
   (ii) It motivates the existing employees;
   (iii) Less amount is spent on training;
   (iv) The employees are already familiar with rules and regulations of organisation. So, less chances of turnovers.
   (v) Improve performance of employees: To get promotion employees show better performance.

(vi) Through transfer employees get training also in the form of job rotation.

(vii) Through transfer surplus employees can be shifted to other department.

The Drawbacks or Demerits of Internal recruitment:

(i) No fresh or new ideas will come in the organisation.

(ii) There will be limited choice.

(iii) Not suitable for new organisation.

(iv) Frequent transfer may reduce the productivity of employee.

Under the internal recruitment, following methods of recruitment are used:

(a) Transfer. Transfer means shifting of employees from one job position to other at the same level of authority. Generally with the transfers there is no change in the compensation level and authority level. There is no change even in his rank, responsibilities and prestige. Only the place of working is changed.

For example, transfer of clerk from accounts department to purchase department.

(b) Promotion. Promotion refers to shifting of employees from one job position to other with higher level of authority. In promotion the authority level, the rank, responsibilities of employees and prestige improve or increase. Generally with the promotions there is increase in compensation or salary also.

For example, promotion of clerk to accountant post.

2. **External Source of Recruitment.** When the candidates from outside the organisation are invited to fill the vacant job position then it is known as external recruitment. In other words, when the organisation meets its manpower requirement from outside the organisation then it is external recruitment. Whenever large number of job positions are vacant then external recruitment is preferred.

The advantages of external recruitment are:

1. **Fresh talent.** With external recruitment fresh and new talent come to the organisation.
2. **Wider choice.** Through external recruitment the organisation gets wider choice.
3. **Qualified personnel.** By using external recruitment the management can get qualified and trained persons.

4. **Latest technological knowledge.** Through campus placement organisation can get employees with latest technological knowledge.
5. **Competitive spirit.** Through external recruitment when outsiders join the organisation, this develops a competitive spirit in existing employees of organisation.

Demerits of external recruitment:

(a) The morale of existing employees goes down or falls.

(b) The new employees may not adjust in the rules and regulations of the organisation which means more chances of turnovers.

(c) It is expensive as to invite the outsider to apply for the job. Companies have to bear heavy burden of advertising.

(d) Lengthy Process. External recruitment takes long time.

The common methods of external sources of recruitment are:

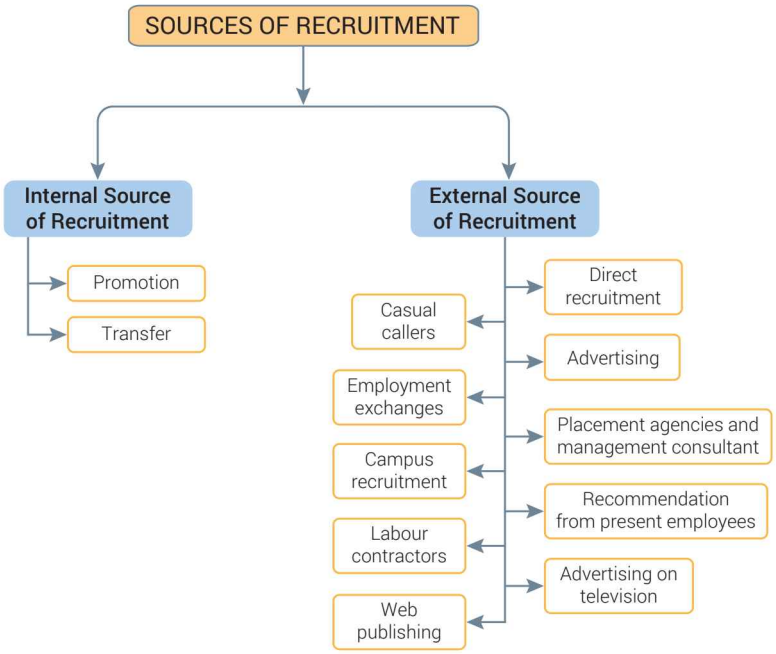
1. **Direct recruitment.** Sometimes the organisations paste notice at the gate of their office or factory or workshop stating the vacant job positions. The people who are interested in those jobs walk in for interview. This method of external recruitment is most suitable for unskilled job positions, *e.g.*, sweeper, peon, etc.
2. **Casual callers.** Generally the large organisations maintain an application file in which they keep all the pending applications which the job seekers leave with the reception, sometimes the applications of suitable candidates who were not selected in previous year's selection process are also kept in application file. This application file is considered as a waiting list. Whenever there is a job vacancy the suitable candidates from the waiting list are called.
3. **Advertising.** The most common and popular method of external recruitment is advertising about the vacant job position. The organisations select the media of advertisement keeping in mind the requirement of job position. **For example,** for the job of an accountant the advertisement can be given in chartered accountant journal and for unskilled and lower rank job positions the advertisement can be given in local or regional newspaper. But for high rank and skilled job position the advertisement is given in national level reputed newspapers such as Times of India, Hindustan Times, etc.
4. **Employment exchanges.** Government employment exchanges act as middlemen between the job seekers and the organisations who have vacant job positions. The job seekers leave their bio-data and details of their qualifications with the employment exchanges and when the organisations approach employment exchanges the suitable candidates are sent.
5. **Placement agencies and management consultant.** Placement agencies provide nation-wide service of matching demand and supply of workforce. These agencies invite the bio data and record from various job seekers and send them to suitable clients. These agencies

charge fees for providing such service. These are a kind of employment exchange run by private enterprises.

6. **Campus recruitment:** Sometimes the senior managers of the organisations visit various professional colleges, technical institutes to get fresh graduates or the people with the latest technological know-how. This type of recruitment is more common for engineers, computer programmers, MBAs, etc. The organisations prefer fresh graduates because they can be moulded according to the requirement of the organisation.
7. **Recommendations from present employees.** Many firms encourage their employees to recommend the names of their relatives, friends and other known people to fill the vacant job position. The organisations prefer recommendation by trusting the goodwill of the present employees and the organisations can catch hold of existing employees if there is any problem with the new employee recommended by him.
8. **Labour contractors.** Jobbers and contractors are the people who keep in touch with the labour in villages and rural areas and whenever there is vacancy or requirement for labour in factory or in the construction site, they bring the labour from villages and supply to businessman. The jobbers and contractors charge commission for the same. This is suitable for labourers and unskilled workers. Labour contractors maintain close contact with labours and they can provide the required number of unskilled workers at short notice.
9. **Advertising on television.** A new trend of external recruitment is telecast on various channels regarding vacant job position. They telecast the requirement of the job along with the qualification necessary to apply.
10. **Web publishing.** In internet there are certain websites specifically designed provide information regarding job seekers and companies which have vacant job position. These websites can be visited by job seekers as well as companies. The common websites are: Naukri.com, Monster.com, etc.

Difference between Internal and External Source of Recruitment

S. No.	Point of difference	Internal recruitment	External recruitment
1.	Meaning	Internal recruitment means making use of existing staff to fill up the vacant job positions in the organisation.	External recruitment means making use of new personnel or outsiders to fill up the vacant job positions in the organisation.
2.	Time	It is less time-consuming.	It is more time consuming.
3.	Economy	This process is more economical as it does not involve any cost of searching external sources.	This process is costly as vacancies have to be notified in newspapers, magazines, etc.
4.	Quality	There is a limited choice so better quality may not be assumed.	It provides a wider choice and the best quality is assumed.
5.	Morale of the employees	This method boosts up the morale of the employees because existing staff gets chance of promotion.	This method brings down the morale of the employees as they do not get chance of growth and development.



Keywords

Recruitment

(i) Searching for prospective candidates
(ii) Inviting applications
(iii) Inducing people to apply for job
(iv) Positive process

Case Studies

1. **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.**

   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 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.

2. **Orient Ltd. expanding its business operations. All the department heads were asked to fill up "Manpower Requisition form and estimate the annual requirement of—skilled and unskilled workers".**

   All the departmental heads submitted the requisition forms to HR Manager. HR Manager, compiled all such requisition forms as:

   Requirement of skilled workers — 89

   Requirement of unskilled workers — 265

   After this, recruitment and further selection procedure was followed.

   Name and explain the methods of recruitment which would be most appropriate in the above case.

(*Answers at Page no. 291*)

6.5.2 Selection

Selection can be defined as discovering most promising and most suitable candidate to fill up the vacant job position in the organisation.

Selection process. As end result of recruitment function organisations receive large number of applications and selection process begins at this stage by screening the applications. In selection the number of rejected applicants is generally more than the selected candidates that is why selection is considered as a negative process. In selection process various steps are performed which are given below:

1. **Preliminary screening.** Preliminary screening is done to eliminate unqualified and misfit candidates based on information supplied in application form.
2. **Selection test.** The organisations prefer to conduct written test to find out the practical knowledge of the candidates. The type of test to be conducted depends on the requirement of the organisation. The companies can go for their own tailor-made test.

   The common types of tests conducted by the organisations are:

   (a) **Intelligence test.** This kind of psychological test is used to measure the level of intelligence quotient (I.Q.) of an individual. It is an indicator of judging a person's ability to take decisions and judgements.

   (b) **Aptitude test.** This test is conducted to find out the potential of learning new job in the candidate. How quickly the candidate can learn new skills and new methods. This test helps to know how the candidate will be performing in future.

   (c) **Personality test.** Personality test is conducted to find out the human behaviour of the candidate. This test relates to intelligence, aptitude, attitude and interest of the candidate. The psychological test helps in finding out the approach of the candidate whether candidate is having positive or negative approach and how much initiative he will be taking while performing the job. The motivation level of the candidate is also tested through psychological test.

   (d) **Trade test.** This test is conducted to check the existing skills of an individual. It helps to find the level of knowledge and proficiency in the area of profession and technical training.

   Difference between trade test and aptitude test is that trade test helps to identify present skills of a person while aptitude test helps to measure potential or ability to acquire skills in future.

   (e) **Interest test.** This test is conducted to find out the type of job in which candidate has more interest as all the people have fascination for some jobs than others.

3. **Employment interview.** The candidates who qualify the test are called for interviews. To conduct the final interview a panel of experts is called. The consultants who are specialised in their fields ask questions from the candidates to test his professional or specialised knowledge related to the job. The interview has many advantages over written test because in interviews you can find out the confidence level of the candidate along with his professional knowledge. Interview gives chance to candidate also to clarify their queries regarding salary, working conditions, posting, etc.

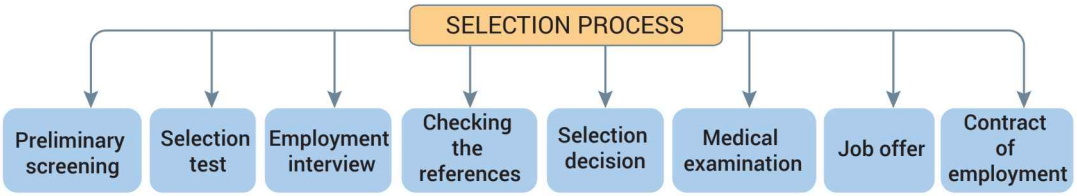
4. **Checking references and background.** In the application form the candidate is asked to give the names of two references. If the candidate qualifies the interview then the organisation prefers to check with the references about the personal character of the candidate. The organisation can cross-check the information given by the candidate with the references.

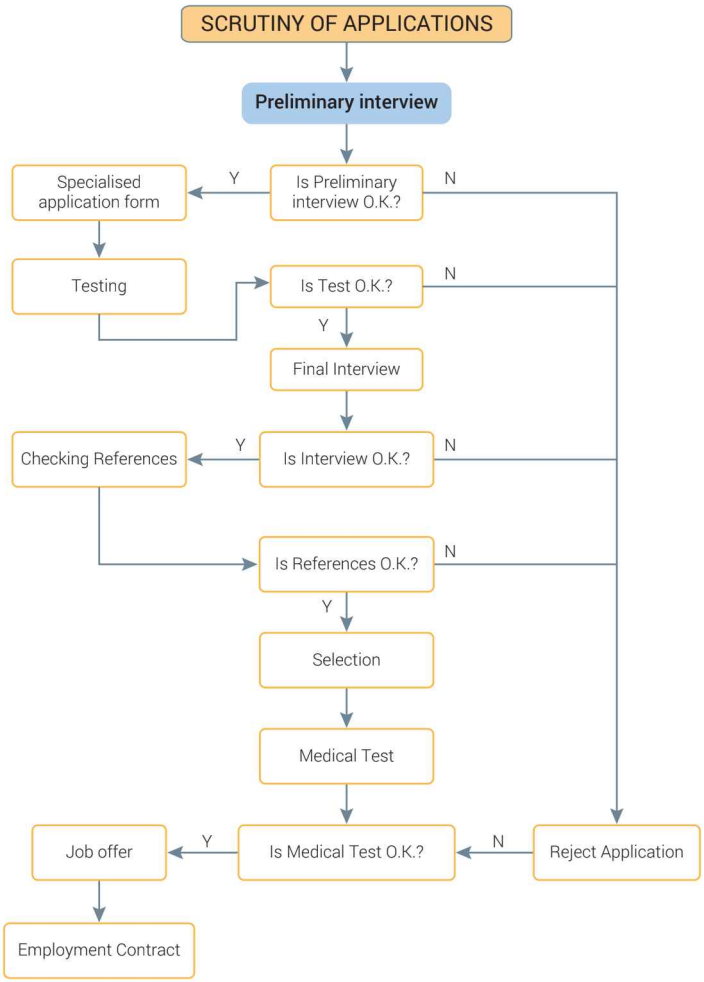
5. **Selection decision.** The candidates who pass the test, interview and references check are included in selection list and the managers select most suitable candidate from this list.

6. **Medical examination.** Before giving appointment letter the candidates selected are sent for medical fitness test. Some organisations appoint their own doctors to do the test and some sign contract with hospitals to do the test.

7. **Job offer.** The applicants who clear the medical test are given job offer through letter of appointment. In the letter the date of joining, terms and conditions of job, etc. are mentioned. Generally a reasonable time is given to the candidates to join the organisation.

8. **Contract of employment.** When candidate accepts the job offer it refers to signing of contract of employment. While signing the contract of employment the employer and the candidate exchange certain documents. The common contents of contract of employment are job title duties, responsibilities, Pay, allowances, hours of work, leave rules, disciplinary rules, probation period, etc.





Difference between Recruitment and Selection

S.No.	Point of difference or basis	Recruitment	Selection
1.	Meaning	It is a process of searching suitable candidates to fill up vacant jobs position.	It is a process of screening and selecting the most eligible candidates and offering them jobs.
2.	Stage	Recruitment proceeds the staffing function.	Staffing always starts where recruitment ends.
3.	Nature	It is a positive process as more and more candidates are induced to apply for the job.	It is a negative process and more candidates are rejected than the number of selected candidates.
4.	Contract of service	There is no contractual relation created.	Selection involves contract of service between employer and employee.

Keywords

Selection

(i) Choosing the prospective candidates
(ii) Streamlining the attributes of different candidates
(iii) Negative process

Types of Tests

(i) Intelligence Test: A test to measure intelligence quotient of an individual.
(ii) Aptitude: To measure the potential to learn new skills in future.
(iii) Personality Test: To measure the person's emotions, values and personality.
(iv) Trade Test: To measure the existing knowledge.
(v) Interest Test: To know the area of interest of fascination of an individual.

MCQs and Case Studies

1. **The form which contains certain vital details about the candidate, which is authenticated and attested by him or her is:**
   (a) Job offer (b) Contract of employment
   (c) Medical Test Report (d) None of the above

2. **The Information Technology department of Hi Tech Ltd. had few vacancies in cyber security. The Human Resource department of the company decided to recruit the fresh engineers and graduate of IT from IIT University. The type of recruitment is**
   (a) Placement Agencies (b) Employment Exchange
   (c) Direct Recruitment (d) Campus Placement

3. **Mr. Murthy is the Human Resource Manager of Jai Hind Hospital in Vellore. He has to appoint nurses for the hospital. Since patients in the hospital are of different types, he wants to find out the candidates' maturity and emotions in dealing with the patients. He also wants to know about the candidates' ability to make decisions.**

   Explain two types of tests that Mr. Murthy can use to meet his requirements.

4. **Nishant, the director of a garments company, is planning to manufacture bags for the utilisation of waste material from one of his garments units. He has decided that this manufacturing unit will be set up in a rural area of Odisha where people have very few job opportunities and labour is available at very low rates. He has also thought of giving equal opportunities to men and women. For this he wants four different heads for Sales, Accounts, Purchase and Production. He gives an advertisement and shortlists ten candidates per post after conducting different selection tests.**

   Identify and state the next three steps for choosing the best candidate out of the candidates shortlisted.

(Answers at Page no. 291)

6.5.3 Training and Development

Meaning. "*Training means equipping the employees with the required skill to perform the job. The candidates are sent for training so that they can perform the job in the expected manner.*"

Development refers to overall growth of the employee. It focuses on personal growth and successful employees' development. Development is much wider in concept as compared to training as training is only one part of development.

Example. If an accountant is sent to learn the new software for accounting to prepare the books of account more fast and accurate, this is called training. Whereas if he is sent for orientation programme to improve his motivational and conceptual skills then this is called development.

Need for Training and Development

Benefits of Training and Development for Organisations

1. **Reduced learning time.** A trained employee takes less time in learning the job as compared to untrained employee. As a result there is less wastage of resources and higher productivity in the organisation.
2. **Better performance.** The performance of trained employees is always better than the performance of untrained employees as in the training programmes their qualities and capabilities are improved and employees get some experience of working on the job before they are actually assigned the job. This improves their performance and efficiency level.
3. **Attitude formation.** The training and development aim at moulding the employees so that they can develop positive attitude for the organisation, and to motivate them to be ready to take the initiative and result in better support and co-operation among the employees.
4. **Aids in or help in solving operational problems.** While performing various activities in the organisation, the organisation faces various problems such as problem of absenteeism, wastage of resources, dissatisfaction of employees, lack of team work, etc. Through the supervisory level training these operational problems can be avoided or removed in the organisation because supervisors are trained for improvement of superior-subordinate relationship and for encouraging and motivating their subordinates.
5. **Managing manpower need.** Some organisations have specialised technique of production and the ready staff is not available. In that case the organisations hire untrained people and train them with the required skill according to their organisation's need. By training they solve long term problem of manpower requirement.
6. **Helps to adapt changes.** Training helps the employees to adopt environmental changes.

Benefits to the Employees:

1. **Better career options.** Improved skill and knowledge due to training bring better career options for employees.
2. **Earning more.** Improvement in efficient performance of employees helps the employees to earn more.
3. **Boost up the morale of employees.** Training increases the satisfaction and morale of employees.
4. **Less chances of accidents.** Training makes employees more efficient so there are less chances of accidents.

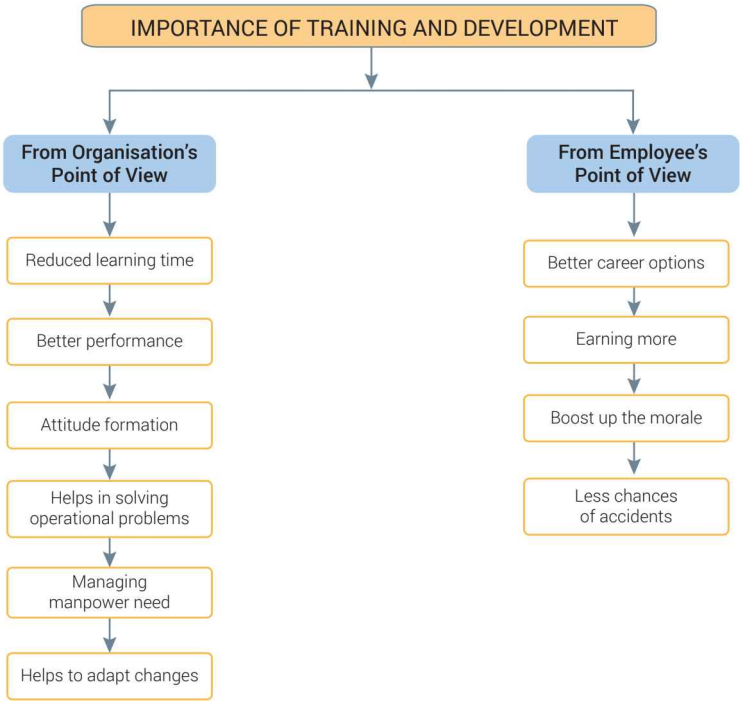
Difference between Training and Development

S.No.	Point of difference	Training	Development
1.	Concept/depth of knowledge	Training is concerned with teaching technical skill only.	Development is concerned in teaching technical, human and conceptual skill.
2.	Suitability	Training is more suitable for technical staff.	Development is more suitable for managerial staff.
3.	Nature	Training concentrates on developing the skill already possessed by the employees.	Development concentrates on development of hidden qualities of the employees.
4.	Methods used	In training on-the-job methods of training are preferred.	In development off the job methods of training are preferred.
5.	Focus/purpose	Training focuses on present requirements of the organisation.	Development focuses on present as well as future requirements of the organisation.
6.	Time	It is a short term process.	It is a long term process.
7.	Initiative	The boss/superior takes initiatives for imparting training to his subordinates.	The individual takes initiatives himself for his growth and development.
8.	Duration	Training is short term process, its duration is fixed and certain.	It is a never ending procedures, its duration is never defined.
9.	Levels of trainees involved	It is useful for non-managerial, *i.e.*, operative employees or lower level of managers.	It is useful for managerial personnel, *i.e.*, middle and top level managers.
10.	Centered	It is work centered.	It is person-centered.

Another concept related with training and development is education.

Difference between Training, Development and Education

S.No.	Basis	Training	Education	Development
1.	Meaning	It is an act of imparting knowledge or skill for performing a particular job.	It is concerned with improving the general knowledge and understanding of employee.	It is the process for the overall growth of employee for future management tasks of increasing difficulty and scope.
2.	Orientation	It is job-oriented.	It is knowledge-oriented.	It is career-oriented.
3.	Focus	Its focus is to improve work efficiency.	Its focus is to develop logical and rational mind.	Its focus is personality development of employee.
4.	Goal	Training gives importance to organisational goal.	Education gives importance to goal of individuals.	Development gives importance to organisational as well as individuals goals.



Keywords

Training

(i) Imparting skill to improve performance of job

(ii) Related to job/work performed by an individual

(iii) Update knowledge and competency of employees

Development

(i) Overall growth of an employees

(ii) Include all round growth and not restricted to job performance

Case Studies

1. **Blue Heavens Ltd. purchased a new hi-tech machine from Germany for manufacturing high quality auto components in a cost effective manner. But during the production process, the manager observed that the quality of production was not as per standard. On investigation it was found that there was lack of knowledge amongst the employees of using these hi-tech machines. So, frequent visit of engineers was required from Germany. This resulted in high overhead charges.**

   Suggest what can be done to develop the skills and abilities of employees for producing high quality products by using these hi-tech machines. Also state how the employees or the organisation will be benefitted from your suggestion.

2. **The General Manager of 'Indemnity Ltd.' was addressing employees during 'employee recognition program' function. He stressed: "employees should make all efforts to increase their market value. To achieve this objective, they should increase their capacity, and efficiency. They should also make such endeavour as to get job satisfaction. Not only that it is equally essential that they should concentrate on minimizing the accidents".**

   Which concept of management was the General Manager stressing in the function?

(Answers at Page no. 291)

6.6 METHODS OF TRAINING

There are mainly two methods of training:

1. On-the-job training, 2. Off-the-job training.

1. **On-the-job Training.** When the employees are trained while they are performing the job then it is known as on-the-job training. Under this method the employees learn by doing. This method is suitable only for technical jobs and the advantage of this method is employees can learn the practical problems while working on the job. The biggest disadvantage of on-the-job training is that it results in wastage of resources. Whenever employees are dealing with expensive and sophisticated machinery then on-the-job methods of training should be avoided.

2. **Off-the-job Training.** Off-the-job training means training the employees by taking them away from their work position which means employees are given a break from the job and sent for training. This method of training is more suitable for managerial job positions as conferences, seminars are held to train the managers.

6.6.1 The Common and Popular Techniques of Training under On-the-job Method are:

(a) **Apprenticeship programme/training.** The workers seeking to enter skilled jobs are sent for apprenticeship training programme which is an on-the-job method of training. In the Apprenticeship Programme, a master worker or a trainer is appointed who guides the worker or learner regarding the skill of job. The master worker performs the job and the trainee (learner) observes him performing. When the learner learns all the skills then slowly he starts taking up the job step by step and master worker becomes the observer. When the trainee becomes perfect in doing the job then master worker goes and trainee gets full charge of job position. It is suitable for people seeking to enter skilled traits for example—plumbers, electricians, iron workers, etc.

(b) **Internship.** Internship is an agreement between the professional institutes and the corporate sector where professional institutes send their students to various companies so that they can practise the theoretical knowledge acquired by them through professional institutes. Under this training programme the organisations get people with fresh ideas and latest knowledge and the companies have to pay very less amount of salary which is called stipend. On the other hand, the students get chance to practise under the real work situation.

In short, we can say under internship the class room sessions are backed with practical training.

(c) **Induction or orientation training.** Induction or orientation is a process of receiving and welcoming an employee when he first joins the company and giving him the basic information he needs to settle down quickly and happily and start work.

The purpose of this training program is to make the new employee feel at home and develop a feeling of belongingness.

Proper orientation enables the new employee to have a good start and develop his/her overall effectiveness on the job. The basic objectives of an induction and orientation programme are:

1. To help the newcomer to overcome his/her shyness and nervousness in meeting new people.
2. To build up the confidence of new employee.
3. To develop a sense of belongingness and loyalty.
4. To develop cordial relationship between the newcomer and old employees and their superiors.
5. To ensure newcomers do not form negative attitude towards the organisation or the job.
6. To give the newcomers necessary information such as location of washrooms, rest periods, cafeteria, leave rules, etc.

A formal induction programme must provide following information to the employee:

(i) Brief history and operation of the company.

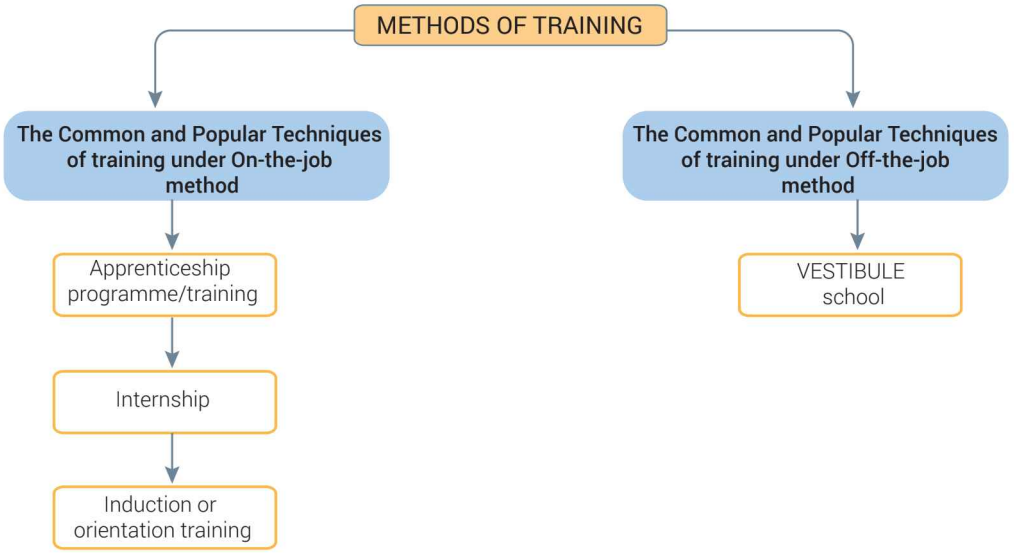
(ii) Products and services of the company.

(iii) Company's organisational structure.

(iv) Rules, regulations, policies and procedures of the company.
(v) Responsibilities and authorities of employee.
(vi) Grievance procedures and safety rules.
(vii) Suggestion schemes.
(viii) Terms and conditions of service such as wages, working hours, holidays, etc.
(ix) Disciplinary procedures.
(x) Opportunities for training, promotions, transfer, etc.

6.6.2 The Common and Popular Techniques of Training under Off-the-Job Method are:

VESTIBULE SCHOOL. Vestibule school means duplicate model of organisation. Generally, when the expensive and delicate machineries are involved then employers avoid using on-the-job methods of training. A dummy model of machinery is prepared and instead of using original machinery employees are trained on dummy model. Sometimes the accountants who have to make entries in inventory register or cash register they are first supplied the duplicate registers with the same columns as in original registers and when they become perfect in making entries in duplicate register then they are handed over original register. Vestibule school is an off-the-job method of training which makes use of benefit of on-the-job method.



Keywords

Methods of Training

(i) Apprenticeship
(a) Suitable for acquiring higher level skill.
(b) Training under the guidance of a master worker or experience guide or trainer or a mentor.

(c) A uniform period of training
(d) Suitable for plumbers, electricians, iron workers.

- Internship
  (a) Suitable for students undergoing professional courses.
  (b) Involve cooperation of educational institutions and business firms
  (c) Main purpose is to acquire practical knowledge along with theoretical
- Induction/Orientation Training
  (a) Suitable for new appointments
  (b) Familarising with rules, regulations and working style of an organization
  (c) Remove hesitation of new employees and add confidence
- Vestibule School
  (a) Training in dummy or duplicate model
  (b) Suitable for delicate, expensive and high tech machinery

MCQs and Case Studies

1. **Trainee work under the guidance of Master Worker under which method of training:**
   (a) Apprenticeship Programme (b) Vestibule school
   (c) Internship (d) Induction Training
2. **The concept which involve growth of individual in all respect is:**
   (a) Training (b) Development
   (c) Promotion (d) Transfer
3. **Name the Training Method in which:**
   (i) A newly appointed employee is acquainted with the organisation.
   (ii) Trainee learns under the guidance of a master worker.
   (iii) Trainee learns on the dummy equipments he/she will be using.
4. **Based on "Performance Appraisal Report (2016)", the HR manager of 'Gamma Ltd.' adopted the following ways of training for improving the quality of output and providing more job satisfaction to the employees:**
   (i) Mr. Ganesh was in the company so that he could practice the theoretical knowledge acquired by him from his college.
   (ii) Mr. Rahul was provided a dummy model of machinery to do practice on it.
   (iii) Mr. Shekhar was asked to work with an expert for specific period of time so that he learns by observation.

   Identify the technique of training discussed in above cases (i, ii, iii).

(Answers at Page no. 291)

Quick Revision

- **Introduction.** The success or failure of any organisation depends upon its human resources. Efficient people can take the companies to great heights and inefficient employees can bring it down.
- **Meaning.** Staffing consists of manpower planning, recruitment, selection, training, compensation, promotion and maintenance of managerial personnel.
- **Importance of Staffing.** Staffing is the most important function due to the following reasons:
  1. Filling the roles by obtaining competent personnel.
  2. Placing right person at the right job.
  3. Growth of enterprise.
  4. Optimum utilisation of human resources.
  5. Helps in competing.
  6. Improves job satisfaction.
  7. Key to effectiveness of other functions.
- **Staffing and Human Resource Management.** When staffing function is carried on at a large scale, it becomes human resource management.
- **Activities of HRM.**
  1. Human resource planning,
  2. Employing people,
  3. Career growth,
  4. Performance appraisal,
  5. Motivation,
  6. Compensation,
  7. Providing social security,
  8. Review and audit.
- **Staffing Process.** The steps involved in staffing process are:
  1. Estimating the manpower requirement,
  2. Recruitment,
  3. Selection,
  4. Placement and orientation,
  5. Training and development.
- **Main Components of Staffing:** (i) Recruitment (ii) Selection (iii) Training.
- **Recruitment.** It is a process of inducing suitable/skilled/qualified candidate to apply for the job in your organisation.
- **Sources of Recruitment.** There are mainly two sources of recruitment:
  1. Internal sources,
  2. External sources.
- **Methods under internal sources are:**
  1. Transfer,
  2. Promotion.
- **Methods under external sources are:**
  1. Direct recruitment,
  2. Casual callers,
  3. Advertising,
  4. Employment exchanges,
  5. Placement agencies and management consultant,
  6. Campus recruitment,
  7. Recommendations from present employees,
  8. Labour contractors,
  9. Advertising on television,
  10. Web publishing.

Selection. It refers to selecting most suitable candidate to perform the job.

Selection Process. The steps in selection process are:

1. Preliminary screening,
2. Selection test,
3. Employment interview,
4. Checking references and background,
5. Selection decision,
6. Medical examination,
7. Job offer,
8. Contract of employment.

Training and Development.

Training refers to improvement of skill attitude, knowledge and behaviour in performance of the job.

Development refers to overall growth of an individual while performing job in the organisation.

Benefits of Training and Development for Organisation

1. Reduced learning time,
2. Better performance,
3. Attitude formation,
4. Aids in or help in solving operational problems,
5. Managing manpower need,
6. Helps to adapt changes.

Benefits of Training and Development for Employees

1. Better career options,
2. Earning more,
3. Boost up the morale of employees,
4. Less chances of accidents.

Difference between Training and Development

S.No.	Training	Development
1.	It is concerned with teaching technical skill.	It is concerned with imputing technical, human and conceptual skills.
2.	It is suitable for non-managerial personnel.	Suitable for managerial personnel.
3.	Develops skill already present in employees.	Finds out hidden qualities of employees.
4.	Makes use of on the job methods of training.	Makes use of off-the-job methods of training.
5.	Makes employee perfect in performing jobs.	Provides all round development of the employee.

Different methods of training. There are two methods of training:

1. On-the-job training,
2. Off-the-job training.

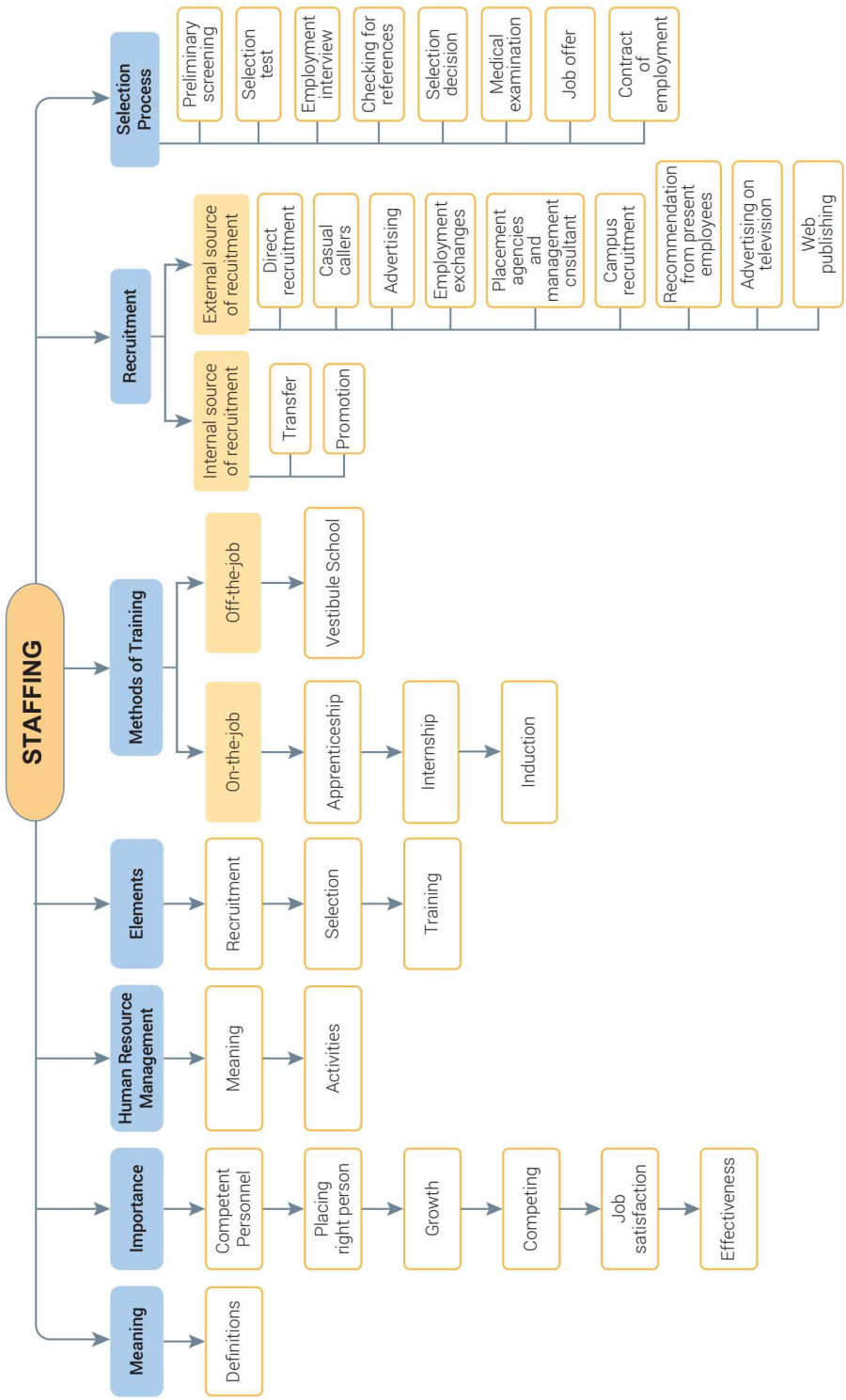
Various techniques available under on-the-job method.

(i) Apprenticeship programme/training,
(ii) Internship,
(iii) Induction or orientation training.

The common and popular techniques of training under off-the-job method are:

1. Vestibule school.

Staffing – A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. Imparting skill necessary to perform a job is called
   (a) Training (b) Development
   (c) Recruitment (d) Selection
2. Analysing existing employees is known as
   (a) Work load analysis (b) Work force analysis
   (c) Training (d) Development
3. Staffing is a part of
   (a) Marketing management (b) Financial management
   (c) Human Resource management (d) None of the above
4. Analysing total number of employees required to perform the job in the organisation is known as
   (a) Work load analysis (b) Work force analysis
   (c) Recruitment (d) Selection
5. Visit by senior manager to various professional colleges to search for prospective candidates is known as
   (a) Internal Recruitment (b) Recommendations from employees
   (c) Employment Exchange (d) Campus Recruitment
6. To find out the potential of learning new job in the candidate, the following test is conducted.
   (a) Intelligence Test (b) Aptitude Test
   (c) Trade Test (d) Personality Test
7. Which of the following is called a negative process:
   (a) Recruitment (b) Training
   (c) Selection (d) None of the above
8. The purpose of one of the training methods is to make the new employee feel at home and develop a feeling of belongingness in the organisation. That method is
   (a) Induction training (b) Apprenticeship training
   (c) Internship (d) Vertibule school
9. Duplicate model is prepared in
   (a) Induction training (b) Vertibule school
   (c) Apprenticeship training (d) Internship
10. Which method of recruitment is economical?
    (a) Internal (b) External
    (c) Both (a) and (b) (d) None of the above
11. The candidate who has applied for job can clarify his queries during
    (a) Test (b) Employment interview
    (c) Medical examination (d) Selection decision

12. To know the emotions and values of the candidate following test is conducted
    (a) Intelligence Test (b) Trade Test
    (c) Personality Test (d) Aptitude Test
13. The suitable method of External Recruitment for getting unskilled labourer is
    (a) Recommendations from present employees
    (b) Employment exchange
    (c) Advertisement
    (d) Labour contractors
14. Professional Institutes send their students to corporate sector for doing
    (a) Apprenticeship Training (b) Internship
    (c) Induction Training (d) Vestibule School
15. No fresh idea will come under
    (a) Internal Recruitment (b) External Recruitment
    (c) Direct Recruitment (d) Indirect Recruitment
16. Which of the following is the most serious problem that might arise due to excessive reliance on Internal recruitment.
    (a) High labour turnover (b) Lack of motivation
    (c) Reduce job performance (d) Internal resistance
17. Payment of salary/wage to the employees according to the piece work
    (a) Time based plan (b) Performance based plan
    (c) Incertion based plan (d) Compensation
18. Efficient staff can help organisation to win over:
    (a) competitors (b) managers
    (c) society (d) superiors
19. Staffing is for:
    (a) Big organisation (b) small organisation
    (c) (a) and (b) both (d) none
20. Human resource management is for:
    (a) large organisation (b) small organisation
    (c) (a) and (b) both (d) none

(Answers at Page no. 292)

Fill in the Blanks

1. Process of searching for prospective candidates is known as .
2. _____ bring overall growth of an employee.
3. _____ Recruitment motivates existing employees.
4. Staffing process begins with .
5. Providing the candidate the post for which he is selected is called _____.
6. The new employee gets familiarise with working style of an organisation under _____ training.
7. Professional Institutes organise _____ Training for their students.
8. Two methods of Internal Recruitment are _____ and .

9. Terms and conditions of job are written in .
10. Recruitment is suitable when we require large number of candidates.

(*Answers at Page no. 292*)

True or False

1. Spending money on training is waste when we are already spending huge amount in selection of efficient employees.
2. Internal recruitment motivates existing employees.
3. Operational problems can be solved by training.
4. When a trainee learns under the guidance of a master worker it is called Vestibule school.
5. In internship, the employee works under the guidance of master work.
6. Fresh ideas and people with proper knowledge join organisation by using external recruitment.
7. Trade test help to test the potential to acquire skill in future.
8. Training is essential for existing as well as new employees.
9. The management can get qualified and trained teachers through Direct Recruitment.
10. Freshly appointed people need orientation.

(*Answers at Page no. 292*)

Remembering and Understanding-based Questions with Answers

Q. 1. 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. [*CBSE Sample Paper 2017*]

Ans. (1) Recruitment, i.e., searching for qualified people.
(2) Analyzing job, collecting information about jobs to prepare job descriptions.
(3) Developing compensation and incentives plans.
(4) Training and development of employees for efficient performance and career growth.

Q. 2. Name the concept related to searching for prospective candidates.

Ans. Recruitment.

Q. 3. Why is selection called negative process?

Ans. Selection is considered as negative process because number of rejected candidates is more than the number of selected candidates.

Q. 4. One of the functions of management injects life in the organisation. Name that function.

Ans. The function which injects life in the organisation is known as staffing.

Q. 5. Name first two stages of evolution of HRM.

Ans. (i) Industrial revolution (ii) Emergence of trade union.

Q. 6. Out of training and development which one is wider in scope?

Ans. Development is wider.

Q. 7. Give any two methods of external recruitment.

Ans. Methods of external recruitment:
(i) Employment exchange, (ii) Labour contractor

Q. 8. Under which source of recruitment do employees get motivated?

Ans. Internal source of recruitment motivates employees as it gives chance to existing employees to grow and occupy higher job position.

Q. 9. What is the pre-requisite of selection?

Ans. The pre-requisite of selection is recruitment because in recruitment company receives large number of applications and then only selection process starts.

Q. 10. Is expense on training a waste?

Ans. No, expenses on training are not waste.

Q. 11. Define Training.

Ans. Training refers to equipping the employee with the skill necessary to perform the job.

Q. 12. What information do we get through aptitude test?

Ans. Aptitude Test helps the organisation to know whether the employee has capacity and talent to learn in future.

Q. 13. Which test helps the company to know about the qualities and the moral values of the candidate?

Ans. Personality test helps the company to know the moral values and other attributes of the candidate.

Q. 14. Name the process by which the most suitable candidate is placed to fill the vacant job position.

Ans. Selection.

Q. 15. State one objective of preliminary screening/interviews.

Ans. To eliminate unqualified and unfit candidates.

Q. 16. What is the prime concern of staffing function.

Ans. Prime concern of staffing function is placing right person at the right job having the right qualification at the right time.

Q. 17. Name the concept which relates to forecasting and assessing manpower needs.

Ans. Manpower planning.

Q. 18. Which function of management fills the jobs created by organising function?

Ans. Staffing.

Q. 19. *"There is no need of human resource planning as so many people are available in the market these days."* Do you agree with this statement? Give reasons.

Ans. No, I do not agree with this statement. There is great need for human resource planning because of following reasons:

(i) Organisations need human resource planning to meet the demands of changing job requirements due to rapidly changing technology.

(ii) All the people available in market are not suitable for performing the jobs as per the requirement of company so human resource planning is necessary to select right type of person to perform the job.

(iii) Human resource planning helps the companies to know the shortage and surplus of manpower in various departments. So corrective and timely measures can be taken by the companies.

Q. 20. *"A newly appointed personnel manager is of the view that there is no need for training the workers."* Do you agree with his views? Give reasons to support your answer.

Ans. No, I do not agree with the view of personnel manager. There is great need for training due to following reasons:

(i) Reduced learning time

(ii) Improved performance

(iii) Attitude formation

(iv) Aids in solving operational problems

(v) Managing manpower needs (vi) Benefits to employees themselves.

[*Explain these points and refer to need of training topic on page nos. 246-247*]

Q. 21. Name the concept related to:

(a) Searching for prospective candidates

(b) Streamlining the attributes of a person required for doing a job.

Ans. (a) Recruitment (b) Selection

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. Zenith Ltd. is a highly reputed company and many people wanted to join this company. The employees of this organisation are very happy and they discussed how they came in contact with this organisation.

Aman said that he was introduced by the present Sales manager, Mr. John.

Benu said that he had applied through the newspaper and was appointed as H.R Manager.

Vaibhav said that he was neither related to any of the employee of the organisation nor there was any advertisement in the newspaper even then he was directly called from IIM Ahmedabad from where he was about to complete his MBA.

(a) The above discussion is indicating an important function of management. Name the function of management.

(b) The management function identified in part (a) follows a particular process. Explain the step of this process which is being discussed in the above para.

Ans. (a) Staffing.

(b) *Recruitment*. It is defined as the process of researching for prospective employees and stimulating them to apply for jobs in the organisation.

Q. 2. Why is recruitment called positive process?

Ans. Recruitment is called positive process because more and more people are invited to apply for the job.

Q. 3. Name the concept which involves growth of individuals in all respects.

Ans. Development.

Q. 4. "Our assets walk out of the door each evening, we have to make sure that they come back the next morning." This statement relates to which function of management. Explain the importance of this function.

Ans. Staffing. [*For importance of function refer on page nos. 246-247.*]

Q. 5. Out of human resource management and staffing which one is wider?

Ans. Human resource management.

Q. 6. Name the source of recruitment in which newspaper, employment exchange, T.V., etc. are used.

Ans. External source of recruitment.

Q. 7. Name the method of training suitable for plumbers, electricians and iron workers. Explain that method.

Ans. Apprenticeship.

[*For explanation refer on page no. 267.*]

Q. 8. Which source of recruitment has the disadvantages of increase in labour turnover.

Ans. External source of recruitment.

Q. 9. Some learning opportunities are designed and delivered to improve skills and abilities of employees whereas some others are designed to help in the growth of individuals in all respects. Identify and explain the two concepts explained above.

Ans. The two concepts explained are:

1. Training,
2. Development. [*Explanation on page no. 263*]

Q. 10. Which source of recruitment has the disadvantage of increase in labour turnover?

Ans. External source of recruitment.

Q. 11. Name the concept which relates to temporary separation of employer and employee.

Ans. Layoff.

Q. 12. Define job analysis.

Ans. Job analysis refers to analysing the job in detail. It includes defining all the contents related to the job, all the responsibilities, authorities related to job. As far as possible it must include the result expected from the job.

Q. 13. Define job specification.

Ans. Job specification specifies the qualification, attributes and capabilities a person must possess to apply for a job.

Q. 14. An accountant is sent to learn the new software for accounting to prepare the books of accounts faster and accurately. He was further sent to orientation to improve his motivational and conceptual skills.

(i) Identify and explain the two concepts explained above.

(ii) Differentiate these concepts on the basis of suitability, method used and nature.

Ans. (i) Training and Development. (ii) Refer to Page No. 264

Q. 15. The workers of a factory are unable to work on new machines and always demand for help of supervisor. The supervisor is overburdened with their frequent calls. Suggest the remedy. [*NCERT*]

Ans. The workers needed to be given on the job training and the most suitable method on the job method, i.e., apprenticeship.

[*Explanation on page no.* 267]

Q. 16. The workers of a factory remain idle because of lack of knowledge of hi-tech machines. Frequent visit of engineer is made which causes high overhead charges. How can this problem be removed? [*NCERT*]

Ans. In this case workers need training to learn the use of machine that is hi-tech and sophisticated so the suitable method of training in this case is vestibule school, where a dummy model of machine is created and workers can learn on that duplicate machine. They are allowed to work on real machine when they become perfect.

[*Explain vestibule school from page no.* 268]

Q. 17. The quality of production is not as per standard. On investigation it was observed that most of the workers were not fully aware of proper operation of the machinery. What could be the way to improve the accuracy? [*NCERT*]

Ans. In this case workers needed to be given training to make them learn use of machinery and most suitable method in this case is apprenticeship programme.

[*For detail on page no.* 267]

Q. 18. A company is manufacturing paper plates and bowls. It produces 1,00,000 plates and bowls each day. Due to local festival it got an urgent order of extra 50,000 plates. Advise how will company fulfill its order and which method of recruitment would you suggest? [*NCERT*]

Ans. To complete the order on time company needs to recruit more people immediately and the most suitable method in this case is labour contractors as they maintain close contacts with labourers and they can provide the required number of unskilled workers at a short notice.

[*For detail on page no.* 256]

Q. 19. An organisation provides security services. It requires such candidates who are reliable and don't leak out the secret of their clients. What steps should be incorporated in selection process? State next two steps of selection process.

Ans. In this case during the selection process the organisation must conduct personality test as this test provides clues to a person, so emotions, maturity and value system.

The next two steps of selecting process after this:

1. Interview
2. Checking references.

Q. 20. A Company AB Ltd. started a New Plant for manufacturing solar based Motor Bikes in India. India is highly competitive and has cost effective production base in this sector. AB Ltd. is planning to capture 30% of the market in India and also aims to Export Motor Bikes worth ₹ 5 crore in next two years. To achieve these targets, it requires highly trained and motivated work force. Mr. X is appointed by the company to advise in this matter.

(i) Briefly explain the process of staffing which the company has to follow.

(ii) Identify the value followed by the Company.

Ans. (i) Refer to Page nos. 249-251

(ii) Value of environment friendliness.

Q. 21. 'Pure Energy Ltd.' imported a new hi-tech machine from Japan for manufacturing high quality and low cost solar panels in India. After a month, the report of Production Manager reflected a decline in quantity and quality of production. On investigation, it was found that there was lack of technical knowledge and skills amongst the employees for using these hi-tech machines. This resulted in high-overhead charges as well as frequent visits of engineers was required from Japan.

(i) Suggest what should be done to increase the quality and quantity of production.

(ii) Also state, how the employees will be benefited from your suggestion.

(iii) State any value which 'Pure Energy Ltd.' is following.

(iv) Identify the functions of management discussed above.

Ans. (i) Training—Vestibule School.

(ii) Refer to Page no. 268

(iii) Employees Growth and Development, Ecofriendliness.

(iv) Staffing.

Q. 22. In order to decrease the cost of production and increase quality of work XYZ Ltd. decided to modernise their plant. Now it is necessary to provide the knowledge of new technology to workers.

Suggest the supervisor of company how to help workers to learn technology and the benefits derived from it.

Ans. Training. Benefits of Training (Refer to page nos. 263-264)

Q. 23. Teja Ltd. received 22,495 applications for the post of fifty supervisors. Preliminary, screening was done and 3,545 applications were filtered. Varies steps of selection process were taken and finally fifty candidate as supervisor were selected. They were directly posted to their respective posts. After one-month performance appraisal of these candidates conducted. It was found that out of 50, eight were not able to perform as per standards as they were facing practical problems while handling machines.

(i) In your opinion, what should be done to improve the performance of these eight supervisors.

(ii) How an organisation can be benefited by improving the skill level of employees.

Ans. (i) Training.

(ii) Benefits (Refer to page nos. 263-264)

Q. 24. The workers of 'Vyam Ltd' are unable to work on new and hi-tech machines imported by the company to fulfil the increased demand. Therefore, the workers are seeking extra guidance from the supervisor. The supervisor is overburdened with the frequent calls of workers. Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently? Also state any three benefits that the workers will derive by the decision of the supervisor.

Ans. Training, (Refer to Page no 264)

Q. 25. A company has its own recruitment policy to fill the vacant posts with suitable employee.

(i) Top most positions are being filled by contacting specialised agencies so as to attract the most capable work force competitive organisation.

(ii) To foster the spirit of loyalty and motivate the employees the middle level positions are filled from within the organisation.

(a) Identify the sources of recruitment referred above?

(b) Also give any one method of each source.

Ans. (i) External Recruitment—Placement Agency.

(ii) Internal Recruitment—Promotion.

Q. 26. In a company all recruiting, screening and training process for data entry, etc. are done by one officer only. Their competitor was attracting most qualified employees. As a result this company had to choose from candidates who have soft skills and less qualifications. On the basis of above case answer the following questions:

(i) What problem do you see company is facing?

(ii) How can this problem be solved?

Ans. (i) This company has failed to recognise the human resource approach. This approach considers human resources as most important factor. They are dependent on personnel officer for all the activities whereas they have failed to recognise the importance of human resource management.

(ii) This problem can be solved by setting up a human resource management department which performs following functions:

[*Explain activities of human resource management from page no.* 248]

Q. 27. A company X Ltd. is setting up a new plant in India for manufacturing auto components. India is highly competitive and cost effective production base in this sector, X Ltd. is planning to capture about 40% of the market share in India and also export to the tune of at least $5 million in about 2 years of its planned operations. To achieve these targets it requires a highly trained and motivated work force. You has been retained by the company to advise it in this matter.

[NCERT]

(i) Outline the process of staffing the company should flow.

(ii) Which sources of recruitment should the company rely upon? Give reason for your recommendation.

(iii) Outline the process of selection the company should follow with reasons.

(iv) Which methods of training and development should company initiate? Explain giving reasons.

Ans. (i) The steps involved in the staffing process which company should follow are:

(a) Estimating manpower requirement. (b) Recruitment.

(c) Selection. (d) Placement and orientation.

(e) Training and development.

(ii) Company should rely upon external source of recruitment as companies require to set up a new plant and large number of manpower with latest technology.

Reasons for relying on external sources are:

Give advantages of external recruitment on page no. 254-255

(iii) The steps in the process of selection company should follow are:

(a) Preliminary screening (b) Selection test

(c) Interview (d) References

(e) Selection decisions (f) Medical examination

(g) Job offer (h) Contract of employment.

(iv) Company should prefer following methods of training and development:

(a) Apprenticeship programme page no. 267

(b) Vestibule school page no. 268

(c) Internship training page no. 267

Q. 28. Ms. Jayshree recently completed her Postgraduate Diploma in Human Resource Management. A few months from now a large steel manufacturing company appointed her as its Human Resource Manager. As of now company employs 800 persons and has an expansion plan in hand which may require another 200 persons, for various types of additional requirements. Ms. Jayshree has been given complete charge of the company's human resource department.

[NCERT]

(i) Point out, what function does she suppose to perform?

(ii) What problems do you forsee in her job?

(iii) What steps is she going to take to perform her job efficiently?

(iv) How significant is her role in the organisation?

Ans. (i) She is supposed to perform following functions:

(a) Human resource planning
(b) Employing people
(c) Carrier growth
(d) Performance appraisal
(e) Motivate employees
(f) Fixing compensation
(g) Providing social security
(h) Review and Audit of personnel policies and procedure.

(ii) The common problems she must be facing are:

(a) Finding out basic skill necessary to perform job.
(b) Recruiting and selecting right person at right job.
(c) Preparing written document explaining the job, job description.
(d) Selecting right training method.
(e) Fixing adequate compensation for employees.
(f) Selecting incentives to motivate employees.

(iii) The steps she must take to carry on her job well are:

(a) Prior to staffing deciding who will perform the job.
(b) Staffing plan:
  (i) Estimating current requirement of human resources.
  (ii) Anticipating future requirement.
(c) *Job specification*. Deciding qualification necessary for performing job.
(d) Developing assessment test.
(e) Locating potential applicants.
(f) Advertising the job.
(g) Selection test/interview.
(h) Final selection.

(iv) Her role is very significant in the organisation. Give importance of staffing.

Q. 29. **Aanurag runs a law firm in Delhi. His firm offers valuable financial and legal consultancy service to the clients. Whenever the firm hire any new employee, on the first day of their joining, they are welcomed to the organisation and are given details about hours of work, leave rules, dress codes, lunch arrangements, introduced to the daily operations and key people in workplace, etc. They are also familiarised with the organisation's policies and procedures including complaints and disputes, resolutions, etc.**

In the context of above case name the type of training which is being referred in the above case.

Ans. Induction or orientation training.

Q. 30. **Smitha runs an NGO under the name 'Serve karma' in Delhi. The organisation is engaged in offering waste paper recycling services to all kinds of institutions in Delhi. It also made paper stationery out of recycled papers at very competitive price. The website of Serve karma provides a link, to career sites, wherein people desirous of joining the NGO can use simple job search to find the right opportunity for themselves. The NGO also keeps a database of applications of Jobseekers, so that they can be called 'Whenever need arises.**

In the context of above case: Identify the two sources of external recruitment being used by "Serve karma" by quoting the lines from para.

Ans. 1. Web publishing, "The website of serve karma . . . . . opportunity for themselves".
2. Casual callers, "The NGO also keeps a database . . . . . need arise."

Guidelines to NCERT Questions

Short Answer Type Questions

1. Briefly enumerate the important sources of recruitment. [Refer on page nos. 253-256]
2. What is meant by recruitment? How is it different from selection? [Refer on page nos. 253-259]
3. Define training. How is it different from education? [Refer on page nos. 263-265]
4. Distinguish between training and development. [Refer on page nos. 264]
5. Why are internal sources of recruitment considered to be more economical?

   [**Hints:** Internal source of recruitment is considered economical because of the following reasons:
   (i) No money is spent to advertise and invite application.
   (ii) No or very less training is required for existing staff.]
6. What is the importance of staffing function in today's environment? [Refer on page nos. 246-267]

Long Answer Type Questions

1. Define the staffing process and the various steps involved to it? [Refer on page nos. 249-251]
2. Explain the procedure for selection of employees. [Refer on page nos. 259-260]
3. What are the advantages of training to the individual and to the organisation? [Refer on page nos. 263-264]
4. The staffing function is performed by every manager and not necessarily by a separate department. Explain. [Refer on page nos. 248-249]

Test Yourself

Very Short Answer Questions

1. What is meant by orientation of employees?
2. What is interview?
3. List different types of tests used in selection process.
4. Describe briefly difference between training, development and education.
5. Distinguish between training and development on the basis of:
   (a) Depth of knowledge imported.
   (b) Initiative in learning.
6. What is meant by employee's development?
7. State with examples any two monetary incentives.
8. Describe in briefly the stages of evaluation of Human Resource Management.
9. What is job rotation?

Short Answer Questions

1. Explain briefly any four purposes of training.
2. What do you mean by H.R.M.? Briefly state the activities of H.R.M.

Long Answer Questions

1. Explain briefly different sources of recruitment.
2. Explain the importance of staffing as a function of management.
3. Explain any four techniques of training.

Previous Years' Examination Questions (2014-2019)

One Mark Questions:

1. Why is 'Aptitude Test' conducted in the process of selection? *[CBSE (AI) 2017]*
2. Why is 'Trade Test' conducted in the process of selection? *[CBSE (F) 2017]*
3. Vegatech Enterprises was a company manufacturing refrigerators. The company had a functional structure with four main functions—Production, Marketing, Finance and Human Resource. As the demand for the products grew, the company decided to hire more employees.

   Identify the concept which will help the Human Resource Manager in identifying the types of human resources necessary for the performance of various jobs and accomplishment of organisational objectives. *[CBSE (F) 2017]*
4. Why is 'employment interview' conducted in the process of selection? *[CBSE 2017]*
5. Alpha Enterprises is a company manufacturing water geysers. The company has a functional structure with four main functions- Production, Marketing, Finance and Human Resource. As the demand for the product grew, the company decided to hire more employees. Identify the concept which will help the Human Resource Manager in deciding the actual number of persons required in each department. *[CBSE 2017]*
6. Define 'Workforce Analysis'. *[CBSE 2019 (66/1/1)]*

   OR

   Define 'Selection'. *[CBSE 2019 (66/1/1)]*
7. Biru Nandan, Chairman of Lalit group of companies founded 'Biru University' for undergraduate and postgraduate courses in diverse disciplines. The Information Technology department of the Lalit Power Ltd., had few vacancies related to Cyber security. The Human Resource Department of the Company decided to recruit fresh engineering graduates from 'Biru University' for the same. Identify the type of source of recruitment. *[CBSE 2019 (66/1/1)]*

Three Marks Questions:

8. 'Recruitment' is one of the specialised activity performed by human resource management. Mention any two other specialised activities of human resource management. *[CBSE (D) 2014]*
9. State any three merits of external sources of recruitment. *[CBSE (D) 2017(C)]*
10. Describe briefly the following methods of training:
    (i) Apprenticeship Training; and
    (ii) Internship Training. *[CBSE (D) 2017(C)]*

11. State any three merits of internal sources of recruitment. [CBSE (D) 2017(C)]
12. State any three limitations of external sources of recruitment. [CBSE (D) 2017(C)]
13. Atul –The Assistant Manager, Vikas– The Marketing Head and Leena– The Human Resource Manager of 'Montac Enterprises Ltd.' decided to leave the company.

    The Chief Executive officer of the company called the Human Resource Manager, Leena and requested her to fill up the vacancies before leaving the organisation. Leena suggested that her subordinate Miss Rama Wadhwa is very competent and trust worthy, if she could be moved up in the hierarchy, she would do the needful. The Chief Executive Officer agreed for the same. Miss Rama Wadhwa contacted 'Smith Recruiters' who advertised for the post of marketing head for 'Montac Enterprises Ltd.' They were able to recruit a suitable candidate for the company. Atul's vacancy was filled up by screening the database of unsolicited applications lying in the office.

    (a) Name the internal/external sources of recruitment used by 'Montac Enterprises Ltd.' to fill up the above stated vacancies.
    (b) Also state any one merit of each of the above identified source of recruitment.

    [CBSE (AI) 2016]
14. The workers of 'Gargya Ltd.' are unable to work on new computerized machines imported by the company to fulfil the increased demand. Therefore, the workers are seeking extra guidance from the supervisor and the supervisor is overburdened with the frequent calls of workers.

    Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently. Also state any three benefits that the workers will derive by the decision of the supervisor. [CBSE (AI) 2015]
15. State the steps in the selection procedure, after the employment interview and before the job offer. [CBSE 2018]
16. Explain 'Vestibule Training' and 'Apprenticeship Programme' as methods of training.

    [CBSE 2019 (66/2/1)]

Four Marks Questions:

17. Why employees become lethargic when the organisation uses internal sources of recruitment? State. [CBSE (D) 2014]
18. How is training of employees beneficial for the organisation? State by giving any four reasons. [CBSE (D) 2014]
19. Explain briefly 'transfers' and 'promotions' as internal sources of recruitment. [CBSE (D) 2017]
20. Explain briefly 'Casual Callers' and 'Labour Contractors' as external sources of recruitment.

    [CBSE (AI) 2017]
21. Explain 'Direct Recruitment' and 'Advertisement' as external sources of recruitment.

    [CBSE (F) 2017]
22. Xeno Ltd. is a global information technology consulting company with 45,000 employees serving over 600 clients in 23 countries. Its Chief Executive Officer, Mr Neil Suman guided the company through two decades of diversification and growth to emerge as one of the leading Indian companies in the software industry. The company has set standards in ensuring the best training opportunities for its employees.

The Project Guidance Program is a 52 day structured training program offered to all recruits of varied backgrounds to be trained on essential behavioural and technical skills that prepares them to work in live customer projects. These recruits are hired from universities and management institutes for technical, professional as well as managerial jobs. It is to help the new employees in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business.

(a) Identify the external sources of recruitment used by the company to hire new employees.

(b) Explain the method of training used by the company to train employees selected by the source of recruitment identified in part (a).

(c) State two ways in which the Project Readiness Program can benefit Xeno Ltd.

[CBSE 2019 (66/3/1)]

23. Vandana Public School had a vacancy of a Maths teacher. They were looking for a smart and creative teacher having a drive for excellence. An advertisement was given in all leading dailies. Since the response was huge, the school examined all the application forms and rejected the candidates who did not have the necessary qualifications. Thereafter, a test was conducted to measure the existing skills of the candidates. After that it was followed by a formal in-depth conversation with the Principal of the school and a panel of Maths experts.

(a) Explain the steps that have been performed by Vandana Public School in the process of identifying and choosing the best candidate.

(b) Give the name and also the meaning of the test which was conducted by the school.

[CBSE 2019 (66/4/1)]

24. State any four points of importance of staffing function of management.

[CBSE 2019 (66/5/1)]

OR

State any four benefits of training to employees. *[CBSE 2019 (66/5/1)]*

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

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

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

[CBSE 2019 (66/5/1)]

Five/Six Marks Questions:

26. Mohit Gupta is working with 'Yellow Security Services Ltd.' He is also recruiting security guards for the company. The company provides security services in Delhi and Noida at short notice to various companies. The guards are recruited on temporary basis. The guards provided by this company are known for their honesty and punctuality. Mohit Gupta is well known in his village for providing employment to unskilled people.

(a) Name the source of recruitment used by 'Yellow Security Services Ltd.'

(b) State any one disadvantage of this source of recruitment.

(c) Identify the need of 'Security Guards' which is being fulfilled by the company as per Maslow's need hierarchy. *[CBSE (AI) 2015]*

27. 'Moga Industries Ltd.' approached a well-established university in the city of Madurai to recruit qualified personnel for various technical and professional jobs. They selected Tanya, Ritu, Garima and Chetan for various vacancies in the organization.

After the selection and placement, 'Moga Industries Ltd.' felt the need to increase the skills and abilities, and the development of the positive attitude of the employees to perform their specific jobs better. The company also realized the learning new skills would improve the job performance of the employees. Hence, the company decided to take the actions for the same.

(a) Name the step of the staffing process regarding which the company decided to take action.

(b) State the benefits of the action to 'Moga Industries Ltd.' *[CBSE 2018]*

28. Nisha Sethi was working as a Human Resource Manager in a famous consultancy firm, KLI Global Services. Her job included preparing job descriptions, recruitment, developing compensation and incentive plans and facilitating employee learning. They had entered into alliances with institutes to ensure continuous learning of their employees. With the jobs becoming more and more complex, KLI Global Services invested large amount of money in making the employees learn the skills necessary to complete the jobs. State by giving any five points, how this investment is likely to benefit the organisation. *[CBSE 2019 (66/1/1)]*

29. 'Entertainment India Ltd.' has been incorporated with the objective of entertaining people by organising festivals, programmes and other similar events depicting the rich cultural heritage of the country. The company management has renowned personalities from the field of art, literature and culture. They decided to give a platform to young budding musicians, poets and artists. The company decided its organisations structure by grouping similar jobs together. Thereafter, the heads of different departments were also appointed. Nisha, one of the heads, did an analysis of the number, type and qualification necessary for people to be appointed. The information generated in the process of writing the job description and the candidate profile was used to develop 'Situations vacant' advertisement. This was published in print media and flashed in electronic media. This brought in a flood of response. Explain the other steps which Nisha has to perform to complete the process being discussed above.

[CBSE 2019 (66/2/1)]

30. 'Newrange' is a chain of departmental stores in India with 56 outlets. It sells the best products at the lowest price. The Human Resource department takes care to select, train, motivate and retain the employees. Currently, it has 170 full time employees and 30 part time employees.

For top-level management, employees are recruited through private consultants. These

professional recruiters can entice the needed top executives from other companies by making the right offers. Employees appointed at the entry level are recruited through walk-in. For that, a notice is placed on the notice board specifying the details of the jobs available. 'Newrange' also encourages present employees or their friends and relatives to refer candidates. They also visit some of the reputed educational institutions to hire some of the most talented and promising students as its employees.

'Newrange' shifts workforce from surplus departments to those where there is shortage of staff instead of laying them off. Explain the various internal and external sources of recruitment used by 'Newrange' to recruit its employees. *[CBSE 2019 (66/4/1)]*

Hints of the Answers for Case Studies

3. Workload analysis.

5. Workload analysis.

7. External source of recruitment/ Campus Recruitment

13. (a) Sources of recruitment used to fill up the vacancies are:

(i) Promotion

(ii) Placement Agencies and Management Consultants

(iii) Casual Callers

(b) Merit of each of the above identified source of recruitment: (Refer to page no. 253-255)

14. Training of employees/ Vestibule training/ On the job training.

Benefits the workers will derive by the decision of the supervisor: (Any three)

(a) It helps in promotion and career growth due to improved skills and knowledge.

(b) It helps them to earn more due to improved performance.

(c) It reduces accidents as the employees are more efficient to handle machines.

(d) It increases the morale of the employees as the employees are more satisfied.

22. (a) Campus Recruitment

(b) Induction Training: It is a type of training given to help the new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business.

(c) Ways in which Project Readiness Program can benefit Xeno Ltd.: (*Any two*)

(i) Avoiding wastage of efforts and money as training is systematic learning, better than hit and trial methods.

(ii) Enhancing employee productivity both in terms of quantity and quality leading to higher profits.

(iii) Equipping the future manager to take over in an emergency.

(iv) Reducing employees' turnover as it increases employee morale and reduces absenteeism.

(v) Helping the organisation in obtaining effective response in a fast changing environment.

23. (a) Steps performed by Vandana Public School in the process of identifying and choosing the best candidate:

(i) Preliminary Screening (ii) Selection Tests

(iii) Employment Interview

(b) Trade test was conducted by the school to measure the existing skills possessed by the candidates.

25. (a) Sources of recruitment being used by Ganesh for filling up the various job positions are:

(i) Recommendation of employees: 'His father requested him to appoint his friend's son, Prem as an accountant who is well qualified for this post'

In this source of recruitment, applicants are introduced by present employees or their friends and relatives. Such employees are likely to be good employees as their background is sufficiently known.

(ii) Labour Contractors: 'Earlier, Prem had a business of providing unskilled workers to different organisations from remote areas of the country' It is a source of recruitment in which the labour contractor maintains a close contact with the labourers and can provide the required number of unskilled workers at short notice.

(iii) Campus Recruitment: 'For the appointment of the two Chefs, Ganesh approached a renowned Hotel Management Institute and was satisfied with the Chefs provided by the institute' It is a source of recruitment in which organisations maintain a close liaison with educational institutions like universities, vocational schools and management institutes to recruit qualified personnel for technical, professional and managerial jobs.

(b) The function of management discussed above is Staffing which means filling and keeping filled the positions in the organisation structure.

26. (a) External source of recruitment/ Labour Contractor.

(b) Disadvantages of external source of recruitment: (Any one)

(i) It may lead to dissatisfaction among existing employees as they may feel that their chances of promotion are reduced.

(ii) It is a lengthy process as the vacancies have to be notified and applications received before selection.

(iii) It is a costly process as a lot of money is spent on advertisement and processing of applications.

(c) Basic physiological needs.

27. (a) Training and Development.

(b) Benefits of training to 'Moga Industries Ltd.':

(i) It avoids wastage of efforts and money as training is systematic learning, better than hit and trial methods.

(ii) It enhances employee productivity both in terms of quantity and quality leading to higher profits.

(iii) It equips the future manager to take over in an emergency.

(iv) It reduces employees' turnover as it increases employee morale and reduces absenteeism.

(v) It helps in obtaining effective response in a fast changing environment

28. Benefits of training to the organisation:

(i) It avoids wastage of efforts and money as training is systematic learning, better than hit and trial methods.

(ii) It enhances employee productivity both in terms of quantity and quality leading to higher profits.

(iii) It equips the future manager to take over in an emergency.

(iv) It reduces employees' turnover as it increases employee morale and reduces absenteeism.

(v) It helps in obtaining effective response in a fast changing environment

29. Other steps which Nisha has to perform to complete the process being discussed above are:

(i) Selection.
(ii) Placement and Orientation.
(iii) Training and Development.
(iv) Performance Appraisal.
(v) Promotion and career planning.
(vi) Compensation.

30. Sources of recruitment used by 'Newrange':

(i) Internal

(a) Transfers

(ii) External

(a) Placement Agencies and Management Consultants

(b) Direct Recruitment

(c) Recommendations of Employees

(d) Campus recruitment

ANSWERS OF MCQs AND CASE STUDIES

Page 252-253

1. (b) Placing right person at the right job.

2. (c) Workload analysis

3. Workforce analysis.

4. The next three steps in the process of staffing are stated below:

1. Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
2. Selection is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment.
3. Placement and orientation 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.

5. **(a)** **Estimation of manpower requirement.** It involves determining the number and type of employees required. It would necessitate workload analysis and workforce analysis.

(b) **(1) Recruitment:** Process of searching for prospective employees and stimulating them to apply for the job.

(2) Selection: Process of choosing the most suitable candidate and rejecting the unsuitable ones.

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1. (a) Staffing and Controlling

   (b) Recruitment, External Source of Recruitment (Recommendations of employees)

2. Skilled Workers

   (i) Placement Agencies

   (ii) Advertisement

   (iii) Campus recruitment.

   Unskilled Workers—Labour Contractor.

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1. (c) Medical Test Report

2. (d) Campus Placement

3. Two types of tests that Mr. Murthy can use to meet his requirements are:

   (i) Personality Test: It provides clues to a person's emotions, reactions, maturity, value systems, etc. They probe the overall personality and are difficult to design and implement.

   (ii) Intelligence Test: It measures 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.

4. Next three steps in selection are:

   (a) Employment interview

   (b) Checking references and background

   (c) Selection decision.

Page 266

1. Training of employees.

   Benefits to the organisation or employees: Refer to page nos. 263, 264

2. Training.

Page 269

1. (a) Apprenticeship programme

2. (b) Development

3. (i) Induction (ii) Apprenticeship (iii) Vestibule School

4. (i) Internship (ii) Vestibule School (iii) Apprenticeship

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (a)	2. (b)	3. (c)	4. (a)	5. (d)
6. (b)	7. (b)	8. (a)	9. (b)	10. (a)
11. (b)	12. (c)	13. (d)	14. (b)	15. (a)
16. (c)	17. (b)	18. (a)	19. (b)	20. (a)

Fill in the Blanks

1. Recruitment
2. Development
3. Internal
4. Estimating man power requirement
5. Placement
6. Induction
7. Internship
8. Transfer and Promotion
9. Contract of Employment
10. External

True or False

1. (F) – No. It is very important
2. (T)
3. (T)
4. (F) – It is called apprenticeship.
5. (F) – Under Apprenticeship employee work under the guidance of master work.
6. (T)
7. (F)
8. (T)
9. (F)
10. (T)

7 DIRECTING

Contents as per Latest CBSE Syllabus

- Concept and importance
- Elements of Directing
- Motivation—concept, Maslow's hierarchy of needs, Financial and non financial incentives
- Leadership—concept, Styles—authoritative, democratic and laissez faire
- Communication—concept, formal and informal communication; barriers to effective communication, how to overcome the barriers

7.1 MEANING AND INTRODUCTION

Directing function of management is concerned with instructing, guiding, inspiring and motivating the employees in the organisation so that their efforts result in achievement of organisational goal.

After the staffing function the right person is placed at the right position in the organisation. But actual work begins only when these persons get instructions from their superiors. Directing does not mean only instruction but it also includes supervising the employees when they are performing the job, motivating them to perform more efficiently and leading them towards the achievement of organisational goal.

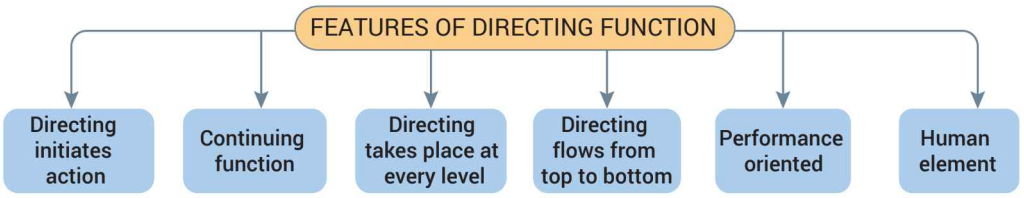
Definitions by different authors:

- "Directing is telling people what to do and seeing that they do it to the best of their ability."
  —Ernest Dale
- "Direction is a complex function that includes all those activities which are designed to encourage subordinates to work effectively and efficiently."
  —Koontz and O'Donnell
- "Directing deals with the steps a manager takes to get subordinates and others to carry out plans."
  —William Newman

7.2 FEATURES/CHARACTERISTICS OF DIRECTING FUNCTION

1. **Directing initiates action.** Other functions prepare a base or setting of action, *i.e.*, how action has to be carried on the directing initiate or start action. By giving directions or instructions the managers get the work started in the organisation.

2. **Continuing function.** Directing is a continuous process. A manager cannot just rest after issuing orders and instructions. He has to continuously guide, supervise and motivate his subordinates. He must continuously take steps to make sure that orders and instructions are carried out properly.
3. **Directing takes place at every level.** Directing is a pervasive function as it is performed by managers at all levels and in all locations. Every manager has to supervise, guide, motivate and communicate with his subordinate to get things done. However, the time spent in directing is comparatively more at operational level of management. Directing takes place wherever superior subordinate relation exists.
4. **Directing flows from top to bottom.** Directions are given by managers to their subordinates. Every manager can direct his immediate subordinate and take directions from immediate boss. Directing starts from top level and flows to lower level.
5. **Performance oriented.** Directing is a performance oriented function. The main motive of directing is bringing efficiency in performance. Directing converts plans into performance. Performance is the essence of directing. Directing functions direct the performance of individuals towards achievement of organisational goal.
6. **Human element.** Directing function involves study and moulding of human behaviour. It improves interpersonal and intergroup relationship. It motivates employees to work with their best ability.



Keywords

Directing Function

(i) Directing initiates action. Initiate action
(ii) Continuing function. Giving instruction, orders to employees
(iii) Directing takes place at every level. Motivating employees
(iv) Directing flows from top to bottom. Leading employees
(v) Performance oriented. Communicating with employees
(vi) Human element. Giving directions
(vii) Affect the performance of employees

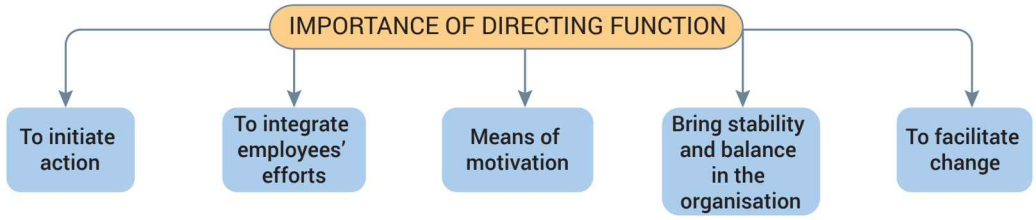
7.3 IMPORTANCE OF DIRECTING FUNCTION

1. **To initiate action.** The employees in the organisation start working only when they get instructions and directions from their superiors. In the directing function the superiors

direct the actions of employees towards the predetermined goals of the organisation. If the directing function is executed successfully then it results in unity of direction and achievement of organisational goals.

2. **To integrate employees' efforts.** In the organisation number of employees are working at different levels and in different job positions. The employees may differ in their levels of authority and the type of job assigned. But all are interrelated to each other as they are the part of one organisation. When the employees are working at different levels then their efforts are integrated and they co-ordinate only with the help of directing function as while issuing instructions the continuity of the work can be maintained.
3. **Means of motivation.** Directing function does not mean giving orders only but through directions and instructions the superiors try to motivate the employees to perform to their best ability. Motivation is a very important element of directing. Directing function develops the feeling of belongingness and encourages employees to perform to their best ability.
4. **Bring stability and balance in the organisation.** The directing function tries to create balance in the organisation. Generally when the employees are working at different levels they develop different attitudes and the balance between their attitudes is made by directing function. **For example,** the salesman may insist on reduction of price to get more orders whereas the high officials are against the reduction as it will bring down or reduce the total revenue. The directing function tries to balance both the attitudes by instructing and guiding the salesperson to find out other means and ways of increasing sale.

   Sometimes there can be difference of attitude between the employee and the employer. Here also directing function creates balance by instructing the employees that their interests and organisation's interests are in same direction. For example, employees want more earnings, organisation wants more production. The employees can earn more by producing more which will achieve the organisational goal also.
5. **To facilitate change.** Generally the employees hesitate in accepting the changes but through directing function the changes can be implemented more easily as while giving directions the superiors guide the subordinates that the changes are better for them also. **For example,** when the company is planning to computerise its working generally the employees hesitate to accept it as they are not aware of the technology. But when in the directing function the employees are guided that through change they will also be updated as they will have chance of learning new technology which will increase their value in the market. So through proper guidance the employees readily and happily accept changes.



Keywords

Importance of Directing Function

(i) To initiate action. Help to start the activities in organisation

(ii) To integrate employees' efforts. It being together employees working at different places through proper communicate

(iii) Means of motivation. Encourage employees to perform to the best ability

(iv) Bring stability and balance in the organisation. Create balance between top and lower level

(v) To facilitate change. Help to implement changes by convincing the employees

7.4 ELEMENTS OF DIRECTING

There are four main elements or components of directing which are:

1. Supervision,
2. Motivation,
3. Communication,
4. Leadership.

Supervision + Motivation + Communication + Leadership = Directing

7.5 SUPERVISION

The supervision means instructing, guiding, monitoring and observing the employees while they are performing jobs in the organisation. The word supervision is the combination of two words, *i.e.*, supervision where super means over and above and vision means seeing. So, supervision means seeing the activities of employees from over and above.

Keywords

Supervision

(a) Instructing the employees

(b) Guiding the employees

(c) Linking pin between workers and middle level.

MCQs

1. **The function of management which initiate action is:**

   (a) Planning (b) Organising

   (c) Staffing (d) Directing

2. **Is directing required at planning stage, give reasons to support your answer.**

(Answers at Page no. 348)

7.6 MOTIVATION (WILL TO WORK)

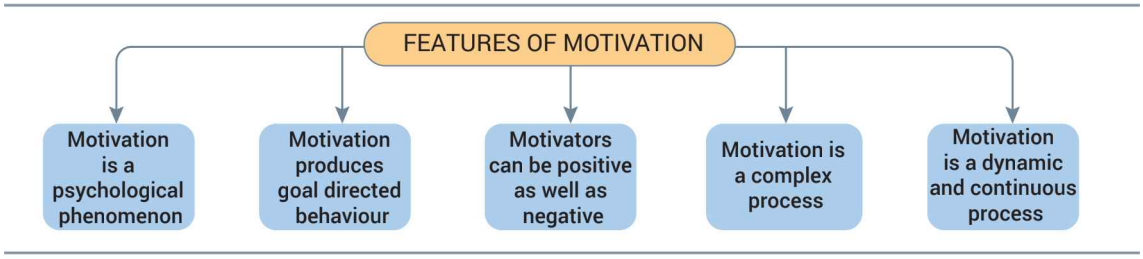
Motivation can be defined as stimulating, inspiring and inducing the employees to perform to their best capacity. Motivation is a psychological term which means it cannot be forced on employees. It comes automatically from inside the employees as it is the willingness to do the work. Motivation is a process of making subordinates to act in a desired manner to achieve organisational goal.

7.6.1 Few Interrelated Terms

1. **Motive.** A motive is an inner state or desire which energises an individual to move or to behave towards achievement of goal. Motive arises out of needs of an individual. When a motive emerges in an individual. It causes restlessness as he wants to fulfill his motive. For example motive to earn induces an individual to search for job or work. Individual searches for food to fulfill the motive of hunger.
2. **Motivation.** It is a process of inducing people to perform to their best ability to accomplish the goal.
3. **Motivators.** Motivators are the incentives or techniques used to motivate the people in an organisation. Common motivators used by the managers are increment, bonus, promotion, recognition, respect, etc.

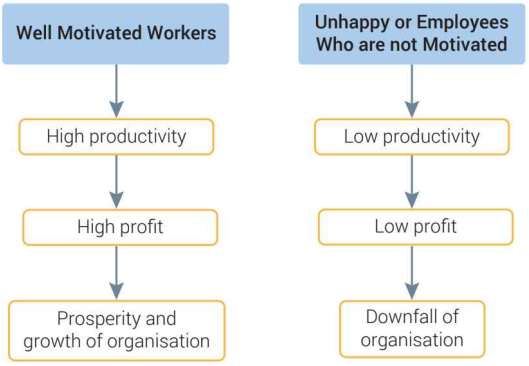
7.6.2 Features/Characteristics/Nature of Motivation

1. **Motivation is a psychological phenomenon.** Motivation is an internal feeling which means it cannot be forced on employees. The internal feelings such as need, desire, aspirations etc. influence human behaviour to behave in a particular manner. For example, desire to have a new house, respect and recognition, etc.
2. **Motivation produces goal directed behaviour.** Motivation induces people to behave in such a manner so that they can achieve their goal. Motivated person need no supervision or direction. He will always work in desired manner. For example if a person has a motive to get promotion so he will work efficiently to get promotion.
3. **Motivators can be positive as well as negative.** To motivate employees managers use various motivators. Some motivators are positive and some are negative few examples of positive motivators are: promotion, increment, bonus, respect, recognition, etc. If employee does not improve his performance with positive motivators then manager uses negative motivators such as warning, issue of memo, demotion, stopping increments, etc. Sometimes fear of negative motivators also induces person to behave in a desired manner.
4. **Motivation is a complex process.** Motivation is a complex and difficult task. In order to motivate people a manager must understand various types of human needs. Human needs are mental feelings which can be measured accurately. If manager measures them accurately then also every person uses different approaches to satisfy his need. Some get satisfied with monetary incentives, some with non-monetary, some with positive and some with negative motivators. So it is not possible to make generalisation in motivation.



5. **Motivation is a dynamic and continuous process.** Human beings are everchanging. Human needs are unlimited and go on changing continuously. Satisfaction of one need gives rise to another so managers have to continuously perform the function of motivation.

Motivation Plays a Vital Role for Success of any Organisation



7.6.3 Maslow's Need Hierarchy Theory

Motivation is a psychological phenomenon and the needs of employees play very important role in motivation. To understand the needs of human beings we must learn Maslow's need hierarchy theory.

Maslow's need hierarchy theory. Need or the desire is a very important element in motivation because the employees get motivated only for their needs and if the needs are fulfilled completely then it is not possible to motivate the employees. Maslow has given a sequence or hierarchy of needs in the following way:

1. **Physiological needs.** These needs include basic requirements for survival and maintenance of human life. The common physiological needs are food, shelter and clothing. The employees develop these needs for their survival that is why they are at the top in the sequence. These needs can be satisfied when the monetary incentives are offered by the employers.
2. **Safety and security needs.** Once the present day physiological needs are fulfilled then the people start thinking about their future as they want to secure their future by making sure that in future also they continue to satisfy their physiological needs.

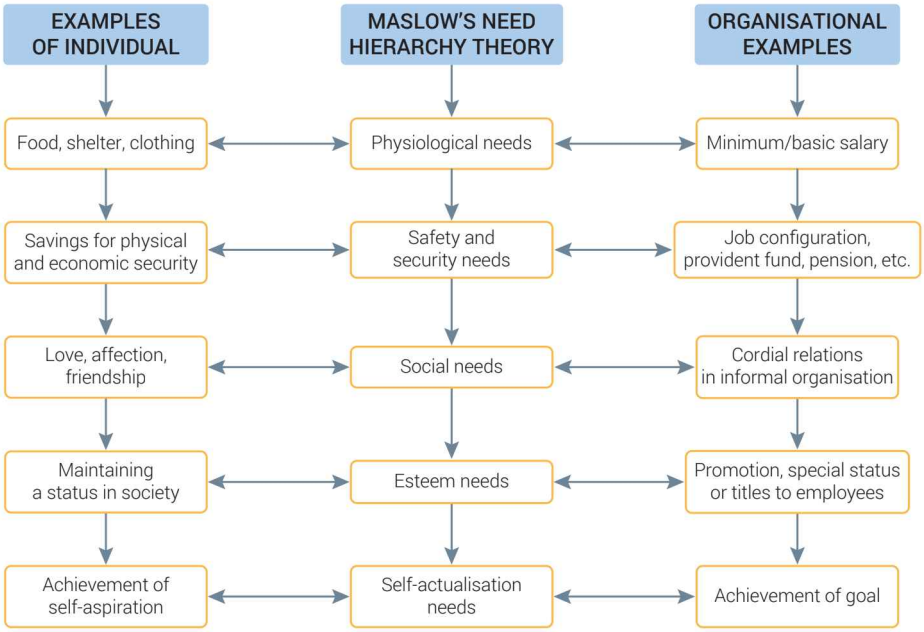
Under safety and security there are two categories:

(a) *Physical security*. Which means safety from illness, accident, fire, etc.

(b) *Economic security*. Which means having sufficient funds to meet the future physiological needs and to come out of physical security threat.

The people who have more of safety and security need active, get motivated by monetary incentives.

3. **Social needs affiliation/belonging need.** It means the need for love, affection, companionship, friendship, etc. Once the people satisfy their physiological and safety needs then the social need becomes more active and to fulfill the social needs the managers prefer team-work, arrange formal and informal get-togethers so that employees can develop social relationships.
4. **Esteem needs.** These needs are related to the respect and recognition. When the above three needs are satisfied then people start demanding respect for themselves in a group. This need is more common in higher level employees. Esteem needs can be satisfied through non-monetary incentives.
5. **Self-actualisation needs.** This need refers to realising or reaching to the aim of your life. Once the employee becomes what he wants to become it means satisfaction of his actualisation need. These need include growth, self fulfillment and achievement of goal.



Assumptions of Maslow's need hierarchy theory:

1. Behaviour of people depends upon their need. Human behaviour can be changed or motivated by fulfilling their needs.

2. Generally the needs follow the hierarchy, *i.e.*, starting from physiological need.
3. A satisfied need can no longer motivate a person, only next higher level need can motivate him.
4. A person move to next higher level need only when the lower need is satisfied.

CONCLUSION

Generally the employees or all the human beings follow this sequence of needs. But sometimes there can be exceptions when sequence is not followed. For example, people may have social needs active without satisfaction of physiological and safety needs. Sometimes, there can be only self-actualisation need present ignoring all other needs.

7.6.4 Financial/Non-Financial Incentives (More Powerful for Lower Level Employees)

Incentive can be defined as monetary or non-monetary reward offered to the employees for contributing more efficiently. Incentive can be extra payment or something more than the regular salary or wage. Incentive acts as a very good stimulator or motivator because it encourages the employees to improve their efficiency level and reach the target. The two common types of incentives are:

Monetary or Financial Incentives:

The reward or incentive which can be calculated in terms of money is known as monetary incentive. These incentives are offered to employees who have more physiological, social and security need active in them. The common monetary incentives are:

1. **Pay and allowances.** Regular increments in salary every year and grant of allowance act as good motivators. In some organisations pay hikes and allowances are directly linked with the performance of the employee. To get increment and allowance employees perform to their best ability.
2. **Profit sharing.** The organisations offer share in the profit to the employees as a common incentive for encouraging the employees for working efficiently. Under profit sharing schemes generally the companies fix a percentage of profit and if the profit exceeds that percentage then the surplus profit is distributed among the employees. It encourages the employees to work efficiently to increase the profit of the company so that they can get share in the profit.
3. **Co-partnership/stock option.** Sharing the profit does not give ownership right to the employees. Many companies offer share in management or participation in management along with share in profit to its employees as an incentive to get efficient working from the employees. The co-partnership is offered by issue of shares on exceeding a fixed target.

   Under stock option or co-partnership the employees are offered company's shares at a set price which is lower than the market price.
4. **Bonus.** Bonus is a one time extra reward offered to the employees for sharing high performance. Generally when the employees reach their target or exceed the target then

they are paid extra amount called bonus. Bonus is also given in the form of free trips to foreign countries, paid vacations or gold, etc. Some companies have the scheme of offering bonus during the festival time (Diwali, Christmas bonus, New Year, etc.)

5. **Commission.** Commission is the common incentive offered to employees working under sales department. Generally the sales persons get the basic salary and along with this, commission on every sales order. The income of the sales persons is directly linked with the efforts put in by them. More orders mean more commission.
6. **Productivity linked with wage incentives.** There are certain wages rate plan. Which offer higher wages for more productivity, for example under differential piece wages system efficient workers are paid higher wages as compared to inefficient workers. To get higher wages workers perform efficiently.
7. **Retirement benefits.** Some organisations offer retirement benefits such as pension, provident fund, gratuity, etc. to motivate people. These incentives are suitable for employees who have security and safety need.
8. **Perks/fringe benefits/perquisites.** It refers to special benefits such as medical facility, free education for children, housing facility, etc. These benefits are over and above salary. These extra benefits are related with the performance of the employees.

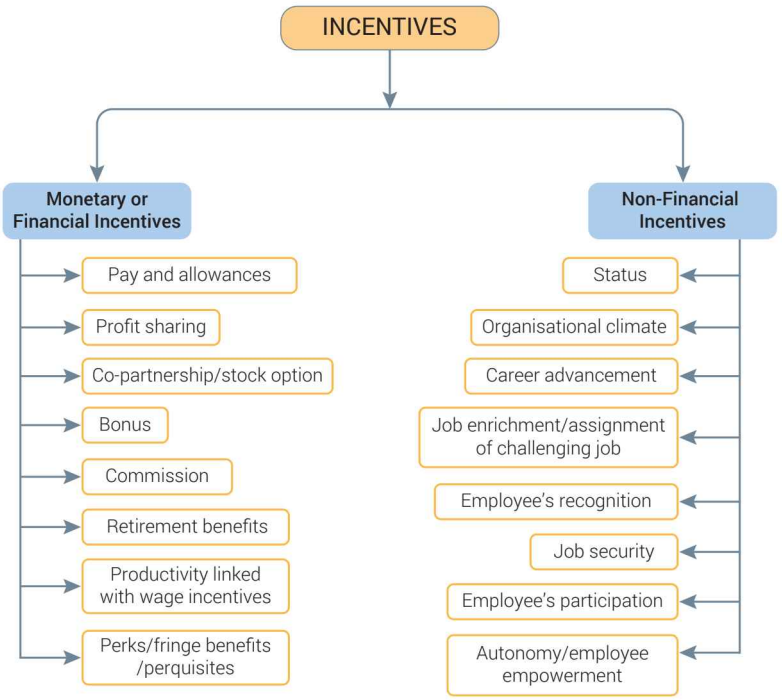
Non-Monetary/Non-Financial Incentives (More Powerful for Higher Level Employees):

Money is not the only motivator, the employees who have more of esteem and self actualisation need active in them, get satisfied with the non-monetary incentives only.

The incentives which cannot be calculated in terms of money are known as non-monetary incentives. Generally people working at high job position or at high rank get satisfied with non-monetary incentives. The common means or ways of non-monetary incentives are:

1. **Status.** Status refers to rank, authority, responsibility, recognition and prestige related to job. By offering higher status or rank in the organisation managers can motivate employees having esteem and self-actualisation need active in them.
2. **Organisational climate.** It refers to relations between superior/subordinates. These are the characteristics which describe an organisation. These characteristics have direct influence over the behaviour of a member. A positive approach adopted by manager creates better organisational climate whereas negative approach may spoil the climate. Employees are always motivated in the healthy organisational climate.
3. **Career advancement.** Managers must provide promotional opportunities to employees. Whenever there are promotional opportunities employees improve their skill and efficiency with the hope that they will be promoted to high level. Promotion is a very big stimulator or motivator which induces people to perform to their best level.
4. **Job enrichment/assignment of challenging job.** Employees get bored by performing routine job. They enjoy doing jobs which offer them variety and opportunity to show their skill. By offering challenging jobs, autonomy to perform job, interesting jobs, employees get

satisfied and they are motivated. Interesting, enriched and challenging job itself is a very good motivator or stimulator.



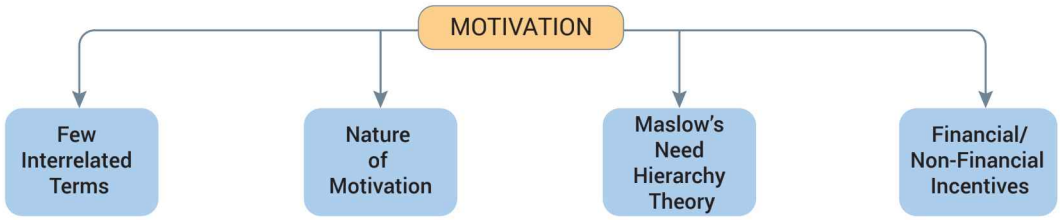
5. **Employees' recognition.** Recognition means giving special regard or respect which satisfies the ego of the subordinates. Ego-satisfaction is a very good motivator. Whenever the good efforts or the positive attitudes are shown by the subordinates then it must be recognised by the superior in public or in presence of other employees. Whenever if there is any negative attitude or mistake is done by subordinate then it should be discussed in private by calling the employee in cabin.

   Examples of employees recognition are congratulating employee for good performance, displaying the achievement of employee, giving certificate of achievement, distributing moments, gifts, etc., rewarding the employees for giving good suggestion.

6. **Job security.** Job security means life time bonding between employees and organisation. Job security means giving permanent or confirmation letter. Job security ensures safety and security need but it may have negative impact. Once the employees get job secured they lose interest in job. **For example,** government employees do not perform efficiently as they have no fear of losing job. Job security must be given with some terms and conditions.

7. **Employees' participation.** It means involving employee in decision making specially when decisions are related to workers. Employees follow the decision more sincerely when these are taken in consultation with them **for example,** if target production is fixed by consulting employee then he will try to achieve the target more sincerely.

8. **Autonomy/employee empowerment.** It means giving more freedom to subordinates. This empowerment develops confidence in employees. They use positive skill to prove that they are performing to the best when freedom is given to them.



Keywords

Motivation (Will to work)

(a) Creating will to do the work
(b) When employees loose interest in job then this element is used
(c) Improve initiative level of employees
(d) Induce people to perform best
(e) Psychological process
(f) Arise need and desire in people

Incentives

(i) Recognition
  (a) Congratulating employees
  (b) Display on notice board or newsletter
  (c) Giving award, trophy or certificate
  (d) Reward for good suggestion
  (e) Giving mementos, trophies, etc.
(ii) Copartnership/Stock option: Giving shares at lower than market price
(iii) Status: Giving a special rank or position in the organisation.

MCQs and Case Studies

1. **It is concerned with designing jobs that include greater variety of work content:**
   (a) Employee Recognition Programme (b) Job Enrichment
   (c) Career advancement opportunity (d) Promotion

2. **Which of the following is a process of making an employee act in a desired manner to achieve organisational goal**
   (a) Motivation (b) Supervision
   (c) Leadership (d) Communication

3. **Rahim was working in an enterprise on daily wages basis. It was difficult for him to fulfill the basic needs of his family. His daughter fell ill. He had no money for his daughter's treatment. To meet the expenses of her treatment, he participated in a cycle race and won the prize money. The cycle company offered him a permanent pensionable job which he happily accepted.**
   (i) Which element of directing is indicated above.
   (ii) By quoting the lines from the above para identify the needs of Rahim that are satisfied by the offer of cycle company.
   (iii) Also, explain two other needs of Rahim followed by above that are still to be satisfied.

4. **Rajiv is working as Personnel Manager in a company. The speciality of the company is that financial position of all the employees is good. The employees working here are honest, punctual and hardworking. The CEO of the company asked him to suggest a method of motivation. The CEO asked him to suggest a method which is happily accepted by all the employees.**

   Rajiv spoke to many employees in this connection. Some employees suggested give more importance to individual autonomy, another suggested good performance should be appreciated, another group suggested to award, certificate, trophies to recognise the good performance. Mr. Rajiv mixed all and suggested a method of motivation to CEO.

   The CEO happily accepted that and it was immediately implemented. Within few days the company's growth rate appeared to have become fast.
   (a) Identify the functions of management indicated in the above paragraph.
   (b) Which motivation methods were suggested by different group of employees.
   (c) Which motivation method combine all the above stated and was suggested by personnel manager.

(*Answers at Page no. 349*)

7.7 LEADERSHIP

Leadership is a process of **influencing** the behaviour of people at work towards the achievement of specified goal. The following elements must be present in the leadership:

(a) It is the process of influence.

(b) The influence is always for achievement of common goal.

(c) There must be minimum two or more persons present, influencing your own behaviour is not leadership.

(d) The influence should be to get the willing co-operation of the employees and not the forceful co-operation.

7.7.1 Features of Leadership

1. Leadership indicates the ability of an individual to influence others.
2. Leadership tries to bring change in behaviour.
3. Leadership shows interpersonal relationship between leader and followers.
4. Leadership is to achieve common goal.
5. Leadership is a continuous process.

7.7.2 Different Styles of Leadership

Leadership styles refer to a leader's behavioural pattern. A leadership style is the result of the leader's philosophy, personality and experience and value system. Leadership styles depend upon the type of followers and the atmosphere prevailing in the organisation.

Different types of leadership styles are:

1. Autocratic leadership – Authoritative
2. Participative leadership – democratic
3. Free-rein leadership – laissez faire.

A leader may use all styles of leadership at different periods of time, but one style tend to predominate his/her personality.

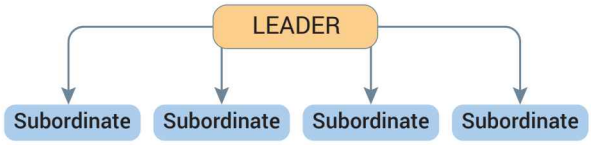
On the basis of how leaders use their power leadership style can be classified into three broad categories:

(i) Autocratic leadership/authoritative leadership.

(ii) Consultative leadership/democratic leadership.

(iii) Free-rein leadership/laissez faire leadership.

1. **Autocratic or authoritative leadership.** (*Boss centered leadership*) An autocratic leader exercises complete control over the subordinates. He centralises power in himself and takes all decisions without consulting the subordinates. He does not delegate authority. The leader gives order and expects the subordinates to follow them unquestioningly. He gives reward and puts penalty to direct the subordinate.



Autocratic or Authoritative Leadership

Advantages

(i) Quick decision-making.

(ii) Provides strong motivation and satisfaction to the leader who dictates terms.

(iii) Less competent subordinates are needed at lower level.

(iv) May bring positive result when great speed is required.

Disadvantages

(i) Leads to frustration and low moral among subordinates.

(ii) Initiative level of subordinates goes down.

(iii) Potential and creativity of subordinates are not utilised.

(iv) No development of subordinates takes place.

Suitability. Autocratic style of leadership is suitable when:

(i) subordinates are uneducated, unskilled, lack of knowledge and experience on part of subordinates.

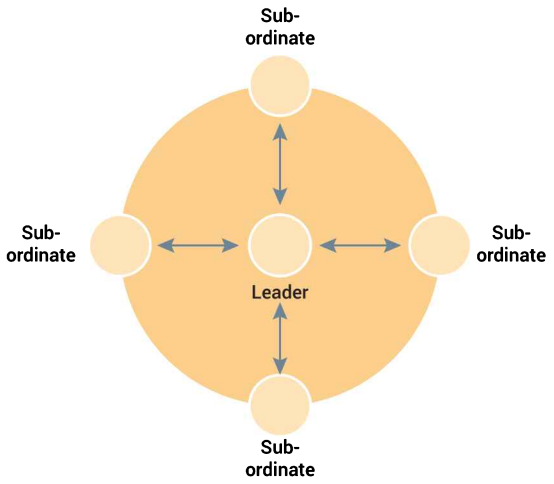
(ii) company follows fear and punishment disciplinary technique.

(iii) leader prefers to be dominant in decision making.

Now-a-days this style is less desirable as employees are becoming more educated and well-organised.

Example: Adolf Hitler. He discouraged his cabinet to meet independently. He expected absolute obedience from his cabinet members.

2. **Democrative or participative leadership** (*Group Centered*) Under this style leader takes decisions in consultation and participation with employees. He delegates and decentralises the authority. Leader follows the opinion of majority. He provides freedom of thinking and expression. He listens to the suggestions, grievances and opinion of the subordinates.



Democrative or Participative Leadership

Advantages

(i) Improves the job satisfaction and morale of the employees.

(ii) Improves decision making ability of subordinates.

(iii) Develops positive attitude and reduces labour turnover and labour absenteeism.

(iv) Quality of decision improves.

(v) Leader multiplies his abilities through the contribution of his followers.

Disadvantages

(i) Time-consuming and may result in delay in decision.

(ii) It may not yield positive result when subordinates prefer minimum interaction with the leader.

(iii) Leader may pass the work to subordinates and abdicate responsibility.

(iv) Consultation with subordinates, may be considered as sign of incompetence of leader.

Suitability. This style is suitable:

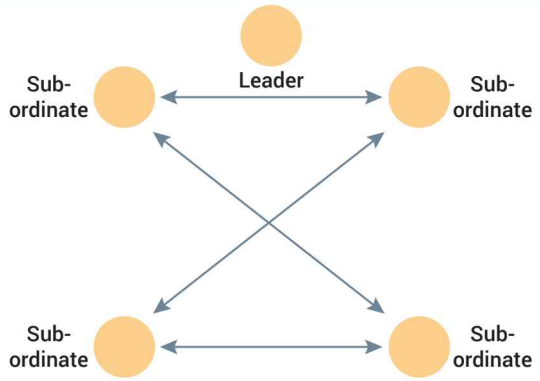
(i) When goal of company is to increase job satisfaction and independence of employees.

(ii) When leader wants to share decision making with the subordinates.

(iii) When subordinates have accepted the goal of organisation.

Example: Narayan Murthy: Under his guidance employees of Infosys were encouraged to communicate freely with each other and give suggestions.

3. **Free-rein or Laissez Faire leadership.** This style involves complete delegation of authority so that subordinates themselves take decision. In this style, leader avoids power. He serves only as a contact to bring information and resources needed by the subordinates.



Free-rein or Laissez Faire Leadership

Advantages

(i) Positive effect on the job satisfaction and morale of subordinates.

(ii) Maximum scope for development of subordinates.

(iii) Full utilisation of potential and capacity of employees.

Disadvantages

(i) Subordinates do not get the guidance and support of the leader.

(ii) It ignores the contribution of leader.

(iii) Subordinates may work in different direction and result in chaos.

Suitability. This style is suitable when:

(i) Subordinates are well trained and highly knowledgeable.

(ii) Subordinates are self motivated and are ready to assume responsibility.

Difference between Different Styles of Leadership

S.No.	Point of Difference	Authoritative Style	Democratic Style	Laissez Faire Style
1.	Decision-making	Leader only makes decision	Leader makes decision in consultation with subordinates	Subordinates themselves make decisions
2.	Communication	One way, *i.e.*, downward communication	Two way communication	Free flow communication
3.	Motivation Technique	Fear and punishment (Negative motivation)	Reward and involvement (Positive motivation)	Self-direction and self-control
4.	Delegation of Authority	No Delegation	Delegation of authority to some extent	Complete delegation of authority
5.	Focus	Leader control	Group centered	Individual centered
6.	Role of Leader	Provides Direction	Maintains team work	Provides support and resources
7.	Growth and Development of Employees	No scope for initiative and creativity 'I' Style	Scope for initiative and creativity "We Style"	Full scope for initiative and style "You Style"
8.	Discipline	Obedience of order and discipline	Interchange of ideas	Self-discipline or control

EXAMPLES

1. Mr. Rajiv, CEO of headlines India Ltd. distributes work for the month and he personally delegates the work to his staff as per his directions. (*He is behaving like an autocratic leader*).
2. Due to festival season, company gets an additional order to cover up the order. Mr. Rajiv discusses with his staff members how to meet the pending orders. All the staff members decided to do overtime and planned to stay back. (*This is democratic leadership style*).
3. The Boss asked his staff members to organize a farewell party for the Retiring officer. He asked them to fix the venue and menu themselves for the occasion.

   (*This is free-rein or laissez faire style of leadership*).

Keywords

Leadership

(i) Influencing the behaviour of others

(ii) Maintain good interpersonal relationship

(iii) Influence employees to voluntarily perform, working with cooperation and coordination

Leadership Style

(i) Autocratic/Authoritative—Dictator

No suggestions taken, placing orders only

(ii) Democratic—

Taking suggestions from employees

Two way

Keep initiative level of employee high

(iii) Free rein—

Complete freedom to employees

No interference of superior in taking decision by subordinates

MCQs and Case Studies

1. **Which style of leadership does not believe in use of power, unless it is absolutely essential.**

   (a) Autocratic Leadership (b) Democratic Leadership

   (c) Laissez Faire Leadership (d) None of the above

2. **In an organisation, employees always feel that they are under stress, as the manager does not discuss anything with them but simply instruct them what to do. He never listen to any of the suggestions given by them. State the manager's style of leadership.**

   (a) Autocratic (b) Participative

   (c) Laissez Faire (d) All of the above

3. **Umang Gupta is the Managing Director of Denver 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. Kanta was efficiently handling the processing of orders and had a team of fourteen motivated employees working under her. Everything was going on well. Unfortunately she met with an accident. Umang knew that in the absence of Ms. Kanta, the company may not be able to meet the deadlines. He also knew that not meeting the deadliness 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 Umang Gupta was positive towards the employees of the organisation. Hence everyone put in extra time and efforts and the targets were met on time.

Not only this, Umang visited Ms. Kanta and advised her to take sufficient rest.

Identify the leadership style of Umang Gupta and draw a diagram depicting the style.

4. **In Manik Ltd., selection process is very fair, scientific and standardised. Competent, laborious employees with good work culture are selected. As a result, subordinates are efficient, responsible and take initiative in every activity. Which kind of leadership style would be suitable in Manik Ltd.**

(*Answers at Page no. 349*)

7.8 COMMUNICATION

Communication can be defined as transmission or exchange of ideas, views, message, information or instructions between two or more persons by different means.

The common means and ways for transmission of ideas are:

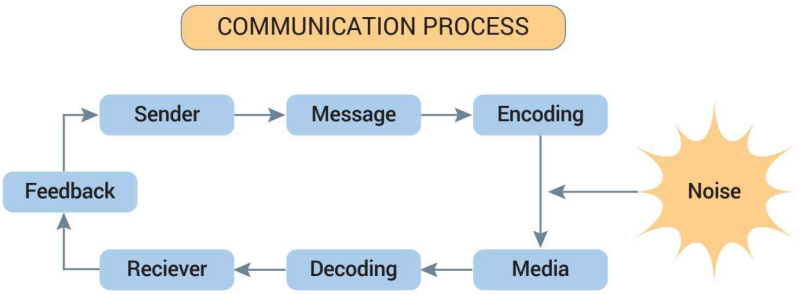
(a) Spoken words; (b) Written words;

(c) Diagrams, pictures or graphs; and (d) Gestures.

The communication is a two way process as it begins with sender and ends when the feedback comes from receiver to sender. Minimum two parties are involved in the process of communication, *i.e.*, the sender and the receiver.

7.8.1 Communication Process/Elements of Communication Process

The communication process begins when sender thinks of an idea or message to be conveyed to other person. Then the sender encodes the message, *i.e.*, plans out the words or the language in which the message must be sent to the other party. After encoding the message the sender transmits or transfers the message by using different ways and means. After transmission the message reaches to receiver. The receiver decodes the message to understand the message and give his response or feedback to the sender. When the feedback reaches back to sender then only the communication process ends which means the communication is a circular process which starts with sender and ends with sender.



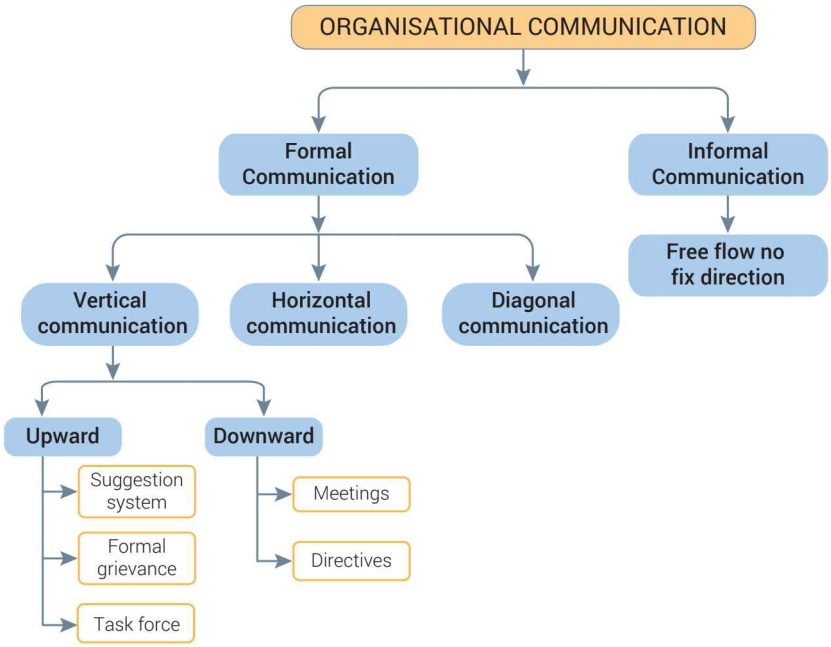
1. **Sender.** Sender is the person who conveys the message. The communication process begins immediately when the idea comes in the mind of sender.
2. **Message.** The contents of ideas or message or suggestion which sender wants to share with receiver is called message.
3. **Encoding.** Receiver cannot read the mind of sender. So receiver converts the idea into a language or other communication symbols such as pictures, gestures, etc. This is known as encoding.
4. **Media.** It is the way or means through which encoded message has to be transmitted to receiver. The common ways of transmission are phone, letter, internet, message, etc.
5. **Decoding.** Decoding refers to converting the encoded message into language and understanding the message.
6. **Receiver.** Receiver is the person who receives the communication and understands the message.
7. **Feedback.** After understanding the message the receiver sends his response on that idea or message to sender. When response reaches the sender then only communication process ends.

   Noise. Noise is any element which results in disturbance, distraction or interruption in the flow of information. The noise can be a loud sound made by any vehicle, disturbance in the telephone line, disconnection of line, losing of letter or documents on the way, poor connectivity in the e-mail or internet. Due to noise the message is not conveyed to receiver and receiver is not able to decode the message in the same manner as expected by the sender.

7.8.2 Forms of Organisational Communication

There are two forms of organisational communication:

1. Formal communication; and
2. Informal communication.



1. Formal Communication

"Formal communication refers to official communication at official peace between the people who are officially related to each other."

Formal communication refers to official communication taking place in the organisation. Whenever there is exchange of views or message or information related to official matter such as assignment of task, fixing of responsibilities, granting authority or setting up of targets, objectives, etc. then it is known as formal communication.

Formal communication generally takes place in the written form such as issue of notice, letter, memo, document, etc. Verbal or oral channels are avoided in formal communication as there is no record or proof of such communication.

Features of Formal Communication

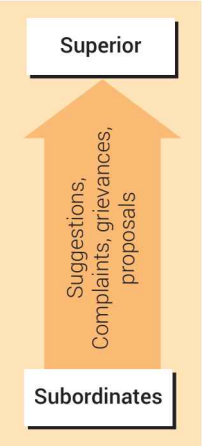
1. **Goal oriented.** Formal communication focus on achievement of organisational goal.
2. **Systematic.** Formal communication is very systematic as it ensure orderly flow of information through scalar chain only.
3. **Source of Information.** Under formal communication it is easy to fix responsibility as there is proof of information communicated.
4. **Impersonal.** Under formal communication information is passed in impersonal manner.
5. **Delay in Information.** As scalar chain is followed in passing of information so generally, information is delayed.

Types of Communication

1. **Vertical Communication:**

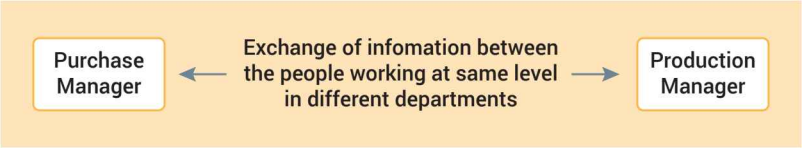
   (a) **Downward Communication.** The flow of information from the top level or from the superiors to lower level or subordinates is known as downward communication. In this communication the manager passes instructions to his subordinates and the success of downward communication depends upon communication skill of the managers.

   (b) **Upward Communication.** When the subordinates inform or pass any information to superiors then it is known as upward communication. This communication flows from subordinates to superiors. Upward communication generally consists of work performance, opinion, grievances or problems of the employees. In the recent years upward communication is gaining more importance because the subordinates prefer to involve themselves in the decision making and they have started demanding a better working condition.

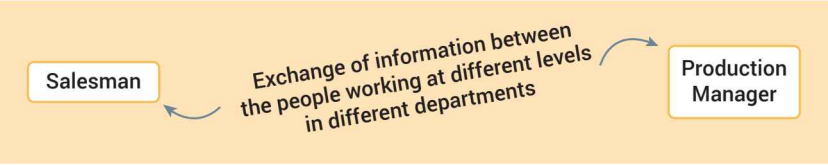


2. **Horizontal Communication.** Horizontal communication is the communication between the two or more persons working at the same level of authority. Generally different departmental heads discuss the policy of their department with each other. That will be considered as the horizontal communication. Discussion between two managers of same

rank is also a horizontal communication. **For example,** the marketing manager may discuss from time to time the quality and packing of product with the production manager.



3. **Diagonal Communication.** Diagonal communication is a flow of information between the persons working in different departments and holding different levels of authority. **For example,** the salesman may request the production manager to modify the product design according to the requirement of the customer. The diagonal communication prevents delay in flow of information and helps in taking fast decisions as subordinates of one department can directly communicate with the managers of other department.



2. Informal Communication

Informal communication between different members of organisation who are not officially attached to each other is known as informal communication. Generally, the social interactions, friendly talks and non-official matters are discussed in the informal communication.

There is no fixed direction or path for the flow of information under informal communication. The information moves in a very vague, confusing and zig-zag manner. That is why the network of informal communication is known as Grape Vine. There is no fixed source of information under informal communication and information can move in any direction.

Features of Informal Communication

1. **Focus on Psychological satisfaction.** Through informal communication employees can develop friendly relationship and get social satisfaction.
2. **Fast.** The information travel very fast as it cut across the scalar chain.
3. **Spreading Rumours.** Sometimes the informal communication result in spreading rumours as it is not possible to find the source of information.
4. **Get Distorted.** The information travel in a very unsystamatic manner and get distorted, while passing through various channels.
5. **Leakage of Confidential Information.** The confidential information may get leaked under informal communication as it is not possible to fix the responsibilities.

Strategic use of Informal Communication:

1. The managers can fill up communication gap if there is any information through informal communication.
2. Informal communication travels very fast. So urgent matters can be communicated informally.

3. The managers can get true and accurate response of subordinates on various policy matters.
4. Informal communication provides emotional relief to employees and results in reducing union and management problems.

Difference between Formal and Informal Communication

Basis of Difference		Formal Communication	Informal Communication
1.	Meaning	It refers to communication taking place within the official chain of command.	It refers to communication between individuals and groups which are not officially recognised.
2.	Relations	It establishes relation between the subordinates, superiors and relations are highly impersonal.	It establishes personal relationship among individuals irrespective of the levels.
3.	Nature	It is more rigid in nature and cannot be modified.	It is flexible, dynamic and varies from individual to individual.
4.	Channel	It follows formal or established line of command.	It is based on informal relationship and no fixed line of command is followed.
5.	Expression	It is mostly expressed in written form.	It mostly tends to be oral.
6.	Need	It serves the need of organisation.	It serves the need of individuals working in organisation.
7.	Speed	The speed of formal communication is generally slow because all information has to pass through an established chain of command.	The speed of informal communication is very fast as it cuts across all the official channels.
8.	Fixation of Responsibility	It is easy to fix the responsibility in formal communication because source of information is known.	It is not possible to fix the responsibility because source of information is not known.
9.	Record	The records of formal communication are maintained for future reference.	No records of information communication are maintained.

MCQs

1. **Ram informed about the new recruitment policy of HR dept. to Mohan during the birthday party of his son. This is**
   (a) Formal Communication (b) Informal Communication
   (c) Both (a) and (b) (d) None of the above
2. **To get the real feedback of employees the manager must make use of:**
   (a) Formal communication (b) Informal communication
   (c) Both (a) and (b) (d) None of the above.

(Answers at Page no. 349)

7.8.3 Barriers to Effective Communication

Sometimes the message sent by sender does not reach the receiver in the same manner as expected by the sender. This filtration, misrepresentation of communication may cause

misunderstanding. Therefore it is important for a manager to identify these barriers and take measures to overcome these.

The barriers can be grouped in following categories:

1. Semantic barriers
2. Psychological barriers
3. Organisational barriers
4. Personal barriers

1. Semantic Barriers

Sometimes the same words and sentences can be understood differently by different people in the organisation which means difference in the understanding levels of employees. **For example,** if the production manager announces in the meeting that there will be increase in budget of production department then employees may understand that their salary will increase but managers may understand it that expensive machinery will be purchased.

Main causes for semantic problem can be:

(i) **Badly expressed message.** Sometimes due to lack of vocabulary manager may use wrong words, omission of needed words. Due to this the manager may fail to convey the same meaning to his subordinates.

(ii) **Symbols with different meanings.** Sometimes a word may have different meanings. Receiver may understand the other meaning. **For example:** Price, Prize, Principle, Principal, Right, Write, etc.

(iii) **Faulty translations.** Some times the workers do not understand the language which is used by manager so workers get it translated. If translator is not efficient he may make mistake in translation. Due to wrong translation there may be transfer of wrong message.

(iv) **Unclarified assumptions.** Sometimes the worker may misinterpret the assumptions. For example boss may instruct the subordinate to "take care of goods." He may mean that takes care of quality of goods whereas workers may understand that he is instructing to keep the goods safely.

(v) **Technical jargon.** While explaining to subordinates many specialised experts use technical words which may not be understood by the workers.

Example: Finance manager announces EBIT is 20 crore which means earning before interest and tax. A manager announces "Today there is a meeting of white collar employees". That mean meeting of managerial level people. Some employees may understand that employees wearing white shirt have meeting.

(vi) **Body language and gesture decoding.** Along with verbal communication another important mode of communication is body language and gestures shown by person who is talking. If the verbal communication is not matching with the body language, then workers may get confused and misunderstand the meaning. **Example**—If manager is telling a joke but there are signs of anger on his face then worker will get confused.

2. Psychological Barriers

Emotional or psychological factors also act as barriers to effective communication. The state of mind has great influence over the information and its reflection. As a frightened person may not communicate properly similarly an angry person may not receive the communication effectively.

Some of the psychological barriers to effective communication are:

(i) **Premature evaluation.** It means deriving conclusions before completion of message. Sometimes people evaluate the meaning of message before the sender completes the message. In such case the receiver may not have an open mind. He may have some personal prejudice against the sender. He may resist change. He jumps to conclusions without logical deduction from the situation.

(ii) **Lack of attention.** It means when receiver does not pay complete attention to the message as a result communication becomes ineffective. The reason can be preoccupied mind of receiver. For example, when worker is giving suggestion regarding method of production, the manager is preoccupied with an important file. Sometimes managers do not give attention due to extreme emotions for example, depression or jubilation. This lack of attention may disappoint the employees.

(iii) **Loss by transmission and poor retention.** When communication passes through various levels, this results in filtering or loss of information. Specially when is oral information sometimes manager may not be able to retain all information for a longer time. They may ignore or misinterpret some of the information when they are not interested.

(iv) **Distrust.** Distrust between communicator and receiver also acts as a barrier to effective communication. They may not understand each other's message in the original sense, secondly they do not give much importance to the information exchanged between them.

3. Organisational Barriers

Factors related to organisational structure, authority relationship, rules, regulations may act as barriers to effective communication.

Some of the organisational barriers are:

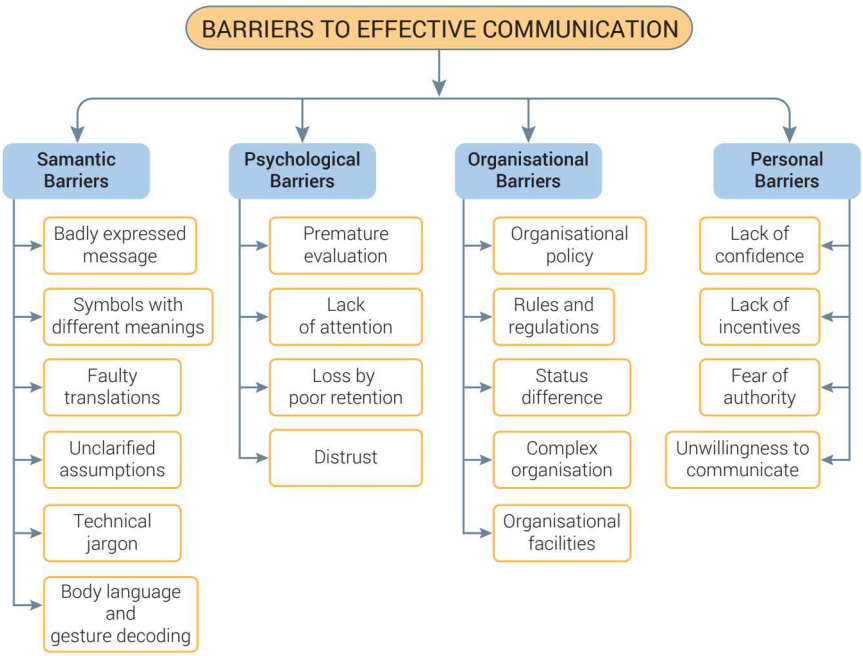
(i) **Organisational policy.** If organisational policy does not support free flow of information it may result in barriers. For example in centralised organisation most of the information remain at top level only. People at lower level may not be able to communicate freely in centralised organisation.

(ii) **Rules and regulations.** Rigid rules, regulations may also create barriers as following rules may lead to red tapism, delay of action and delay in movement of information.

(iii) **Status difference.** Sometimes the people working at higher level do not believe in the information supplied by the lower level employees as they feel how would he know about my job and who is he to give me suggestions.

(iv) **Complex organisation.** When the information passes through various levels then there can be screening or filtering of information at different levels. **For example,** while giving the feedback the subordinates filter all their negative points and highlight only their positive side.

(v) **Organisational facilities.** In large organisation free and effective flow of communication is possible only when some facilities like social get together, complaint box, task force, etc. exist. In absence of such facilities there can be delay and barrier to effective communication.



4. Personal Barriers

Certain personal factors of sender and receiver may influence the free flow of information.

Some of the personal barriers are:

(i) **Lack of confidence of superior in his subordinates.** If superiors have no confidence and trust in their subordinates then they pay no attention to their advice, opinion or suggestions.

(ii) **Lack of incentives.** If there is no incentive for communication then subordinates may not take initiatives to give suggestions.

For example, if there is no reward given for giving some good suggestion then employees will take no initiative to give good suggestions.

(iii) **Fear of authority.** Sometimes superiors conceal and hide information if they have fear of losing their authority over the subordinates.

(iv) **Unwillingness to communicate.** Sometimes employees are unwilling to communicate with superiors if they feet it may negatively effect their own interest.

7.8.4 Improving Communication Effectiveness

All organisations face barriers to effective communication. By using following measures they can overcome such barriers:

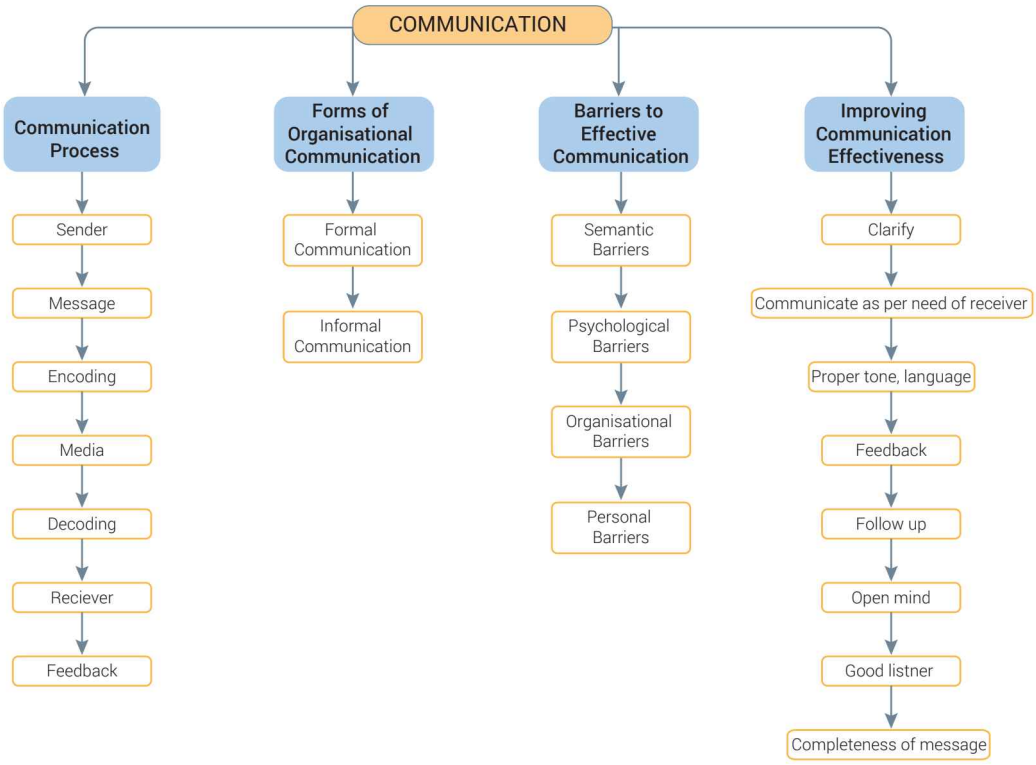
1. **Clarify the idea before communication.** In the first place we must be clear about what we want to communicate. The message can be conveyed properly only if it is clearly formulated in the mind of the communicator. The message should be encoded in direct and simple language so that the receiver is able to understand it without much difficulty.
2. **Communication according to the need of the receiver.** Whenever we communicate we must keep in mind the needs of the receiver of the message or it should be our effort to see that whatever message or information we send across must be of value to receiver. This will make receiver more receptive. Sender must select the words according to the education level of receiver.
3. **Consult others before communicating.** Before communicating the message it is advisable to consult others. Effective communication is the responsibility of all persons in the organisation as all have to work towards a common goal. If plans are developed with consultation and involvement of subordinates, they will accept it with full cooperation.
4. **Use of proper language, tone and contents of message.** For an effective communication the words, tone and symbols used in message must be selected very carefully. The language used should not offend the sentiments of listener. The symbols used in message must be known to the listener.
5. **Proper feedback.** Feedback helps to know the effect or success of communication given by sender. Communication is complete only when the message is understood by the receiver.

   We can never know whether receiver has understood the message or not unless we get the feedback. Feedback also provides opportunity for suggestions and criticism.
6. **Communication for the present as well as for future.** Communication must meet the need of present organisation as well as for future organisation. There must be consistency in the past, present and future communication.
7. **Follow-up communication.** There should be proper follow up of the information given by manager to subordinate. This follow up helps to remove hurdles, misunderstanding of instructions given by manager to subordinates.

8. **Good listener.** The sender must listen to receiver's words alternatively; on the other hand receiver must also listen with due attention. Patient and attentive listening solve many problems.

9. **Open mind.** The parties to communication must have open mind. They should not try to withhold information for their personal interest. They should not react before receiving and listening the full message.

10. **Completeness of message.** A message is effective only when it is given completely. The receiver should not be left guessing. It may lead to misunderstanding. A complete message carries all necessary facts and figures.



Keywords

Communication

(a) Sharing of idea, view message

(b) Two way process

(c) Directing ability of manager depends upon his communication skill

MCQs and Case Studies

1. **Which of the following is not semantic barrier.**

   (a) Lack of Attention (b) Premature evaluation

   (c) Distrust (d) All of the above

2. **Lack of proper incentive is what type of Barrier:**

   (a) Personal barrier (b) Organisational barrier

   (c) Psychological barrier (d) Semantic barrier

3. **Following communications indicate barriers to effective communication. Identify them and also mention the measures to be taken to improve the effectiveness of communication:**

   (a) The National Sales Manager during his visit to the southern zone spoke to the sales managers in Hindi.

   (b) During a meeting, the manager was addressing to the problem of competitors' pricing policy. The two executives were busy talking to each other about their plans for the upcoming long weekend. The manager got distracted and forgot to inform the major changes in company's pricing policy.

   (c) Mohit prefers to stay away from his boss. He is always scared of what if his boss does not approve his suggestions.

   (d) The sales manager while addressing to fresh graduates explained the threats and opportunities company was facing. He used lot of technical words which he had learnt in his MBA classes.

   (e) Sonu Garments Ltd. follows scalar chain very strictly. No employee, (whatsoever may be the emergency) is allowed to divert from the defined path of communications.

4. **Subermanyam is a newly appointed Human Resource Manager in Times Ltd. in Punjab. He is a Tamilian basically. He is good in Tamil and English. Most of his subordinates belong to Punjab and they are not very much fluent in English. He feels it much difficult to make them understand his instructions.**

   1. Identify the concerned communication barrier.
   2. State the category of such barrier.
   3. Explain any other category of same barrier.

5. **Suggest which element of directing is suitable under following situations and why?**
   (i) Workers are always unwilling to take up any kind of work. Due to rise in demand firm wants them to cooperate to meet pending orders. The supervisor is finding it difficult to cope with this situation.
   (ii) Workers of a factory are going to production manager for guidance and information; as a result he is overburdened with the work. Advise him with which function of directing he can reduce his work load.
   (iii) In an organisation employees hesitate to express their feelings and suggestions. They do not take initiative to express their problems and suggestions.

(*Answers at Page no. 349-350*)

Quick Revision

DIRECTING

Features/Characteristics of Directing

1. Directing initiates action
2. Continuing function
3. Directing takes place at every level
4. Directing flow from top to bottom
5. Performance oriented
6. Human element

Importance. Directing is the key element or function of management. The main function of directing function:

1. Initiate action.
2. To integrate employees' efforts.
3. Means of motivation.
4. Balance in organisation.
5. Facilitate change.

Elements of Directing. Directing includes the following elements:

(i) Supervision
(ii) Motivation (will to work)
(iii) Leadership and
(iv) Communication

SUPERVISION

Meaning. It means overseeing the employees at work or observing and watching the employees when they are performing the job.

1. Improves communication.
2. Improves motivation.
3. Maintain group unity.

MOTIVATION [Will to work]

Meaning. Motivation means inducing people to perform to their best ability for achievement of organisational goal. It is a driving force that propels people to action and continues them in action.

Special Terms used in Motivation

(a) **Motive:** Inner state of desire.
(b) **Motivation:** Process of inducing people to perform to their best ability.
(c) **Motivators:** Incentives or technique used to motivate the people.

Features of Motivation

1. Motivation is a psychological phenomenon.
2. Motivation produces goal oriented behaviour.
3. Motivators can be positive as well as negative.
4. Motivation is a complex process.
5. Motivation is a dynamic and continuous process.

Maslow's Need Hierarchy. A manager must understand needs and wants of people if he has to motivate them. Famous psychologist H. Maslow developed the following need hierarchy theory:

1. Physiological needs.
2. Safety and security needs.
3. Social needs affiliation.
4. Esteem needs.
5. Self-actualisation needs.

Financial Incentives.

1. Pay and allowance
2. Profit sharing
3. Co-partnership/stock option
4. Bonus
5. Commission
6. Suggestion system
7. Productivity linked with wage incentives
8. Retirement benefits
9. Perks/fringe benefits.

Non-monetary Incentives

1. Status
2. Organisational climate
3. Career advancement
4. Job enrichment
5. Employees' recognition
6. Job security
7. Employees' participation
8. Autonomy

LEADERSHIP

Meaning. It is a process of influencing the behaviour of people at work towards the realisation of specific goals.

Different Styles of Leadership:

1. Authoritative leadership
2. Democratic leadership
3. Laissez Faire leadership

COMMUNICATION

Meaning: Communication is a process of exchange of views, ideas, messages, instructions, etc. between two or more persons. It is a two way process. It is also considered as a circular process which starts with sender and ends with sender.

Types of Communication. There are two types of communication:

1. Formal Communication
2. Informal Communication.

1. **Formal Communication.** It refers to official communication which takes place following the chain of command.

2. **Informal Communication.** Communication between the individuals or groups which is not officially recognised is known as informal communication.

   Informal communication is also known as **Grapevine** because the origin and direction of flow of information cannot be known.

   Difference between formal communication and informal communication. Formal and informal organisation can be differentiated on the basis of following points:

   1. Meaning
   2. Relations
   3. Nature
   4. Channel
   5. Expression
   6. Need
   7. Speed
   8. Fixation of responsibility
   9. Record

Barriers to Effective Communication

I. Semantic Barriers

(a) Badly expressed message
(b) Symbols with different meanings
(c) Faulty translation
(d) Unclarified assumption
(e) Technical jargon
(f) Body language

II. Psychological Barriers

(a) Premature evaluation
(b) Lack of attention
(c) Loss by poor retention
(d) Distrust

III. Organisational Barriers

(a) Organisational policy
(b) Rules and regulations
(c) Status difference
(d) Complex organisation
(e) Organisational facility

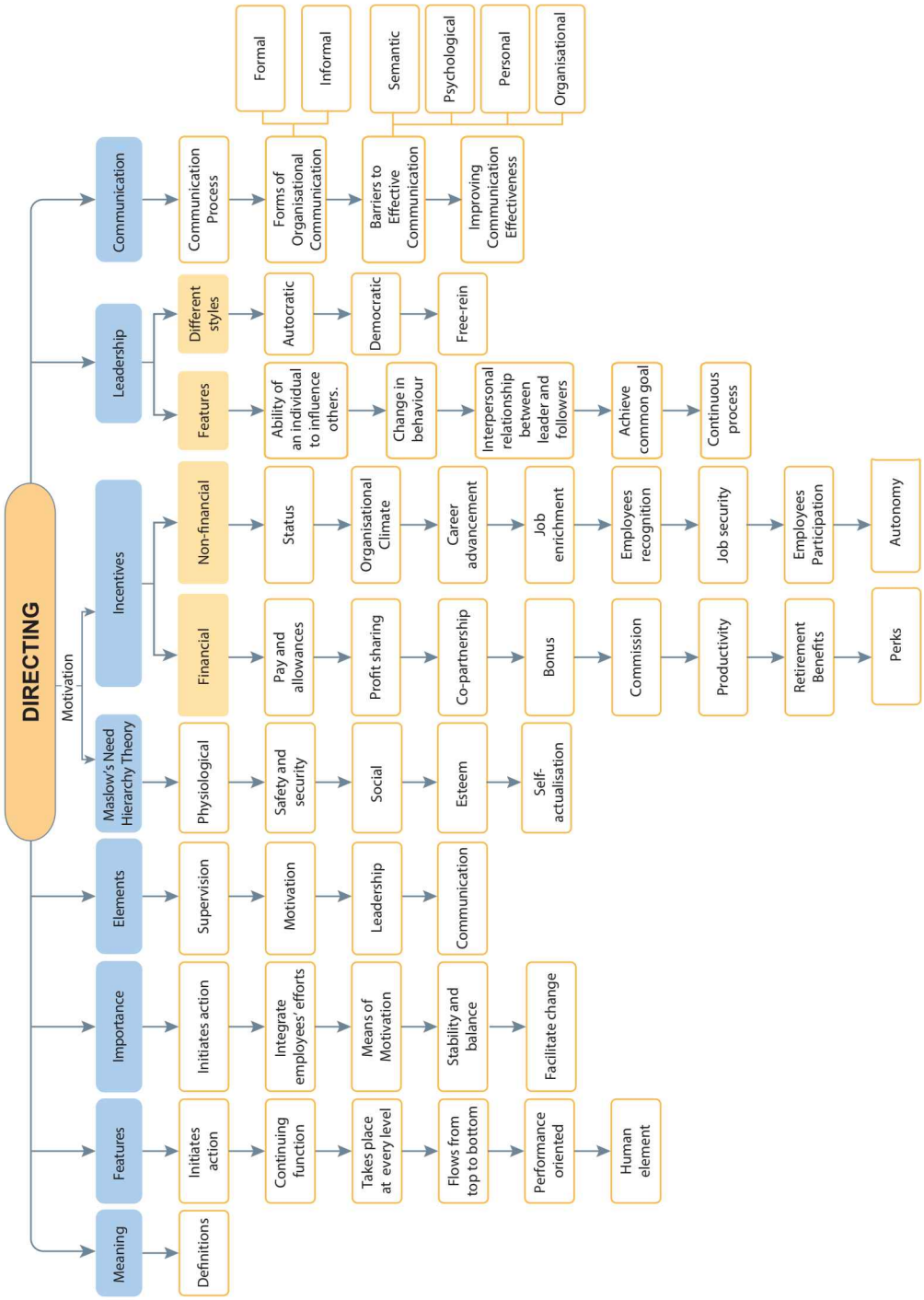
IV. Personal Barriers:

(a) Lack of confidence
(b) Lack of incentives
(c) Fear of authority
(d) Unwillingness to communicate

Improving Effective Communication

1. Clarify the idea before communication
2. Communication according to the need of receiver
3. Consult others before communicating
4. Use of proper language
5. Proper feedback
6. Communication for the present as well as for future
7. Follow-up
8. Good listener
9. Open mind
10. Completeness of message.

Directing — A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. Directing
   (a) Is a primary function of management (b) Initiates action
   (c) Recruits and Selects employees (d) Identifies and groups the activities
2. Directing is performed at
   (a) Top level (b) Middle level
   (c) Supervisory level (d) All levels
3. To build up the morale of employees and to develop interest in the job, manager uses the following element of directing.
   (a) Supervision (b) Leadership
   (c) Motivation (d) Communication
4. Motivators can be
   (a) Positive only (b) Negative only
   (c) Positive as well as negative (d) None of the above
5. Safety from illness, accident, fire, etc. is included in
   (a) Physical security (b) Economic security
   (c) Social security (d) None of the above
6. Respect and recognition is part of
   (a) Physiological need (b) Social need
   (c) Safety Security need (d) Esteem need
7. Informal organisation and informal communication tries to fulfil
   (a) Physiological need (b) Social need
   (c) Safety security need (d) Self-actualisation need
8. The incentive to provide company's share at very low price or free to employee workers is called
   (a) Profit sharing (b) Commission
   (c) Retirement benefit (d) Co-partnership stock option
9. The leader who does not welcome suggestions of employees is called
   (a) Autocratic leader (b) Democratic leader
   (c) Free Rein leader (d) None of the above
10. Giving a special rank, position, or authority to employees is part of
    (a) Monetary Incentive (b) Non-monetary Incentive
    (c) Profit sharing (d) Compartnership
11. The leader who encourages the employees to give suggestion and allots the work after consulting the employees is called
    (a) Autocratic leader (b) Free Rein leader
    (c) Democratic leader (d) None of the above

12. The barrier due to lack of vocabulary, wrong grammar or use of wrong words is called
    (a) Badly expressed message (b) Technical Jargon
    (c) Faulty Translation (d) Symbol with different meaning
13. The communication gap due to size and complexity of organisation's structure comes under the following category.
    (a) Semantic Barrier (b) Psychological Barrier
    (c) Organisational Barrier (d) Personal Barrier
14. According to Maslow, how many level of needs are there in every human being?
    (a) 3 (b) 5
    (c) 4 (d) 6
15. Full utilisation of potential and capacity of employees can be seen in
    (a) Autocratic leadership (b) Democratic leadership
    (c) Free rein leadership (d) Paternalistic leadership
16. Directing takes place wherever superior-subordinate relations exist.
    Identify the characteristic highlighted in the above statement?
    (a) Directing is a continuous process (b) Directing flows from top to bottom
    (c) Directing takes place at every level (d) Directing initiate action
17. Jagan, who was working in a big company resigned on the ground of 'lack of recognition and attention" in the organization towards his work and performance.
    Identify the hierarchy need according to Maslow which was not satisfied for jagran.
    (a) Psychological needs (b) Safety needs
    (c) Affiliation needs (d) Esteem needs
18. Use of 'Technical jargon' is which type of communication barrier?
    (a) Organisational barrier (b) Psychological barrier
    (c) Semantic barrier (d) Personal barrier
19. The lowest level need in the need hierarchy theory of Abraham Maslow is
    (a) Safety need (b) Belongingness need
    (c) Esteem need (d) Physiological need
20. Which of the following is not an element of communication process?
    (a) Decoding (b) Grapevine
    (c) Channel (d) Receiver

(Answers at Page no. 350)

Fill in the Blanks

1. _____ is a psychological process.
2. Complete delegation of authority is part of _____ style of leadership.
3. Under _____ category of communication barriers, senders and receivers have different state of mind.
4. The need for love, affection and companionship comes under _____ need.
5. Basic necessities like food, shelter, clothing, fresh air, etc. come under _____ need.
6. According to Maslow, human needs follows a _____.

7. Motivation develops _____ to work.
8. To fulfil esteem need, _____ incentive is suitable.
9. Leadership is a process of _____ the behaviour of employees.
10. Communication is a _____ way process.

(*Answers at Page no. 350*)

True or False

1. To motivate employees, only positive motivators can be used.
2. Lack of attention is a part of organisational barrier.
3. We must always clarify the idea before communication.
4. Use of words having same pronunciation but different meaning is called personal barrier.
5. Directing flows from all the directions.
6. Autocratic leader always welcome suggestions of employees.
7. In communication minimum two parties are involved.
8. Influencing your own behaviour is also leadership.
9. Motivation is a psychological process.
10. Noise refers to only loud sound.

(*Answers at Page no. 350*)

Remembering and Understanding-based Questions with Answers

Q. 1. The barriers to effective communication exist in all organisations. Explain any three measures to overcome these barriers. [*CBSE Sample Paper 2014*]

Ans. Measures to overcome barriers to communication: (Any three)

(i) Clarify the ideas before communication.
(ii) Communicate according to needs of receiver.
(iii) Be aware of languages, tone and content of message.
(iv) Ensure proper feedback.
(v) Communicate for present as well as future.
(vi) Be a good listener.

Q. 2. State the importance of directing function of management. [*CBSE Sample Paper 2014*]

Ans. Importance of directing:

(i) Directing helps to initiate action.
(ii) Directing integrates employees' efforts.
(iii) Directing motivates and leads employees to fully realise their potential.
(iv) Directing facilitates introduction of changes needed in the organisation.
(v) Directing helps to bring stability and balance in the organisation by fostering cooperation and commitment among employees.

Q. 3. State any five semantic barriers to communication in an organization. [*CBSE Sample Paper 2015*]

Ans. Semantic barrier to communication *(Any five)*

(i) Badly expressed message may not convey intended meaning.

(ii) Symbols with different meanings may be perceived differently by the receiver.
(iii) Message originally drafted in one language may be misunderstood due to faulty translation.
(iv) Messages involving certain assumptions may be interpreted differently due to unclarified assumptions.
(v) Use of technical jargon by specialists may not be understood by others.
(vi) Body language and gesture decoding may be misunderstood if what is said and what is expressed do not match.

Q. 4. Describe briefly 'Maslow's need hierarchy theory' of motivation. *[CBSE Sample Paper 2016]*

Ans. Maslow's Need Hierarchy theory is based on human needs; which are as follows:

(i) Basic Physiological Needs (ii) Safety/Security Needs
(iii) Affiliation/Belonging Needs (iv) Esteem Needs
(v) Self Actualisation Needs

Q. 5. What is the supervision.

Ans. Supervision refers to observing, guiding and watching the employees while they are performing the job.

Q. 6. Give one example of noise in the process of communication.

Ans. Loud sound, poor connectivity of internet, losing of letter, disturbance in telephone line, etc.

Q. 7. Which function of management is known as "Management in action"?

Ans. Directing.

Q. 8. Give any two principles of directing.

Ans. (i) Maximum individual contribution, (ii) Harmony of objectives.

Q. 9. Define motivator.

Ans. Motivators are the incentives or technique used to motivate the people.

Q. 10. Rajat a sales manager achieved his sales target one month in advance. This achievement was displayed on the notice board and a certificate for the best performance was awarded to him by the CEO of the company. Name the incentive provided to Rajat.

Ans. 'Recognition' is a non-monetary incentive.

Q. 11. What is meant by *'feedback'* in communication process?

Ans. Feedback refers to response of receiver on the message conveyed by the sender.

Q. 12. Give two examples of non-monetary incentives.

Ans. (i) Recognition, (ii) Assignment of challenging job.

Q. 13. Give two examples of monetary incentives.

Ans. (i) Bonus, (ii) Profit sharing.

Q. 14. Give two examples of semantic barriers.

Ans. (i) Symbols with different meanings, (ii) Badly expressed message.

Q. 15. Give one example of psychological barrier.

Ans. Lack of attention.

Q. 16. What do you mean by grapevine?

Ans. Informal communication is considered as grapevine. It is called grapevine because there is no fixed source of information and it can spread in any direction.

Q. 17. Name the need in which employee desires affection, companionship and friendliness.

Ans. Social need.

Q. 18. Suggest two ways to improve effectiveness of communication.

Ans. (i) Communication according to the need of the receiver.

(ii) Use of proper language, tone, and contents of message.

(iii) Proper feedback.

Q. 19. Name the communication barrier in which a message is decoded differently by different people.

Ans. Semantic barrier.

Q. 20. Name the communication barrier in which a message is understood differently due to different state of mind of sender and receiver.

Ans. Psychological barrier.

Q. 21. *"Directing is the least important function of management."* Do you agree with this statement? Give reasons in support of your answer.

Ans. No, I do not agree with this statement. The directing is not the least but the most important function of management because of the following reasons:

(i) Directing initiates action.

(ii) Integrates employees' efforts.

(iii) Means of motivation.

(iv) Balance in the organisation.

(v) Facilitates change.

Q. 22. *"Directing is the function of all managers of the organisation."* Do you agree with this statement? Give any three reasons in support of your answer.

Ans. Yes, I agree with this statement because directing is very important function of an organisation and every manager has to perform it because of following reasons,

[*Give any three points from Ans. 21*].

Q. 23. *"Directing is the heart of management."* Do you agree with this statement? Give reasons to support your answer.

Ans. *Same as Ans. 22.*

Q. 24. What do you mean by grapevine?

Ans. Grapevine refers to the part of informal communication. Grapevine cuts across formal channels of communication. There is no orderly path of travelling of information.

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. 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.

(a) Identify the incentive and explain its type, which has been suggested by Mrs. Rajlaxmi to the CEO of the company.

(b) Also explain any two other incentives of the same type. *[CBSE Sample Paper 2015]*

Ans. (a) Financial incentive.

Co-Partnership/Stock Option

(b) Other financial incentives (any two):

- Pay and allowances
- Productivity linked wage incentives
- Bonus
- Profit Sharing
- Retirement Benefits
- Perquisites

Q. 2. Why is it said that directing takes place wherever superior-subordinate relationship exists?

[CBSE Sample Paper 2016]

Ans. Directing takes place at every level of management. That is why it takes place whereever superior-subordinate relation exists.

Q. 3. Ravi, the Marketing Manager of Weaver Garments Ltd. does not allow the salesmen working under him to freely express their frank opinion and feelings regarding work related matters.

[CBSE (D) 2017(C)]

Identify the organisational barrier to communication that has been created by Ravi.

Ans. Status.

Q. 4. Name the incentive in which benefits like car allowance, housing, medical aid are offered to an employee.

Ans. Perquisites.

Q. 5. Name the element of directing which refers to the ability of influencing people to strive willingly for mutual objectives.

Ans. Leadership.

Q. 6. *"A good leader does not wait for opportunities but creates them."* This statement is related to which quality of a good leader? Explain any other three qualities.

Ans. Initiative.

[For other three qualities refer to page no. 305]

Q. 7. "*Better human relationship*" is one of the advantages of which type of communication? Explain any three importance of such communication.

Ans. Informal communication.

[For importance refer to page no. 313]

Q. 8. At which level of management, function of directing is performed?

Ans. At all levels.

Q. 9. Name the kind of monetary incentive in which employees are offered company's share at a lower price than market price.

Ans. Co-partnership.

Q. 10. Name the process of stimulating people to action to accomplish desired goals.

Ans. Motivation.

Q. 11. Name the element of directing which refers to the ability of influencing people to strike willingly for mutual objective.

Ans. Leadership.

Q. 12. Himanshu and Shilpa are working in the same organisation but in different departments one day at lunch time Shilpa informs Himanshu that due to computerisation many people are going to be retrenched soon from the organisation. Name, which type of communication is this?

Ans. Informal communication.

Q. 13. Communication originally drafted in English has been very poorly translated in Hindi. Name the type of barrier to effective communication and explain any other two barriers of this type.

Ans. Semantic barriers. Other two barriers under this type are:

(i) badly expressed message,

(ii) symbol with different meaning.

Q. 14. The greatest number of managerial level in an organisation makes it more complex. This statement is about which type of barrier to communication?

Ans. Organisational barrier.

Q. 15. Y Ltd. is a bank functioning in India. It is planning to diversify into insurance business. Lately, the government of India has allowed private sector to gain entry in the insurance business. Previously, it was the prerogative of LIC and GIC to do insurance business. But now with liberalisation of the economy and to make to start insurance business under the regulation of Insurance Regulatory and Development Authority. Y Limited plans to recruit high quality employees and agents and exercise effective direction to capture a substantial part of life and non-life insurance business. *[NCERT]*

(a) Identify how the company can supervise its employees and agents effectively.

(b) What financial and non-financial incentive can the company use for employees and agents separately to motivate them?

(c) How can the company ensure that higher order needs, i.e., the esteem and self actualisation needs are met?

(d) Give a model of formal communication system that the company can follow. Identify the barriers in this model. How can they be removed?

Ans. (a) Company can supervise its employees by appointing a supervisor as supervisors guide the efforts of their employees and other resources to accomplish the objective of organisation.

(b) Explain financial and non-financial incentives on pages 300-302.

(c) Generally, higher order needs are not satisfied with money alone. To satisfy these needs, psychological, social and emotional factors also play an important role. Non-financial incentives mainly focus on these needs and common non-financial incentive which can ensure that higher order needs are satisfied are:

[Explain non-financial incentives on page no. 301-302].

(d) The most suitable model of formal communication system that the company can follow is free flow. In this network each person can communicate with others freely. The flow of communication is fast in this network.

The common barriers in this model are:

1. Semantic barriers

   (a) Badly expressed message (b) Symbols with different meanings

(c) Faulty transactions (d) Unclarified assumptions
(e) Technical jargon (f) Body language and gesture decoding

2. Psychological barriers
   (a) Premature evaluation (b) Lack of attention
   (c) Loss by transmission and poor retention
   (d) Distrust
3. Organisational barriers
   (a) Organisational policy (b) Rules and regulations
   (c) Status difference (d) Complex organisation
   (e) Organisational facilities
4. Personal barriers
   (a) Lack of confidence of superior in his subordinates
   (b) Lack of incentives
   (c) Fear of authority
   (d) Unwillingness to communicate.

These barriers can be removed by taking following measures:

(i) Clarify the idea before communication.
(ii) Communicate according to the need of the receiver.
(iii) Consult others before communicating.
(iv) Use of proper languages.
(v) Proper feedback.
(vi) Communication for present as well as future.
(vii) Follow up.
(viii) Good listener.
(ix) Open mind.
(x) Completeness of message.

Q. 16. Mr. Nath, a recently appointed production manager of Suntech Ltd. has decided to produce jute bags instead of plastic bags as these are banned by the government. He set a target of producing 1000 jute bags a day. It was reported that the employees were not able to achieve the target. After analysis he found that employees were demotivated and not putting in their best for achieving the target. Mr. Nath's behavior is good towards the employees. His attitude is always positive. So he announced various incentive schemes for the employees like:

- **Installing award or certificate for best performance.**
- **Rewarding an employee for giving valuable suggestions.**
- **Congratulating the employees for good performance.**

(a) Identify the functions of management highlighted in the above paragraph.
(b) State the' incentive' under which the employees are motivated.

Ans. (a) Controlling and directing.
(b) Employee recognition programme (non-monetary incentive).

Q. 17. **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 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".**

By quoting the lines from above paragraph state any two elements of directing.

[CBSE Sample Paper 2016]

Ans. 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.'

Q. 18. **Sadaf is the Chief Executive Officer of a reputed company. She introduced appropriate skill development programmes and a sound promotion policy for the employees of her company. To motivate and retain the best talent in the company, she designed the jobs of the managers to include greater variety of work content. Identify and explain the two incentives introduced by Sadaf to motivate the employees of her company.**

Ans. The two incentives used by Sadaf to motivate the employees of her company are:

(i) Career Advancement Opportunity: It means providing an opportunity to employees to improve their skills to be promoted to higher level of jobs. Appropriate skill development programmes and sound promotion policy provide career advancement opportunity to the employees.

(ii) Job Enrichment: It is concerned with designing jobs that include greater variety of work content and provide the opportunity for personal growth and a meaningful work experience.

Q. 19. **Raju is good orator, but he lacks in good listening skills. Due to it, he does not listen to the instructions given by supervisor carefully and completely. Therefore, he doesn't complete the work as per her given instructions.**

1. **Identify the concerned communication barriers**
2. **State the category of such barriers.**
3. **How such barriers can be mitigated?**

Ans.

1. Lack of Attention
2. Semantic Barrier
3. Be a good listener

Q. 20. 'Dr. Plus Ltd'. a company manufacturing pharmaceuticals organised a seminar for the lower level team of "Production Department". The resource person emphasized on the following points:

In order to realise organisational goals, the supervisor must have the ability of Influencing people to strive willingly for mutual objectives. He should possess the art of transferring facts, ideas, feelings, etc. from one person to another and making them understand. He needs to monitor the progress of routine work of the subordinates and guide them properly. He has to identify what excites people to work for the attainment of a desired objective so as to induce them to act in a desired manner.

1. Which functions of management are referred in the above?
2. Identify quoting lines, the elements of one of the functions referred in above para.

Ans. 1. Staffing, Directing
2. Leadership, Communication, Supervision, Motivation

Q. 21. 'Rose Ltd' is manufacturing—Textiles, Cosmetics and Kitchenware items. The company has recruited all female freshers directly from a Management Institute located in the city. Each product is headed by different female manager.

Ms Pooja is looking after Textile. She believes in decentralisation and takes decisions regarding different work by consulting her subordinates.

Ms. Mona, head of Cosmetics, takes little interest in managerial functions and the subordinates are left on their own.

Ms Anu is heading Kitchenware items. She has kept all the authority in her own hands and makes employees perform the work exactly as per her orders.

1. Which kind of organisational structure has the company adopted?
2. State the specific source of recruitment used by the company.
3. Identify the leadership styles practised by the 3 heads.

Ans. 1. Divisional structure 2. Campus recruitment
3. Democratic, Free rein, Authoritative

Q. 22. The psychology lecture of MBA students of 'Ikon Institute' was going on. The lecturer discussed that some employees have the desire for status or ego of self-respect and recognition.

Some have the desire to be what they want to be.

Some aspire for acceptance and sense of belongingness.

Some need defence against unexpected problems in future.

1. Identify the topic of psychology lecture.
2. Identify the desires of employees discussed above along with how can a manager fulfil such desires respectively.

Ans. 1. Human needs, Motivations
2. Esteem needs, Self-actualisation, Social needs, Safety/Security need

Q. 23.

NOTICE

A meeting of all supervisor is scheduled on 18th May, 2014

This Notice Board was placed in reception area of ABC Ltd. The notice placed here did not mention clear specification regarding the time. This resulted in ambiguity of message. Which barrier of communication is 'referred to' here? Explain any three other forms of barriers of effective communication.

Ans. Semantic (unclassified Assumption).

Q. 24. Kareena is working in an MNC She has been given an option to buy the shares of the company at an amount less than the market price because of her performance as an incentive. Katrina has been awarded "Employee of the month" award. Which forms of incentive is being referred here? Explain the incentives along with any other three incentives.

Ans. Non-monetary.

Copartnership, Job enrichment and Recognition (Refer to page no. 301-302).

Q. 25. You are a soft skill trainer who trains people in their speaking and writing skills. What ideas can you give to the trainees about improving the communication effectiveness?

Ans. Refer to Page no 318-319.

Q. 26. Pramod was a supervisor at 'Annapurna Atta' factory. The factory was producing 200 quintals of aata every day. His job was to make sure that the work goes on smoothly and there was no interruption in production. He was a good leader who would give orders only after consulting his subordinates and work out the policies with the acceptance of the group. Identify and describe the leadership style being adopted by Pramod. Explain other two types also.

Ans. Democratic. Autocratic and Free-rein Leadership (Refer to Page no. 306-308)

Q. 27. Alok is view supervisor of Ram, Rahim and Khan. He consults all his subordinates while framing work schedules. They provide suggestions and Alok considers such suggestions if they are productive. Which leadership style is followed by Alok? What would be the benefits of such leadership style to the organisation?

Ans. Democratic.

Q. 28. Ekta is a very strict foreman. She punishes late comers by reporting negatively in observation reports of workers. Due to which the wages of those workers who come late, decline considerably. Which kind of motivation is applied by Ekta? Do you think, by doing so, the late comers can be regulated? Explain.

Ans. Negative Motivation.

Q. 29. Rahul is an engineer in Jacob Ltd. He works very hard and it is observed by Production Manager. But he never appreciates the efforts of Mr. Rahul. Name the element of Direction not exercised by production Manager.

Ans. Motivation.

Q. 30. Bhuvan was working as a clerk in Hindustan Ltd. since last three and a half years. He was working with full diligence. His boss noticed his performance and gave him "Confirmation letter". Which kind of Bhuvan's need was satisfied?

Ans. Job Security.

Q. 31. Ayesha Ltd. assured their employees that in spite of recession no worker will be retrenched from the job.

(i) Name and explain the type of incentive offered to the employees.

(ii) Explain one more incentive of the same category.

Ans. (i) Job security

(a) Employee's recognition.

(ii) Other incentives:

(b) Organisational climate.

Q. 32. Blue Birds Ltd. offers to its employees issue of shares at a price which is less than the market price.

(i) Name and explain the type of incentive offered to the employees.

(ii) Explain one more incentive of the same category.

Ans. (i) Co-partnership/Stock option (ii) Other incentives:

(a) Pay and allowance, (b) Bonus.

Q. 33. ABC Ltd. is not able to achieve its objective on analysing, they found that employees were not given their best, so he decided to announce an incentive plan, which offers various incentives to employee workers at different level for achieving their target.

(i) Which element of directing is used by manager?

(ii) Suggest incentives suitable for:

(a) Employees operating at lower level.

(b) Employees operating at higher level.

Ans. (i) Motivation is missing.

(ii) (a) Lower level offer monetary incentives.

(b) Higher level offer non-monetary incentive.

Q. 34. Neeraj, a sales representative of 'Omida Ltd.' has changed seven jobs in the last one year. He is a hard working person but is not able to finalise deals with the customers due to his inadequate vocabulary and omission of needed words. Sometimes he uses wrong words because of which intended meaning is not conveyed. All this created a mis-understanding between him and his clients.

(a) Identify the communication barrier discussed above.

(b) State the category of this communication barrier.

(c) Explain any other communication barrier of the same category.

Ans. (a) Badly expressed message.

(b) It comes under 'Semantic barriers'.

Semantic barriers are concerned with problems in the process of encoding and decoding of message into communication symbols.

(c) Faulty translation, symbols with different meanings.

Q. 35. Huma is working in a company on a permanent basis. As per the job agreement she had to work for 8 hours a day and was free to work overtime. Huma worked overtime, due to which she fell ill and had to take leave from her work. No one showed concern and enquired about her health. She realised that she was fulfilling only some of her needs while some other needs still remained to be fulfilled.

(i) By quoting the lines from the above para, identify the needs of Huma which she is able to fulfil.

(ii) Also explain two other needs of Huma followed by the above needs, which still remained to be satisfied. *[CBSE 2014]*

Ans. (i) 'Huma is working in a company on a permanent basis'.

According to above line Huma is able to fulfil her following needs:

(*a*) Physiological needs

(*b*) Safety or Security needs

(ii) Needs of Huma which still remained to be satisfied are:

(a) Affiliation Need: It refers to the need for affection, sense to belongingness, acceptance and friendship.

(b) Esteem Need: It refers to the need for self-respect, autonomy, status, recognition and attention.

Q. 36. Mr Bhuvan is the marketing manager of the company manufacturing designer clothes. One day in the morning while leaving home, he had a quarrel with the person in the neighbourhood. That person abused his family and threaten to harm the family. Mr. Bhuvan got very upset and worried. On the same day a meeting was organised in the office to finalise the design according to market demand and taste and fashion of the customers. Mr Bhuvan could not pay attention to the discussion as he was thinking about the quarrel only.

(a) Identify the type of barrier to communication mentioned in the above para.

(b) State any other two barriers of same category.

Ans. (a) Psychological barrier—Lack of attention.

(b) (i) Premature evaluation

(ii) Loss by poor retention.

Guidelines to NCERT Questions

Multiple Choice Questions

1. Which one of the following is not an element of direction?

(a) Motivation (b) Communication

(c) Delegation (d) Supervision

2. The motivation theory which classifies needs in hierarchical order is developed by

(a) Fred Luthans (b) Scott

(c) Abraham Maslow (d) Peter F. Drucker

3. Which of the following is a financial incentive?

(a) Promotion (b) Stock Incentive

(c) Job Security (d) Employee Participation

4. Which of the following is not an element of communication process?

(a) Decoding (b) Communication

(c) Channel (d) Receiver

5. Grapevine is

(a) Formal communication (b) Barrier to communication

(c) Lateral communication (d) Informal communication

6. Status comes under the following type of barriers

(a) Semantic barrier (b) Organisational barrier

(c) Non Semantic barrier (d) Psychological barrier

7. The software company promoted by Narayana Murthy is

(a) Wipro (b) Infosys

(c) Satyam (d) HCL

8. The highest level need in the need Hierarchy of Abraham Maslow:
   (a) Safety need (b) Belongingness need
   (c) Self-actualisation need (d) Prestige need
9. The process of converting the message into communication symbols is known as:
   (a) Media (b) Encoding
   (c) Feedback (d) Decoding

Short Answer Type Questions

1. Distinguish between leaders and managers. [Refer on page no. 305]
2. Define motivation. [Refer on page no. 297]
3. What is informal communication? [Refer on page no. 313]
4. What are semantic barriers of communication? [Refer on page no. 315]
5. What is supervision? [Refer on page no. 296]
6. What are the elements of directing? [Refer on page no. 296]

Long Answer Type Questions

1. Explain the qualities of a good leader. Do the qualities alone ensure leadership success? [Refer on page nos. 305-310]
2. Discuss Maslow's need Hierarchy theory of motivation. [Refer on page nos. 298-300]
3. What are the common barriers to effective communication? Suggest measures to overcome them. [Refer on page nos. 314-319]
4. Explain different financial and non-financial incentives used to motivate employees of a company. [Refer on page nos. 300-302]

TEST YOURSELF

Very Short Answer Questions

1. Explain Maslow's Need Hierarchy Theory.
2. Explain diagonal communication with example.
3. Explain briefly any three barriers to effective communication.
4. Explain in brief any three features of Motivation.
5. Explain meaning of formal communication.

Short Answer Questions

1. 'A supervisor is not at all required in an organisation.' Do you agree? Give reasons in support of your answer.
2. State briefly functions of supervisors.
3. State various principles of Directing.

Long Answer Questions

1. Explain the role and responsibilities of a leader. How does a leader influence the behaviour of other members?
2. "Money is the only motivator." Do you agree with this statement?
3. Explain in brief various financial and non-financial incentives.

Previous Years' Examination Questions (2014-2019)

One Mark Questions:

1. Give the meaning of 'motivation' as an element of directing. [CBSE (D) 2017]
2. Give the meaning of 'supervision' as an element of directing. [CBSE (AI) 2017]
3. Give the meaning of 'Laissez Faire' style of leadership. [CBSE (D) 2017(C)]
4. Give the meaning of 'Democratic style' of Leadership. [CBSE (D) 2017(C)]
5. Give the meaning of 'Autocratic style' of Leadership. [CBSE (D) 2017(C)]
6. Define 'Directing' as a function of management. [CBSE (F) 2017]
7. State any two characteristics of 'Directing'. [CBSE 2019 (66/2/1)]
8. Kamal is working as a gang boss in the assembly unit of 'Sokia Ltd.', a laptop manufacturing company he supervises the work of ten trained workers who perform the various activities related to the assembly of the laptops. One day when he was supervising the work of his workers, he told Ashok, a worker that his work could be improved. Ashok interpreted the comments of Kamal as that his work was not good.

   Identify the type of barrier to effective communication in this case. [CBSE 2019 (66/2/1)]
9. How does an organisation satisfy 'Esteem Needs' of its employees? State. [CBSE 2019 (66/3/1)]
10. Mark Nar, a Latin American while closing a business deal with a businessman from Spain, used a word which was considered offensive in Spanish when translated. This made the Spanish businessman upset and he backed away.

    Name the semantic barrier to effective communication. [CBSE 2019 (66/3/1)]
11. Differentiate between 'Democratic' and 'Laissez-faire' style of leadership. [CBSE 2019 (66/5/1)]
12. Differentiate between 'Formal communication' and 'Informal communication' on the basis of 'Meaning'. [CBSE 2019 (66/5/1)]

Three Marks Questions

13. Explain briefly any three functions performed by a supervisor. [CBSE (D) 2017]
14. Explain any three points that highlight the importance of directing function of management. [CBSE (D) 2017]
15. Explain briefly any three measures to overcome the communication barriers. [CBSE (D) 2017]
16. Explain briefly any three semantic barriers to communication. [CBSE (AI) 2017]
17. Explain briefly any three organisational barriers to communication. [CBSE (AI) 2017]
18. Explain briefly any three personal barriers to communication. [CBSE (AI) 2017]

19. Sandhya is a successful manager at Manisons Enterprises. She has a team of twelve people working under her. She encourages them to set their own objectives and take decisions. She respects their opinions and supports them, so that they can perform their duties and accomplish organizational objectives. To manage and exercise effective control she uses forces within the group.

As an intelligent manager, at times, she also make use of positive aspects of informal communication. This way, she is able to unify diverse interests and ensure the targets are met.

(a) There are many theories and styles of influencing people's behavior. Identify the style used by Sandhya which is based on the use of authority.

(b) State two positive aspects of the communication discussed above, which Sandhya is using as an intelligent manager. *[CBSE (AI) 2014, 2018]*

20. Explain briefly any three psychological barriers to effective communication. *[CBSE (AI) 2017]*

21. Aarav was working as a supervisor with 'Neer Purifier Ltd.' which was producing water purifiers. The target of the company was to produce 200 water purifiers every day. His job was to make sure that work goes on smoothly and there was no interruption in production. To achieve this, he always gives orders and insists that they are obeyed. He believes that reward or punishment both can be given depending upon the performance.

Identify and describe the leadership style being adopted by Aarav. *[CBSE (F) 2015]*

22. KPM Ltd.' is manufacturing breads and biscuits for many years. It has approximately 150 employees and most of them are not happy with the working environment. Because of this the labour turnover rate is very high. Therefore the company appoints a new Human Resource Manager, Naveen, to analyse the situation. Naveen finds that there is no free flow of communication, and there is no suggestion box for the employees to voice their suggestions or grievances. The company rarely organises a social or cultural gathering, the employees just come, finish their work and leave the organisation.

(a) Identify the communication barrier discussed above.

(b) State the category of this communication barrier.

(c) Explain any other communication barrier of the same category. *[CBSE (F) 2015]*

23. Pramod was a supervisor at ' Annapurna Aata' factory. The factory was producing 200 quintals of aata every day. His job was to make sure that the work goes on smoothly and there was no interruption in production. He was a good leader who would give orders only after consulting his subordinates and work out the policies with the acceptance of the group.

Identify and describe the leadership style being adopted by Pramod. *[CBSE (F) 2015]*

24. Mr. Shubhendu Bose is the owner of 'Bikmac Enterprise' carrying on the business of manufacturing various kinds of biscuits. There was a lot of discontentment in the organization and the targets were not being met. He asked his son, Naval, who had recently completed his MBA, to find out the reason.

Naval found that all decision making of the enterprise were in the hands of his father. His father didn't believe in his employees. As a result both the employer and the employees were not able to understand each other's messages in the same sense. Thus, the employees were not happy and targets were not met.

(a) Identify any two communication barriers because of which Bikmac Enterprise was not able to achieve its target.

(b) State one more barrier each of the types identified in (a) above. [CBSE (D) 2016]

25. Jaideep recently joined as the Managing Director of 'Tivori Ltd.', an apparel designing company. He observed that the company had a number of experienced fashion designers on its payroll. They regularly offered useful suggestions which were neither appreciated nor rewarded by the company. Instead the company outsourced its services to some renowned fashion designers and paid them a good compensation for their services. Because of this the employees felt disheartened and stopped giving useful suggestions.

(a) Identify the communication barrier discussed above.

(b) State the category of this communication barrier.

(c) Explain any other communication barrier of the same category. [CBSE (AI) 2015]

26. State 'Job Enrichment' and 'Employee Participation' as non-financial incentives. How do they motivate employees? [CBSE 2019 (66/1/1)]

27. State three features of directing function of management. [CBSE 2019 (66/3/1)]

28. State any three measures to improve communication effectiveness.' [CBSE 2019 (66/3/1)]

Four Marks Questions

29. Ram Murthy, the CEO of 'Goodcare Hospitals', a leading chain of hospitals, decided to reward the good work of the doctors of this organization. For this he instituted two running trophies. A 'Healthcare Achievers Trophy' to acknowledge and appreciate the tireless efforts of the doctors who rendered selfless services to the patients and another 'Beti Bachao Trophy' to recognize the outstanding work done by the doctors in saving the girl child.

The CEO also wanted to improve the health services in rural areas all over the country. He decided that all doctors must work in rural areas for at least six months. He also decided that the paramedical staff should be employed locally.

(a) Identify the incentive provided by 'Goodcare Hospitals' to its doctors through running trophies.

(b) Which need of the doctors will be satisfied through the incentive identified in part (a)? State. [CBSE (AI) 2018]

30. 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 a 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.

Identify the leadership style of Avdhesh and draw a diagram depicting the style.

[CBSE (AI) 2017]

31. 'Alfa Ltd.' was dealing in renewable energy. To get the business, the team leader and his team used to travel to different states to give presentation to their clients. As per the policy of the company, the leader used to travel by air, whereas his team travelled by road/train. It was not only time consuming but also at time forced female team members to travel alone.

As a result, the subordinates were not acting in desired manner to achieve organisational goals. The CEO came to know about it. He called the team leader, discussed the matter with him and decided to change the travel policy of the company. It was decided that all the members including the leaders would travel together in future and would usefully utilize the travelling time in discussion with the subordinates about presentation to be given to the clients. This made a positive impact and every member of the team started acting in a manner as desired by the team leader.

State the features of the element of the function of management used by the CEO.

[CBSE (D) 2016]

32. Kunal joined as a shop level manager in the Production department of a textile company in the year 2005. Because of his good work, he became the Deputy Production Manager of the company in the year 2010. He had status and prestige and was well respected by all in the company . On 1st March, 2019, he was promoted as the General Manager of the company. Kunal was very happy on his promotion as now he had become what he was capable of becoming. As a good manager, Kunal decided to motivate his subordinates, after understanding the Need Hierarchy theory which is based on various assumptions. He realised that people's behaviour is based on their needs and the manager can influence the behaviour of his employees by satisfying their needs.

(a) One of the assumptions of Need Hierarchy theory is stated in the above paragraph. State the other three assumptions of this theory.

(b) State the needs of Kunal which are being satisfied through promotion.

[CBSE 2019 (66/2/1)]

Five/Six Marks Questions

33. Smita had been working as an assistant manager with 'Johnson Enterprises' for the last ten years. She was very popular amongst her colleagues because of her commitment and dedication towards the work. When the senior manager to her retired, all her colleagues thought that now Smita would be promoted. But to everyone's surprise the vacant post was filled by an outsider, Mrs. Rita. Smita felt demoralised and her performance started declining. She would abstain herself often and could not meet her targets.

Mrs . Rita was a good leader, who would not only instruct her subordinates but would also guide and inspire them. She noticed Smita's behaviour and felt that her performance could be improved. She started involving Smita in decision making-issues related to the organization and made her a part of high level joint-management committee. Smita was now punctual in office and her performance started improving.

(i) Identify the function of management being performed by Rita.

(ii) Name the element of the above function of management which helped Rita to improve Smita's behaviour.

(iii) State any three features of the element identified in (ii) above. *[CBSE (D) 2015]*

34. Arun is working in a multinational company in Gurgaon. He was running temperature for the last many days. When his blood was tested, he was found positive for dengue with a very low platelet count. Therefore, he was admitted in the hospital and a blood transfusion was advised by the doctors. One of his colleagues sent a text message about it to his immediate superior 'Mr. Narain'. 'Mr. Narain' in turn sent a text message to the employees of the organisation requesting them to donate blood for Arun. When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings.

(a) From the above para quote lines that indicate formal and informal communication.

(b) State any two features of informal communication. *[CBSE (D) 2016]*

35. Pratap Singh is the Chief Executive Officer of Nissar Enterprises. It is an automobile parts manufacturing company. The enterprise has a functional structure, in which jobs of similar nature have been grouped together as Production, Finance, Marketing and Human Resource. Nissar Enterprises has its manufacturing unit at Manesar. The factory has been plagued with many problems for a long time which was in the knowledge of the Production Manager, Varun Sharma. The workers had internal differences. Time and again, there were misunderstandings between the management and the workers. Keeping the problems in mind, Varun Sharma appointed, Siyaram Singh who had 14 years of experience of working with the actual work force and passing on instructions of the middle management to the workers.

Siyaram Singh met Varun Sharma to understand what the management wanted. Thereafter he met the workers and conveyed the ideas of management to them. He also promised the workers to convey their problems to the management. In this way, he cleared the misunderstanding between the management and the workers.

He also sorted out internal differences and was able to unite the workers within a month of his joining. His work was acknowledged and he was given a certificate of good performance along with 10% increase in salary.

(i) Siyaram Singh performed some of the functions which are required to be performed at the position he is working at. State any five other functions Siyaram Singh is expected to perform.

(ii) Name the incentives provided to Siyaram Singh. *[CBSE 2019 (66/1/1)]*

36. Handsen is the CEO of Newcastle Enterprises, one of the world's most successful companies. His success stories have been well documented. He chooses highly motivated and capable managers who can perform their tasks creatively and adequately without his help. He allows the group members to work on their own tasks and resolve issues themselves.

He intervenes, but only when needed to correct an unfavourable situation. He does not use power unless it is absolutely essential. He even allows mistakes to happen for his people to learn from them. He supports them and supplies them the required information to complete the assigned task.

(a) Identify the leadership style adopted by Handsen.

(b) With the help of a diagram, explain the other two leadership styles based on the use of authority. *[CBSE 2019 (66/3/1)]*

37. Three friends, Rajat, Raman and Ansh, after completing their MBA from a reputed business school at Mumbai, were discussing about the type of organisation they would like to join. Rajat was very clear that he would like to take up a government job as it gives stability about the future income and work which will help him to work with greater zeal. It will also provide him pension when he will retire from his service.

Raman wanted to work in a company, which has appropriate skill development plans for its employees and helps the employees to grow to higher levels in the organisation. In addition to this, the company should also provide facilities like housing, medical aid, etc.

Ansh said that he would prefer to work in an organisation, which has the culture of individual autonomy, is considerate to employees and provides the employees with opportunity for personal growth and a meaningful work experience.

(a) Identify the various financial and non-financial incentives discussed by the three friends in the above conversation.

(b) Explain three other non-financial incentives which were not discussed by any one of them.

[*CBSE 2019 (66/4/1)*]

38. Explain any five points of importance of 'directing' function of management.

[*CBSE 2019 (66/5/1)*]

39. Explain any five non-financial incentives. [*CBSE 2019 (66/5/1)*]

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

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

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

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

(c) State any two recommendations that might have been given by the committee to improve communication effectiveness. [*CBSE 2019 (66/5/1)*]

Hints of the Answers for Case Studies

8. Semantic barrier/Unclarified assumption

10. Badly expressed message

19. (a) Democratic style.

(b) Two positive aspects of communication which Sandhya is using as an intelligent manager are:

(i) It carries information rapidly and therefore may be useful to the manager at times.

(ii) It is used by the manager to transmit information so as to know the reaction of his/her subordinates.

21. Autocratic style of leadership.

- An autocratic leader gives orders and insists that they are obeyed.
- He does not give the subordinates any freedom to influence his decision.

- 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.

22. (a) Organisational facilities.

(b) Organisational barriers which are related organisational structure, authority relationships, rules and regulations.

(c) Other barriers in the same category are: (Any one)

(i) Organisational policy. (ii) Rules and regulations.

(iii) Status. (iv) Complexity in organisational structure.

23. Democratic style of leadership.

- A democratic leader favours decision making by the group. 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 them (subordinates) to become part of the team and helps leaders (seniors) to make better decisions.

24. (a) Two communication barriers are:

(i) Organisational barrier/ Organisational policy

(ii) Psychological barrier/ Distrust.

(b) Organisational barrier: (Any one)

(i) Rigid Rules and regulations may delay communication.

(ii) Status of the superior may not allow his subordinates to express their feelings freely.

(iii) Complexity in organization structure leads to delayed and distorted communication.

(iv) Lack of organizational facilities like frequent meetings, suggestion box etc. may discourage free flow of communication.

25. (a) Organisational policy

(b) Organisational barrier which arises from organisational structure, authority relationships, rules and regulations etc.

(c) Other communication barriers of the same category are: (Any one)

(i) Rules and regulations (ii) Status

(iii) Complexity in organisational structure.

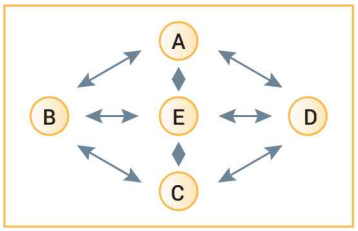
(iv) Organisational facilities.

29. (a) Employee Recognition

(b) Esteem Needs

These include factors/needs such as self respect, autonomy status, recognition and attention.

30. (a) Leadership Style: Democratic/Participative/group centered.



In the above diagram, A is the leader and B, C, D and E are subordinates.

31. Features of motivation:

(a) It is an internal feeling as the urges, drives or needs of human beings which influence human behaviour are internal.

(b) It produces goal directed behaviour as it stimulates people to accomplish desired goals.

(c) It can be positive in the form of positive rewards or negative like punishment, stopping increments etc.

(d) It is a complex process as any type of motivation may not have a uniform effect on all the members.

32. (a) The following are the assumptions of Maslow's Need Hierarchy theory other than the one discussed above:

(i) People's needs are in hierarchical order, starting from basic needs to other higher level needs.

(ii) A satisfied need can no longer motivate a person; only next higher level need can motivate him.

(iii) A person moves to the next higher level of the hierarchy only when the lower need is satisfied.

(b) Needs of Kunal which are being satisfied through promotion are:

(i) Esteem Needs which refer to the need for self respect, autonomy status, recognition and attention.

(ii) Self actualisation needs which refer to the drive to become what one is capable of becoming. These needs include growth, self-fulfillment and achievement of goals.

33. (i) Directing (ii) Motivation

(iii) Features of motivation — Refer on page no. 298-299.

34. (a) Formal communication

'When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings.'

Informal communication

'One of his colleagues sent a text message about it to his immediate superior 'Mr. Narain.'

OR

'Mr. Narain' in turn sent a text message to the employees of the organisation requesting them to donate blood for Arun'.

(b) Features of Informal communication: (Any two)

35. (i) Five other functions Siyaram Singh is expected to perform are:

(a) Maintaining day to day contact and friendly relations with the workers. He should act as a friend, philosopher and a guide to the workers.

(b) Providing good on the job training to the workers to build an efficient team.

(c) Building up high morale among workers through good leadership.

(d) Giving feedback to the workers after analysing their work and suggesting ways of developing their work skills.

(e) Ensuring performance of work according to the targets set.

(f) To oversee the efforts of the workforce.

(g) To ensure that the quality of output is maintained and wastage of material is minimized.

(h) To ensure safety standards are maintained.

(ii) Incentives provided to Siyaram Singh are:

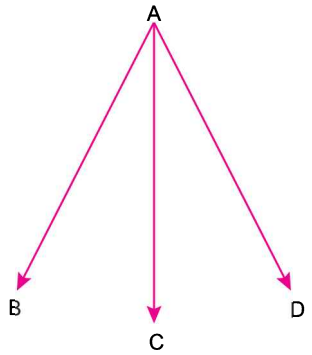
(a) Pay and allowances/Financial Incentive

(b) Employee Recognition Programmes/Non Financial Incentive

36. (a) Laissez Faire leadership style

(b) The other two leadership styles based on the use of authority are:

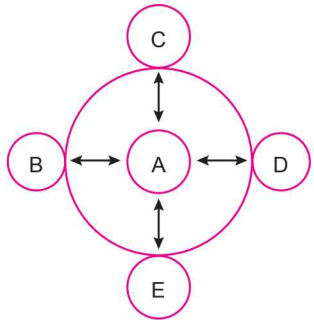
(i) Autocratic leadership style



A is the leader and B, C and D are the followers.

An autocratic leader gives orders and expects his subordinates to obey those orders. There is one-way communication with the subordinates who act according to the command given by the manager.

(ii) Democratic leadership style



In the above diagram, A is the leader and B, C, D and E are subordinates.

A democratic leader develops action plans and makes decisions in consultation with his subordinates. Such a leader recognises that people perform best if they set their own objectives.

37. (a) Financial and non-financial incentives discussed by the three friends in the above conversation.

(i) Financial incentives

- Retirement benefits
- Perquisites

(ii) Non-Financial incentives

- Job security
- Career advancement opportunity

- Organizational climate
- Status

(b) Other non-financial incentives which were not discussed by any one of them (Any three)

- Job enrichment
- Employee recognition
- Employee participation
- Employee empowerment

40. (a) Types of communication barriers discussed above are:

(i) Organisational barrier

(ii) Psychological barrier

Organisational barriers are barriers related to organisational structure, authority relationships, rules and regulations.

Psychological barriers are concerned with the state of mind of both the sender and the receiver

(b) Organisational barriers:

(i) Rigid Rules and regulations may delay communication.

'Global India Ltd.' had rigid rules and would insist on communication through prescribed channels, which led to delays'

(ii) Complexity in organization structure leads to delayed and distorted communication.

'The company also had a number of managerial levels causing further delay and distorted communication'

Psychological barriers:

(i) Loss by transmission and poor retention may act as a barrier to communication.

'The company also had a number of managerial levels causing further delay and distorted communication'.

(ii) Distrust between the sender and the receiver acts as a barrier.

'Chintamani and the workers did not believe in each other and so could not understand each other's messages in the original sense'

Recommendations that might have been given by the committee to improve communication effectiveness:

(i) Be aware of the language, tone and content of the message so that it does not offend the sentiments of listeners.

(ii) Be a good listener so as to understand each others message in its original sense.

(iii) Ensure proper feedback to make communication more responsive.

(iv) Follow up communications to remove hurdles in implementing the instructions.

(v) Consult others before communicating as participation of subordinates may help to gain ready acceptance and willing cooperation.

ANSWERS OF MCQs AND CASE STUDIES

Page 296

1. (d) Directing

2. No, Directing is not required at planning stage, since it is an executive function, it initiates action in the organisation.

Page 303-304

1. (b) Job Enrichment
2. (a) Motivation
3. (i) "The cycle company offered him a permanent pensionable job."

   (ii) According to above line Rahim is able to fulfil his following needs:

   (a) Physiological Needs (b) Safety or Security Needs

   (iii) The other needs followed by the above stated needs that are still to be satisfied are:

   (a) Affiliation need: It refers to the need for affection, sense of belongingness, acceptance and friendship.

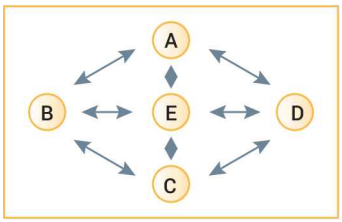
   (b) Esteem need: It refers to the need for self-respect, autonomy, status, recognition and attention.
4. (a) Directing.

   (b) (i) Recognition (ii) Autonomy

   (c) Organisational climate.

Page 309-310

1. (c) Laissez Faire Leadership
2. (a) Autocratic
3. Leadership Style: Democratic/Participative/group centered.



In the above diagram, A is the leader and B, C, D and E are subordinates.

4. Free Rein or Laissez Faire.

Page 314

1. (b) Informal Communication
2. (b) Informal communication

Page 320-321

1. (d) All of the above
2. (a) Personal Barrier
3. (a) Faulty Translation (b) Lack of Attention

   (c) Fear of Authority (d) Technical Jargon

   (e) Organisational Policy

4. 1. Faulty Translation 2. Semantic Barrier
3. Technical Jargon, etc.

5. (i) In this situation manager must use motivation element of directing to induce workers and to get willing cooperation of workers.

(ii) In this situation production manager must appoint a supervisor who will act as a linking pin between production manager and workers. He will also play the role of a guide to help workers to solve their problems.

(iii) In this situation there is a great need for effective leadership. The manager must learn all the qualities of leadership and through training he must try to get as many qualities as possible. He must try to develop confidence and motivation in employees through empathy and listening skill.

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (b)	2. (d)	3. (c)	4. (c)	5. (a)
6. (d)	7. (b)	8. (d)	9. (a)	10. (b)
11. (c)	12. (a)	13. (c)	14. (b)	15. (c)
16. (c)	17. (d)	18. (c)	19. (d)	20. (b)

Fill in the Blanks

1. Motivation
2. Free Rain
3. Psychological Barrier
4. Social
5. Psychological
6. Hierarchy
7. Willingness
8. Employees recognition or Non-monetary
9. Influencing
10. Two

True or False

1. (F) – Motivators can be positive as well as negative.
2. (F) – It is Psychological barrier
3. (T)
4. (F) – It is symbol with different meaning.
5. (F) – It flows from top to bottom
6. (F) – Autocratic leader never welcome suggestion.
7. (T) –
8. (F) – In Leadership one must influence the behaviour of some other person.
9. (T) –
10. (F) – Noise include all the reasons or distraction or interruption due to which message does not reach receiver.

8 CONTROLLING

Contents as per Latest CBSE Syllabus

- Concept and importance
- Relationship between planning and controlling
- Steps in process of control

INTRODUCTION

Controlling is a very important managerial function. It is concerned with taking necessary measures or preventive actions to ensure achievement of organisational goal.

8.1 MEANING OF CONTROLLING

Controlling function can be defined as 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 in future there is match between actual and planned performance.

Definitions by different authors:

- "Controlling is determining what is being accomplished, that is, evaluating the performance and, if necessary, apply corrective measures so that performance takes place according to plans."
  —Terry and Franklin
- "Controlling consists of verifying whether everything occurs in conformity with the plans adopted, the instructions issued and the principles established. It has for its object to point out weaknesses and errors in order to rectify them and prevent recurrence." ***—Henry Fayol***
- "Controlling is measurement and correction of the performance of the subordinates to make sure that the enterprise objectives and plans devised to attain them are being accomplished." **—Koontz and O'Donnell**
- "Controlling function leads to goal achievement, an organisation without effective control is not likely to reach its goal." ***—Ricky W. Griffin***

Controlling is not the last function of management but it is the function which bring back the management cycle to planning.

Keywords

Controlling

(i) Ensure work as per plan
(ii) Compel events to confirm to plan
(iii) Actual output not as per target due to lack of controlling
(iv) Comparison between actual performance with planned performance

SCOPE. Controlling is very wide in scope as it does not end only by comparing the actual performance with planned performance but it tries to find the reasons and solutions for such problems also. **For example,** if the planned output is 1,000 units and actual output is 800 units, then controlling function will look for reasons of this deviation. If the reason is fault in machinery or inefficiency of workers then the corrective measures are taken by instructing the maintenance department to keep regular check of machinery and if it is due to inefficiency of workers then they are sent for training so that their efficiency can be improved.

There are **two aspects of controlling** function:

(a) strategic control and

(b) operational control.

(a) **Strategic control** refers to check how effective the strategies and the plans are because sometimes there can be deviation in actual performance and planned performance due to plans and strategies.

Example: Let plan output = 100

Actual output = 120

In this case, mismatch is due to underestimation of plan, so it is called strategic control.

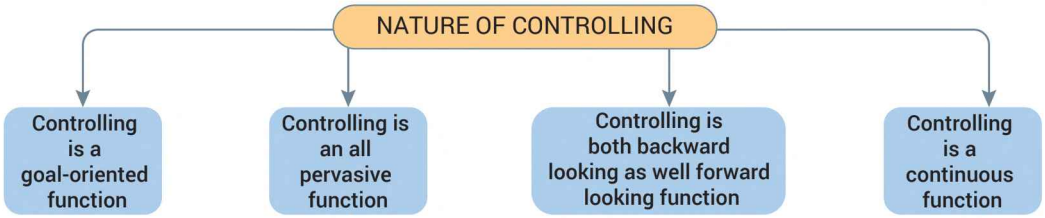
(b) **The operational** aspect refers to focus on managerial and other activities of the organisation. That is to find out whether the mismatch is due to fault in the actions or activities. In both the aspects, the managers try to find out the reasons for mismatch and take corrective measures.

8.2 NATURE OF CONTROLLING

1. **Controlling is a goal-oriented function.** Controlling function makes sure every one follows the plan or work is accomplished as per the plan and plan always aim at achieving organisational goal.
2. **Controlling is an all pervasive function.** Controlling is not the task of top level managers only but managers working at all the levels, *i.e.*, top, middle and operational level perform controlling function.
3. **Controlling is both backward looking as well forward looking function.** Controlling is backward looking function as managers compare the planned performance with actual performance and to measure the actual performance they have to look back to the performance already done. Controlling is forward looking also because it does not end only by comparing past performance with future but it also suggest measures to remove the

reasons for failure of plans. This function make sure that plans and performance match in future.

4. **Controlling is a continuous function.** Controlling is not a one time job but it is an ongoing process. It is carried on till the organisation is surviving.



Keywords

Nature of Controlling

(i) Controlling is a goal-oriented function. Ensure work accomplishment as per plan.

(ii) Controlling is an all pervasive function (Universal). It is used everywhere in all types of organisations and all levels.

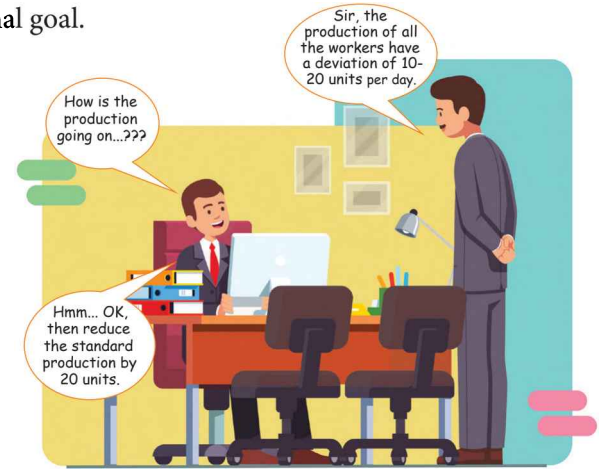
(iii) Controlling is both backward looking as well as forward looking function. Backward means looking back to the performance and forward means suggesting measures.

(iv) Controlling is continuous function. It is never ending, on going function.

8.3 IMPORTANCE OF CONTROLLING

1. **Helps in achieving organisational goals.** When the plans are made in the organisation these are directed towards achievement of organisational goal and the controlling function ensures that all the activities in the organisation take place according to plan and if there is any deviation, timely action is taken to bring back the activities on the path of planning. When all the activities are going according to the plan, then automatically these will direct towards the achievement of organisational goal.

2. **Judging accuracy of standards.** Through strategic controlling, we can easily judge whether the standard or target set are accurate or not. An accurate control system revises standards from time to time to match them with environmental changes.



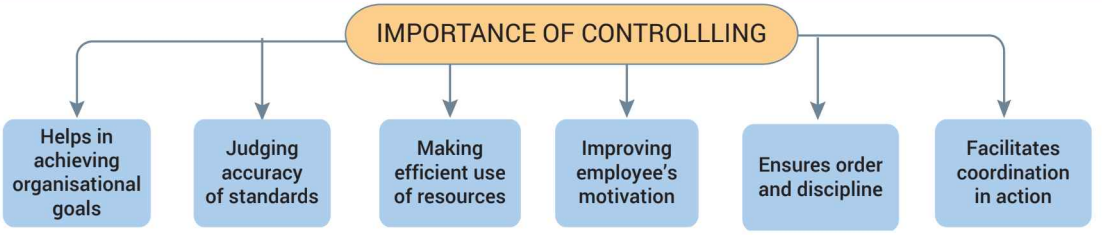
3. **Making efficient use of resources.** Like traffic signal control guides the organisation and keeps it on the right track. Each activity is performed according to predetermined standards. As a result, there is most and effective use of resources.

4. **Improving employee's motivation.** An effective control system communicates the goals and standards of appraisal for employees to subordinates well in advance.

   A good control system also guides employees to come out from their problems. This free communication and care motivate the employees to give better performance.

5. **Ensures order and discipline.** Control creates an atmosphere of order and discipline in the organisation. Effective controlling system keeps the subordinates under check and makes sure they perform their functions efficiently. Sharp control can have a check over dishonesty and fraud of employees. Strict control monitor, employees work on computer monitor which brings more order and discipline in work environment.

6. **Facilitates coordination in action.** Control helps to maintain equilibrium between means and ends. Controlling makes sure that proper direction is taken and that various factors are maintained properly. All the departments are controlled according to predetermined standards which are well-coordinated with one another. Control provides unity of direction.



Keywords

Importance of Controlling

(i) Helps in achieving organisational goals. Focus on Plan

(ii) Judging accuracy of standards. Make sure plans are not underestimated or overestimated.

(iii) Making efficient use of resources. Controlling ensure no wastage of resources.

(iv) Improving employee's motivation. By communicating the target in advance, motivate employees to achieve the target.

(v) Ensures order and discipline. Strict control ensure discipline and orderly working.

(vi) Facilitates coordination in action. Controlling ensure proper integration between various activities.

MCQs and Case Studies

1. **To make sure employees focus on work and follow the method of production as per plan the management of Amaira Ltd. decided to install CCTV (close circuit television) in the factory for monitoring the activities of workers.**

   The managerial function discussed above is

   (a) Planning (b) Controlling

   (c) Staffing (d) Directing

2. **With the help of controlling function the management can know not only about the deficiency in the performance but it also help management to know whether standards or plans are set correctly or not.**

   The importance of management discussed above is:

   (a) Ensure order and discipline

   (b) Facilitate coordination in action

   (c) Judging accuracy of standard

   (d) Making efficient use of resources.

3. **Mr. Ankit is the chief manager in a well-known MNC, producing shoes. He called the production manager of his unit and told him to keep a constant watch on all the activities of his respective unit so that there is no possibility of adverse results. As long as the company runs its operation, employees at all levels will adopt it to achieve results.**

   (a) Identify the function of management referred above.

   (b) Describe its three features.

(*Answers at Page no. 374*)

8.4 RELATIONSHIP BETWEEN PLANNING AND CONTROLLING

Planning and controlling are inseparable twins of management. The planning and controlling functions of management are very closely related. The relation between both the functions is explained as follows:

1. **Nature and concept.** Planning is the basic function of every enterprise as in planning we decide what is to be done, how it is to be done, when it is to be done and by whom it must be done. Planning 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 plan and if there is any deviation, taking preventive measures to stop that deviation.

   The meaning of controlling makes it clear that controlling function is undertaken for right and timely implementation of plans.

2. **Planning and controlling are interdependent and interlinked.** Planning and controlling functions always co-exist or have to exist together as one function depends on the other. The controlling function compares actual performance with the planned performance and if there is no planned performance then controlling manager will not be able to know whether the actual performance is O.K. or not. The base for comparison or the yardstick to check is given by planning to controlling function.

   On the other hand, the planning function is also dependent on controlling function as plans are not made only on papers but these have to be followed and implemented in the

organisation. The controlling function makes sure that everyone follows the plan strictly. Continuous monitoring and check in controlling function make it possible that everyone follows the plan.

So both the functions are interlinked and interdependent as for successful execution of both the functions, planning and controlling must support each other. For example, if the workers have produced 800 units the manager can know "whether it is adequate or not only when there is a standard production set up by planners. So the base of comparison comes from planning only. On the other hand, if the standard target is 1,000 units then controlling managers make sure that there is improvement in the performance and the employees achieve the set target.

3. **Planning and controlling both are backward and forward looking.** Controlling is backward looking because like a postmortem of past activities, the manager looks back to previous year's performance to find out its deviation from standard planning is also backward looking because planning is guided by past experiences and feedback report of controlling function.

   Planning is forward looking because plans are prepared for future. It involves looking in advance and making policy for maximum utilisation of resources in future.

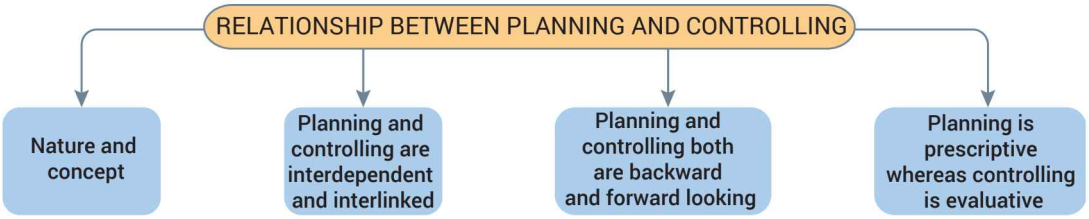
   Controlling is also forward looking because controlling does not end only by comparing past performance with standard. It involves finding the reasons for deviations and suggests the measures so that these deviations do not occur in future. So, this statement that planning is forward looking and controlling is backward looking is only partially correct as planning and controlling are both forward looking as well as backward looking.

4. **Planning is prescriptive whereas controlling is evaluative.** Planning is basically an intellectual process involving lot of thinking, comparison to prescribe a particular course of action for achieving objectives. Controlling on the other hand, evaluate or check whether the desired cause of action is followed or not.

CONCLUSION

Planning and controlling cannot be separated. These two are supplementary functions which support each other for successful implementation or execution of both the functions.

Planning makes controlling effective and efficient, whereas controlling improves future planning.



Keywords

Planning and Controlling

(i) Meaning of both the terms.

(ii) Controlling depend upon planning for the base or yardstick to compare with and planning depend upon controlling for right implementation.

(iii) Controlling look back for performance and forward for giving suggestions. Planning look back for the result of previous year plan and look forward to make assumptions for new plan.

(iv) Planning plan course of action controlling ensure course of action is followed.

Case Study

1. *"There is close and reciprocal relationship between planning and controlling"*. Explain the statement through an example. (*Answers at Page no. 374*)

8.5 CONTROLLING PROCESS

1. **Setting-up of (target) standards.** Standards means target or the yardstick against which the actual performance is measured. The standards become basis for comparisons and the manager insists on following of standards. The standards must be achievable, high or very high standards which cannot be achieved are of no use. Standards must be set up keeping in mind the resources of the organisation and as far as possible standards must be set up in numerical or measurable terms.

   For examples,

   - Standard sale: ₹20 lakh per annum.
   - Standard profit: ₹4 lakh.
   - Reduction in cost by 5%.

   Sometimes it is not possible to express the standards in numerical terms. For example, setting up of quality standards or standards for managerial work, etc. The standards must specify the time limit within which they have to be achieved and as far as possible the standards must be set up for short term. If long term standards are set up they must be divided into short term. For example, standard sale p.a. is 12,00,000, then per month 1,00,000 target can be taken for comparison. With short term targets or standards, the errors can be detected early and timely actions can be taken. The standards must be revised from time to time keeping in mind the changes of business environments.

   Some examples of standard used in functional areas:

   (1) Production function:

   (a) Target production of 10,000 units per month.

   (b) Standard cost per unit is ₹10.

   (c) Reduction in wastage of resources by 5%.

   (d) Reduction in defective production from 10% to 5% by the end of one year.

(2) Marketing function:

(a) Target sale 1,00,000 units per month.

(b) Increase in market share by 10% in one quarter.

(c) Increase in advertisement cost by 10%.

(d) Increase in expenditure of after sale service by 10%.

2. **Measuring of performance.** After setting-up of standards, the performance of the employees is measured by evaluating the actual work done by the employees. When the performance can be measured numerically then it is very convenient to measure the performance. While measuring the performance, the quantitative as well as qualitative aspect of performance is kept in mind. Sometimes employees achieve the quantitative standards by ignoring qualitative standards. That is why, while measuring the performance quality standards are also measured. Certain quality parameters are fixed to measure the quality standard when number of rejections or sales return increases. It indicates low standard of quality.

   Generally the performance of managers is measured by looking at the overall efficiency level of the organisation. The performance of research and development department is measured by change in technology and updation of production department. The performance of financial department is measured by checking the solvency and liquidity ratios, etc. The performance must be measured periodically in short period of time.

3. **Compare performance against standard.** After measuring the performance the manager compares the actual performance with the planned performance and standard. If there is match in both then the controlling function ends there only. But if there is mismatch or deviation then the manager tries to find out the extent of deviation. If the deviation is minor then it should be ignored. But if the deviation is more, then timely actions must be taken.

4. **Analysing deviations.** All deviations need not be brought to the notice of top management. A range of deviations should be established and only cases beyond this range should be brought to the knowledge of top level management. They must divide the deviations in two categories deviations which need to be attended urgently in one category and minor or insignificant decisions in other category.

   These two categories must be controlled by following ways (Two Techniques of Analysing Deviations):

   (i) Critical point control. It means keeping focus on some key areas (KRAs) and if there is any deviation in these key areas, then it must be attended urgently. Key areas are those which have impact on whole organisation. For example, if there is increase in production cost by ₹5, per unit and there is increase in postal cost by ₹20, then more focus should be to find out reasons for increase in cost of production as it will affect the profit and future revenue of organisation whereas postal cost is incurred rarely and managers have no control over postal cost.

   (ii) Management by exception. It means a manager who tries to control every thing may end up controlling nothing. The deviations which are beyond the specific range should

only be handled by managers and minute or minor deviations can be ignored. Manager should not waste his time and energy in finding solutions for minor deviations rather he should concentrate on removing deviations of high degree.

For example, if production cost increases by ₹2, it can be ignored but if it increases more than ₹2, then managers must try to find out the reasons for such increase after identifying the reasons for deviations which need immediate attention. These deviations and reasons must be brought to the knowledge of top level management for critical evaluation whereas the increase less than ₹2, can be handled at supervisory level or can be ignored also for some time.

The causes for deviations can be many: for example, fault in machinery, inefficient staff, shortage of resources, over or understating of standards. It is very essential to find out the exact and accurate cause of deviation.

Advantages/Merits of Management by Exception (MBE):

(i) It saves time and efforts of managers

(ii) It focuses attention of managers on significant matters.

(iii) No wastage of time and energy of managers to solve routine problems. These are solved by subordinates.

(iv) It differentiates between critical and simple problems.

5. **Taking corrective measures.** On comparing the actual performance with the planned performance, the manager will come to know about the deviations between the plan and actual performance. Then the next step is to know the reasons for such deviations and trying to remove deviations in future. The manager takes measures to bring back everything on the track, *i.e.*, according to plan. Taking corrective measures may involve:

(a) Let the situation remain same if the deviations are minor.

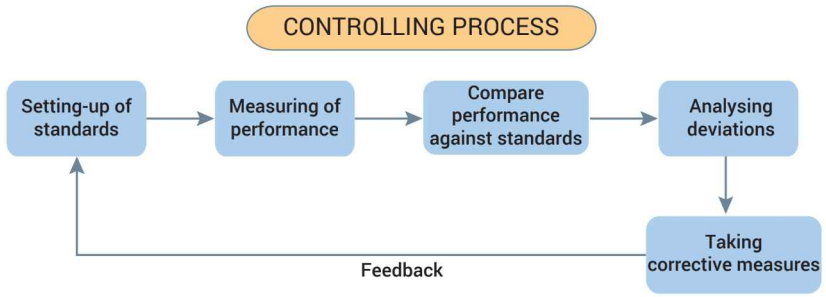
(b) Redesign or re-frame the plans or strategies if these are overstated or not matching with the present day business environment.

(c) Taking corrective measures to improve the performance so that in future it matches with the plan.

Generally the managers take measures to improve the performance such as sending the employees for training if the deviation is due to inefficient performance, getting the machine repaired if delay in performance is due to fault in the machinery, making the supervisors more responsive. If delay is due to carelessness and laziness of the employee, sometimes the managers have to set the standards and targets again if standards are not realistic and achievable. This revision of standards is called downward revision because standards are reduced to make them realistic and achievable. Sometimes the performance is higher than the set standards; in that case upward revision of the plan is done and plans are set at high rate so that they match with the actual performance.

The manager must take the corrective measure only by finding the root cause of the deviation and try to remove that cause.

6. **Feedback in Controlling.** The controlling function does not end by taking corrective action as it is a continuous process. After suggesting the corrective measure a feedback report is prepared. Feedback refers to list of reasons for deviations of plans or for inefficiency in overall working of organisation; along with reasons the corrective measures are also specified in the feedback report and feedback acts as a base to establish the standard for next year and controlling process again starts from 1st step.



"Deviation" in Controlling

Deviation refers to difference between actual performance and standard performance.

- **Positive deviation.** When actual performance is better than the plan performance it is called positive deviation. **For example,**

Plan	= 100 units
Actual production	= 120 units
Deviation	= + 20 units

- **Negative deviation.** When actual performance is less than the plan performance then it is called negative deviation. **For example,**

Plan	= 100 units
Actual production	= 80 units
Deviation	= – 20 units

Keywords

- Critical Point Control: Giving more attention to activities and departments which are more important and critical whereas non-critical areas can be ignored.
- Management by Exception: Ignoring the deviations within a permissible limit. "A manager who try to control everything may end up controlling nothing."

MCQs and Case Studies

1. **Rakesh is a senior manager in a software consultancy firm. He regularly prepares performance reports of his subordinates as part of appraisal. The step of controlling process is**
   (a) Measuring of performance (b) Compare performance against standard
   (c) Analysing deviation (d) Taking corrective action
2. **Planning and controlling are _____ to each other.**
   (a) opposite (b) unrelated
   (c) Inter related (d) Separate
3. You are a manager in a car manufacturing company. It is reported that postal expenses have increased by 10% and cost of raw material is increased by 2% which of the two deviations is more critical to you? It is related to which concept of controlling?

(*Answers at Page no. 374*)

Quick Revision

Meaning. Controlling means comparison between actual output and planned output to find out the reasons for deviations and taking corrective measures to stop such deviations in future.

Nature of Controlling

1. Controlling is a goal-oriented function.
2. Controlling is an all pervasive function.
3. Controlling is both backward looking as well forward looking function.
4. Controlling is a continuous function.

Importance of Controlling. The controlling function of management is regarded as key to organisational success because,

1. Helps in achieving organisational goals.
2. Judging accuracy of standards.
3. Making efficient use of resources.
4. Improving employee's motivation.
5. Ensures order and discipline.
6. Facilitates coordination in action.

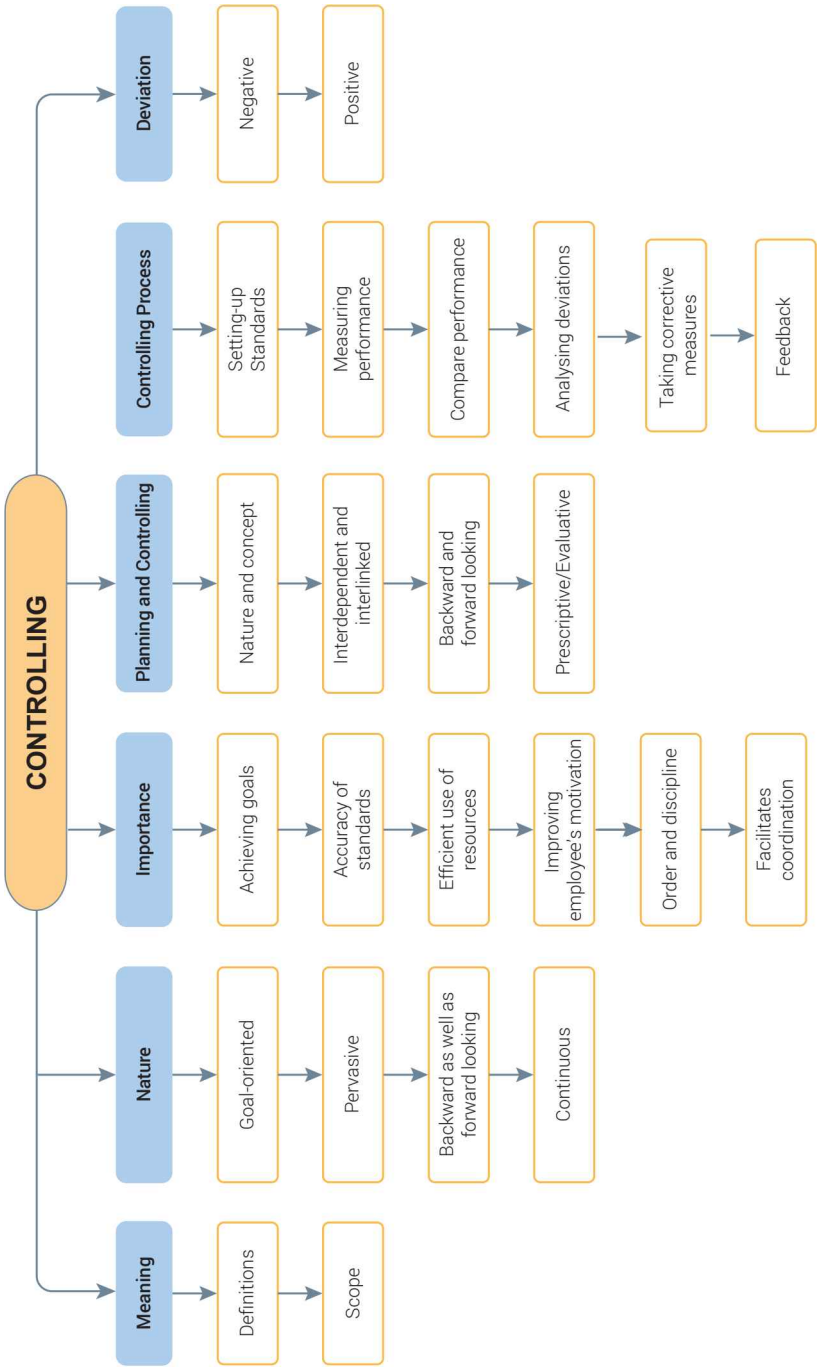
Relationship between Planning and Controlling

1. Nature and concept.
2. Planning and controlling are interdependent and interlinked.
3. Planning and controlling both are backward and forward looking.
4. Planning is prescriptive whereas controlling is evaluative.

Controlling Process. The main steps in controlling process are:

1. Setting-up of (target) standards
2. Measuring of performance
3. Comparing performance against standard
4. Analysing deviations
5. Taking corrective measures
6. Feedback in controlling

Controlling – A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. In Controlling, actual performance is compared with
   (a) Performance of other employees (b) Performance of previous year
   (c) Planned Performance (d) None of the above
2. Controlling is
   (a) Backward looking function
   (b) Forward looking function
   (c) Both backward as well as forward looking function
   (d) None of the above
3. Controlling and Planning are
   (a) Independent functions (b) Interdependent functions
   (c) Both (a) and (b) (d) None of the above
4. Under critical point, control manager
   (a) Critically observes and takes action on every deviation
   (b) Ignores deviation
   (c) Gives more importance to deviations taking place in key areas
   (d) None of the above
5. Under management by exception manager
   (a) Set up a range and deviation with in the range are ignored and beyond range are taken seriously.
   (b) All deviations are taken seriously
   (c) Both (a) and (b)
   (d) None of the above
6. Management by exception and critical point control techniques of controlling
   (a) Waste energy and efforts of managers
   (b) Saves energy and efforts of managers
   (c) Does not effect on energy and effects of managers
   (d) All of the above
7. When mismatch between plan and actual performance is due to over or under stating of plan, then it is called
   (a) Strategic Control (b) Operational Control
   (c) Both (a) and (b) (d) None of the above
8. Controlling is performed at
   (a) Top level (b) Middle level
   (c) Supervisory level (d) All of the above
9. Planning provides
   (a) Direction to Controlling (b) Base of Controlling
   (c) Standard for Controlling (d) All of the above

10. If deviations are minor, it should
    (a) Be taken seriously (b) Be ignored
    (c) Be reported to top level (d) None of the above
11. Measurement of employees' performance can be done by
    (a) Increasing the market share of the company
    (b) Gross profit ratio (c) Return on investment
    (d) Performance report
12. Standards can be set in the following terms:
    (a) Only Qualitative (b) Only Quantitative
    (c) Both Qualitative and Quantitative (d) Neither Qualitative nor Quantitative
13. Which one of the following is not the step in the process of controlling?
    (a) Measurement of actual performance (b) Establishing reporting relationship
    (c) Setting performance standards (d) Taking corrective action
14. Controlling function brings back the management cycle to which function?
    (a) Directing (b) Planning
    (c) Organizing (d) Staffing
15. Management by exception refers to:
    (a) Controlling significant deviations (b) Focus on key result areas
    (c) Check on each and every activity (d) Keep a control on everything

(Answers at Page no. 374)

Fill in the Blanks

1. Difference between plan and actual performance is called _____.
2. Planning is , whereas controlling is _____.
3. There is a close and reciproced relation between planning and _____.
4. Controlling not only checks performance, but it also judges accuracy of _____.
5. If there is any deviation between plan and actual performance, then managers take _____.
6. Under Critical Point Control, the whole organisation's departments are divided into _____ and .
7. _____ function ensures work accomplishment as per plan.
8. Planning provides for controlling.
9. In last step in Controlling process _____ is prepared.
10. Controlling is both _____ looking and _____ looking function.

(Answers at Page no. 374)

True or False

1. Controlling functions end after giving feedback report.
2. Controlling is a task of supervisory level.
3. Controlling is an empty exercise without planning.
4. A manager who tries to control everything may end up controlling nothing.
5. Deviations can be negative only.

(Answers at Page no. 374)

Remembering and Understanding-based Questions with Answers

Q. 1. Which two steps in the process of controlling are concerned with compelling events to confirm to plan? *[CBSE Sample Paper]*

Ans. (i) Comparison of actual performance with standards.

(ii) Taking corrective actions.

Q. 2. What do you mean by Deviation?

Ans. Deviation refers to difference between actual performance and plan performance. For example, if plan is producing 100 units and actually only 80 units are produced, then deviation = 100 – 80 = 20.

Q. 3. Is controlling backward looking?

Ans. No, controlling does not mean backward looking because it means taking actions and suggesting measures to ensure job accomplishment according to plan in future.

Q. 4. Why is planning an empty exercise without controlling?

Ans. Planning is an empty exercise without controlling because implementation of plans and monitoring of plan depend upon controlling.

Q. 5. What is compared with what in controlling?

Ans. In controlling actual performance is compared with standard performance.

Q. 6. What is feedback in controlling?

Ans. Feedback refers to communication regarding the reasons for mismatch between actual and plan output and corrective actions.

Q. 7. Give two examples of quantitative standards set up in controlling process.

Ans. (i) Sales volume, (ii) Production.

Q. 8. Give two examples of qualitative standards set up in controlling process.

Ans. (i) Labour relations, (ii) Efficiency level of managers.

Q. 9. There are two managers Bhuvan and Rajiv. Bhuvan is saying '*Controlling is forward looking*' but Rajiv is saying '*Controlling is backward looking*'. Who is correct? Explain why?

Ans. In my viewpoint, both are partially correct because controlling is both forward looking as well as backward looking. Controlling is backward looking because like a postmortem of past activities the manager looks back to previous year's performance to find out its deviation from standard planning. It is also backward looking because planning is guided by past experiences and feedback report of controlling function.

Planning is forward looking because plans are prepared for future. It involves looking in advance and making policy for maximum utilisation of resources in future.

Controlling is also forward looking because controlling does not end only by comparing past performance with standard. It involves finding the reasons for deviations and suggests the measures so that these deviations do not occur in future. So, this statement that planning is forward looking and controlling is backward looking is only partially correct as planning and controlling are both forward looking as well as backward looking.

Q. 10. How does controlling simplify the task of supervisor?

Ans. The task of supervisor is to supervise, observe or watch the subordinates when they are performing the job to ensure that they follow the plans and perform efficiently.

Controlling involves verifying whether activities undertaken are in conformity with the plans adopted and if there is any deviation then corrective measures are suggested to bring conformity in actual performance and plans in future. Controlling function ensures that everything in organisation goes according to plan and this is what supervisor also aims at, that is why, it is correct to say that controlling reduces the work load of supervisors.

Q. 11. Explain to a newly appointed foreman under whose supervision, school bags are being made. How has he to carry out the process of control?

Ans. The newly appointed foreman must use following steps to conduct the control process:

(i) Establishment of standards
(ii) Measurement of performance
(iii) Comparison of actual performance withstands
(iv) Analysing deviations
(v) Taking corrective actions.

[*For explanation refer to page nos. 357-360*]

Q. 12. *'An ideal control system is the one that checks every bit of performance'*. Do you agree with this statement? Give reasons to support your answer.

Ans. No, I do not agree with this statement because a manager should focus on key points only and should not waste his energy in checking every bit.

Explain the concept of 'management by exception' with example. [*Refer to page no. 358-359*]

Q. 13. Which function of management ensures work accomplishment according to plans? Name and explain the importance of this function.

Ans. The controlling function of management ensures the work accomplishment according to plan.

The importance of this function is:

(i) Helps in achieving objectives.
(ii) Controlling helps in adaptability to environmental changes.
(iii) Controlling helps in coping with organisational complexity.
(iv) Controlling helps in maintaining and improving quality.
(v) Controlling helps in financial matters.
(vi) Helps in improving employee's performance.
(vii) Helps is monitoring sales.
(viii) Helps in minimising errors.

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. How does controlling help in "Judging accuracy of standards" and "Ensuring order and discipline." [*CBSE Sample Paper 2016*]

Ans. Judging accuracy of standards

Ensuring order and discipline

[*For explanation refer to page nos. 353, 354*]

Q. 2. "If anything goes wrong with the performance of key activities, the entire organisation suffers. Therefore, the organisation should focus on them." Explain the statement with a suitable example. [*CBSE Sample Paper 2015*]

Ans. The statement refers to the use of 'Critical Point Control', while analysing deviations.

It emphasises 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 organisation.

For example, in a manufacturing organisation, an increase of 5 per cent in the labour cost may be more troublesome than a 15 per cent increase in postal charges.

Q. 3. Prakash Jha wishes to fix-standard production for worker along with standard time to complete the job. Under which function of management, standards are fixed?

Ans. Controlling.

Q. 4. Jindal Ltd. could not achieve the target production of 15,000 cars p.a. It could produce only 14,125 cars—While analysing the reasons for deviations, it was found that workers were not efficient. Training programmes were organised and next year, company was able to produce 15,000 units. Production Manager is of the opinion that with this, management ends at controlling. Do you agree? Give reason to support your answer.

Explain any four importance of controlling.

Ans. No.

Refer to Importance of Controlling page nos. 353, 354.

Q. 5. Suppose you are the manager of ABC Clothing Ltd. It comes to your knowledge that postal expenses have increased by 15% over the standard price and cost of labour and raw materials has increased by 3%. Which of the two situations is more critical according to you?

Ans. Increase in cost of labour and raw materials.

Q. 6. 'Tricom Ltd.' a computer hardware manufacturing company imported a new machinery for manufacturing latest technology based computer systems. The human resource manager determined that for operating the new machines, the company required the necessary workers through placement agency.

After 3 months, it was reported by the production manager that the workers were not able to meet the target production. The General Manager got annoyed and ordered inquiry for the same. It was reported that the newly recruited workers possessed the necessary skills and abilities but lacked the willingness to do work.

(i) Name the functions of management involved above.

(ii) Name the relevant concept of functions identified in (i).

(iii) Which concept of management will help the company in meeting the target production?

Ans. (i) Staffing, Controlling, Directing

(ii) Recruitment, Controlling process

(a) Comparing actual performance. (b) Analysing deviations.

(iii) Motivation.

Q. 7. Polycons Ltd. is a firm manufacturing paper bags in Odisha. It has employed female workers in the company and manufactures paper bags from recycle paper and thereafter sells them to various firms at economic rates.

Since last 1 month, its customers (firms) are reporting of complaints received from the users that these paper bags are unable to manage heavy weight and get torn easily.

1. Which function of management has been ignored above?

2. Discuss the steps to be undertaken in respect of the ignored function to pacify the situation.

Ans. 1. Controlling, 2. Taking corrective action,

Q. 8. Mr Sandhu worked as a manager in a company manufacturing stationery items for 10 years. Later he thought of starting his own business as he acquired the skills and expertise in past years. He started his own venture. He divided the organisation into six major departments–Production, Purchase, Marketing, Legal, Human resource and Finance. After a month, he called upon the meeting of all the departmental heads in his office and told the production marketing and finance department managers to be very vigilant as their departments are critical to the success of the business. Shortcomings in Purchase, Personnel or Legal department would not affect much the success of business. Therefore, Mr Sandhu determined deviation tolerance limits for the critical departments.

1. Identify the two functions of management referred above.
2. Describe the relevant concept of the identified functions.

Ans. 1. Organising, controlling

2. Departmentalisation, Critical point control, Controlling by exception.

Q. 9. One day, the management instructor of BBA classes organised a "Panel Discussion" on important topics of management. The students were given the following clues for discussion. Each student was given 3 minutes for elaborating on the clues given below:

Clue 1 : They are inseparable twins.

Clue 2 : They are inter-dependent, inter-related and reinforce each other.

Clue 3 : They both are forward as well as backward looking.

1. Identify the functions of management written in clues above.
2. Elaborate on the 3 clues.

Ans. 1. Planning and controlling.

2. Planning and controlling both are forward looking.

Q. 10.

Name and explain the first three steps of the function of management shown in the picture.

Ans. Controlling.

Refer to Page nos. 357-358.

Q. 11. Explain the two principles a manager must consider while dealing with deviation effectively?

Ans. (i) Critical point control, (ii) Control by exception.

Q. 12. What do you mean by key result area in the context of controlling?

Ans. These are the areas which are critical and very important for success of the organisation.

Q. 13. ABC Ltd. is manufacturing auto spare parts on large scale. The company policy is that 3% of the daily production could be defective. Over last two months it is observed that about 10-12% of production is defective. Which function of management is required to correct the above case? State the procedure to be followed to correct the things.

Ans. The management function required to correct the above case is "controlling". The procedure to be followed is:

1. Find out the cause of deviation of defective percentage from 3 to 12.
2. Take corrective measures to control the thing.

Following can be the cause of deviation:

S. No.	Causes	Corrective Action
1.	Lack of motivation of workers.	Offer financial or non-financial incentives to motivate workers.
2.	Power breakdown.	Install a generator.
3.	Fault in machinery.	Get the machinery repaired or replace the machinery with new one.

Q. 14. Which principle of management control is based on the belief "an attempt to control everything may end up by controlling nothing"?

Ans. Principle of management by exception.

Q. 15. Engineer India Ltd. is engaged in manufacturing machine components the target production is 300 units per day. The company had been successfully attaining the target three months ago. Over the last three months, it has been observed that daily production varies between 220 and 250 units. Identify the management function to rectify the above situation. Briefly state the procedure of this function.

Ans. Function related to this is controlling, *refer to page nos. 357-360 for the steps involved in controlling process.*

Q. 16. A company 'M' Ltd. is manufacturing mobile phones both for domestic Indian market as well as for export. It had enjoyed a substantial market share and also had a loyal customer following. But lately it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also mobile market in India has grown tremendously and new player have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problems it is facing. *[NCERT]*

(a) Identify the benefits the company will derive from a good control system.

(b) How can the company relate its planning with control in this line of business to ensure that its plans are actually implemented and targets attained?

(c) Give the steps in the control process that the company should follow to remove the problems it is facing.

Ans. (a) Explain the importance of controlling, *refer to page no. 353-354.*

(b) Company can relate its planning with control in this line of business by following measure by implementing an effective controlling system and following a controlling process.

(c) Explain steps in the process of controlling system, *refer to page nos. 357-360.*

Guidelines to NCERT Questions

Multiple Choice Questions

1. An efficient control system helps to
   (a) Accomplish organisational objectives (b) Boost employee's morale
   (c) Judge accuracy of standards (d) All of the above.
2. Controlling function of an organisation is
   (a) Forward looking (b) Backward looking
   (c) Forward as well as backward looking (d) None of the above
3. Management audit is a technique to keep a check on the performance of
   (a) Company (b) Management of the company
   (c) Shareholders (d) Customers
4. Budgetary control requires the preparation of
   (a) Training schedule (b) Budgets
   (c) Network diagram (d) Responsibility centres

Short Answer Type Questions

1. Explain the meaning of controlling. [Refer on page no. 351]
2. 'Planning is looking ahead and controlling is looking back'. Comment. [Refer on page nos. 355-356]
3. 'An effort to control everything may end up in controlling nothing.' Explain. [Refer on page nos. 355-356]

Long Answer Type Questions

1. Explain the various steps involved in the process of control. [Refer on page nos. 357-360]
2. Explain the techniques of managerial control. [Refer on page nos. 357-360]
3. Explain the importance of controlling in an organisation. [Refer on page nos. 353-354]
4. Discuss the relationship between planning and controlling. [Refer on page nos. 355-356]

TEST YOURSELF

Very Short Answer Questions

1. What do you mean by deviation?

Short Answer Questions

2. 'Planning is an empty exercise without controlling'. Explain the statement through an example.
3. Explain the meaning of strategic control and operational dimensions of control.

Long Answer Questions

4. Explain the importance of controlling. [CBSE (AI) 2012]
5. Explain the relation between planning and controlling. [CBSE (D & AI) 2012]
6. "Planning is looking ahead and controlling is looking back." Comment.

Previous Years' Examination Questions (2014-2019)

One Mark Questions:

1. Hina Sweets is a renowned name for quality sweets since 1935. Harsh the owner of Hina Sweets was worried as the sales had declined during the last three months. When he enquired from the Sales Manager, the Sales Manager reported that there were some complaints about the quality of sweets. Therefore, Harsh ordered for sample checking of sweets. Identify the step taken by Harsh that is related to one of the functions of management. *[CBSE (D) 2017]*
2. Give the meaning of 'Management by Exception'. *[CBSE 2019 (66/2/1)]*
3. Why is it said that Controlling is a continuous activity? *[CBSE 2019 (66/4/1)]*

   OR

   Why is Controlling called a forward looking function? *[CBSE 2019 (66/4/1)]*
4. Mahima Jain is the Senior Manager in the Advisory Services Department of Kodes Ltd. She regularly prepares performance reports of her subordinates as a part of the appraisal.

   Identify the step of the controlling process performed by her. *[CBSE 2019 (66/4/1)]*

Three Marks Questions:

5. The last step in the process of controlling is 'taking corrective actions'. Briefly explain the steps in chronological order that are taken in the process of controlling before this step. *[CBSE (D) 2017(C)]*
6. Explain any four points of importance of controlling. *[CBSE (D) 2017(C)]*
7. 'A.S. Ltd.' is a large company engaged in assembly of airconditioners. Recently the company had conducted the 'Time' and 'Motion' study and concluded that on an average a worker can assemble ten air-conditioners in a day. The target volume of the company in a day is assembling of 1,000 units of air-conditioners. The company is providing attractive allowances to reduce labour turnover and absenteeism. All the workers are happy. Even then the assembly of air-conditioners per day is 800 units only. To find out the reason the company compared actual performance of each worker and observed through C.C.T.V. that some of the workers were busy in gossiping.
   (a) Identify the function of management discussed above.
   (b) State those steps in the process of the function identified which are discussed in the above paragraph. *[CBSE (AI) 2015]*
8. Explain any three points that highlight the importance of controlling function of management. *[CBSE 2019 (66/4/1)]*

   OR

   Explain with the help of an example how 'Management by Exception' helps in the controlling process. *[CBSE 2019 (66/4/1)]*
9. Explain 'critical point control' and 'management by exception'. *[CBSE 2019 (66/5/1)]*

   OR

   Explain 'setting performance standards' and 'measurement of actual performance' as steps of 'controlling process'. *[CBSE 2019 (66/5/1)]*

Four Marks Questions:

10. Explain any four points of importance of the controlling function of management. *[CBSE (AI) 2018]*

11. Describe the relationship between controlling and planning. *[CBSE (F) 2018, (C) 2017]*

12. Vinber Ltd. set up a manufacturing unit at Bhiwadi at Himachal Pradesh to manufacture electric geysers and supply them to dealers all over the country. Their production target was 500 geysers per week. It was decided by the management that variation in production upto 10 units would be acceptable.

At the end of the first week, the production was 450 geysers. The next week, production increased to 470 geysers. A week later, production was 460 geysers. On investigation, it was found out that fluctuation in production was due to irregular supply of electricity.

(a) The above para discusses some of the steps of one of the functions of management. Explain the steps.

(b) Also, state the step(s) not discussed in the above para. *[CBSE 2019 (66/1/1)]*

Five/Six Marks Questions:

13. Explain any five points which highlight the importance of controlling function in management. *[CBSE (D) 2013, (D) 2017]*

14. A company was manufacturing 'LED bulbs' which were in great demand. It was found that the target of producing 300 bulbs a day was not met by the employees. On analysis, it was found that the workers were not at fault. Due to electricity failure and shortage of workers, the company was not able to achieve the set targets and alternative arrangements were needed. To meet the increased demand, the company assessed that approximately 88 additional workers were required out of which 8 would work as heads of different departments and 10 would work as subordinates under each head. The required qualifications and job specifications were also enlisted. It was also decided that necessary relaxation should be given to encourage women, persons from backward and rural areas and persons with special abilities to assume responsible positions in the organisation. All efforts were made to match the ability of the applicants with the nature of work.

(a) Identify the functions of management discussed above.

(b) State the two steps in the process of each function discussed in the above para.

[CBSE (D) 2015]

15. Vikas was the Chief Operating Officer of 'Yalet Ltd.', a company providing advanced software solutions to Indian Defence Services. They had been carrying on business successfully for the last twelve years and earning enough profits. But from the last one year, they realised that though the business is getting big orders which are being fulfilled in time, even then the revenues kept on decreasing. Vikas was not able to find out where the problem was. He started keeping a close check on the progress of activities as he could sense that something was wrong. He wanted to take some action before any major damage could be done to the business. Vikas appointed a cyber security expert who monitored the company's processes and found out that the computer operator was deleting the entries from the computers and pocketing the revenues. He was caught and handed over to the police. This created an atmosphere of order and discipline in the organisation and helped in minimising dishonest behaviour on the part of the employees.

(a) Identify the function of management highlighted in the above paragraph.

(b) Explain any four other ways in which this function of management may help the organisation. *[CBSE 2019 (66/2/1)]*

16. Define 'Controlling'. Explain the relationship between planning and controlling functions of management. *[CBSE 2019 (66/3/1)]*

OR

Explain the various steps in the process of controlling. [CBSE 2019 (66/3/1)]

17. Explain any four points that highlight the importance of controlling. [CBSE (D) 2014]

Hints of the Answers for Case Studies

1. Measurement of actual performance.

4. Measurement of actual performance.

7. (a) Controlling.

(b) Steps discussed in the above paragraph are:

(i) Setting performance standards

'Recently the company had conducted the 'Time' ....can assemble ten air-conditioners in a day'.

OR

'The target volume of the company in a day is assembling of 1,000 units of air-conditioners'.

(ii) Measurement of actual performance

'Even then the assembly of air-conditioners per day is 800 units only'.

Measurement of actual performance with the standards in an objective and reliable manner.

(iii) Comparing actual performance with the standards

'... the company compared actual performance of each worker'

Comparing actual performance with the standards to find out the deviation, if any.

(iv) Analysing deviations observed through C.C.T.V. that some of the workers were busy in gossiping. Analysing deviations for their causes.

12. (a) Steps in the process of controlling discussed in the above case:

(i) Setting performance standards

(ii) Measuring actual performance

(iii) Comparing actual performance with standards and Analysing deviations

(b) Step not discussed in the above para:

Taking corrective action if deviations go beyond the acceptable limits.

14. (a) Staffing and controlling.

(b) Steps in Staffing:

(i) Estimating manpower requirements which involves knowing how many persons are needed and of what type.

'To meet the increased demand, the company assessed that .... subordinates under each head'.

(ii) Recruitment which involves searching for prospective employees and stimulating them to apply for jobs in the organisation.

Steps in controlling: (any two)

(i) Comparison of actual performance with the standards which would reveal the deviation between actual and desired results.

'It was found that the target of producing 300 bulbs a day was not met by the employees'.

(ii) Analysing deviations which would help to find out the causes of deviation.

On analysis, it was found that the workers were not at fault....alternative arrangements were needed.

(iii) Taking corrective action, if required.

To meet the increased demand, the company assessed that approximately ....as subordinates under each head.

15. (a) Controlling.

(b) Other ways in which this function may help the organization : (*Any four*)

(i) Accomplishing organisational goals.

(ii) Making efficient use of resources.

(iii) Improving employee motivation.

(iv) Judging accuracy of standards.

(v) Facilitating co-ordination in action.

ANSWERS OF MCQs AND CASE STUDIES

Page 354-355

1. (b) Controlling
2. (c) Judging accuracy of standard
3. (a) Controlling

(b) (i) Goal-oriented, (ii) Continuous process, (iii) Pervasive function.

Page 357

1. Refer to page no. 355-356

Page 361

1. (a) Measuring of performance
2. (c) Inter related
3. Rise in cost of raw material 2%.

It is related to "Critical Point Control".

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (c)	2. (c)	3. (b)	4. (c)	5. (a)
6. (b)	7. (a)	8. (d)	9. (d)	10. (b)
11. (d)	12. (c)	13. (b)	14. (b)	15. (a)

Fill in the Blanks

1. Deviation	2. Prescriptive, evaluative	3. Controlling	4. Standard
5. Corrective Action	6. Key area and non-key area	7. Controlling	
8. base/standard/yardstick	9. Feedback Report	10. backward/forward	

True or False

1. (F) – It is a continuous function.
2. (F) – All level
3. (T)
4. (T)
5. (F) – Deviations can be positive as well as negative.

PART: B

BUSINESS FINANCE AND MARKETING

9 FINANCIAL MANAGEMENT

Contents as per Latest CBSE Syllabus

- Concept, role and objectives of Financial Management
- Financial decisions: investment, financing and dividend—Meaning and factors affecting
- Financial Planning—Concept and importance
- Capital Structure—Concept and factors affecting capital structure
- Fixed and Working Capital—Concept and factors affecting their requirements

9.1 MEANING OF FINANCIAL MANAGEMENT

Financial management is concerned with efficient acquisition and allocation of funds. In other words, financial management is concerned with flow of funds and involves decisions related to procurement of funds, investment of funds in long term and short term assets and distribution of earnings to owners. In simple words we can say Financial Management refers to *"Efficient acquisition of finance, efficient utilisation of finance and efficient distribution and disposal of surplus for smooth working of company."*

Some common definitions of financial management:

- "Financial management is concerned with managerial decisions that result in the acquisition and finance of long-term and short-term assets for the firm. As such, it deals with the situations that require selection of specific assets or combination of assets. The selection of specific liabilities as well as the problem of growth and size to enterprise. The analysis of these decisions is based upon the expected inflow and outflow of funds and their effect upon managerial objectives". ***—Phillippatus***
- "Financial management involves the application of general management principles to a particular financial operation". ***—Howard and Upton***

Role of Financial Management:

All the financial activities of a company are directly or indirectly affected by the financial management. The common activities and areas which are influenced by financial management are:

1. **Size and Composition of Fixed Assets.** The size and composition of fixed assets depend directly on investment decision, i.e., how much capital company is planning to invest.

2. **Amount and Composition of Current Assets** *i.e.* quantum of current assets and its break up into cash, inventory or receivables. The amount of current assets and its division in cash, bills receivable, inventories etc. also depend upon financial decisions. It depends upon the amount of fixed assets, credit policy of company, inventory management, etc.

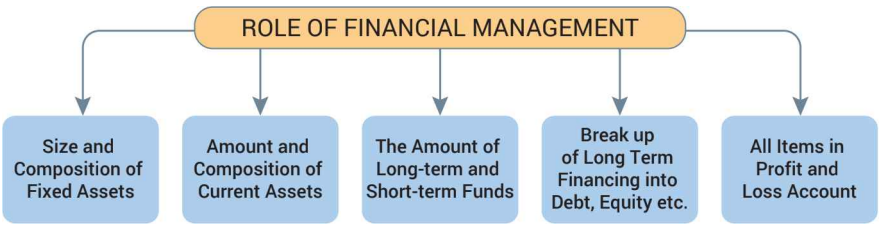
3. **The Amount of Long-term and Short-term Funds.** The amount to be raised for long-term as well as for the short-term depends upon the financial management and organisation. The firms which have policy of liquidation prefer to have more of long-term finance although with that profit will decrease as company has to pay more interest on long-term debts as compared to short-term debts.

4. **Break up of Long Term Financing into Debt, Equity etc.** Firm can raise long-term debts by issue of equity shares as well as by issue of debentures and other borrowed fund security. Financial management helps in fixing this ratio.

5. **All Items in Profit and Loss Account.** All the items of P&L A/c are affected by decisions of financial management. Generally items related to expenses and revenue are recorded in P&L A/c. If we pay more interest, depreciation it will increase expenses and affect P&L A/c.

Conclusion

After learning the role of financial management in business we can say the success and failure of an organisation depend upon the decisions of financial management. Efficient financial management results in success of business and improves overall health of business organisation.



Case Study

1. **'S' Limited is manufacturing steel at its plant in India. It is enjoying a buoyant demand for its products as economic growth is about 7 to 8% and the demand for steel is growing. It is planning to set up a new steel plant to cash on the increased demand it is facing. It is estimated that it will require about ₹ 5,000 crores to set up and about ₹ 500 crores working capital to start the new plant.** *[NCERT]*

   What is the role and objectives of financial management for this company?

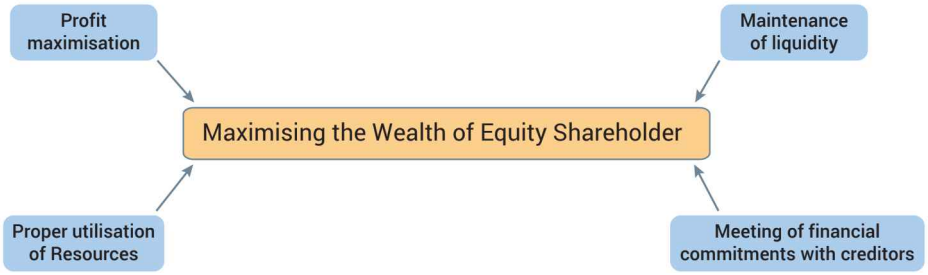
(*Answers at Page no. 427*)

9.2 OBJECTIVES OF FINANCIAL MANAGEMENT

The main and foremost objectives of financial management is to maximise the wealth of equity shareholder.

The financial manager in a company makes decisions for the owners, i.e., the shareholders of the firm. He must take such decisions which will ultimately prove gainful from the point of view of shareholders and shareholders gain only when the price of their share increases in market. So financial decision which results in increase in value of share is considered very efficient decision. On the other hand, the financial decision which brings fall in the value of equity share is considered poor decision.

This objective of maximising the wealth of equity share automatically fulfills many other objectives. As equity shareholders get share from residual income only, i.e., they are given dividend only after the claims of suppliers, employees, lenders, creditors and any other legitimate claimants. Therefore, if the shareholders are gaining, it automatically implies that all other claimants are also gaining.



Objectives of Financial Management.

The objective of increase in value of equity share does not mean that finance manager should involve in manipulative activities to bring rise in price. The rise in price must come with the growth of firm, with increase in profit of firm and with satisfaction of all the parties associated with the company. With the objective of wealth maximisation of equity shareholder, following objectives automatically get achieved:

(i) Profit maximisation

(ii) Maintenance of liquidity

(iii) Proper utilisation of funds

(iv) Meetings of financial commitments with creditors.

MCQs and Case Studies

1. **The financial management is concerned with**
   (a) Efficient acquisition of finance
   (b) Efficient utilisation of finance
   (c) Efficient disposal of surplus
   (d) All of the above

2. **'After completing the course of Hotel Management Rahul plans to start his own Hotel, he plans to hire a team of experts to give his guests a unique and unforgettable experience. Keeping in mind their budgets. Before starting the business he visited his home town to take blessings of his father. His father told him that success of business depends on how well finance is invested in assets and operations and how timely and economically finances are arranged from outside or from with in the business. He guided him that he should always spend time in identifying different available sources of finance and comparing them in terms of their costs and associated risks. The returns from investment should always exceed the cost of investment.**

   In the above context:

   (i) Identify the concept discussed above which has direct bearing on the financial health of a business.

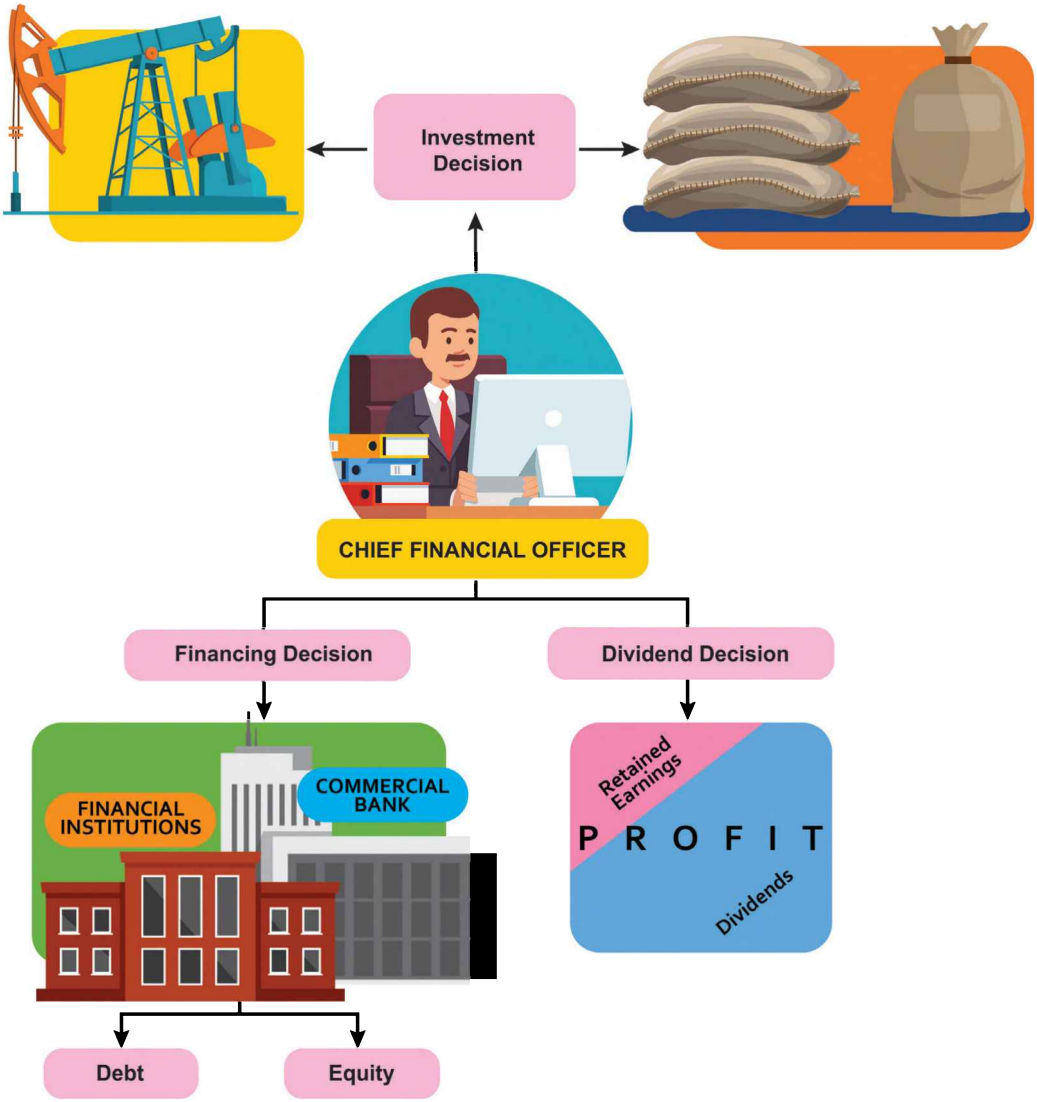
   (ii) Outline the key objective of concept identified in part (i).

(*Answers at Page no. 427*)

9.3 FINANCIAL DECISIONS

The finance functions relate to three major decisions which every finance manager has to take:

- Investment decision
- Financing decision
- Dividend decision



9.3.1 Investment Decision (Capital Budgeting Decision) (Where to Invest Fixed Capital)

This decision relates to careful selection of assets in which funds will be invested by the firms. A firm has many options to invest their funds but firm has to select the most appropriate investment which will bring maximum benefit for the firm and deciding or selecting most appropriate proposal is investment decision.

The firm invests its funds in acquiring fixed assets as well as current assets. When decision regarding fixed assets is taken it is also called capital budgeting decision.

Importance or Scope of Capital Budgeting Decision/Investment Decision

Capital budgeting decisions can turn the fortune of a company. The capital budgeting decisions are considered very important because of the following reasons:

1. **Long-term growth.** The capital budgeting decisions affect the long-term growth of the company. As funds invested in long-term assets bring return in future and future prospects and growth of the company depends upon these decisions only.
2. **Large amount of funds involved.** Investment in long term projects or buying of fixed assets involves huge amount of funds and if wrong proposal is selected it may result in wastage of huge amount of funds that is why capital budgeting decisions are taken after considering various factors and planning.
3. **Risk involved.** The fixed capital decisions involve huge funds and also big risk because the return comes in long run and company has to bear the risk for a long period of time till the returns start coming.
4. **Irreversible decision.** Capital budgeting decisions cannot be reversed or changed overnight. As these decisions involve huge funds and heavy cost and going back or reversing the decision may result in heavy loss and wastage of funds. So these decisions must be taken after careful planning and evaluation of all the effects of that decision because adverse consequences may be very heavy.

Factors Affecting Investment/Capital Budgeting Decisions

1. **Cash flow of the project.** Whenever a company is investing huge funds in an investment proposal it expects some regular amount of cash flow to meet day to day requirement. The amount of cash flow an investment proposal will be able to generate must be assessed properly before investing in the proposal.
2. **Return on investment.** The most important criteria to decide the investment proposal is rate of return it will be able to bring back for the company in the form of income for, *e.g.*, if project A is bringing 10% return and project B is bringing 15% return then we should prefer project B.
3. **Investment criteria.** Along with return, risk, cash flow there are various other criteria which help in selecting an investment proposal such as availability of labour, technologies, input, machinery, etc. The decision to invest in a particular project involve number of calculations regarding the amount of investment interest rate, cash flow and rate of return. There are different techniques to evaluate investment proposals which are known as capital budgeting techniques, these techniques are applied to each proposal before selecting any proposal.

The finance manager must compare all the available alternatives very carefully and then only decide where to invest the most scarce resources of the firm, *i.e.*, finance.

9.3.2 Financing Decision (from which source finance or capital to be raised)

The second important decision which finance manager has to take is deciding source of finance. A company can raise finance from various sources such as by issue of shares, debentures or by taking loan and advances. Deciding how much to raise from which source is concern of financing decision. Mainly sources of finance can be divided into two categories:

1. Owners' fund,
2. Borrowed fund.

Share capital and retained earnings constitute owners' fund and debentures, loans, bonds, etc. constitute borrowed fund.

The main concern of finance manager is to decide how much to raise from owners' fund and how much to raise from borrowed fund.

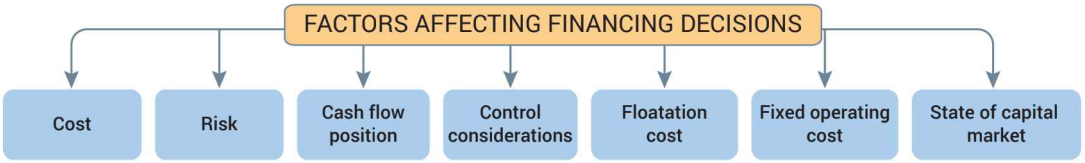
While taking this decision the finance manager compares the advantages and disadvantages of different sources of finance. The borrowed funds have to be paid back and involve some degree of risk whereas in owners' fund there is no fix commitment of repayment and there is no risk involved. But finance manager prefers a mix of both types. Under financing decision finance manager fixes a ratio of owner fund and borrowed fund in the capital structure of the company.

Factors Affecting Financing Decisions

While taking financing decisions the finance manager keeps in mind the following factors:

1. **Cost.** The cost of raising finance from various sources is different and finance managers always prefer the source with minimum cost.
2. **Risk.** More risk is associated with borrowed fund as compared to owner's fund securities. Finance manager compares the risk with the cost involved and prefers securities with moderate risk factor.
3. **Cash flow position.** The cash flow position of the company also helps in selecting the securities. With smooth and steady cash flow companies can easily afford borrowed fund securities but when companies have shortage of cash flow, then they must go for owner's fund securities only.
4. **Control considerations.** If existing shareholders want to retain the complete control of business then they prefer borrowed fund securities to raise further fund. On the other hand if they do not mind to lose the control then they may go for owner's fund securities.
5. **Floatation cost.** It refers to cost involved in issue of securities such as broker's commission, underwriters fees, expenses on prospectus, etc. Firm prefers securities which involve least floatation cost.
6. **Fixed operating cost.** If a company is having high fixed operating cost then they must prefer owner's fund because due to high fixed operational cost, the company may not be able to pay interest on debt securities which can cause serious troubles for company.

7. **State of capital market.** The conditions in capital market also help in deciding the type of securities to be raised. During boom period it is easy to sell equity shares as people are ready to take risk whereas during depression period there is more demand for debt securities in capital market.



9.3.3 Dividend Decision (Appropriate Distribution of Profit)

This decision is concerned with distribution of surplus funds. The profit of the firm is distributed among various parties such as creditors, employees, debenture holders, shareholders, etc.

Payment of interest to creditors, debenture holders, etc. is a fixed liability of the company, so what company or finance manager has to decide is what to do with the residual or left over profit of the company. The surplus profit is either distributed to equity shareholders in the form of dividend or kept aside in the form of retained earnings. Under dividend decision the finance manager decides how much to be distributed in the form of dividend and how much to keep aside as retained earnings.

Factors Affecting Dividend Decision:

The finance manager analyses following factors before dividing the net earnings between dividend and retained earnings:

1. **Earning.** Dividends are paid out of current and previous year's earnings. If there are more earnings then company declares high rate of dividend whereas during low earning period the rate of dividend is also low.
2. **Stability of earnings.** Companies having stable or smooth earnings prefer to give high rate of dividend whereas companies with unstable earnings prefer to give low rate of earnings.
3. **Cash flow position.** Paying dividend means outflow of cash. Companies declare high rate of dividend only when they have surplus cash. In situation of shortage of cash companies declare no or very low dividend.
4. **Growth opportunities.** If a company has a number of investment plans then it should reinvest the earnings of the company. As to invest in investment projects, company has two options: one to raise additional capital or invest its retained earnings. The retained earnings are cheaper source as they do not involve floatation cost and any legal formalities.

   If companies have no investment or growth plans then it would be better to distribute more in the form of dividend. Generally mature companies declare more dividend whereas growing companies keep aside more retained earnings.

5. **Stability of dividend.** Some companies follow a stable dividend policy as it has better impact on shareholder and improves the reputation of company in the share market. The stable dividend policy satisfies the investor. Even big companies and financial institutions prefer to invest in a company with regular and stable dividend policy. The increase in dividend is made only when there is confidence to company that their earning potential as gone up and not just earnings of current year are increased. In other words dividend per share is not altered if change is earnings is small or seems to be temporary is nature.

6. **Preference of shareholders.** If a company is having large number of retired and middle class shareholders then it will declare more dividend and keep aside less in the form of retained earnings whereas if company is having large number of young and wealthy shareholders then it will prefer to keep aside more in the form of retained earnings and declare low rate of dividend.

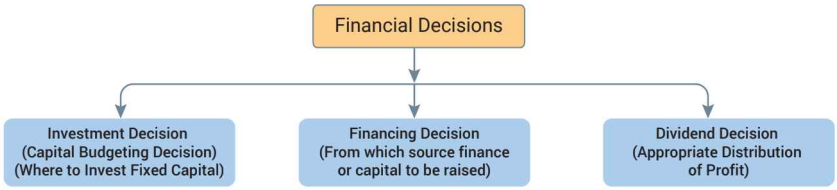
7. **Taxation policy.** The rate of dividend also depends upon the taxation policy of government. Under present taxation system dividend income is tax free income for shareholders whereas company has to pay tax on dividend given to shareholders. **If tax rate is higher, then company prefers to pay less in the form of dividend whereas if tax rate is low then company may declare higher dividend.**

8. **Access to capital market consideration.** If capital market can easily be accessed or approached and there is enough demand for securities of the company then company can give more dividend and raise capital by approaching capital market, but if it is difficult for company to approach and access capital market then companies declare low rate of dividend and use reserves or retained earnings for reinvestment.

9. **Legal restrictions.** Companies' Act has given certain provisions regarding the payment of dividends. Apart from the Companies' Act there are certain internal provisions of the company that is whether the company has enough flow of cash to pay dividend. The payment of dividend should not affect the liquidity of the company.

10. **Contractual constraints.** When companies take long term loan then financier may put some restrictions or constraints on distribution of dividend and companies have to abide by these constraints.

11. **Stock market reactions.** The declaration of dividend has impact on stock market as increase in dividend is taken as a good news in the stock market and prices of security rise. Whereas a decrease in dividend may have negative impact on the share price in the stock market. So possible impact of dividend policy in the equity share price also affects dividend decision.



Keywords

Investment decision

(a) Opening a new branch

(b) Buying a fixed asset plant, machine, office building, etc.

Financing decision and Capital structure

(a) Deciding the source of capital

(b) Issue of shares or debenture or loan to have additional capital

(c) Change in ratio of debt and equity capital

Dividend decision

(a) Appropriate allocation of project

(a) Distribution of residual/left over profit

MCQs and Case Studies

1. **The decision in financial management which determines the proportion between debt and equity is called**

   (a) Financing decision (b) Investment decision

   (c) Capital structure (d) Dividend decision

2. **A decision to acquire a new and modern plant to upgrade an old-one is a**

   (a) Financing decision (b) Investment decision

   (c) Working capital decision (d) Dividend decision

3. **Higher dividend per share is associated with**

   (a) Higher earnings high cash flows, unstable earnings and higher growth opportunities.

   (b) High earning high cash flow, stable earnings and high growth opportunity.

   (c) High earnings low cash flow, stable earnings, higher growth opportunities.

   (d) High earnings, high cash flow, stable earnings, lower growth opportunities.

4. **The size of assets, the profitability and competitive are affected by one of the financial decision state that decision**

   (a) Investment decision (b) Financing decision

   (c) Dividend decision (d) All of the above

5. **Sudha is an enterprising business woman who has been running a poultry farm for the past ten years. She has saved ₹ 4 Lakhs from her business. She shared with her family her desire to utilise this money to expand her business. Her family members gave her different suggestions like buying new machinery to replace the existing one, acquiring altogether new equipments with latest technology, opening a new branch of the poultry farm in another city and so on.**

   Since these decisions are crucial for her business, involve a huge amount of money and are irreversible except at a huge cost, Sudha wants to analyse all aspects of the decisions, before taking any final decision.

   (i) Identify and explain the financial decision to be taken by Sudha.

   (ii) Also, explain briefly the factors that will affect this decision. *[CBSE (D) 2017(C)]*

6. **'Sarah Ltd.' is a company manufacturing cotton yarn. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.**

   It has taken a loan of ₹ 40 lakhs from IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.

   The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company. Quoting the lines from the above discussion identify and explain any four such factors.

   [CBSE (D) 2017(C)]

(*Answers at Page no. 427-428*)

9.4 FINANCIAL PLANNING

Financial planning means deciding in advance how much to spend, on what to spend according to the funds at your disposal.

In the words of Gerestenbug financial planning includes:

(i) Determination of amount of finance needed by an enterprise to carry out its operations smoothly.

(ii) Determination of sources of funds, *i.e.*, the pattern of securities to be issued.

(iii) Determination of suitable policies for proper utilisation and administration of funds.

(i) The financial planning begins with determination of total capital requirement. For this the finance managers do the sales forecast and if the future prospects appear to be bright and expect increase in sale, then firm needs to increase its production capacity which means more requirement of long term funds. Higher level of production and increase in sales will require higher fixed as well as working capital.

(ii) After estimating the requirement of funds the next step of financial planning is deciding how to raise this finance. Finance may be internally generated by the business or capital may have to be raised from external sources such as equity shares, preference shares, debentures, loans, etc.

(iii) Financial planning is broader in scope as it does not end by raising estimated finance. It includes long term investment decision. In financial planning finance manager analyses various investment plans and selects the most appropriate. Finance managers make short term financial plan called budgets.

9.4.1 Objectives of Financial Planning

Financial planning is done to achieve the following two objectives:

1. **To ensure availability of funds whenever these are required.** The main objective of financial planning is that sufficient fund should be available in the company for different purposes such as for purchase of long term assets, to meet day-to-day expenses, etc. It ensures timely availability of finance. Along with availability financial planning also tries to specify the sources of finance.
2. **To see that firm does not raise resources unnecessarily.** Excess funding is as bad as inadequate or shortage of funds. If there is surplus money, financial planning must invest it in the best possible manner as keeping financial resources idle is a great loss for an organisation.

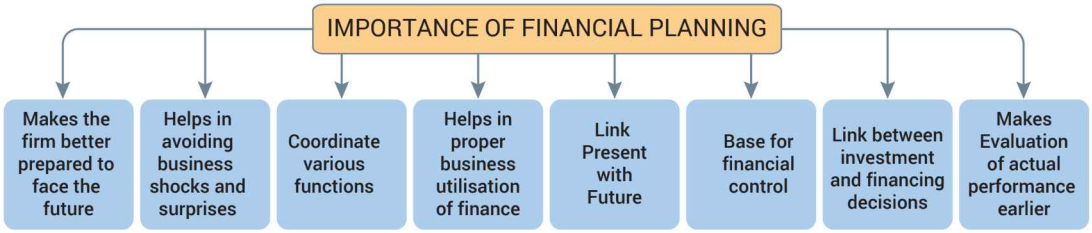
   Financial planning includes both short term as well as the long term planning. Long-term planning focuses on capital expenditure plan whereas short term financial plans are called budgets. Budgets include detailed plan of action for a period of one year or less.

9.4.2 Importance of Financial Planning

Sound financial planning is essential for success of any business enterprise. Its need is felt because of the following reasons:

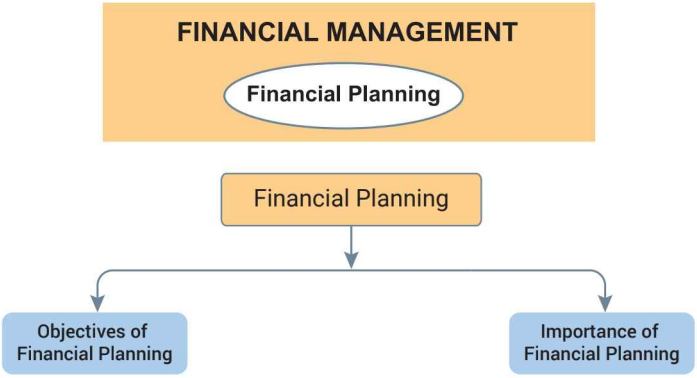
1. **Makes the firm better prepared to face the future.** It helps in forecasting what may happen in future under difference business situations for example if there is prediction of 20%, growth in sales. However, it may happen that growth rate turn out to be 10% or 30%. The financial planners prepare the blue prints of these three situations so that management must know what to do in each situation.
2. **Help in avoiding Business Shocks and Surprises.** By preparing blue print to face different types of situations.
3. **Coordinate various functions.** It helps in coordinating various functions the production, sales etc. by providing clear policies and procedures.
4. **Proper utilisation of finance.** Detailed plans of action prepared under financial planning reduce waste, duplication of efforts and gaps in planning.
5. **Link Present with Future.** It tries to link present with future by anticipating sale, growth, etc.

6. **Link between Investment and Financing Decisions.** It provides link between investment and financing decisions on a continuous basis.
7. **Makes Evaluation of actual performance earlier.** By spelling out detailed objectives for various business segments. It makes the evaluation of actual performance easier.



Comparison between Financial Management and Financial Planning

S.No.	Basis	Financial Management	Financial Planning
1.	Meaning	It refers to efficient acquisition, utilisation and disposal of surplus for the smooth flow of an organisation.	It refers to estimation of capital required and deciding the sources of funds and optimum utilisation of funds.
2.	Scope	It is wider in scope, it includes financial planning.	It is narrow in scope as it is one segment of financial management.
3.	Objective	Its objective is to manage all the activities related to finance.	Its objective is to ensure availability of funds and to see that the firm does not raise the funds unnecessarily.



Keywords

Financial Planning

(a) Ensure availability of funds whenever required

(b) To make sure right amount of capital is available at the right time

MCQs and Case Studies

1. **One of the concept of financial management takes into consideration the growth, performance, investment and requirement of fund for given period. Identify the concept.**
   (a) Financial management (b) Investment decision
   (c) Capital structure (d) Financial planning
2. **Financial planning is**
   (a) Same as Financial management (b) Part of Financial management
   (c) Same as Financing decision (d) None of the above.
3. **Rohan Inherited a very large area of agricultural land in Haryana after the death of his grand father. He plans to sell this piece of land and use the money to set up a small scale paper factory to manufacture all kinds of stationery items from recycled paper. He consulted friend Ramesh, who is working in a financial consultancy firm. Ramesh helped him to prepare a blue print of his future business operations. On the basis of sales forecast in next five years, based on these estimates he helped Rohan to assess the fixed and working capital requirements of business.**

   In the context of above case—
   (a) Identify the type of financial service that Ramesh has offered Rohan.
   (b) State any four importance of that service.

(Answers at Page no. 428)

9.5 CAPITAL STRUCTURE

9.5.1 Meaning

Capital structure means the proportion of debt and equity used for financing the operations of business.

$$\text{Capital structure} = \frac{\text{Debt}}{\text{Equity}}$$

In other words, capital structure represents the proportion of debt capital and equity capital in the capital structure. What kind of capital structure is best for a firm is very difficult to define. The capital structure should be such which increases the value of equity share or maximises the wealth of equity shareholders.

Debt and equity differ in cost and risk. As debt involves less cost but it is very risky securities whereas equity are expensive securities but these are safe securities from companies point of view.

Debt is risky because payment of regular interest on debt is a legal obligation of the business. In case they fail to pay debt security holders can claim over the assets of the company and if firm fails to meet return of principal amount it can even go to liquidation and stage of insolvency.

Equity securities are safe securities from company's point of view as company has no legal obligation to pay dividend to equity shareholders if it is running in loss but these are expensive securities.

Capital structure of the business affects the profitability and financial risk. A best capital structure is the one which results in maximising the value of equity shareholder or which brings rise in the price of equity shares.

Generally companies use the concept of financial leverage to set up capital structure.

Financial Leverage/Trading on Equity

Financial leverage refers to proportion of debt in the overall capital:

$$\text{Finance Leverage} = \frac{D}{E}$$

where, D = debt, E = equity.

With debt fund companies' funds and earnings increase because debt is a cheaper source of finance but it is very risky to involve more debt in capital structure. More debt will result in increase in earning only when rate of earnings of the company, i.e., return on investment should be more than rate of interest on debt. If rate of interest is more than the earnings or ROI of the company then more debt means loss for company.

To prove that owners of companies gain or earning per share is more when debt is involved in the capital structure we will take following example in which company is using all equity capital in one situation, then include some debt along with equity in second situation and then add more debt along with equity in third situation.

Situation–I.

Total capital = ₹ 50 lakhs
Equity capital = ₹ 50 lakhs (5,00,000 shares @ ₹10 each)
Debt = Nil
Tax rate = 30% p.a.
Earning before interest and tax (EBIT) = ₹ 7,00,000.

Situation–II.

Total capital = ₹ 50 lakhs
Equity capital = ₹ 40 lakhs (4,00,000 shares @ ₹ 10 each)
Debt = ₹ 10 lakhs
Tax rate = 30% p.a.
Interest on debt = 10%
Earning before interest and tax (EBIT) = ₹7,00,000

Situation–III.

Total capital = ₹50 lakhs
Equity capital = ₹ 30 lakhs (3,00,000 shares @ ₹10 each)
Debt = ₹20 lakhs
Tax rate = 30% p.a.
Interest on debt = 10%
Earning before interest and tax (EBIT) = ₹ 7,00,000.

Let us now calculate earning per share in all the situations.

	Situation–I	Situation–II	Situation–III
EBIT (*Earning before Interest and Tax*) *Less:* Interest	7,00,000 0	7,00,000 –1,00,000 (10% of 10 lakhs)	7,00,000 –2,00,000 (10% of 20 lakhs)
EBT (*Earning before Tax*) *Less:* Tax (30% of EBT)	7,00,000 –2,10,000 (30% of 7 lakhs)	6,00,000 –1,80,000 (30% of 6 lakhs)	5,00,000 –1,50,000 (30% of 5 lakhs)
EAT (*Earning after Tax*)	4,90,000	4,20,000	3,50,000
EPS $\left(\frac{\text{EAT}}{\text{No. of Equity shares}}\right)$	0.98 $\left(\frac{4,90,000}{5,00,000}\right)$	1.05 $\left(\frac{4,20,000}{4,00,000}\right)$	1.16 $\left(\frac{3,50,000}{3,00,000}\right)$

If we compare the above table we can see that in situation–III equity shareholders get maximum return followed by situation–II and least earning in situation–I. Hence it is proof that more debt brings more income for owners in the capital structure.

But this statement holds true only till rate of earning of capital, *i.e.*, return on investment of the company is more than the rate of interest charged on debt. As we can see return on investment in this example

$$= \frac{\text{EBIT}}{\text{Total investment}} \times 100 = \frac{7,00,000}{50,00,000} \times 100$$

= 14% which is more than rate of interest.

Return of investment is 14% and rate of interest is 10%

14% > 10%, *i.e.*, ROI > Rate of interest.

If return on investment is less than the rate of interest then equity shareholders lose by including more debt. Then more of equity is beneficial for owners of company to prove this. Let us take an example where return on investment is less than rate of interest.

Situation–I.

Total capital	= 50,00,000
Equity capital	= 50,00,000 (5,00,000 shares @ ₹ 10 each)
Debt	= Nil
Tax rate	= 30% p.a.
Interest rate	= 10% p.a.
Earning before interest and tax	= ₹ 3,00,000
ROI	$= \frac{3,00,000}{50,00,000} \times 100 = 6\%$

Situation–II.

Total capital	= 50,00,000
Equity capital	= 40,00,000 (4,00,000 shares @ ₹ 10 each)
Debt	= 10,00,000
Tax rate	= 30% p.a.
Interest rate	= 10% p.a.
Earning before interest and tax	= ₹ 3,00,000
ROI	$= \frac{3,00,000}{50,00,000} \times 100 = 6\%$

Situation–III.

Total capital	= 50,00,000
Equity capital	= 30,00,000 (3,00,000 shares @ ₹ 10 each)
Debt	= 20,00,000
Tax rate	= 30% p.a.
Interest rate	= 10% p.a.
Earning before interest and tax	= ₹ 3,00,000
ROI	$= \frac{3,00,000}{50,00,000} \times 100 = 6\%$

Let us now calculate earning per share in all the situations.

	Situation–I	Situation–II	Situation–III
EBIT (*Earning before Interest and tax*)	3,00,000	3,00,000	3,00,000
Less: Interest	0	– 1,00,000 (10% of 10 lakhs)	– 2,00,000 (10% of 20 lakhs)

EBT (*Earning before tax*) *Less:* Tax (30% of EBT)	3,00,000 – 90,000 (30% of 3 lakhs)	2,00,000 – 60,000 (30% of 2 lakhs)	1,00,000 – 30,000 (30% of 1 lakh)
EAT (*Earning after tax*)	2,10,000	1,40,000	70,000
EPS	0.42	0.35	0.23
$\left(\frac{\text{EAT}}{\text{No. of Equity shares}}\right)$	$\left[\frac{2,10,000}{5,00,000}\right]$	$\left[\frac{1,40,000}{4,00,000}\right]$	$\left[\frac{70,000}{3,00,000}\right]$

Hence proved that in case return of investment is less than rate of interest the equity shareholders get less earning when debt is included in the capital structure.

In other words we can say that during boom period we must have more of debt and less of equity shares in capital structure and during depression when income or return is less we should have more of equity and less of debt in the capital structure.

9.5.2 Factors Determining the Capital Structure

The various factors which influence the decision of capital structure are:

1. **Cash flow position.** The decision related to composition of capital structure also depends upon the ability of business to generate enough cash flow.

   The company is under legal obligation to pay a fixed rate of interest to debenture holders, dividend to preference shares and principal and interest amount for loan. Sometimes company makes sufficient profit but it is not able to generate cash inflow for making payments.

   The expected cash flow must match with the obligation of making payments because if company fails to make fixed payment it may face insolvency. Before including the debt in capital structure company must analyse properly the liquidity of its working capital.

   A company employs more of debt securities in its capital structure if company is sure of generating enough cash inflow whereas if there is shortage of cash then it must employ more of equity in its capital structure as there is no liability of company to pay its equity shareholders.

2. **Interest coverage ratio (ICR).** It refers to number of time companies earning before interest and taxes (EBIT) cover the interest payment obligation.

$$\text{ICR} = \frac{\text{EBIT}}{\text{Interest}}$$

   High ICR means companies can have more of borrowed fund securities whereas lower ICR means less borrowed fund securities.

3. **Debt service coverage ratio (DSCR).** It is one step ahead ICR, i.e., ICR covers the obligation to pay back interest on debt but DSCR takes care of return of interest as well as principal repayment.

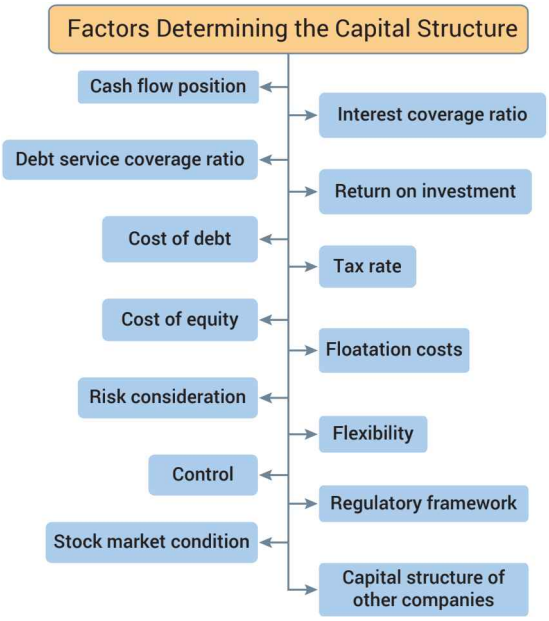
$$\text{DSCR} = \frac{\text{Profit after tax + Depreciation + Interest + Non cash exp. written off}}{\text{Preference Dividend + Interest + Repayment obligation}}$$

If DSCR is high then company can have more debt in capital structure as high DSCR indicates better ability of company to repay its debt but if DSCR is less then company must avoid debt and depend upon equity capital only.

4. **Return on investment.** Return on investment is another crucial factor which helps in deciding the capital structure. **If return on investment is more than rate of interest then company must prefer debt in its capital structure whereas if return on investment is less than rate of interest to be paid on debt, then company should avoid debt** and rely on equity capital. This point is explained earlier also in financial gearing by giving examples.

5. **Cost of debt.** If firm can arrange borrowed fund at low rate of interest then it will prefer more of debt as compared to equity.

6. **Tax rate.** High tax rate makes debt cheaper as interest paid to debt security holders is subtracted from income before calculating tax whereas companies have to pay tax on dividend paid to shareholders. So high end tax rate means prefer debt whereas at low tax rate we can prefer equity in capital structure.



7. **Cost of equity.** Another factor which helps in deciding capital structure is cost of equity. Owners or equity shareholders expect a return on their investment i.e., earning per share. **As far as debt is increasing earning per share (EPS), then we can include it in capital structure but when EPS starts decreasing with inclusion of debt then we must depend upon equity share capital only.**

8. **Floatation costs.** Floatation cost is the cost involved in the issue of shares or debentures. These costs include the cost of advertisement, underwriting statutory fees etc. **Issue of shares, debentures requires more formalities as well as more floatation cost. Whereas there is less cost involved in raising capital by loans or advances.**

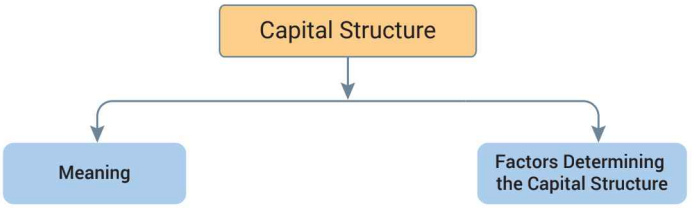
9. **Risk consideration.** Financial risk refers to a position when a company is unable to meet its fixed financial charges such as interest, preference dividend, payment to creditors etc.

   If firm's business risk is low then it can raise more capital by issue of debt securities whereas at the time of high business risk it should depend upon equity.

10. **Flexibility.** Excess of debt may restrict the firm's capacity to borrow further. To maintain flexibility it must maintain some borrowing power to take care of unforeseen circumstances.
11. **Control.** The equity shareholders are considered as the owners of the company and they have complete control over the company.

    If existing shareholders want complete control then they should prefer debt, loans of small amount, etc. If they don't mind sharing the control then they may go for equity shares also.
12. **Regulatory framework.** Issue of shares and debentures have to be done within the SEBI guidelines and for taking loans. Companies have to follow the regulations of monetary policies. If SEBI guidelines are easy then companies may prefer issue of securities for additional capital whereas if monetary policies are more flexible then they may go for more of loans.
13. **Stock market condition.** There are two main conditions of market, *i.e.*, Boom condition and Recession or Depression condition. These conditions affect the capital structure specially when company is planning to raise additional capital. Depending upon the market condition the investors may be more careful in their dealings.

    During depression period in the market business is slow and investors also hesitate to take risk so at this time it is advisable to issue borrowed fund securities as these are less risky and ensure fixed repayment and regular payment of interest but if there is Boom period, business is flourishing and investors also take risk and prefer to invest in equity shares to earn more in the form of dividend.
14. **Capital structure of other companies.** Some companies frame their capital structure according to Industrial norms. But proper care must be taken as blindly following Industrial norms may lead to financial risk. If firm cannot afford high risk it should not raise more debt only because other firms are raising.



Keywords

(i) Ratio of Debt and Equity in Total Capital.
(ii) Issue of additional equity shares to raise more funds will effect capital structure.
(iii) Issue of additional debentures or taking more loans will effect the capital structure.

MCQs and Case Studies

1. **Name the concept which increases the return of equity shares with the change in the capital structure of the company.**
   (a) Financial planning (b) Capital structure
   (c) Trading on equity (d) Investment decision
2. **Higher debt/equity ratio results is**
   (a) Lower financial risk (b) Higher degree of operating risk
   (c) Higher degree of financial risk (d) Higher EPS.
3. **A company's earnings before interest and tax is ₹10 lac. It pays 10% interest on its debt. Total investment of company is ₹50 lac.**
   (a) Advise company whenever it should include debt or equity to raise its capital.
   (b) Name the concept related to this.
   (c) Will the company's decision to raise funds from debt or equity will change if company's EBIT becomes 4 lac.

(*Answers at Page no. 428-429*)

9.6 FIXED AND WORKING CAPITAL

9.6.1 Meaning (Fixed Capital)

Fixed capital involves allocation of firm's capital to long term assets or projects. Managing fixed capital is related to investment decision and it is also called *Capital Budgeting*. The capital budgeting decision affects the growth and profitability of the company.

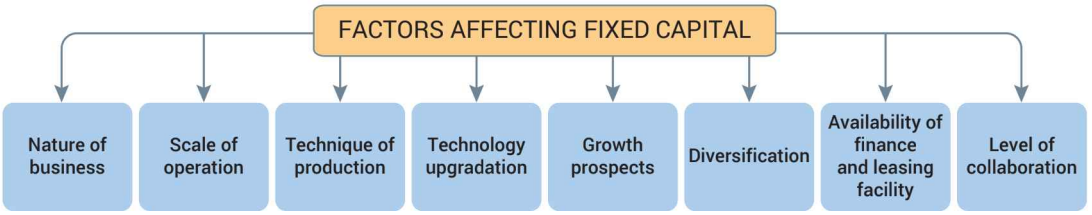
The long term assets bring benefits over a long period and investment in these assets involves huge amount of funds. The capital budgeting decisions include purchase of land, building, plant and machinery, change of technology, expenditure of advertising campaign, research and development, etc.

9.6.2 Factors Affecting Requirement of Fixed Capital

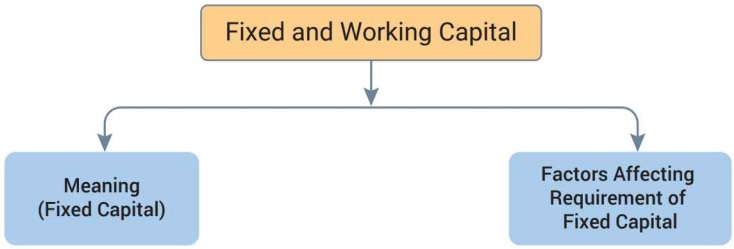
Investment in fixed assets is for longer duration and is called fixed capital. Fixed capital is financed through long-term sources of finance such as equity shares, preference shares, debentures, long-term loans, etc. The requirement of fixed capital depends upon various factors which are explained below:

1. **Nature of business.** The type of business Co. is involved in is the first factor which helps in deciding the requirement of fixed capital. A manufacturing company needs more fixed capital as compared to a trading company, as trading company does not need plant, machinery, etc.

2. **Scale of operation.** The companies which are operating at large scale require more fixed capital as they need more machineries and other assets whereas small scale enterprises need less amount of fixed capital.
3. **Technique of production.** Companies using capital-intensive techniques require more fixed capital whereas companies using labour intensive techniques require less capital because capital-intensive techniques make use of plant and machinery and company needs more fixed capital to buy plants and machinery.
4. **Technology upgradation.** Industries in which technology upgradation is fast need more amount of fixed capital as when new technology is invented old machines become obsolete and they need to buy new plants and machinery whereas companies where technological upgradation is slow they require less fixed capital as they can manage with old machines.
5. **Growth prospects.** Companies which are expanding and have higher growth plan require more fixed capital as to expand they need to expand their production capacity and to expand production capacity companies need more plant and machinery so more fixed capital.



6. **Diversification.** Companies which have plans to diversify their activities by including more range of products require more fixed capital as to produce more products they require more plants and machineries which means more fixed capital.
7. **Availability of finance and leasing facility.** If companies can arrange financial and leasing facilities easily then they require less fixed capital as they can acquire assets on easy instalments instead of paying huge amount at one time. On the other hand if easy loan and leasing facilities are not available then more fixed capital is needed as companies will have to buy plant and machinery by paying huge amount together.
8. **Level of collaboration/joint ventures.** If companies are preferring collaborations, joint venture then companies will need less fixed capital as they can share plant and machinery with their collaborators but if company prefers to operate as independent unit then there is more requirement of fixed capital.



Keywords

(i) Amount invested in buying fixed assets
(ii) Total investment in fixed asset
(iii) Business like manufacturing industries require more fixed capital than business involved in providing services

MCQs and Case Studies

1. **Customers of different banks can use same ATM machine for withdrawal of money. This is related to which factor of fixed capital requirement**
   (a) Diversification (b) Growth Prospects
   (c) Availability of finance
   (d) Level of collaboration/Joint Venture and Leasing
2. **A plan to open more branches and diversify the product mix will lead to require how much fixed capital**
   (a) More (b) Less
   (c) No effect (d) both (a) and (b)
3. **Pinnacle Ltd. deals in the sale of stationery and office furniture. They source the finished products from reputed brands who give them four to six months credit. Seeing the demand for electronic items, they are also planning to market these items by opening outlets throughout India. For this, they have decided to join hands with a Japanese electronic goods manufacturer.**

   Identify and state any two factors that would affect the fixed capital requirement of Pinnacle Ltd. as discussed above. *[CBSE (D) 2017(C)]*

(Answers at Page no. 429)

9.7 WORKING CAPITAL (SHORT TERM INVESTMENT DECISION)

9.7.1 Meaning and Types

Working capital refers to excess of current assets over current liabilities:

(i) **Gross working capital.** This refers to the investment in all the current assets such as cash, bills receivables, prepaid expenses, inventories, etc. These current assets get converted into cash within an accounting year.

Examples of current assets in order of liquidity are:

- Cash in hand/cash at bank
- Debtors
- Marketable securities
- Finished goods inventory
- Bills receivable
- Work in progress
- Raw materials
- Prepaid expense

(ii) **Net Working capital/working of capital.** This refers to excess of current assets over current liabilities. Current liabilities are to be paid within an accounting year, *e.g.*, bills payable, creditors, etc. Current liabilities are sources of funds for acquiring current assets. Suppose company gets credit for maintaining stock then stock which is current asset gets created with the credit purchase which is current liability.

The net working capital can be negative also, when current liabilities exceed current assets. The net working capital indicates the liquidity position of the company. The positive net working capital implies positive liquidity position whereas negative net working capital indicates weak and poor liquidity position.

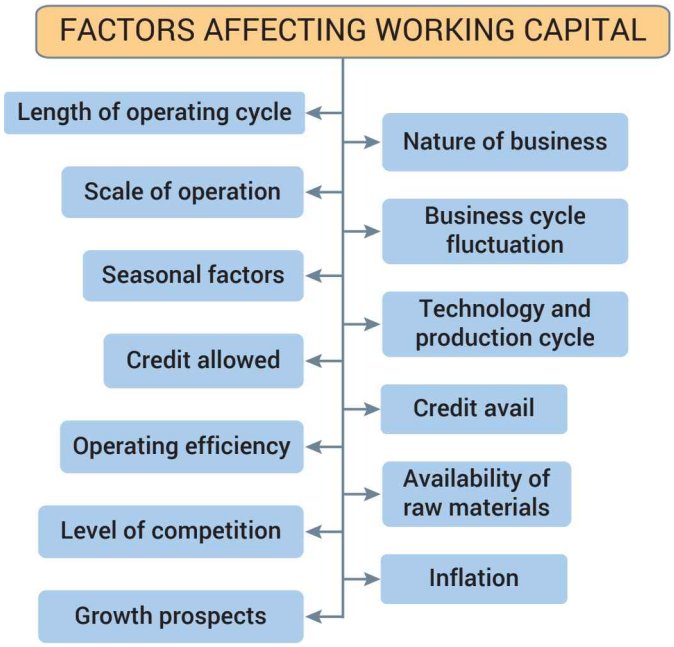
9.7.2 Factors Affecting the Working Capital

1. **Nature of business.** The type of business, firm is involved in, is the next consideration while deciding the working capital. In case of trading concern or retail shop the requirement of working capital is less because length of operating cycle is small. The wholesalers as compared to retail shop require more working capital as they have to maintain large stock and generally sell goods on credit which increases the length of operating cycle. The manufacturing company requires huge amount of working capital because they have to convert raw material into finished goods, sell on credit, maintain the inventory of raw material as well as finished goods.
2. **Scale of operation.** The firms operating at large scale need to maintain more inventory, debtors, etc. So they generally require large working capital whereas firms operating at small scale require less working capital.
3. **Business cycle fluctuation.** During boom period the market is flourishing so more demand, more production, more stock, more debtors which mean more amount of working capital is required. Whereas during depression period low demand less inventories to be maintained, less debtors, so less working capital will be required.
4. **Seasonal factors.** The working capital requirement is constant for the companies which are selling goods throughout the season whereas the companies which are selling seasonal goods require huge amount during season as more demand, more stock has to be maintained and fast supply is needed whereas during off season or slack season demand is very low so less working capital is needed.

5. **Technology and production cycle.** If a company is using labour intensive technique of production then more working capital is required because company needs to maintain enough cash flow for making payments to labour whereas if company is using machine-intensive technique of production then less working capital is required because investment in machinery is fixed capital requirement and there will be less operative expenses.

   In case of production cycle, if production cycle is long then more working capital will be required because it will take long time for converting raw material into finished goods whereas when production cycle is small lesser funds are tied up in inventory and raw materials so less working capital is required.

6. **Credit allowed.** Credit policy refers to average period for collection of sale proceeds. It depends on number of factors such as creditworthiness, of clients, industry norms etc. If company is following liberal credit policy then it will require more working capital whereas if company is following strict or short term credit policy, then it can manage with less working capital also.



7. **Credit avail.** Another factor related to credit policy is how much and for how long period company is getting credit from its suppliers. If suppliers of raw materials are giving long term credit then company can manage with less amount of working capital whereas if suppliers are giving only short period credit then company will require more working capital to make payments to creditors.

8. **Operating efficiency.** The firm having high degree of operating efficiency requires less amount of working capital as compared to firm having low degree of efficiency which requires more working capital.

9. **Availability of raw materials.** If raw materials are easily available and there is ready supply of raw materials and inputs then firms can manage with less amount of working capital also as they need not maintain any stock of raw materials or they can manage with very less stock. Whereas if the supply of raw materials is not smooth then firms need to maintain large inventory to carry on operating cycle smoothly. So they require more working capital.

10. **Level of competition.** If the market is competitive then company will have to adopt liberal credit policy and to supply goods on time. Higher inventories have to be maintained so more working capital is required.

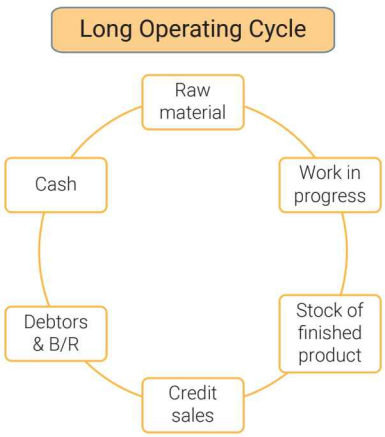
    A business with less competition or with monopoly position will require less working capital as it can dictate terms according to its own requirements.

11. **Inflation.** If there is increase or rise in price then the price of raw materials and cost of labour will rise, it will result in an increase in working capital requirement.

    But if company is able to increase the price of its own goods as well, then there will be less problem of working capital. The effect of rise in price on working capital will be different for different businessmen.

12. **Growth prospects.** Firms planning to expand their activities will require more amount of working capital as for expansion they need to increase scale of production which means more raw materials, more inputs, etc., so more working capital also.

Factor Affecting Requirement of Working Capital

Name of the factor	Requirement of More working capital	Requirement of Less working capital
Nature of business	Manufacturing concern because of processing work.	Trading concern because of no production.
Scale of operation	Large scale operation because of huge inventory.	Small scale operations because of small inventories.
Business cycle	During boom period because of more production.	During depression period because of less production.
Seasonal factors	Peak season because of more demand.	Lean season, because of low demand.
Credit allowed to customers	Sales on 'credit basis'	Sales on 'cash basis'
Credit availed from suppliers.	Purchase on 'cash basis'	Purchase on 'credit basis'
Inflation Vs Deflation	During inflation, due to high price level for raw material, wages, etc.	During deflation, due to low price level.
Operating cycle/Turnover of working capital. It is the time period from purchase of raw material to realisation from debtors.		Short operating cycle.

Availability of raw material	Higher lead time to acquire raw material, so higher stock of raw material would be needed.	Lower lead time, so less stock of raw material would be needed.
Growth prospects	High growth prospects.	Low growth prospects.
Level of competition	High competition would require high amount of stock keeping.	Low competition would require less amount of stock keeping.
Productive cycle	Long production cycle.	Short production cycle

Keywords

(i) Amount invested for one financial year.
(ii) Total value of current assets represent gross working capital.
(iii) Difference between value of current assets and current liabilities represent net working capital.
(iv) Amount invested in inventory, cash, receivables, debtors, bank, etc.

MCQs and Case Studies

1. **Longer the operating and production cycle _____ is the requirement of working capital.**
   (a) More (b) Less
   (c) No effect of operating cycle on working capital
   (d) None of the above

2. **Megha is planning to enter in the business of Herbal Shampoo in the beginning she was thinking there are very few companies making herbal shampoo, but when she started selling her product she realised that many companies are already in the business of selling herbal shampoo.**

   Identify the factor affecting working capital in the above para.
   (a) Growth prospects (b) Nature of business
   (c) Level of competition (d) Business cycle fluctuation

3. **A businessman who wants to start a manufacturing concern, approaches you to suggest him whether the following manufacturing concern would require large or small working capital:**
   (a) Bread (b) Coolers
   (c) Sugar (d) Motor car
   (e) Furniture manufactured against specific orders
   (f) Locomotives

(Answers at Page no. 429)

Quick Revision

- **Meaning.** Financial management is concerned with efficient acquisition and allocation of funds. In other words, financial management means estimating the required fund, arranging the required fund, utilising the required fund in the most productive manner and distributing the surplus generated by investment in the best possible way.
- **Objectives of Financial Management.** The objective of financial management is to maximise the wealth of shareholders that means maximising the wealth of owners by investing the funds in most suitable investment proposal.
- **Finance Functions/Decisions.** Three important functions/decisions of finance manager are:
  1. **Investment decision.** This relates to the careful selection of assets in which funds will be invested by the firm.
  2. **Financing decision.** This relates to composition of various securities in the capital structure of the company.
  3. **Dividend decision.** This relates to distribution of profit earned. The major alternatives are to retain the earnings or to distribute to the shareholders.
- **Investment decision (Capital Budgeting Decision):**
  1. Cash flow of the project
  2. Return on Investment
  3. Risk involved
  4. Investment criteria
- **Importance of capital budgeting decisions.** The investment or budgeting decisions are important because of following reasons:
  1. Long-term growth
  2. Large amount of funds involved
  3. Risk involved
  4. Irreversible decision
- **Factors affecting financing decisions**
  1. Cost
  2. Risk
  3. Cash flow position
  4. Control considerations
  5. Floatation cost
  6. Fixed operating cost
  7. State of capital market.
- **Factors affecting dividend decision**
  1. Earning
  2. Stability of earnings
  3. Cash flow position
  4. Growth opportunities
  5. Stability of dividend
  6. Preference of shareholders
  7. Taxation policy
  8. Access to capital market consideration
  9. Legal restrictions
  10. Contractual constraints
  11. Sock market reaction.
- **Financial Planning.** Financial planning means deciding how much to spend and on what to spend. The two main activities of financial planning are:
- **Objectives of Financial Planning**
  1. To ensure availability of funds whenever these are required.
  2. To see that firm does not raise resources unnecessarily.

Importance of Financial Planning

1. It facilitates collection of optimum funds.
2. It helps in fixing the most appropriate capital structure.
3. Helps in investing finance in right projects.
4. Helps in operational activities.
5. Base for financial control.
6. Helps in proper utilisation of finance.
7. Helps in avoiding business shocks and surprises.
8. Link between investment and financing decisions.
9. Helps in coordination.
10. It links present with future.

Capital Structure. Meaning. It refers to proportion of debt and equity used for financing the operations of business:

Factors determining the capital structure:

1. Cash flow position
2. Interest Coverage Ratio (ICR)
3. Debt Service Coverage Ratio (DSCR)
4. Return on Investment (RoI)
5. Cost of debt
6. Tax rate
7. Cost of equity
8. Floatation costs
9. Risk consideration
10. Flexibility
11. Control
12. Regulatory framework
13. Stock market condition
14. Capital structure of other companies

Fixed and working (capital). It means allocation of firm's capital to different projects or assets with long term implications.

Factors affecting requirement of fixed capital

1. Nature of business
2. Scale of operation
3. Technique of production
4. Technology upgradation
5. Growth prospects
6. Diversification
7. Availability of finance
8. Level of collaboration.

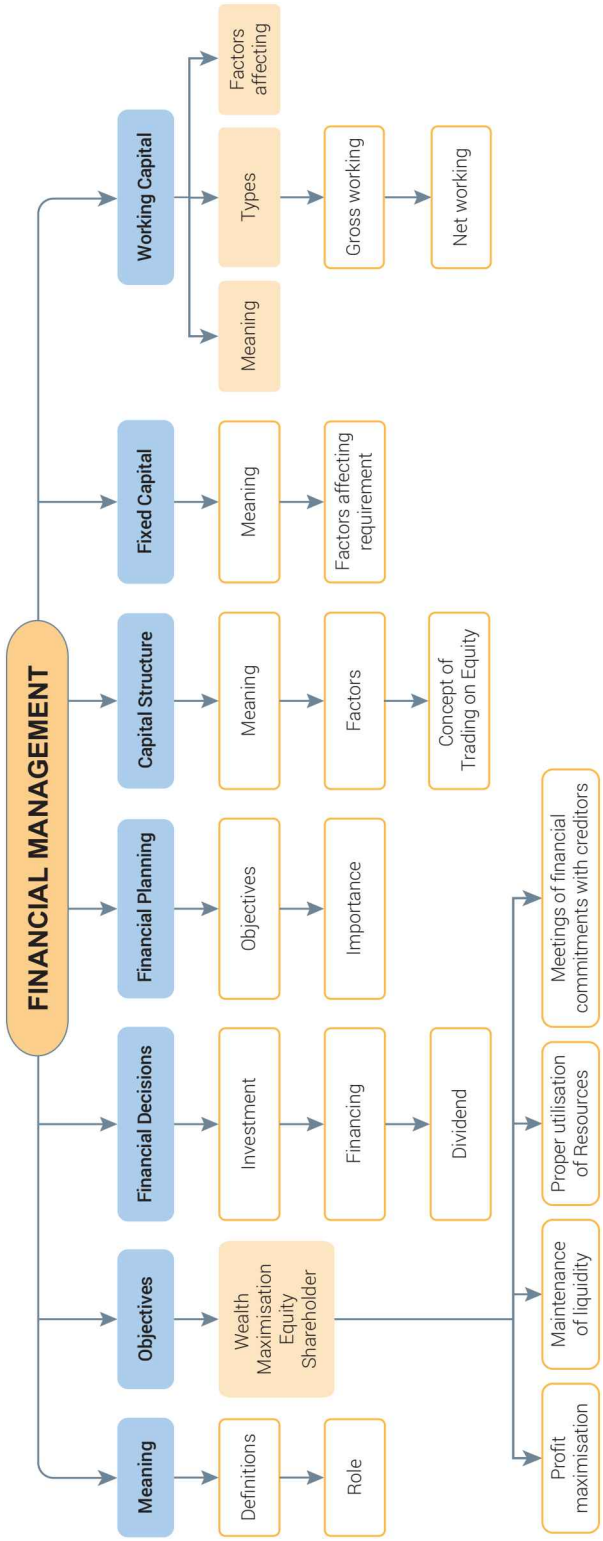
Working Capital. **There are two concepts of working capital:**

1. Gross working capital
2. Net working capital.

Factors affecting requirement of working capital:

1. Length of operating cycle
2. Nature of business
3. Scale of operation
4. Business cycle fluctuation
5. Seasonal factors
6. Technology and production cycle
7. Credit allowed
8. Credit avail
9. Operating efficiency
10. Availability of raw materials
11. Level of competition
12. Inflation
13. Growth prospects.

Financial Management – A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. The main objective of financial management is
   (a) Profit Maximisation (b) Wealth Maximisation
   (c) Ensuring availability of finance (d) None of the above
2. Investment decision is also called
   (a) Capital Budgeting decision (b) Working capital decision
   (c) Current Assets decision (d) None of the above
3. Capital Structure indicates ratio between
   (a) Assets and liabilities of the firm (b) Current Assets and Fixed Assets
   (c) Debt and equity in the total capital (d) Profit and Revenue of the firm
4. If fixed operating cost is high, a firm should prefer
   (a) Debt (b) Equity
   (c) Both (a) and (b) (d) None of the above
5. The decision related to acquiring funds from debt or equity is called
   (a) Investment decision (b) Financing decision
   (c) Dividend decision (d) All of the above
6. The decision related to distribution of residual profit is called
   (a) Investment decision (b) Financing decision
   (c) Dividend decision (d) None of the above
7. If a firm has growth opportunities, it should prefer giving
   (a) Low dividend (b) High dividend
   (c) Does not effect dividend decision (d) None of the above
8. If large number of shareholders of the firm are from middle income group and old age group who prefer regular income, then the firm should prefer giving
   (a) Low dividend (b) High dividend
   (c) No dividend (d) None of the above
9. The concept which makes sure the availability of right amount of finance at the right time is called
   (a) Financial Planning (b) Capital Structure
   (c) Working Capital (d) Fixed Capital
10. Financial Planning links
    (a) Investment and dividend decision (b) Investment and financing decision
    (c) Dividend and financing decision (d) None of the above
11. If ICR is high, firm prefers
    (a) Debt (b) Equity
    (c) Both (a) and (b) (d) None of the above
12. The amount of fixed assets is decided by
    (a) Working capital concept (b) Fixed capital
    (c) Investment decision (d) Financing decision

13. The amount of current assets is decided by
    (a) Working capital concept (b) Fixed capital
    (c) Investment decision (d) Financing decision
14. Positive leverage effect brings
    (a) Gain for equity shareholders (b) Loss for equity shareholders
    (c) Both (a) and (b) (d) None of the above
15. If return on investment is less than the rate of interest, then company must prefer
    (a) Equity (b) Debt
    (c) Both (a) and (b) (d) None of the above
16. What is the cost of raising funds called?
    (a) Flotation Cost (b) Marginal Cost
    (c) Fixed Cost (d) Variable Cost
17. Gross working capital refers to:
    (a) Investment in Fixed Assets (b) Investment in Current Assets
    (c) Investment in Bank (d) All of the above
18. Stock market condition is a factor related to
    (a) Financing decision (b) Dividend decision
    (c) Investment decision (d) Financial planning
19. Retained earnings are affected by
    (a) Financing decision (b) Investment decision
    (c) Dividend decision (d) Capital structure
20. What is related to debt
    (a) Higher cost higher risk (b) Lower cost higher risk
    (c) High cost low risk (d) Low cost low risk

(Answers at Page no. 430)

Fill in the Blanks

1. ensures availability of finance, whenever required.
2. Capital budgeting or investment decision helps in deciding the of fixed assets.
3. Financing decision helps in deciding of capital.
4. Dividend decision helps in appropriate allocation of .
5. During negative leverage effect, firm prefers .
6. Positive leverage effect is for equity shareholders.
7. Service providers require working capital.
8. Manufacturer requires working capital.
9. If firm has liberal credit policy, it will require working capital.
10. If firm has long operating and production cycle, it will require _____ working capital.

(Answers at Page no. 430)

True or False

1. Financial management and financial planning are synonyms of each other. (True/False)
2. If tax rate is high, firms prefer to give high dividend. (True/False)

3. Firms can avoid Floatation Cost by raising funds through loan. (True/False)
4. Firms having stable earnings prefer to give less dividend. (True/False)
5. Easy access to capital market allows firms to give more dividend. (True/False)
6. Investment in current assets for longer duration is called fixed capital (True/False)
7. If a company follows labour intensive technique in production, they will go for less requirement of fixed capital. (True/False)
8. Capital structure means the portion of current assets and current liabilities. (True/False)
9. A company employs more of debt securities in its capital structure if company is sure of generating enough cash inflows. (True/False)
10. If debt service coverage ratio is high then company can have more debt in capital structure. (True/False)

(Answers at Page no. 430)

Remembering and Understanding-based Questions with Answers

Q. 1. State the objective of financial management.

Ans. The objective of financial management is "maximisation of wealth of equity shareholders".

Q. 2. Enumerate three important decisions taken in financial management.

Ans. The three decisions taken by financial management are:

(i) Investment decision, (ii) Financial decision,
(iii) Dividend decision.

Q. 3. State steps involved in financial planning.

Ans. Steps involved in financial planning are:

(i) Estimating the capital required. (ii) Determining the form of securities.
(iii) Determining the right investment proposal.

Q. 4. What is the link between operating cycle and working capital?

Ans. Longer the operating cycle, more is the requirement of working capital. Shorter the working capital less is the requirement of working capital.

Q. 5. Why is dividend decision called residual decision?

Ans. Dividend Decision is considered as residual decision with distribution of left over surplus profit, *i.e.*, how much to be kept aside as retained earning and how much to be distributed in the form of dividend.

Q. 6. How is interest coverage ratio computed?

Ans. $ICR = \frac{\text{EBIT (Earning before Interest and Taxes)}}{\text{Interest}}$.

Q. 7. How is return on investment computed?

Ans. $ROI = \frac{\text{EBIT}}{\text{Total Investment}}$.

Q. 8. What is meant by gross working capital and net working capital?

Ans. Gross working capital refers to aggregate value of current assets. Net working capital refers to excess of current assets over current liabilities.

Net working capital = C.A. – C.L.

Q. 9. How do growth opportunities affect Dividend Decision?

Ans. More growth opportunities means less dividend to be declared and more retained earnings should be maintained.

Q. 10. How does control of existing shareholders affect financing decisions?

Ans. If existing shareholders do not want to lose the control then more of borrowed fund securities should be issued.

Q. 11. What is financial risk?

Ans. The risk of default on payment is known as financial risk.

Q. 12. What is the other name of a long term investment decision?

Ans. Capital budgeting.

Q. 13. Give two factors affecting financing decision.

Ans. (i) Risk, (ii) Returns.

Q. 14. Give two factors affecting dividend decision.

Ans. (i) Earnings, (ii) Stability of learnings.

Q. 15. Give two factors affecting investment decision.

Ans. (i) ROI, (ii) Risk.

Q. 16. There are three important decisions which an organisation has to take in respect of financial management. Enumerate and explain in brief these three decisions.

Ans. Every finance manager has to take three important decisions in an organisation, these are:

(i) Investment decision (ii) Financing decision

(iii) Dividend decision.

[*For detailed description refer to page nos. 381-386*]

Q. 17. How do loan components or debentures in the capital structure act as lever to raise the return on equity share capital?

Ans. The fixed cost securities such as loan or preference shares or debentures act as lever to raise the return on equity share. This can be proved by following example:

[*Financial leverage with table refers to page nos. 391-392*]

Q. 18. The directors of a manufacturing company are thinking of issuing ₹20 lacs additional debentures for expansion of their production capacity. This will lead to an increase in debt-equity ratio from 2 : 1 to 3 : 1. What are the risks involved in it? What factors other than risk do you think the directors should keep in view before taking the decision?

Ans. The increase in debt equity ratio from 2 : 1 to 3 : 1 is subject to following risks:

(a) Interest on debt has to be paid even when the company is not making sufficient profits.

(b) The debenture holders have charge over the assets of the company, so there is threat of insolvency.

Apart from risk, the directors must keep in mind the following factors before taking this decision: Explain factors kept in mind while deciding the capital structure of a company, *refer to page no. 394-396*.

Q. 19. You are the finance manager of a company. The board of directors has asked you to determine the working capital requirement for the company. State the factors that you would take in consideration while determining the requirement of working capital for the company.

Ans. Refer to factors kept in mind while deciding working capital of a company, *refer to page nos. 400- 402.*

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. Tata International Ltd. earned a net profit of ₹50 crores. Ankit, the finance manager of Tata International Ltd. wants to decide how to appropriate these profits. Identify the decision that Ankit will have to take and also discuss any five factors which help him in taking this decision. *[CBSE Sample Paper 2014]*

Ans. Dividend decision

Factors affecting dividend decision: (*any five*)

(i) Amount of earnings
(ii) Stability of earnings
(iii) Stability of dividend
(iv) Growth opportunities
(v) Cash flow position
(vi) Shareholders preference
(vii) Taxation policy
(viii) Stock market reaction
(ix) Access to capital market
(x) Legal constraints
(xi) Contractual constraints.

Q. 2. How do rising prices affect the requirement of working capital of an organisation?

[CBSE Sample Paper 2015]

Ans. 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.

Q. 3. 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 ₹ 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. *[CBSE Sample Paper 2015]*

Ans. **(a) Debt**

Reason: (*Any one*)

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.

(b) Other factors which Shalini would keep in mind are: (*any two*)

- 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

Q. 4. '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.

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.

After due deliberations with Mr Seth, Mr Shah decided to raise funds from a financial institution.

(a) Identify and explain the concept of Financial Management as advised by Mr Seth in the above situation.

(b) State the four factors affecting the concept as identified in part (a) above which have been discussed between Mr Shah and Mr Seth. *[CBSE Sample Paper 2016]*

Ans. (a) Capital structure

(b) (1) Cash flow position (2) Floatation cost
(3) Risk consideration (4) Tax rate
(5) Control

Q. 5. Avik is the finance manager of Mars Ltd. In the current year, the company earned high profit. However, Avik thinks that it is better to declare smaller dividend as he is unsure about the earning potential of the company in the coming years.

Avik's choice of dividend decision is based on which of the factor that affect it?

[CBSE (D) 2017(C)]

Ans. Stability of Dividend.

Q. 6. When is financial leverage favourable? *[CBSE Sample Paper 2016]*

Ans. When ROI is higher than cost of Debt.

Q. 7. HCL Company's finance manager has decided to retain its entire profit to meet financial requirement for its growth. Name the type of decision involved.

Ans. Dividend.

Q. 8. Tata sons has debt equity ratio of 4:1 and Bajaj has 1:1 debt equity ratio. Name the advantage, Tata sons may have over Bajaj.

Ans. Trading on equity.

Q. 9. Dabur India has decided to increase credit limit and duration of credit to its customers to boost its sales. Name the type of decision involved.

Ans. Working capital.

Q. 10. Bharti Ltd. is a leading mobile company. It is planning to acquire Queen Ltd's (its close competitor) business worth ₹ 1,000 crore. Which financial decision is involved in it? Explain it.

Ans. Investment.

Q. 11. Chandra Ltd. is a manufacturer of Laptops. It made a profit of 1000 crores. The director have proposed a dividend of 38%. As a finance manager of the company, what factors would you consider while formulating a dividend policy of the company?

Ans. Refer to Page nos. 384-385.

Q. 12. Pankaj is engaged in Warehousing Business. Identify the working capital requirements of Pankaj stating the reason in support of your answer. Pankaj is also planning to start his Transport business.

Explain any two factors that will affect his fixed capital requirements.

Ans. Less Working Capital.

Q. 13. Name the factor due to which a petro chemical company requires much higher investment in fixed capital than an information technology company. However both may generate same amount of revenue. Explain any two factors affecting fixed capital requirement.

Ans. Nature of business.

Q. 14. "Ranbaxy Ltd. has been earning handsome profits since last 15 years. Company enjoy fair goodwill in the market, so company can easily arrange debt as well equity from the market, whenever needed. Therefore company decided to declare dividend with a hike of 15% from last year."

Which two components affecting dividend decision have been highlighted in the above paragraph.

Ans. (i) Stability of earning. (ii) Access to capital markets.

Q. 15. "During annual general meeting of Prakash Ltd. CEO, Mr. Rajnesh put the expansion plan for the coming year before shareholders and asked for suitable source of finance to finance manager. Finance manager Mr. Kant proposed issue of debentures than equity with a plan that they can be paid back whenever requirement of funds is over."

In the above paragraph, which component affecting financing decision has been highlighted? Explain the component.

Ans. Flexibility.

Q. 16. How does 'Trading on Equity' affect the Capital structure of a company?

Explain with the help of a suitable example.

Ans. Refer to Page nos. 391-392.

Q. 17. "Tax benefits is available only in case of payment of interest and not on the payment of preference dividend." Why?

Ans. Interest is an expense while dividend is an appropriation.

Q. 18. 'REI Agro Food Ltd. is a famous multinational company. Mr. S.K. Nagi is its finance manager. He is making efforts to increase the market value of capital invested by the equity shareholders. He already knew it could be possible only when price of the shares increases and price of shares increase only if financing, investment and dividend decisions are taken optimally. He did the same and achieved success.

Which objective of financial management has been referred here? Explain.

Ans. Maximising the wealth of equity shareholders.

Q. 19. Jai Bharat Company Ltd. is an auto part supplier company in Guru Gram, Haryana. Its business is spread over several cities. The CEO of company wants to open a factory in Gujarat near Tata Motors Ltd. but due to recession for the last two years, its business is facing slow down. Company needs capital. Rakesh Gupta is CA and financial advisor of the company. He opines that during recession profit falls and investors prefer to invest in debentures to earn fixed income. Therefore, the company should issue debentures.

In this paragraph, which factor affecting financing decision has been highlighted? Explain state of capital market.

Ans. State of capital market.

Q. 20. Canara Bank wants to open a new branch of his bank. What is this decision called?

Ans. This decision is considered as investment decision.

Q. 21. A decision is taken to distribute certain part of profit to shareholders after paying tax. What is this decision called? Explain any three factors affecting such decisions.

Ans. Dividend decision.

[*For explanation of factors refer to page no. 384-385*]

Q. 22. Name types of capital which are part of capital structure.

Ans. Debt and equity.

Q. 23. A decision is taken to raise money for long term capital needs of business from certain sources. What is their decision called? Explain the three factors affecting such decision.

Ans. Financing decision.

[*For explanation of factor affecting refer to page no. 383*]

Q. 24. What is considered the cheapest source of finance?

Ans. Debt.

Q. 25. What is financial leverage? Explain with the help of an example.

Ans. Financial leverage is proportion of debt in overall capital.

[*For example, refer to page no. 391*]

Q. 26. What is favourable financial leverage?

Ans. Favourable financial leverage means when, ROI > Rate of Interest on debt.

Q. 27. What is the cost of raising funds called?

Ans. Floatation cost.

Q. 28. What determines overall financial risk?

Ans. Proportion of debt in the total capital determines the overall financial risk.

Q. 29. In case of high fixed operating cost, company should prefer debt or equity?

Ans. Equity.

Q. 30. What is the another name for long term investment decision?

Ans. Capital budgeting.

Q. 31. A sound financial plan is the key to success of sound financial management of the company. Discuss.

Ans. Yes, it is right to say that sound financial plan is key to success of sound financial management because of following importance.

[Refer to page nos. 388-389 for importance of financial planning]

Q. 32. Amit is running an 'Advertising agency' and earning a lot by providing this service to big industries. State whether the working capital requirement of the firm will be 'less' or 'more'. Give reason in support of your answer.

Ans. Less working capital is required as service industries which usually do not have to maintain inventory require less working capital.

Q. 33. Satnam Singh wons a fruit orchit in Shimla where finest quality of apples are grown. He plans to start 15 juice stations in different localities in Shimla, Chandigarh, Solan, etc., in partnership with his friend Gurpreet Singh. Instead of buying he plans to take shops on rent. He needs money for other inputs.

Identify any explain two factors affecting fixed capital requirement of Satnam's business discussed in above para by quoting the lines.

Ans.
1. Level of collaboration, "In partnership with his friend Gurpreet."
2. Financing and leasing facility, "He plans to take shops on rent."

Q. 34. PVR is a renowned multiplex operators in India. It owns 254 screens in 52 properties at 24 locations in the country. Considering the fact that there is more growing trend among the people to spend more of their disposable income on entertainment, company planned to add more screen at existing locations and start at new locations also; they also plan to add food chain also at their locations. The company planned to float equity shares in market to raise the desired capital. The issue was fully subscribed and paid. Over the years the sale and the profit of the company have increased tremendously and it has been declaring higher dividend and the market price of its share has increased manifolds.

(a) Name the different kinds of financial decisions taken by PVR Ltd. by quoting lines from para.

(b) Do you think the financial management team of the company has been able to achieve its prime objectives? Why or why not?

Ans. (a) The different kinds of financial decisions taken by company are

(1) Investment decision lines "company plan to add more screen . . . . . food chain.

(2) Financing decision lines "The 10 planned to float equity shares . . . . . capital."

(3) Dividend Decision, "It has been declining higher dividend."

(b) Yes as price of its share has increased manifolds as prime objective of financial management is maximising the wealth of equity share holders."

Q. 35. Healthcare Ltd. is a company engaged in production of organic food. Presently it sells its products through indirect channels of distribution. The company is planning to start its own show rooms and online portals. The financial manager suggested to use debt to invest in own showrooms and online portals.

Company plans to raise debt capital of ₹40 lakhs through a loan from ICICI bank at 10% Interest. The present capital base of the company is 9 lakhs equity shares of ₹10 each. The rate of tax is 30%.

In the context of above case —

Assuming expected rate of return same as current year, i.e., 15%, do you think the decision to use debt is justified.

Show your working clearly.

Ans.

Sources	Situation I	Situation II
Equity Shares (9 lakh × ₹10)	90,00,000	90,00,000
Debt	Nil	40,00,000
Total Capital	90,00,000	1,30,00,000
EBIT (15% on Capital)	13,50,000 (15% of 90 lakh)	19,50,000 (15% of 1 cr. 30 lakh)
— Interest (10% on Debt)	—	4,00,000

EBT	13,50,000	15,50,000
Less Tax (30% of EBT)	4,05,000	4,65,000
EAT	9,45,000	10,85,000
$\text{EPS} = \frac{\text{EAT}}{\text{No. of Shares}}$	$\frac{9,45,000}{9,00,000}$	$\frac{10,85,000}{9,00,000}$
—	1.05	1.21

Yes, the decision to raise debt is justified.

Guidelines to NCERT Questions

Multiple Choice Questions

1. The cheapest source of finance is
   (a) Debenture (b) Equity share capital
   (c) Preference share (d) Retained earning
2. A decision to acquire a new and modern plant to upgrade an old one is a
   (a) Financing decision (b) Working capital decision
   (c) Investment decision (d) Dividend decision
3. Other things remaining the same, an increase in the tax rate on corporate profits will
   (a) Make debt relatively cheaper (b) Make debt relatively less cheap home
   (c) No impact on the cost of debt (d) We can't say
4. Companies with higher growth paternal are likely to
   (a) Pay lower dividends (b) Pay higher dividends
   (c) Dividends are not affected by growth considerations
   (d) None of the above
5. Financial leverage is called favourable if
   (a) Return on Investment is lower than cost of debt
   (b) ROI is higher than cost of debt
   (c) Debt is nearly available
   (d) If the degree of existing financial leverage is low
6. Higher debt equity ratio $\left(\frac{\text{Debt}}{\text{Equity}}\right)$ results in
   (a) Lower financial risk (b) Higher degree of operating risk
   (c) Higher degree of financial risk (d) Higher EPS
7. Higher working capital usually results in
   (a) Higher current ratio, higher risk and higher profits
   (b) Lower current ratio, higher risk and profits
   (c) Higher equitably, lower risk and lower profits
   (d) Lower equitably, lower risk and higher profits
8. Current assets are those assets which get converted into case
   (a) within six months (b) within one year
   (c) between one and three years (d) between three and five years

9. Financial planning arrives at
   (a) Minimising the external borrowing by resorting to equity issues.
   (b) Entering that the firm always have significantly more fund than required so that there is no paucity of funds.
   (c) ensuring that the firm paces neither a shortage nor a glut of unusable funds.
   (d) doing only what is possible with the funds that the firms has at its disposal.
10. Higher dividends per share is associated with
   (a) High earning, high cash flows, unusable earnings and higher growth opportunities
   (b) High earning, high cash flows, stable earnings and high growth opportunities
   (c) High earning, high cash flows, stable earnings and lower growth opportunities
   (d) High earning, low cash flows, stable earnings and lower growth opportunities
11. A fixed asset should be financed through
   (a) a long term liability (b) a short-term liability
   (c) a mix of long and short term liabilities (d) None of these
12. Current assets of a business firm should be financed through
   (a) Current liability only (b) long-term liability only
   (c) Partly from both types, *i.e.*, long and short-term liabilities.
   (d) None of these

Short Answer Type Questions

1. What is meant by capital structure? [*Refer on Page no. 390*]
2. Discuss the two objectives of financial planning. [*Refer on Page no. 388*]
3. What is 'financial risk'? Why does it arise?

   [**Hint:** Financial risk refers to a position when company is unable to meet its fixed financial charges such as interest, preference dividend, payment of creditors, etc. It arises with excess of debt in the capital structure.]
4. Define a 'current assets' and give four examples. [*Refer on Page no. 400*]
5. Financial management is based on three broad financial decisions. What are these? [*Refer on Page no. 380*]
6. What are the main objectives of financial management? Briefly explain. [*Refer on Page nos. 379-380*]
7. Discuss about working capital affecting both the liquidity as well as profitability of a business.

   [**Hint:** Current assets are more liquid but contribute less to the profit. So with more working capital liquidity improves but profitability decreases.]

Long Answer Type Questions

1. What is meant by working capital? How is it calculated? Discuss five important determinants of working capital requirements. [*Refer on Page nos. 400-402*]
2. Capital structure decision is essentially optimisation of risk-return relationship. Comment. [*Refer on Page no. 396*]
3. A capital budgeting decision is capable of changing the financial fortune of a business. Do you agree? Why or Why not? [*Refer on Page nos. 382-383*]

   [**Hint:** Yes.]

4. Explain factors affecting the dividend decision. [Refer on Page nos. 384-385]
5. Explain the term 'trading on equity'. Why, when and how can it be used by a business organisation? [Refer on Page nos. 391, 392]

TEST YOURSELF

Very Short Answer Questions

1. State the objectives of financial management. [CBSE (AI) 2012]
2. Explain the concept of wealth maximisation as an objective of financial management. [CBSE (D) 2012]
3. Describe the two objectives of financial planning.
4. What is financial risk and how does it arise?
5. Explain the link between operating cycle and working capital.
6. What do you mean by negative working capital?
7. Why is the dividend decision treated as a residual decision?
8. What do you mean by dividend decision?
9. What do you mean by management of fixed capital?
10. Why is capital budgeting decision considered as an important decision?
11. Define current assets and give some examples of current assets.

Short Answer Questions

1. How are shareholders likely to gain with the loan component in the capital structure?
2. Explain the factors affecting the dividend policy of a company.
3. Explain the meaning and nature of financial planning.
4. Explain the meaning and nature of capital budgeting.
5. Explain factors affecting financing decision. [CBSE (AI) 2012]

Long Answer Questions

1. State whether the working capital requirement of business manufacturing the following items are big or small. Justify your answer:
   (i) Bread (ii) Coolers
   (iii) Sugar (iv) Furniture
   (v) Motor car (vi) Locomotives
2. "Capital structure decision is essentially optimisation of risk/return relationship". Comment.
3. Explain the term trading on equity. Why, when and how can it be used by business organisations?

Previous Years' Examination Questions (2014-2019)

One Mark Questions

1. What is meant by 'financial management'? [CBSE (D) 2017]
2. How does 'level of competition' affect the working capital requirement of an organisation? State. [CBSE (D) 2017(C)]
3. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly

available to the paint manufacturing companies. Bonler Paints Company is also facing this problem and because of this there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods.

Identify the factor affecting the working capital requirements of this industry. [*CBSE (AI) 2018*]

4. What is meant by 'Capital Structure'? [*CBSE (AI) 2017*]

5. 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. Narender 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.

[*CBSE (AI) 2017*]

6. What is meant by 'Trading on Equity'? [*CBSE (F) 2017*]

7. Name and state the aspect of financial management that enables to foresee the fund requirements both in terms of 'the quantum' and 'the timings'. [*CBSE (AI) 2016*]

8. Rizul Bhattacharya after leaving his job wanted to start a Private Limited Company with his son. His son was keen that the company may start manufacturing of Mobile- phones with some unique features. Rizul Bhattacharya felt that the mobile phones are prone to quick obsolescence and a heavy fixed capital investment would be required regularly in this business. Therefore he convinced his son to start a furniture business. Identify the factor affecting fixed capital requirements which made Rizul Bhattacharya to choose furniture business over mobile phones. [*CBSE (AI) 2016*]

9. Meca Ltd. a reputed automobile manufacturer needs Rupees ten crores as additional capital to expand its business. Atul Jalan, the CEO of the company wanted to raise funds through equity. On the other hand the Finance Manager, Nimi Sahdev said that the public issue may be expensive on account of various mandatory and non-mandatory expenses. Therefore, it was decided to allot the securities to institutional investors.

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

[*CBSE (D) 2017*]

10. Reliable Transport Services Ltd.' specialises in transporting fruits and vegetables. It has a good reputation in the market as it delivers the fruits and vegetables at the right time and at the right place.

State with reason whether the working capital requirements of 'Reliable Transport Services' will be high or low. [*CBSE (F) 2015*]

11. Explain how' cost of debt' affects the choice of capital structure of a company.[*CBSE (D) 2015*]

12. The size of assets, the profitability and competitiveness are affected by one of the financial decisions. Name and state the decision. [*CBSE (D) 2016*]

13. Radhika and Vani who are young fashion designers left their job with a famous fashion designer chain to set-up a company 'Fashionate Pvt. Ltd.' They decided to run a boutique during the day and coaching classes for entrance examination of National Institute of Fashion Designing in the evening. For the coaching Centre they hired the first floor of a nearby building. Their

major expense was money spent on photocopying of notes for their students. They thought of buying a photocopier knowing fully that their scale of operations was not sufficient to make full use of the photocopier.

In the basement of the building of 'Fashionate Pvt. Ltd.' Preveen and Ramesh were carrying on a printing and stationery business in the name of 'Neo Prints Pvt. Ltd.' Radhika approached Praveen with the proposal to buy a photocopier jointly which could be used by both of them without making separate investment, Praveen agreed to this.

Identify the factor affecting fixed capital requirements of 'Fashionate Pvt. Ltd.' *[CBSE (D) 2016]*

14. How does 'cost of equity' affect the choice of capital structure of a company? Explain. *[CBSE (AI) 2015]*

15. 'Best Bulbs Pvt. Ltd. was manufacturing good quality LED bulbs and catering to local market. The current production of the company is 800 bulbs a day. Sumit, the marketing manager of the company surveyed the market and decided to supply the bulbs to five-star-hotels also. He anticipated the higher demand in future and decided to buy a sophisticated machine to further improve the quality and quantity of the bulbs produced.

Identify the factor affecting fixed capital requirements of the company. *[CBSE (F) 2016]*

16. As a part of its capital structure, 'Venus Ltd.' had ₹50 lakhs as Equity Share Capital and a loan of ₹20 lakhs from Neon Bank. On earning a good profit, Venus Ltd decided to give dividend to the Equity Shareholders but were surprised when the Neon Bank imposed restrictions on the payment of dividend.

Identify the factor affecting dividend decision which allows Neon Bank to impose restrictions on the payment of dividend by 'Venus Ltd.'. *[CBSE 2019 (66/3/1)]*

17. Koby Ltd. is an 87-year-old reputed consumer goods company. It is known for offering good quality electronic products at reasonable prices. It has branches all over India. It has a large shareholder base. The shareholders desired that some dividend is paid every year on their investments. Company's management understands that it is important to keep the shareholders happy and satisfied. As a matter of policy, they declare a certain amount of dividend every year out of profits rather than reinvesting the whole as retained earnings.

Identify the factor affecting dividend decision being highlighted in the above situation. *[CBSE 2019 (66/4/1)]*

18. How does 'Cost of Debt' affect the capital structure of an enterprise? *[CBSE 2019 (66/5/1)]*

19. How does 'Cost of Equity' affect the capital structure of an enterprise? *[CBSE 2019 (66/5/1)]*

20. 'XY Ltd.' is registered with an authorised capital of ₹ 10 crore. The paid-up capital of the company is ₹ 6 crore. The company was facing shortage of funds. The management of the company decided to raise funds by issue of 1,00,000 equity shares of ₹ 100 each. The issue was fully subscribed. After this it was realised that the funds raised were in excess of the actual requirement. Identify and define the concept which was not considered by the company before deciding the amount of funds to be raised. *[CBSE 2019 (66/5/1)]*

Three Marks Questions

21. Ramanath 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. *[CBSE (AI) 2017]*

22. The Return on Investment (ROI) of a company ranges between 10-12% for the past three years. To finance its future fixed capital needs, it has the following options for borrowing debt:

Option 'A' : Rate of interest 9%

Option 'B' : Rate of interest 13%

Which source of debt, 'Option A' or 'Option B', is better? Give reason in support of your answer. Also state the concept being used in taking the decision. *[CBSE 2018]*

23. Explain the objectives of Financial Planning. *[CBSE 2019 (66/1/1)]*

24. What is meant by 'Financial Management'? State the primary objective of Financial Management. *[CBSE 2019 (66/1/1)]*

25. 'G. Motors' is the manufacturer of sophisticated cranes. The Production manager of the company, reported to the Chief Executive Officer, Ashish Jain that one of the machines used in manufacturing sophisticated cranes had to be replaced to compete in the market, as other competitors were using automatic machines for manufacturing cranes. After a detailed analysis, it was decided to purchase a new automatic machine having the latest technology. It was also decided to finance this machine through long term sources of finance. Ashish Jain compared various machines and decided to invest in the machine which would yield the maximum returns to its investors.

(a) Identify the financial decision taken by Ashish Jain.

(b) Explain any three factors affecting the decision identified in (a) above. *[CBSE 2019 (66/2/1)]*

26. Explain any three factors affecting capital budgeting decision of a company. *[CBSE 2019 (66/3/1)]*

27. Explain the twin objectives of financial planning. *[CBSE 2019 (66/3/1)]*

28. Steelone Enterprises is manufacturing high quality steel utensils. The demand for steel is rising as people are getting aware that plastic is not good for health. This has led to increase in the production of steel utensils. To encourage sales, Steelone Enterprises declared a liberal credit policy, which allows three months credit to its wholesale buyers.

In the light of the above, identify the two factors affecting capital requirements of Steelone Enterprises. State with reason, whether the factors as identified above, will result in high or low working capital requirement. *[CBSE 2019 (66/3/1)]*

29. Explain with the help of any three points how proper Financial Planning enables the companies to tackle the uncertainty in respect of availability and timings of funds and helps in smooth functioning of the organisation. *[CBSE 2019 (66/4/1)]*

30. How do debt and equity differ in their costs and risks involved? Explain. *[CBSE 2019 (66/4/1)]*

31. Indian equity markets are going through a phase of boom. There is a huge growth potential for innovative technologies. This has resulted in lots of new ventures vying for a market share and old enterprises trying to keep up with the pace with which changes are taking place in the economy. This technological innovation has helped even smaller businesses to compete on a global scale.

Identify and explain the three factors highlighted above which affect the working capital requirements of such enterprises. *[CBSE 2019 (66/4/1)]*

Four Marks Questions

32. 'Smart Stationery Ltd.' wants to raise funds of ₹ 40,00,000 for its new project. The management is considering the following mix of debt and equity to raise this amount:

Capital Structure	Alternative		
	I (₹)	II (₹)	III (₹)
Equity	40,00,000	30,00,000	10,00,000
Debt	0	10,00,000	30,00,000

Other details are as follows:

Interest Rate on Debt	9%
Face Value of Equity Shares	₹ 100 each
Tax Rate	30%
Earning Before Interest and Tax (EBIT)	₹ 8,00,000

(a) Under which of the three alternatives will the company be able to take advantage of Trading on Equity?

(b) Does Earning Per Share always rise with increase in debt? *[CBSE 2019 (66/2/1)]*

Five/Six Marks Questions

33. Explain briefly any four factors which affect the choice of capital structure of a company. *[CBSE (D) 2017]*

34. Explain briefly any four factors that affect the working capital requirement of a company. *[CBSE (D) 2017]*

35. Explain briefly any four factors that affect the fixed capital requirements of a company. *[CBSE (D) 2017]*

36. Varunica Ltd., a reputed truck manufacturing company, needs rupees twenty crores as additional capital to expand its business. Mr. Alind Jindal, the CEO of the company, wants to raise funds through equity. The Finance Manager, Mr. Nikhil Sachdeva, suggests that the existing shareholders be offered the privilege to subscribe to new issue of shares as per the terms and conditions of the company which was agreed by Mr. Alind Jindal.

Name the method through which the company decided to raise additional capital. *[CBSE (F) 2017]*

37. 'Viyo Ltd.' is a company manufacturing textiles. It has a share capital of rupees 60 lakhs. The earning per share in the previous year was rupees 0.50. For diversification, the company requires additional capital of rupees 40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of rupees 8 lakh on capital employed. It paid tax @40%.

(a) State whether the shareholders gained or lost, in respect of earning per share on diversification. Show your calculations clearly.

(b) Also, state any three factors that favour the issue of debentures by the company as part of its capital structure. [CBSE (D) 2016]

38. Explain briefly any four factors affecting the fixed capital requirements of an organisation. [CBSE 2018]

39. Determining the relative proportion of various types of funds depends upon various factors. Explain any six such factors. [CBSE 2019 (66/1/1)]

40. Explain any six factors affecting the decision that determines the amount of profit earned to be distributed and to be retained in the business. [CBSE 2019 (66/1/1)]

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

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

(b) Explain any two factors affecting each of the decisions that still have to be considered by the finance manager. [CBSE 2019 (66/5/1)]

Hints of the Answers for Case Studies

3. Availability of raw materials/ Production Cycle/ Nature of business.

5. Offer for Sale.

8. Technology upgradation.

9. Private Placement.

10. Low, as it is a service industry, which usually do not have to maintain inventory.

12. Investment Decision/Capital Budgeting Decision

13. Level of collaboration.

15. Growth prospects

16. Contractual constraints.

17. Shareholders' preference.

20. Financial Planning: The process of estimating the fund requirements of a business and specifying the sources of funds is called financial planning.

OR

Financial planning is the preparation of a financial blueprint of an organisation's future operations.

21. Financial Planning

Importance of Financial planning (any two):

(a) It helps the company to prepare for the future by forecasting what may happen in the future under different business situations.

(b) It helps in avoiding business shocks and surprises.

(c) It helps in co-ordinating various business functions by providing clear policies and procedures.

(d) It helps in reducing waste, duplication of efforts, gaps in planning and confusion.

(e) It links the present with the future.

(f) It provides a link between investment and financing decisions.

(g) It serves as a control technique as it makes evaluation of actual performance easier.

22. Option 'A' is better.

This is because in this option, Return on Investment (10-12%) is higher than the Rate of interest (9%).

The concept being used in taking the decision is Trading on Equity.

Trading on equity refers to the use of fixed cost sources of finance such as preference shares, debentures and long term loans in the capital structure so as to increase the return on equity shares.

25. (a) Investment decision/ Capital Budgeting/ Long term Investment decision.

(b) Factors affecting Investment decision/ Capital Budgeting/Long term Investment decision:

(i) Growth Prospects
(ii) Level of collaboration
(iii) Cash Flows of the project
(iv) Rate of return
(v) Investment criteria involved

28. Factors affecting working capital requirements are:

(i) Nature of business
(ii) Credit allowed
(iii) Scale of operations

(i) Nature of business: Since Steelone Enterprises is a manufacturing business, it will require high/ more working capital as raw materials need to be converted into finished goods.

(ii) Credit allowed: Since it has a liberal credit policy it will require high/more working capital because of higher debtors.

(iii) Scale of operations: Since the business will be operating on a higher scale, it will require high/ more working capital as the quantum of inventory and debtors required will be high.

31. Factors affecting Working Capital Requirements:

(i) Business Cycle
(ii) Growth Prospects
(iii) Level of competition

32. (a)

Capital Structure	Alternative		
	I (₹)	II (₹)	III (₹)
Equity	40,00,000	30,00,000	10,00,000
9% Debt	0	10,00,000	30,00,000
Capital Employed	40,00,000	40,00,000	40,00,000
Earning before Interest and Tax	8,00,000	8,00,000	8,00,000
Less Interest @ 9%	0	(90,000)	(2,70,000)
Earning before Tax	8,00,000	7,10,000	5,30,000
Less Tax @ 30%	(2,40,000)	(2,13,000)	(1,59,000)
Earnings After Tax/ Profit Available to Shareholders	5,60,000	4,97,000	3,71,000
Earning Per Share	5,60,000/40,000	4,97,000/30,000	3,71,000/10,000
	= ₹14	= ₹16.57	= ₹ 37.1

Thus, under Alternative III, the company will be able to take advantage of Trading on Equity.

(b) No, Earning Per Share does not always rise with increase in debt.

36. Rights Issue

37. (a) Earning per share before diversification: ₹0.50

Calculation of Earning per share after issue of Debentures: (assuming face value of ₹100 per share)

Particulars	₹
Share Capital	60,00,000
10% debentures	40,00,000
Total	1,00,00,000
Profit before interest and tax	8,00,000
Less Interest	4,00,000
Profit before tax	4,00,000
Less tax@ 40%	1,60,000
Profit available to shareholders	2,40,000
Earning per share = 2,40,000/60,000	=₹4

This clearly shows that the shareholders have gained after the issue of debentures since the Earning per share has increased from ₹0.50 to ₹4.

OR

Calculation of Earning per share after issue of Debentures: (assuming face value of ₹10 per share)

Particulars	₹
Share Capital	60,00,000
10% debentures	40,00,000
Total	1,00,00,000
Profit before interest and tax	8,00,000
Less Interest	4,00,000
Profit before tax	4,00,000
Less tax@ 40%	1,60,000
Profit available to shareholders	2,40,000
Earning per share = 2,40,000/6,00,000	=₹0.40

This clearly shows that the shareholders have lost after the issue of debentures since the Earning per share has decreased from ₹0.50 to ₹0.40.

(b) Factors that favour issue of debentures by the company: (Any three)

(i) A good cash flow position makes debt funding more viable.

(ii) High Interest Coverage ratio lowers the risk of company failing to meet its interest payment obligations

(iii) High debt service coverage ratio indicates better ability to meet the debt service obligations.

(iv) If Return on Investment of the company is higher than the interest rate on debt, its ability to use debt is greater.

(v) Lower the cost of debt higher is the ability to employ debt.

(vi) High tax rate makes debt relatively cheaper.

(vii) If the stock market conditions are bearish, a company may be able to easily raise funds through debt.

(viii) If the company does not want dilution of control, it will favour debt as a source of finance.

(ix) Inclusion of debt in the capital structure makes the capital structure flexible.

(x) If the business risk is lower, its capacity to use debt is higher.

(xi) Raising funds through debt involves low floatation costs.

41. (i) **Investment decision/ Capital budgeting decision/ Long term Investment decision**

It involves deciding about how the funds are invested in different assets so that they are able to earn the highest possible return for the investors.

(ii) **Financing decision:** It refers to the decision about the quantum of finance to be raised from various long term sources.

Factors affecting Investment decision: (any two)

(i) Cash flows of the project
(ii) The rate of return of the project
(iii) The investment criteria involved
(iv) Financing alternatives

Factors determining financing decision: (any two)

(i) Interest coverage ratio
(ii) Debt service coverage Ratio
(iii) Return on Investment
(iv) Tax rate
(v) Fixed operating costs
(vi) Flexibility
(vii) Control
(viii) Regulatory framework
(ix) Stock market conditions/ State of capital markets
(x) Capital structure of other companies

ANSWERS OF MCQs and CASE STUDIES

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1. The role of financial management in this company will be deciding:

   (i) Size and composition of fixed assets.

   (ii) Amount and composition of current assets.

   (iii) The amount of long-term and short-term financing.

   (iv) Fixing debt equity ratio in capital.

   While playing this role the main objective of finance manager will be maximisation of wealth of equity shareholders.

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1. (d) All of the above
2. (i) Financial management concept

   (ii) "Maximising the wealth of equity shareholders."

Page 386-387

1. (a) Financing decision
2. (b) Investment decision
3. (d) High earnings, high cash flow, stable earnings, lower growth opportunities.
4. (a) Investment decision

5. (i) Investment decision/Capital budgeting decision: Investment/Capital budgeting decision involves deciding about how the funds are invested in different assets so that they are able to earn the highest possible return for their investors.

   (ii) Factors that affect capital budgeting decision are:

   (a) Cash flows of the project

   (b) Rate of return of the project.

   (c) Investment criteria.

6. Factors affecting dividend decision are the following:

   (i) **Stability of earnings:** A company having stable earnings is in a position to declare more dividends and vice-versa.

   "It has been consistently ..... for many years."

   (ii) **Cash flow position:** The better the cash flow position of the company, the will the capacity of the company to pay dividend.

   "There is availability of enough cash in the company."

   (iii) **Growth opportunities:** If the company has more opportunities for growth, it will require more finance. In such a situation, a major part of the income should be retained and a small part of it should be paid as dividend.

   "Good prospects for growth in the future."

   (iv) **Shareholders preference:** There are two types of shareholders from the point of view of investment: (a) those who invest with the purpose of getting some regular income and (b) those who invest in the company to gain capital profit. If the majority of the shareholders are of the former type, the company must declare dividend according to their expectation. On the contrary, if the majority of the shareholders are of the latter type the company enjoys freedom about declaring dividend.

   "It may have shareholders.....from their investments."

   (v) **Contractual constraints:** When a company receives finance in the form of debt, the debt providers can put a ban on the company to give any dividend.

   "It has taken a loan of ₹ 50 lakhs.....agreement".

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1. (d) Financial planning
2. (b) Part of Financial Management
3. (a) Financial Planning

   (b) Importance (Refer to Page no. 388-389)

Page 397

1. (c) Trading on equity
2. (c) Higher degree of financial risk
3. (a) Company should prefer debt to raise fund as debt is gainful for equity shareholders till

   ROI > Rate of Interest

In the above case ROI = $\frac{\text{EBIT}}{\text{Total Income}} \times 100 = \frac{10}{50} \times 100 = 20\%$

Interest = 10%

20 > 10, so debt is more suitable.

(b) The concept is leverage effect or trading on equity.

(c) Yes company's decision will change if EBIT becomes 4 lakhs, because with 3 lakhs ROI will become less than interest.

$$\text{ROI} = \frac{\text{EBIT}}{\text{Total Income}} \times 100 = \frac{4}{50} \times 100 = 8\%$$

Interest = 10%

8% < 10%

So, now company must prefer equity to raise capital.

Page 399

1. (d) Level of collaboration/Joint Venture and Leasing
2. (a) More
3. Two factors that would affect the fixed capital requirement of Pinnacle Ltd. are:
   (i) Diversification: It will increase the fixed capital requirements as the investment in fixed capital will increase.
   (ii) Level of Collaboration: Collaboration reduces the level of investment in fixed assets.

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1. (a) More
2. (c) Level of competition
3. (a) **Bread.** Requirement of working capital will be less because it has quick cash turn over.
   (b) **Coolers.** Requirement of working capital is more because it is a seasonal product.
   (c) **Sugar.** Working capital required will be more because operating cycle is long.
   (d) **Motor car.** Working capital required will be more because of long operating cycle.
   (e) **Furniture.** Requirement of working capital will be less because no inventory has to be maintained.
   (f) **Locomotives.** Requirement of working capital will be less because of small operating cycle.

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Quetsions

1. (b)	2. (a)	3. (c)	4. (b)	5. (b)
6. (c)	7. (a)	8. (b)	9. (a)	10. (b)
11. (a)	12. (b)	13. (a)	14. (a)	15. (a)
16. (a)	17. (b)	18. (a)	19. (c)	20. (b)

Fill in the Blanks

1. Financial Planning
2. Composition or Types
3. Source of Structure
4. Profit
5. Equity
6. Gainful
7. Less
8. More
9. More
10. More

True or False

1. (F) – Financial planning is a part of financial management.
2. (F) – They prefer to give low dividend.
3. (T)
4. (F) – They prefer giving high dividend.
5. (T)
6. (F)
7. (T)
8. (F)
9. (T)
10. (T)

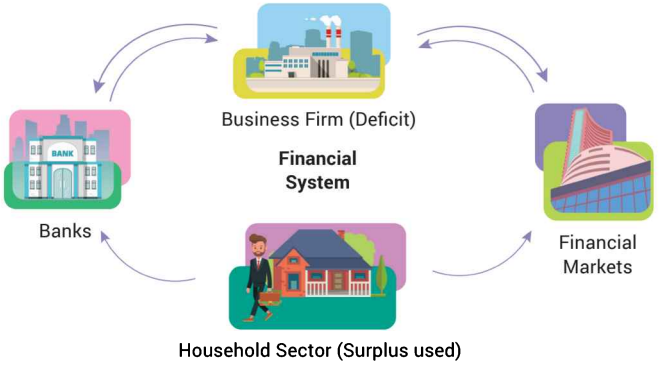
10 FINANCIAL MARKET

Contents as per Latest CBSE Syllabus

- Financial Markets—Concept, functions and types
- Money market and its instruments
- Capital market and its types (primary and secondary), methods of floatation in the primary market
- Stock Exchange—Functions and trading procedure
- Securities and Exchange Board of India (SEBI)— objectives and functions

10.1 FINANCIAL MARKET: CONCEPT AND NATURE

Financial market is a link between the savers and borrowers. This market transfers the money or capital from those who have surplus money to those who are in need of investment. Generally, the investors are called surplus units and business enterprises are called deficit units. So financial market transfers money supply from surplus units to deficit units. Financial market acts as a link between surplus and deficit units and brings together the borrowers and lenders.



There are mainly two ways through which funds can be allocated: (a) Via bank (b) Financial markets. The households who are the surplus units may keep their savings in banks, they may buy securities from capital market. The banks and financial market both in turn lend the funds to business firm which is called deficit unit.

Bank and financial market are competitor of each other. Financial market is a market for the creation and exchange of financial assets.

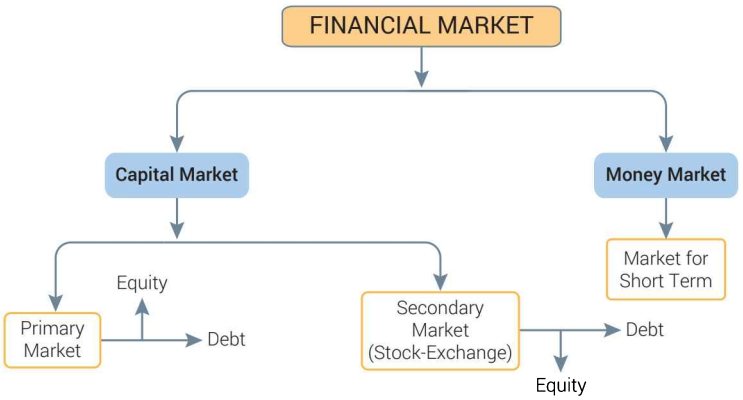
10.1.1 Functions of Financial Markets

Financial markets perform following four important functions:

1. **Mobilisation of savings and channelising them into the most productive uses.** Financial markets act as a link between savers and investors. Financial markets transfer savings of savers to most appropriate investment opportunities.
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.
3. **Provide liquidity to financial assets.** In financial markets financial securities can be bought and sold easily so financial market provides a platform to convert securities in cash.
4. **Reduce the cost of transaction.** Financial market provides complete information regarding price, availability and cost of various financial securities. So investors and companies do not have to spend much on getting this information as it is readily available in financial markets.

Classification of Financial Market

There are two segments of financial market: (a) Capital market (b) Money market.



Keywords

Functions of Financial Market

(i) Moving saving of household to corporate sector.

(ii) Demand and supply of financial market fix the price.

(iii) By selling securities in financial market any time investors can convert their investment in cash.

(iv) Financial market provide ready information so no money is spent by investors to collect information.

Case Studies

1. **Financial market is a market for creation and exchange of financial assets. It helps to link the savers with the investors and direct available funds into their most productive investment opportunity. It also facilitates easy purchase and sale of financial assets through stock exchange.**

   State two functions of financial market performed in above case.

2. **Financial market help to save time, efforts and money that both buyers and sellers of financial assets would have to otherwise spend to know each other the function of financial market referred in above para is**

   (a) Facilitate Price discovery

   (b) Provide liquidity to financial assets

   (c) Reduce the cost of transaction

   (d) Mobilisation of saving and channelising them into most productive use.

(Answers at Page no. 471)

10.2 MONEY MARKET

Money market is a market for short term funds meant for use for a period of upto one year. Generally, money market is the source of finance for working capital. Transactions of money market include lending and borrowing of cash for a short period of time and also sale and purchase of securities having one year term or which gets redeemed (paid back) within one year period.

Money market is not a fixed geographical area but it constitutes all organisations and institutions which deal with short-term debts. The common institutes are Reserve Bank of India, State Bank of India, other Commercial Banks, LIC, GIC, UTI, etc. Many of these institutions deal on telephone and fax only.

Features of Money Market:

1. Market for short term.
2. No fixed geographical location.
3. Major institutions involved in money market are R.B.I., Commercial Banks, LIC, GIC, etc.
4. Common instruments of money market are Call money, Treasury bill, CP, CD, Commercial bill, etc.

10.2.1 Instruments of Money Market

The common instruments of money market are:

1. **Call Money.** The money borrowed or lent on demand for a short period which is generally one day. Sundays and other holidays are excluded for this purpose. Mostly Banks use call money. When one bank faces temporary shortage of cash then the bank with surplus cash lends to bank in shortage for one or two days. Call money is called interbank call money

market. But even other organisations such as insurance companies, mutual fund companies, etc. also deal with call money. It is a market over the telephone. The maturity periods of call money are extremely short and varies from one day to fifteen days and its liquidity is just next to cash.

Most of the time banks require call money to meet the minimum requirement of Cash Reserve Ratio (CRR). The interest paid on call money is called call rate. It is very volatile rate which varies from day to day and sometimes from hour to hour. There is an inverse relation between the rate of interest of call money and other securities as when rate of interest of call money increases the other securities become cheap.

2. **Treasury Bills (T. Bills).** Treasury bills are issued by Reserve Bank of India on behalf of the Government of India. These bills enable government to get short term borrowings as these bills are sold to banks and general public. These bills are negotiable instruments and are freely transferable. These are issued at a discount. These are considered safest investment as these are issued by R.B.I. The maturity period of Treasury Bills varies from 14 to 364 days.

   Treasury Bills are also called Zero Coupon Bonds. They are issued at a price lower than their face value and repaid at par. These are available for minimum amount of ₹25,000 and in multiples thereof.

   Example: Suppose an investor purchases a 3 months treasury bill with a face value of ₹2,00,000 for ₹1,90,000. By holding the bill till maturity period he will get ₹2,00,000 and difference between the bill amount and amount paid to purchase the bill is the interest received by him.

3. **Commercial Bills.** Trade bills or accommodation bills are bills drawn by one business firm on another. These are common instruments used in credit purchase and sale. These have short term maturity period generally 90 days and can be discounted with bank even before the maturity period. These are negotiable instruments and can be easily transferred. The drawee of the bill honours the bill on due date. A trade bill is nothing but written acknowledgement of debt where the maker or drawer instructs or directs the payee or drawee to make payment within a fix period of time. The drawee accepts the bill and becomes liable to make payment on due date.

4. **Commercial Paper (C.P.).** The commercial paper was introduced in India for the first time in 1990. It is an unsecured promissory note issued by public or private sector companies with a fixed maturity period which varies from 15 days to one year. Since commercial papers are unsecured so these can be issued by companies having good reputation and creditworthiness. The commercial banks and mutual funds are the main investors of commercial papers.

   Funds raised through commercial paper are used to meet the floatation cost. This is known as bridge financing. For example firm wants to raise long term funds to buy a new office building and machinery. To raise long term funds by issue of shares, debentures the company will have to incur floatation cost such as brokerage, commission, printing of prospectus etc. The firm can meet this cost by issue of commercial papers.

Main purpose of issuing commercial papers are (1) Meeting floatation cost (2) Short term funds for seasonal and working capital need.

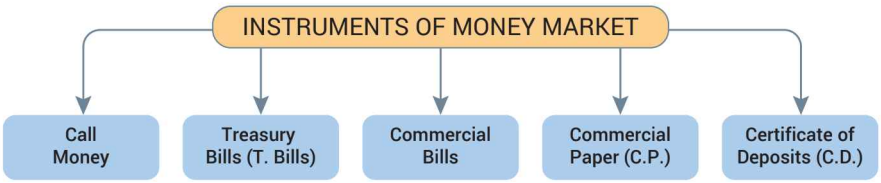
5. **Certificate of Deposits (C.D.).** It is a time or deposit which can be sold in the secondary market. Only a bank can issue C.D. It is a bearer certificate or document of title. It is also a negotiable instrument and can be transferred easily. C.D. is issued by banks against the deposits kept by companies and institutions. The time period of C.D. ranges from 91 days to one year. These can be issued to individuals, corporations and companies during period of tight liquidity when the deposit growth of bank is slow but the demand for credit is high.

Difference between Certificate of Deposit [CD] and Fixed Deposit [FD]

S.No.	Certificate of Deposit [CD]	Fixed Deposit/Time Deposit [FD]
1.	CDs are freely negotiable.	FDs are not freely negotiable.
2.	CD can be issued for a period of 91 days to 1 year.	FDs may be issued for a minimum period of 14 days and maximum there is no limit.
3.	CDs are issued at a discount on the actual amount of deposit held.	FDs are issued for the actual amount of deposit held.

There are different money market instruments available for different sectors. Following table classifies the money market instruments for each sector: (bank to bank)

S.No.	Govt. and Semi-Govt.	Private Companies	Banks
1.	Treasury Bills (T. Bills)	Trade bills	Call Money
2.	Government securities	Commercial papers (CP)	
3.	Public sector units' bonds	Certificate of deposits (CD)	



Keywords

Money Market

(i) Market for short term
(ii) Market for working capital
(iii) Instruments to money market are called near money

Instrument of Money Market

Treasury Bill

(i) Issued by RBI
(ii) Zero coupon bond
(iii) Safest investment

Call Money

(i) Shortest duration
(ii) Interbank money
(iii) Used to maintain cash reserve ratio

Commercial Paper

(i) Unsecured promissory note
(ii) Used for
(a) Working capital requirement
(b) Seasonal needs
(c) Bridge financing (for floatation cost)

Commercial Bill: Suitable for credit buying and selling.

MCQs and Case Studies

1. **Commercial paper is a short term unsecured promissory note having a maturity period of**
(a) 91 days to one year
(b) 15 days to one year
(c) one day to 15 days
(d) one year

2. **Name the instrument which can be issued to individuals, corporations and companies during period of tight liquidity when the deposit growth of bank is slow, but the demand for credit is high.**
(a) Commercial paper
(b) Certificate of deposit
(c) Call money
(d) Treasury Bill

3. **A company require ₹ 2 crore for inventory, payment of wages, salaries, maintaining bank balance, etc.**
(i) Suggest which financial market company may approach and why?
(ii) State the instruments to raise finance in that market.

4. **'Ganesh Steel Ltd.' is a large and creditworthy company manufacturing steel for the Indian market. It now wants to cater to the Asian market and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost the company decides to tap the money-market.**
(a) Name and explain the money-market instrument the company can use for the above purpose.
(b) What is the duration for which the company can get funds through this instrument?
(c) State any other purpose for which this instrument can be used.

(Answers at Page no. 471)

10.3 CAPITAL MARKET : MEANING AND DEFINITION

Capital market is a market for medium and long term funds. It includes all the organisations, institutions and instruments that provide long term and medium term funds. It does not include the instruments or institutions which provide finance for short period (upto one year). The common instruments used in capital market are shares, debentures, bonds, mutual funds, public deposits, etc.

Definition of capital market:

- "Capital market can be defined as the mechanism which channelises saving into investment or productive use. Capital market allocates the capital resources amongst alternative uses. It intermediates flow of savings of those who save a part of their income from those who want to invest it in productive assets".

—V.K. Bhalla

10.3.1 Nature or Features of Capital Market

1. **Link between savers and investment opportunities.** Capital market is a crucial link between saving and investment process. The capital market transfers money from savers to entrepreneurial borrowers.
2. **Deals in long-term investment.** Capital market provides funds for long and medium term. It does not deal with channelising saving for less than one year.
3. **Utilises intermediaries.** Capital market makes use of different intermediaries such as brokers, underwriters, depositories, etc. These intermediaries act as working organs of capital market and are very important elements of capital market.
4. **Determinant of capital formation.** The activities of capital market determine the rate of capital formation in an economy. Capital market offers attractive opportunities to those who have surplus funds so that they invest more and more in capital market and are encouraged to save more for profitable opportunities.
5. **Government rules and regulations.** The capital market operates freely but under the guidance of government policies. These markets function within the framework of government rules and regulations, e.g., stock exchange works under the regulations of SEBI which is a government body.

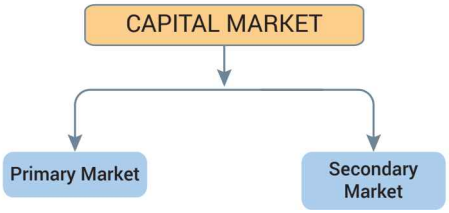
An ideal capital market is one:

1. Where finance is available at reasonable cost.
2. Which facilitates economic growth.
3. Where market operations are free, fair, competitive and transparent.
4. Must provide sufficient information to investors.
5. Must allocate capital productively.

10.3.2 Types of Capital Market

The main components of capital market are:

A. Primary Market B. Secondary Market



A. Primary Market (New Issue Market)

Primary market is also known as new issue market. As in this market securities are sold for the first time, *i.e.*, new securities are issued from the company. Primary capital market directly contributes in capital formation because in primary market company goes directly to investors and utilises these funds for investment in buildings, plants, machinery, etc.

Method of Floatation of Securities in Primary Market

The securities may be issued in primary market by the following methods:

1. **Public Issue through Prospectus.** Under this method company issues a prospectus to inform and attract general public. In prospectus company provides details about the purpose for which funds are being raised, past financial performance of the company, background and future prospects of company.

   The information in the prospectus helps the public to know about the risk and earning potential of the company and accordingly they decide whether to invest or not in that company. Through IPO company can approach large number of persons and can approach public at large. Sometimes companies involve intermediaries such as bankers, brokers and underwriters to raise capital from general public.

2. **Offer for Sale.** Under this method new securities are offered to general public but not directly by the company but by an intermediary who buys whole lot of securities from the company. Generally the intermediaries are the firms of brokers. So sale of securities takes place in two steps: first when the company issues securities to the intermediary at face value and second when intermediaries issue securities to general public at higher price to earn profit. Under this method company is saved from the formalities and complexities of issuing securities directly to public.

3. **Private Placement.** Under this method the securities are sold by the company to an intermediary at a fixed price and in second step intermediaries sell these securities not to general public but to selected clients at higher price. The issuing company issues prospectus to give details about its objectives, future prospects so that reputed clients prefer to buy

the security from intermediary. Under this method the intermediaries issue securities to selected clients such as UTI, LIC, General Insurance, etc.

The private placement method is a cost saving method as company is saved from the expenses of underwriter fees, manager fees, agents' commission, listing of company's name in stock exchange, etc. Small and new companies prefer private placement as they cannot afford to raise from public issue.

4. **Right Issue (For Existing Companies).** This is the issue of new shares to existing shareholders. It is called right issue because it is the pre-emptive right of shareholders that company must offer them the new issue before subscribing to outsiders. Each shareholder has the right to subscribe to the new shares in the proportion of shares he already holds. A right issue is mandatory for companies under Companies' Act 1956. The stock exchange does not allow the existing companies to go for new issue without giving pre-emptive rights to existing shareholders because if new issue is directly issued to new subscribers then the existing equity shareholders may lose their share in capital and control of company, *i.e.*, it would water their equity. To stop this the pre-emptive or right issue is compulsory for existing company.
5. **e-IPOs. (Electronic Initial Public Offer).** It is the new method of issuing securities through on line system of stock exchange. In this company has to appoint registered brokers for the purpose of accepting applications and placing orders. The company issuing security has to apply for listing of its securities on any exchange other than the exchange it has offered its securities earlier. The manager coordinates the activities through various intermediaries connected with the issue.

B. Secondary Market (Stock Exchange)

The secondary market is the market for the sale and purchase of previously issued or second hand securities.

In secondary market securities are not directly issued by the company to investors. The securities are sold by existing investors to other investors. Sometimes the investor is in need of cash and another investor wants to buy the shares of the company as he could not get directly from company. Then both the investors can meet in secondary market and exchange securities for cash through intermediary called broker.

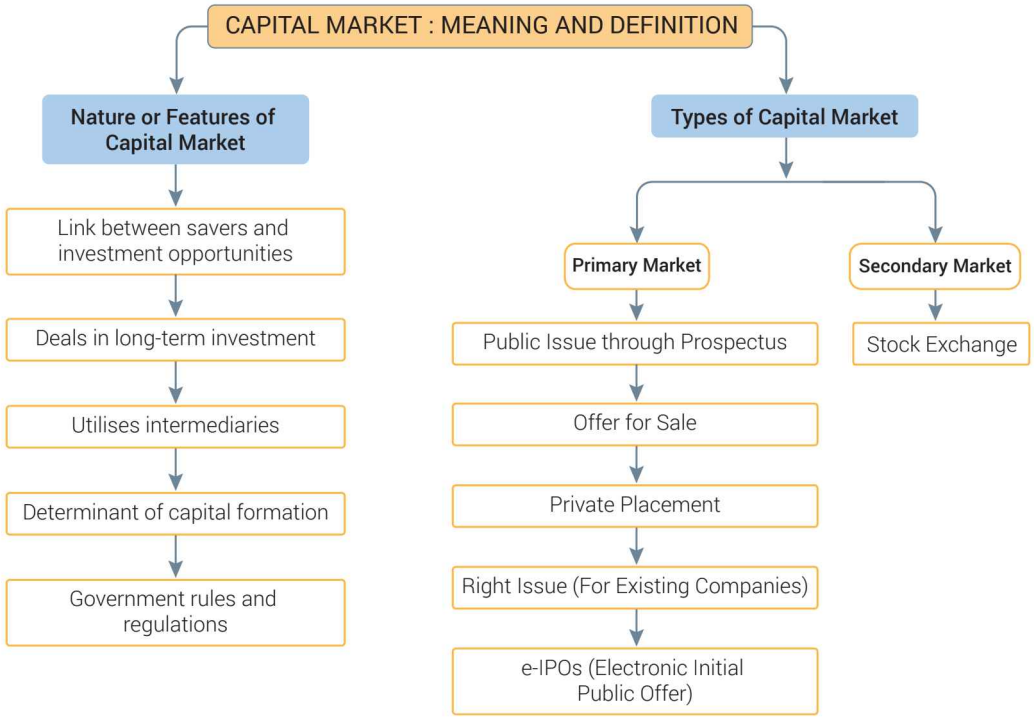
Difference between Primary Market and Secondary Market

S.No.	Basis	Primary Market	Secondary Market
1.	Types of Securities	There is sale of new securities.	It is the market for existing or second hand securities.
2.	Issued by	In primary market securities are directly issued by companies.	Securities are transferred between investors only.
3.	Capital Formation	Primary market contributes directly for capital formation as funds are transferred from surplus units to deficit units.	Secondary market contributes indirectly for capital formation as funds are exchanged between surplus units only.

4.	Entry	All companies enter the primary market to raise capital for their operations.	Only listed companies' securities are bought and sold in secondary market.
5.	Geographical Location	There is no fixed geographical area for primary market. All the institutions, banks, foreign investors, etc. constitute primary market.	There is a fixed geographical area and working hours.
6.	Price	Prices of securities are fixed by the management of the company.	Prices of securities are fixed by the demand and supply factors of stock exchange market.

Difference between Capital Market and Money Market

S.No.	Basis	Capital Market	Money Market
1.	Participants	The participants in capital market are financial institutions, banks, public and private companies, foreign investors and ordinary retail investors from public.	The participants of money market are financial institutions, banks, public and private companies but foreign and ordinary retail investors do not participate in money market.
2.	Duration	The capital market deals in medium and long term securities.	Money market deals with short term securities having maximum tenure of 1 year.
3.	Instruments	The common instruments of capital market are equity shares, debentures, preference shares, bonds and other innovative securities.	The common instruments of money market are treasury bills, trade bills, CD, CP, etc.
4.	Investment outlay	The investment in capital market does not require huge financial investment as the value of securities is generally low, *i.e.*, ₹10 to ₹100.	The instruments of money market are quite expensive so huge financial investment is required.
5.	Liquidity	Capital market securities are considered liquid because of stock exchange but compared to money market instruments these are less liquid.	Money market securities enjoy higher degree of liquidity.
6.	Safety	The instruments of capital market are riskier in respect to returns as well as respect to principal repayment as issuing company may fail.	The instruments of money market are safe or less risky due to short duration and soundness of issuers.
7.	Expected return	The expected return is higher in capital market as along with regular dividend or interest there are chances of capital gain.	The expected return of money market is less due to short duration.
8.	Type of capital	Companies approach capital market for fixed capital requirement.	Companies approach money market for working capital requirement.



Keywords

Capital Market

(i) Market for long term (ii) Market for fixed capital

Primary Market

(i) New issue market (ii) Directly contribute for capital formation

Methods of Floatation in Primary Market

(i) **Offer through prospectus:** Direct-appeal to investor.

(ii) **Offer for Sale:**

(a) Company sell to intermediary at a fixed price

(b) Intermediary sell to investor at a higher price

(iii) **Private placement:** Securities are allotted to institutional investors and selected individual.

(iv) **Right issue:** Issue of shares to existing shareholders.

(v) **e-ipo:** Selling through online system of stock exchange.

Secondary Market

(i) Stock Exchange.

(ii) Market for second hand securities.

(iii) Indirectly contribute for capital formation.

MCQs and Case Studies

1. **The ABC Ltd. wants to raise ₹500 Cr. to fulfill its expansion plans by issue of equity shares. Identify the market ABC Ltd. will look for raising funds:**
   (a) Primary market (b) Secondary Market
   (c) Both (a) and (b) (d) None of the above
2. **Primary and secondary markets**
   (a) Compete with each other (b) Compliment each other
   (c) Function independently (d) Control each other
3. **A company wants to set up a new branch in Chennai. For additional capital company is planning to issue equity shares to public as there is boom period in capital market and public will prefer to invest in shares.**

   While analysing the issue, finance manager found that floatation costs of the issue would be high and company is already in liquidity crunch. Company deemed it proper to depend on money market instruments for about six months.
   (i) Identify the method of flotation of capital, mentioned above.
   (ii) Besides above shares issue method, mention two other methods.
   (iii) Use of what kind of instrument will be appropriate for the money market.

(*Answers at Page no. 471*)

10.4 STOCK EXCHANGE

The securities contract and regulation act defines a stock exchange as, "*An organisation or body of individuals, whether incorporated or not established for the purpose of assisting, regulating and controlling of business in buying, selling and dealing in securities*".

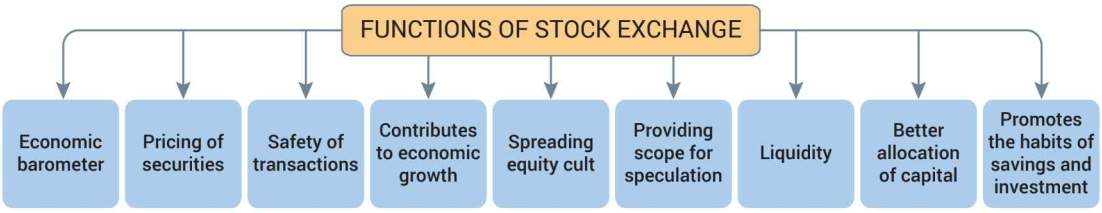
10.4.1 Functions of Stock Exchange/Secondary Market

1. **Economic barometer.** A stock exchange is a reliable barometer to measure the economic condition of a country. Every major change in country and economy is reflected in the prices of shares. The rise or fall in the share prices indicates the boom or recession cycle of the economy. Stock exchange is also known as a pulse of economy or economic mirror which reflects the economic conditions of a country.
2. **Pricing of securities.** The stock market helps to value the securities on the basis of demand and supply factors. The securities of profitable and growth oriented companies are valued higher as there is more demand for such securities. The valuation of securities is useful for investors, government and creditors. The investors can know the value of their investment, the creditors can value the creditworthiness and government can impose taxes on value of securities.
3. **Safety of transactions.** In stock market only the listed securities are traded and stock exchange authorities include the companies names in the trade list only after verifying the

soundness of company. The companies which are listed they also have to operate within the strict rules and regulations. This ensures safety of dealing through stock exchange.

4. **Contributes to economic growth.** In stock exchange securities of various companies are bought and sold. This process of disinvestment and reinvestment helps to invest in most productive investment proposal and this leads to capital formation and economic growth.
5. **Spreading of equity cult.** Stock exchange encourages people to invest in ownership securities by regulating new issues, better trading practices and by educating public about investment.
6. **Providing scope for speculation.** To ensure liquidity and demand of supply of securities the stock exchange permits healthy speculation of securities.
7. **Liquidity.** The main function of stock market is to provide ready market for sale and purchase of securities. The presence of stock exchange market gives assurance to investors that their investment can be converted into cash whenever they want. The investors can invest in long term investment projects without any hesitation, as because of stock exchange they can convert long term investment into short term and medium term.

8. **Better allocation of capital.** The shares of profit making companies are quoted at higher prices and are actively traded so such companies can easily raise fresh capital from stock market. The general public hesitates to invest in securities of loss making companies. So stock exchange facilitates allocation of investor's fund to profitable channels.
9. **Promotes the habits of savings and investment.** The stock market offers attractive opportunities of investment in various securities. These attractive opportunities encourage people to save more and invest in securities of corporate sector rather than investing in unproductive assets such as gold, silver, etc.



10.4.2 Trading Procedure on a Stock Exchange

Before selling the securities through stock exchange, the companies have to get their securities listed in the stock exchange. The name of the company is included in listed securities only when stock exchange authorities are satisfied with the financial soundness and other aspects of the company.

Previously the buying and selling of securities was done in trading floor of stock exchange; today it is executed through computer and it involves the following steps:

1. **Selection of broker.** The buying and selling of securities can only be done through SEBI registered brokers who are members of the stock exchange. The broker can be an individual, partnership firms or corporate bodies. So the first step is to select a broker who will buy/sell securities on behalf of the investor or speculator.

   Before placing order to registered broker-investor has to provide other details and information. These include

   — PAN number

   — Date of birth and address

   — Educational qualification and occupation

   — Residential Status (Indian/NRI)

   — Bank Account details

   — Depository A/c details

   — Name of any other brokers with whom registered

   — Client code number in client registration form

   After taking these information broker opens a trading account in the name of investor.

2. **Opening demat account with depository.** Demat (dematerialised) account or beneficial owner (BO) account refer to an account which an Indian citizen must open with the depository participant (banks or stock brokers) to trade in listed securities in electronic form. Second step in trading procedure is to open a Demat account.

   The securities are held in the electronic form by a depository. Depository is an institution or an organisation which holds securities (e.g. shares, debentures, bonds, mutual (funds, etc.). At present in India there are two depositories: NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.) There is no direct contact between depository and investor. Depository interacts with investors through depository participants only.

   Depository participant will maintain securities account balances of investor and intimate investor about the status of their holdings from time to time.

3. **Placing the order.** After opening the demat account, the investor can place the order. The order can be placed to the broker either (DP) personally or through phone, email, etc.

   Investor must place the order very clearly specifying the range of price at which securities can be bought or sold. *e.g.*, "*Buy 100 equity shares of Reliance for not more than ₹500 per share.*"

4. **Match the share and Best Price.** The broker will then go online and connect to the main stock exchange and match the share and best price available.

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

6. **Issue of Contract Note.** After the trade has been executed within 24 hours, the broker issues a contract note. This note contains the details of number of shares bought or sold, the price, the date, time of deal and brokerage charges.

   This is an important legal document as it helps to settle disputes claims between investors and the brokers.

   A unique order code number is assigned to each transaction by the Stock Exchange and is printed on the contract note.

7. **Delivery of share and making payment.** Now the investor has to deliver the shares sold or pay cash for the shares bought. This should be done immediately after receiving the contract note or before the day when the broker shall make payment or delivery of shares to the exchange. This is called **Pay in day**.

8. **Settlement cycle.** Cash is paid or securities are delivered on pay in day, which is before. T +2 day as the settlement cycle is T +2 days on w.e.f April 2003 rolling settlement basis for example if transaction has taken place on Monday then payment must be given before Wednesday, i.e., T +2 (Transaction day and two more days).

9. On the T+2 day, the Stock Exchange will deliver the share or make payment to the other broker. This is called **Pay out day**.

   The broker then has to make payment to investor within 24 hours of the pay out day since he has already received payment from the exchange.

10. The broker can make delivery of shares in demat form directly to the investor's demat account. The investor has to give details of his demat account and instruct his Depository participant (DP) to take delivery of securities directly in his beneficial owner account.

10.4.3 Dematerialisation and Depositories

All trading in securities is now done through computer terminals. Since all systems are computerised, buying and selling of securities are settled through an electronic book entry form. This is mainly done to eliminate the problems like theft, fake/forged transfers, transfer delays and paper work associated with share certificates or debentures held in physical form.

Dematerialisation is a process where securities held by investor in physical form are cancelled and the investor is given an electronic entry or number so that he/she can hold it as an electronic balance in account. So in short, dematerialisation refers to holding securities in electronic form.

For this investor has to open a demat Account. With an organisation called depository.

Now even all Initial Public Offers (IPO) are issued in dematerialisation form and more than 90% of the turnover is settled by delivery in Demat form.

Securities Exchange Board of India (SEBI) has made it mandatory into trade in demat form only for certain selected securities.

Benefits of Dematerialisation

1. Holding shares in demat form is very convenient as it is just like a bank account.

   Physical shares can be converted into electronic form or even electronic form can be converted back to physical certificate, *i.e.,* **Dematerialisation**.
2. These demat securities can even be pledged or mortgaged to get loans.
3. There is no danger of loss, theft or forgery of share certificates.
4. Reduces paper work.
5. It is broker's responsibility to credit the correct number of shares in the investor's account.
6. Securities of different companies can be held in a single demat account.

10.4.4 Working of Demat System

1. Before opening a demat account with depositories the investor has to select a DP, *i.e.*, Depository participant. DP is the agent of Depository.

   DP may be a bank, broker or a financial service company.
2. Filling of an account opening form, along with PAN card details, photograph, etc.
3. The physical share certificates to be given to DP along with a request form for dematerialisation.
4. If shares are applied in IPO, then simple details of demat A/c and DP to be given, allotment would automatically be credited to demat account.
5. If shares are to be sold through broker, the DP must be instructed to debit the account with the number of shares sold.
6. The broker then gives instructions to his DP for delivery of the shares to the stock exchange.
7. The broker than receives the payment and pays the person for the shares sold.
8. All these transactions are to be completed, within 2 days, *i.e.*, delivery of shares. Payment received from buyers as settlement period is T+2 days since April 2003.

10.4.5 Constituents of Depository System

Depository system consists of:

(i) The depository (ii) The depository participants

(i) **The Depository.** Depository is the apex organisation or unit in the depository system. Depository is just like a bank where Depositor/Investor can deposit and withdraw the money or securities. In a depository, an investor can deposit and withdraw his shares.

Features of depository are:

1. Depository is an institution which holds securities such as shares, debentures, etc.
2. Depository interacts with the investors through agents called Depository Participants (DPs).
3. DPs can offer services only after obtaining a certificate from SEBI.
4. Investors have to open depository account with any DP called demat account.
5. Depository with the help of DPs controls electronic transfer of securities and settlement of transactions.
6. Depository can hypothecate dematerialised securities against bank loan.
7. Depository issues receipt of bonus shares in electronic form.
8. Depository offers nomination facility of demat account.

(ii) **The Depository Participants (DP).** Depository participant is an agent of the depository. An investor has to interact only with a DP and not with the depository for all his dealings in shares in electronic form. As per SEBI guidelines, any financial institution, the share brokers, banks, etc. can become DP after registration with SEBI. DP is the vital intermediary in depository system and all buying and selling of shares under depository system take place through DP only.

Stock Exchange Indices

(i) **Sensex.** This is Bombay Stock Exchange Index. It is calculated by taking prices of 30 stocks across key sector of BSE.

(ii) **Nifty.** This is a National Stock Exchange Index. It is calculated by taking prices of 50% key stocks listed in NSEI.

Other Benefit of on Line Stock Exchange

1. **Demutualisation.** Earlier on the intermediaries, *i.e.*, brokers used to own, control and manage the stock exchanges. This ownership and management of stock exchange by brokers often led to conflict of interests between brokers and their clients. To solve this problem government did demutualisation of stock exchange.

   Demutualisation refers to separation of ownership and control of stock exchange from the trading rights of members. Through demutualisation there is reduction of chances of brokers using stock exchange for personal gains.

10.4.6 SEBI

Securities and Exchange Board of India (SEBI) was set up in 1988 to regulate the functions of securities market. SEBI promotes orderly and healthy development in the stock market but initially SEBI was not able to exercise complete control over the stock market transactions. It was left as a watch dog to observe the activities but was found ineffective in regulating and controlling them. As a result in May 1992, SEBI was granted legal status. SEBI is a body corporate having a separate legal existence and perpetual succession.

Reasons for establishment of SEBI

With the growth in the dealings of stock markets, lot of malpractices also started in stock markets such as price rigging, unofficial premium on new issue, delay in delivery of shares, violation of rules and regulations of stock exchange and listing requirements. Due to these malpractices the customers started losing confidence and faith in the stock exchange. So government of India decided to set up an agency or regulatory body known as Securities and Exchange Board of India (SEBI).

Purpose and Role of SEBI

SEBI was set up with the main purpose of keeping a check on malpractices and protect the interest of investors. It was set up to meet the needs of three groups:

1. Issuers. For issuers it provides a market place in which they can raise finance fairly and easily.
2. Investors. For investors it provides protection and supply of accurate and correct information.
3. Intermediaries. For intermediaries it provides a competitive professional market.

Objectives of SEBI

The overall objectives of SEBI are to protect the interest of investors and to promote the development of stock exchange and to regulate the activities of stock market. The objectives of SEBI are:

1. To regulate the activities of stock exchange.
2. To protect the rights of investors and ensuring safety to their investment.
3. To prevent fraudulent and malpractices by having balance between self regulation of business and its statutory regulations.
4. To regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.

10.4.7 Functions of SEBI

The SEBI performs functions to meet its objectives. To meet three objectives SEBI has three important functions. These are:

1. Protective functions
2. Developmental functions
3. Regulatory functions

1. **Protective Functions.** These functions are performed by SEBI to protect the interest of investor and provide safety of investment. As protective functions SEBI performs following functions:

   (i) **Check a price rigging.** Price rigging refers to manipulating the prices of securities with the main objective of inflating or depressing the market price of securities. SEBI prohibits such practice because this can defraud and cheat the investors.

   (ii) **It prohibits insider trading.** Insider is any person connected with the company such as directors, promoters, etc. These insiders have sensitive information which affects the prices of the securities. This information is not available to people at large but the insiders get this privileged information by working inside the company and if they use this information to make profit, then it is known as insider trading, *e.g.*, the directors of a company may know that company will issue Bonus shares to its shareholders at the end of year and they purchase shares from market to make profit with bonus issue. This is known as insider trading. SEBI keeps a strict check when insiders are buying securities of the company and takes strict action on insider trading.

   (iii) **SEBI prohibits fraudulent and unfair trade practices.** SEBI does not allow the companies to make misleading statements which are likely to induce the sale or purchase of securities by any other person.

   (iv) SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.

   (v) SEBI promotes fair practices and code of conduct in security market by taking following steps:

      (a) SEBI has issued guidelines to protect the interest of debenture-holders wherein companies cannot change terms in mid term.

      (b) SEBI is empowered to investigate cases of insider trading and has provisions for stiff fine and imprisonment.

      (c) SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

2. **Developmental Functions.** These functions are performed by the SEBI to promote and develop activities in stock exchange and increase the business in stock exchange. Under developmental categories following functions are performed by SEBI:

   (i) SEBI promotes training of intermediaries of the securities market.

   (ii) SEBI tries to promote activities of stock exchange by adopting flexible and adoptable approach in following way:

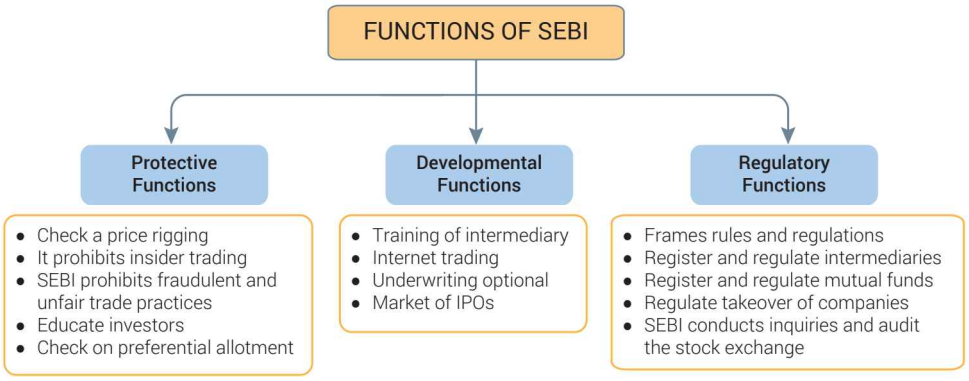
      (a) SEBI has permitted internet trading through registered stock brokers.

      (b) SEBI has made underwriting optional to reduce the cost of issue.

      (c) Even initial public offer of primary market is permitted through stock exchange.

3. **Regulatory Functions.** These functions are performed by SEBI to regulate the business in stock exchange. To regulate the activities of stock exchange following functions are performed:

(i) SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, underwriters, etc.



(ii) These intermediaries have been brought under the regulatory purview and private placement has been made more restrictive.

(iii) SEBI registers and regulates the working of stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers and all those who are associated with stock exchange in any manner.

(iv) SEBI registers and regulates the working of mutual funds, etc.

(v) SEBI regulates takeover of the companies.

(vi) SEBI conducts inquiries and audit of stock exchanges.

Keywords

Demat

(i) Conversion of paper/material form of share certificate into electronic entry.

(ii) To overcome the problem of mutilation, loss of security of certificate.

(iii) No physical transfer of securities.

(iv) Transfer through a book entry.

SEBI. Overall controller of capital market.

Functions of SEBI

(i) Protective: To protect the interest of investor.

(ii) Developmental: To promote and develope activities in stock exchange, and to bring more business.

(iii) Regulatory: To frame rules, regulations, code of conduct to regulate the stock market.

MCQs and Case Studies

1. **_____ is a legal document as it help to settle disputes/claims between investor and the broker.**
   (a) Credit note (b) Contract note
   (c) both (a) and (b) (d) None of the above

2. **Delivery of share sold or payment of cash for the shares bought is made on the**
   (a) Pay in day (b) Pay out day
   (c) both (a) and (b) (d) None of the above

3. **Name any two details that need to be provided by investor to the broker while filling a client register.**

4. **Amaira's grandmother in her will gave shares worth ₹50 lac in her name, when she opened the bank locker to get the share certificates, she found all were in very bad shape, half torn etc.**

   To overcome this problem financial market has started a new concept called:
   (a) Dematerialisation (b) Demutualisation
   (c) Both (a) and (b) (d) None of the above

5. **SEBI is also called as**
   (a) Watchbull of stock exchange (b) Watchbear of stock exchange
   (c) Watchdog of stock exchange (d) None of the above

6. **'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' confidence and multiplied their grievances.**
   (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.

7. **ABC Ltd. issued prospectus for the subscription of its shares for ₹ 500 crores in 2008. The issue was oversubscribed by 20 times. The 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.

   [*CBSE Sample Paper 2016*]

8. **Charu is a chartered accountant in Prakash Ltd. During the course of meeting with directors, she came to know that as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share-market jumps up. Considering it, Charu purchased large number of company's shares before this news reached the public.**

   1. Identify the type of malpractice used by Charu.
   2. Name the authority which regulates such behaviour. Write any three other functions of this authority.

(*Answers at Page no. 471-472*)

Quick Revision

- **Financial Market (Concept and Nature).** Financial market is a link between surplus and deficit units or in other words financial market brings together lenders and borrowers. There are two major segments of financial market:
  1. Capital Market
  2. Money Market
- **Functions of Financial Markets**
  1. Mobilisation of savings and channelising them into the most productive uses.
  2. Facilitate price discovery.
  3. Provide liquidity to financing assets.
  4. Reduce the cost of transaction.
- **Money market.** It is the market of short term funds that means funds for a period of upto one year only. It is considered as a market for providing working capital.
- **Difference between capital market and money market:** The major points of difference between capital market and money market are:
  - (i) Participants
  - (ii) Duration
  - (iii) Instruments
  - (iv) Investment outlay
  - (v) Liquidity
  - (vi) Safety
  - (vii) Expected return
  - (viii) Type of capital
- **Capital Market.** It is the market for long and medium term funds. It refers to the organisations/ institutions which provide funds for more than one year time period.

Nature or Features of capital market:

1. Link between savers and investment opportunities
2. Deals in long-term investment
3. Utilises intermediaries
4. Determinant of capital formation
5. Government rules and regulations

There are two components of capital market:

(i) Primary market (ii) Secondary market

Primary Market. It is also known as new issue market as it is the market for new long term capital securities issued by the company. The securities in primary market can be issued in following ways:

1. Public issue through prospectus
2. Offer for sale
3. Private placement
4. Right issue (for existing company)
5. e-IPOs

Secondary Market. It is more commonly known as second hand security market or stock exchange market. In this market securities are not directly issued by company but by existing investors. This market provides liquidity to primary market and hence contributes indirectly in capital formation.

Stock Exchange. The Securities Contract Act (1956) defines stock exchange as an association, organisation or body of individuals whether incorporated or not established for the purpose of assisting, regulating and controlling of business in buying, selling and dealing in securities.

Functions of Stock Exchange. The functions of stock exchange are:

(i) Economic barometer
(ii) Pricing of securities
(iii) Safety of transactions
(iv) Contributes to economic growth
(v) Spreading of equity cult
(vi) Providing scope for speculation
(vii) Liquidity
(viii) Better allocation of capital
(ix) Promotes the habits of savings and investment

Trading Procedure on a Stock Exchange

1. Selection of broker.
2. Opening demat account with depository.
3. Placing the order.
4. Match the share and Best Price
5. Executing order
6. Issue of Contract Note
7. Delivery of share and making payment
8. Settlement Cycle

Constituents of Depository System

1. Depository
2. The depository participants (DP)
3. Demat account
4. The issuing company
5. The investor

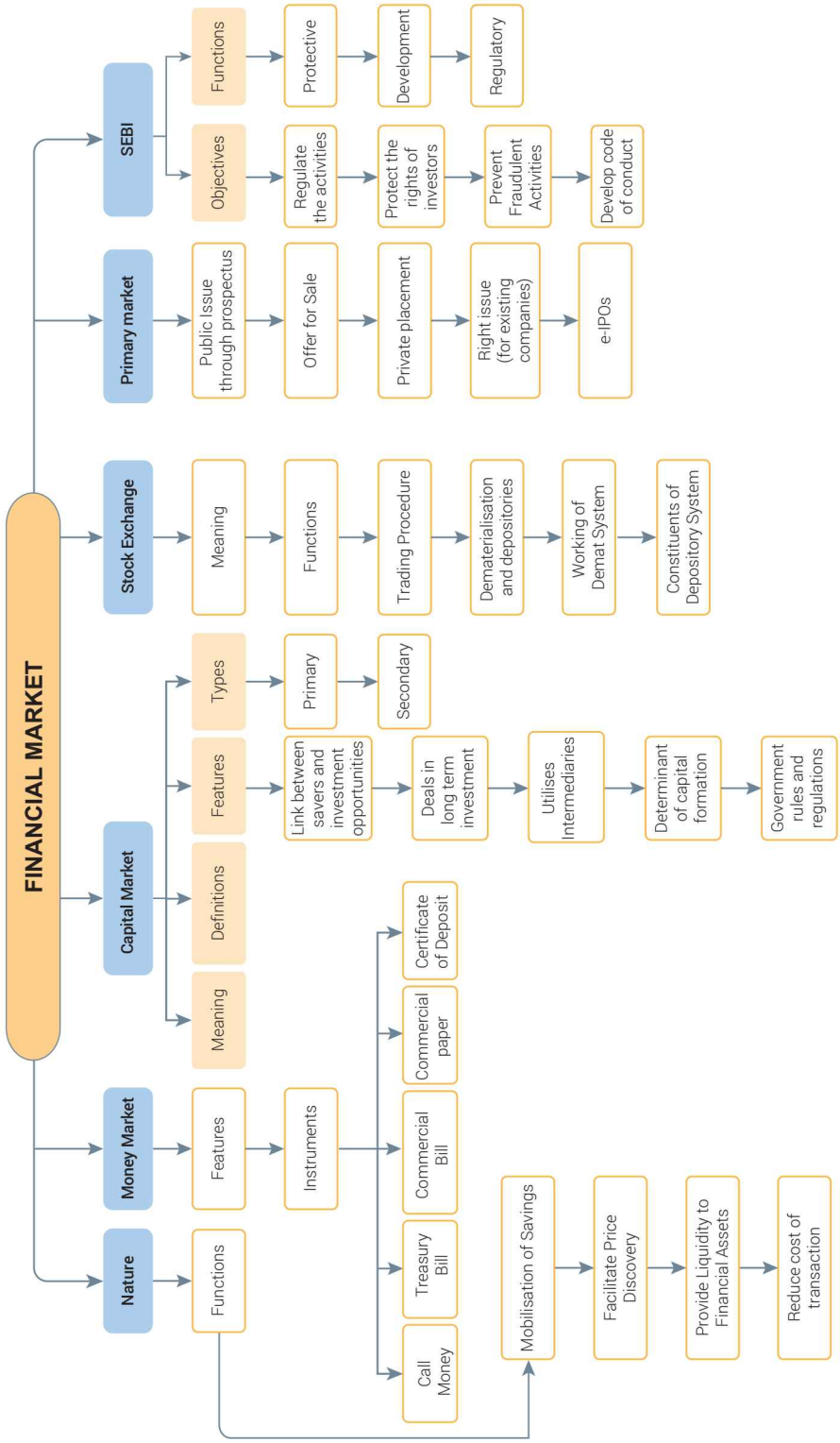
Objectives of SEBI. The main objectives of SEBI are:

1. Protect the interest of investors.
2. Promote and develop stock exchange dealings.
3. Regulate the dealings.

Functions of SEBI. To achieve its objectives, SEBI performs three types of functions:

1. Protective functions
2. Developmental functions
3. Regulatory functions

Financial Market – A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. If a firm requires to two crores for six months time to keep the stock of raw material, it should approach
   (a) Money market (b) Capital market
   (c) Both (a) and (b) (d) None of the above
2. Call money, treasury bill, C.R., etc. are the instruments of
   (a) Capital Market (b) Money market
   (c) Both (a) and (b) (d) None of the above
3. The safest instrument of money market is
   (a) Call Money (b) Commercial Paper
   (c) Treasury Bill (d) Commercial Bill
4. To meet floatation cost, firms generally issue the following instrument of money market.
   (a) Call Money (b) Commercial Paper
   (c) Treasury Bill (d) Commercial Bill
5. Which instrument of money market is also called zero coupon bond?
   (a) Call money (b) Commercial Paper
   (c) Certificate of Deposit (d) Treasury Bill
6. Which market directly contributes for capital formation and increase in capital of firms?
   (a) Primary market (b) Secondary market
   (c) Both (a) and (b) (d) None of the above
7. The duration of money market instruments are
   (a) Upto one year (b) Upto three years
   (c) Upto five years (d) Upto ten years
8. Under Private Placement, shares are never offered to
   (a) Institutes (b) Brokers
   (c) General Public (d) None of the above
9. Under secondary market, sale of securities take place between
   (a) Company and Investors (b) Company and Company
   (c) Investor and other investor (d) None of the above
10. In Right Issue, shares are issued to
    (a) General public (b) Existing shareholders
    (c) Institutes only (d) None of the above
11. The economic condition of every country is reflected by dealings in
    (a) Stock Market (b) Money Market
    (c) Primary Market (d) None of the above
12. The Apex Body who controls the Capital Market of our country is
    (a) RBI (b) SBI
    (c) SEBI (d) None of the above

13. SEBI protects the interest of
    (a) Investor (b) Companies
    (c) Brokers (d) None of the above
14. Conversion of physical form of share certificate into an electronic entry is called
    (a) Exchange Mechanism (b) Conversion
    (c) Dematerialisation (d) Rematerialisation
15. To buy securities, i.e., share or debentures, it is compulsory to open
    (a) Current Account (b) Demat Account
    (c) Fixed Deposit Account (d) Recurring Account
16. Certificate of deposit is issued by
    (a) Mutual fund companies (b) Reserve Bank of India
    (c) Large Corporate House
    (d) Commercial bank and development financial institution
17. Secondary market is also known as
    (a) Primary Market (b) New Issue Market
    (c) Financial Market (d) Stock Exchange
18. Call money is used to
    (a) Maintain a minimum cash balance known as a cash reserve ratio
    (b) To meet floatation cost
    (c) To meet working capital needs
    (d) To meet fixed capital needs
19. Identify the function of stock exchange
    (a) Trading and settlement procedure (b) Dematerialisation
    (c) Pricing of securities (d) Depository participants
20. Which instrument does not relate to money market
    (a) Call money (b) Treasury bill
    (c) Commercial Bill (d) IPOs

(Answers at Page no. 472)

Fill in the Blanks

1. Capital market is a link between _____ and opportunities.
2. In India, there are _____ number of depositories.
3. NSDL refers to _____.
4. CDSL refers to central _____.
5. The agent between Investor and Depositories is called .
6. The day when investor has to deliver shares sold or pay cash for shares bought is called .
7. The day when stock exchange delivers the share or makes payment to the other broker is called .
8. Bombay Stock Exchange Index is called _____.
9. National Stock Exchange Index is called _____.
10. To promote and develop activities in stock exchange, SEBI performs _____ function.

(Answers at Page no. 472)

True or False

1. SEBI was set up with the main purpose of increasing business is stock markets. (True/False)
2. Under offer for sale, companies offer shares directly to general public. (True/False)
3. Money market is a market for short term or market for working capital. (True/False)
4. Call money is also called Inter bank money. (True/False)
5. Capital market is a branch of money market. (True/False)
6. Banks and financial markets are competing intermediaries in financial system. (True/False)
7. The interest paid on call money is called call rate. (True/False)
8. Commercial bill and treasury bill are same. (True/False)

(*Answers at Page no. 472*)

Remembering and Understanding-based Questions with Answers

Q. 1. Explain any four functions of financial market. [*CBSE Sample Paper 2015*]

Or

"A financial market is for the creation and exchange of financial assets." Explain any two of its functions. [*CBSE Sample Paper 2016*]

Ans. Four functions of financial market are:

(i) Mobilisation of savings and channelling them into the most productive use.
(ii) Facilitating price discovery.
(iii) Providing liquidity to financial assets.
(iv) Reducing the cost of transactions.

Q. 2. **"Money market is essentially a market for short-term funds". In the light of this statement, state any three features of money market.** [*CBSE Sample Paper 2017*]

Ans. 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.

Q. 3. **Name the market where companies issue new securities.**

Ans. Primary market.

Q. 4. **What are the different ways of issuing securities in primary market?**

Ans. In primary market securities can be issued by:

1. Prospectus
2. Offer for sale
3. Private placement
4. Right issue
5. e-ipo
6. Preferential allotments

Q. 5. **Why is secondary market considered as market for second hand securities?**

Ans. Secondary market is considered as market for second hand securities because in this market second hand securities are sold between investors.

Q. 6. **In secondary market sale of securities takes place between investors only, then how does this market contribute for capital formation?**

Ans. This market contributes for capital formation indirectly by providing liquidity to the securities bought in primary market.

Q. 7. Name any two instruments of money market.

Ans. (i) Call money (ii) Treasury bill

Q. 8. Name the market which provides short term finance.

Ans. The market which provides short term finance is known as money market.

Q. 9. What is meant by capital market?

Ans. Capital market acts as a link between savers and investors. It provides long term funds.

Q. 10. Name the two segments of capital market.

Ans. (i) Primary market (ii) Secondary market

Q. 11. Name any two national level stock exchanges.

Ans. (i) NSEI (National Stock Exchange of India).

(ii) OTCEI (Over the Counter Exchange of India).

Q. 12. Name the common instruments of capital market.

Ans. Common instruments of capital market are: shares, debentures, bonds, etc.

Q. 13. What do you mean by the term 'going public'?

Ans. Going public refers to the process of converting private capital into public capital, for example loan taken by companies.

Q. 14. Explain the term 'water the equity'.

Ans. When existing shareholders lose control in the management of company due to acquiring of more number of equity shares by another group, then it is known as 'water the equity'.

Q. 15. How many regional stock exchanges are there in India? Name the oldest one.

Ans. In India, there are 24 Regional Stock Exchanges and Bombay Stock Exchange is the oldest one.

Q. 16. Give the full form of SEBI.

Ans. SEBI refers to Securities and Exchange Board of India.

Q. 17. Enumerate the objectives of SEBI.

Ans. Objectives of SEBI are:

(i) To protect the interests of the investors.

(ii) To promote the development of securities.

(iii) To regulate the securities market.

Q. 18. What do you mean by 'bridge financing'?

Ans. Funds raised through commercial paper are used to meet floatation cost. This is known as bridge financing.

Q. 19. Which money market security is also known as zero coupon bond?

Ans. 'Treasury bill' is also known as zero coupon bond.

Q. 20. "Money market instruments are more liquid than capital market instruments". Comment.

Ans. Money market instruments are considered as more liquid because the time period within which these securities get converted into cash is very short in some cases it is one day only and before the time period also these securities can be discounted easily from banks and discount Finance house (DFH) has been established for discounting the securities of money market.

Capital market securities are long term securities and they get liquidity in stock market but in stock market there may not be a buyer for share in the stock market. So liquidity of capital market securities depends upon the demand of these securities in the stock exchange.

Q. 21. "SEBI is the watchdog of security market". Comment.

Ans. SEBI was set up in 1988 to regulate the functions of the securities market and to protect the interest of investors but SEBI was found ineffective in regulating the activities of stock market. It

was able to observe and watch only but failed to take corrective measure that is why it was called as watchdog. As a result in May 1992, SEBI was granted legal status. Now it is a body corporate having a separate legal existence and perpetual succession.

Now SEBI is considered as a watchdog because it performs the following functions to protect stock exchange dealings. [*Explain protective functions of SEBI refer on page no. 449*]

Q. 22. ''Stock market imparts liquidity to investment''. Comment.

Ans. The stock market is a place where securities of companies are bought and sold. Generally the securities are long term and get matured only after a long period of time. These securities can be sold in stock market and can be easily converted into cash. The presence of continued market is an assurance to investors that their investment can be converted into cash as and when required by them.

Q. 23. What function does financial market perform?

Ans. The financial market performs the function of bringing together the deficit units (corporate sector) and surplus units (investors). It is through financial market that the lenders meet the borrowers.

Q. 24. *"Stock market quotations contribute to better allocation of capital and promoting the habits of savings and investments"*. Explain.

Ans. Yes, I agree with this statement. As stock market provides following functions. *Refer to functions of stock exchange, refer on page no. 442, 443.*

Q. 25. Explain the capital market reforms in India.

Ans. The first Stock Exchange in India was set up in 1875 as the Native Share and Stock Broker Association in Bombay. Today it is known as Bombay Stock Exchange (BSE). This was followed by development of stock exchange in Ahmedabad (1894), Calcutta (1908) and Madras (1937). It is interesting to note that stock exchanges were first set up in major centers of trade and commerce. Until 1990 there were regional stock exchanges in India. After the reforms of 1991, there are following three types of stock exchanges in India.

1. Regional Stock Exchanges.
2. National Stock Exchanges.
3. Over the Counter Exchange of India.

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. Supriya's grandmother who was unwell, called her and gave her a gift packet. Supriya opened the packet and saw many crumpled share certificates inside. Her grandmother told her that they had been left behind by her late grandfather.

As no trading is now done in physical form, Supriya wants to know the process by adopting which she is in a position to deal with these certificates.

(a) Identify and state the process.

(b) Also give two reasons to Supriya why dealing with shares in physical form had been stopped. [*CBSE Sample Paper 2014*]

Ans. (a) De-materialisation. It is a process where securities held by the investor in physical form are cancelled and the investor gives an electronic entry or number so that she/he can hold it as an electronic balance in an account.

(b) Problems with dealing in physical form: (***Any two***)

(i) Theft

(ii) Fake/Forged transfers

(iii) Transfer delays

(iv) Paper work associated with share certificates or debentures held in physical form.

Q. 2. 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.

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. *[CBSE Sample Paper 2015]*

Ans. Permanent Account Number (PAN)

Q. 3. Sudha Ltd. has sold 1 lakh equity shares of ₹ 10 each at ₹ 12 per share to an investment banker, who offered them to the public at ₹ 20 each. Identify the method of floation.

Ans. Offer for sale.

Q. 4. Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares.

Ans. Refer to Page 444

Q. 5. Charu is a chartered accountant in Prakash Ltd. During the course of meeting with directors she came to know that as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share-market jumps up. Considering it, Charu purchased large number of company's shares before this news reached the public.

1. Identify the type of malpractice used by Charu.
2. Name the authority which regulates such behaviour. Write any three other functions of this authority.

Ans.
1. Price Rigging.
2. Authority is Securities and Exchange Board of India (SEBI).

   Their functions are: (i) Protective functions, (ii) Developmental functions, (iii) Regulatory functions.

Q. 6. The Director of Pico Limited decided to declare bonus issue of equity shares to the shareholders in its Annual General Meeting. Immediately one of the Director purchases 20,000 shares from market @ 30 per share and sold them @ 100 per share as bonus issue was declared and made capital gain from it.

(i) Name the practice used by the Director taking the benefits of internal information.

(ii) How does SEBI prohibit such practices?

Ans. (i) Insider trading (ii) Refer to Page 449

Q. 7. Name the financial instrument which may be used in the following situations:

(i) A company needs funds to meet floatation cost in order to issue equity shares in the market.

(ii) The instrument that is issued during the period of tight liquidity when the deposit growth of bank is slow but demand for credit is high.

(iii) These are also known as zero coupon bonds and are issued by RBI on the behalf of central government.

(iv) It is used by one bank having surplus funds to meet the funds requirements of another bank facing shortage of funds.

Ans. (i) Commercial Paper (ii) Commercial Bill

(iii) Treasury Bill (iv) Call Money

Q. 8. **Bandhu Limited is a real estate company, which was formed in 1960. In about 55 years of its existence, the company has managed to carve out a niche for itself in this sector. In order to establish itself in India, the company decided to list its securities on BSE, in order to raise money through India market.**

State the functions performed by SEBI that make investors comfortable and secured in dealing with Bandhu Ltd.

Ans. Protective.

Q. 9. **Identify the markets highlighted in following statements:**

(i) This market directly contributes to capital market.

(ii) This market deals in instrument whose maturity is upto one year.

(iii) It deals in medium and long term securities.

(iv) It is also known as Stock Exchange and deals in sale and purchase of previously issued securities.

(v) It requires less investment as value of securities is generally low.

Ans. (i) Primary (ii) Money Market

(iii) Capital Market (iv) Secondary Market

(v) Stock Exchange

Q. 10. **Dinesh has 100 equity shares of a company. He wants to sell 500 of these shares. Which market should he approach?**

Ans. Secondary Market.

Q. 11. **Why are money market instruments more liquid as compared to capital market instruments?**

Ans. Reliable participants and duration of investment is less.

Q. 12. **Who issues the Treasury Bill?**

Ans. R.B.I. (Reserve Bank of India) Financial Institutions & Financial Companies.

Q. 13. **Who determines the prices of new IPO?**

Ans. Management of the company.

Q. 14. **How is the price of securities determined in the secondary market?**

Ans. By demand and supply of share in the market.

Q. 15. **What is the minimum amount of Treasury Bill?**

Ans. ₹25,000.

Q. 16. **What is dematerialisation (demat)?**

Ans. It is an electronic book entry form of holding and transferring securities.

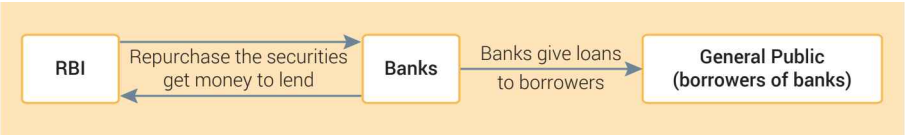
Q. 17. **Bhuvan got a chance to buy shares in the ratio of 1 : 1 from ABC company. What is this type of issue called? Explain any other two ways of issue share under primary market.**

Ans. Right issue. *For other methods refer on page no. 438, 439.*

Q. 18. **What is REPO rate? How can it result in lowering the rate of interest on loans?**

Ans. The rate at which RBI repurchases government securities from banks is known as REPO rate. When government repurchases the securities in return, the banks get cash to meet their short term requirement and they can give loan at low rate of interest.

Whenever RBI wants to lower the interest rate, it reduces the REPO rate. It will become more clear from following cycle.



As the REPO rate charged by RBI reduces, the money is available to banks at low rate, they pass the benefit to the end user by lowering the rate of interest on loan.

Reverse REPO rate is opposite to REPO rate.

Q. 19. What is Badla?

Ans. Carry over of settlement at some forward data is known as Badla.

Q. 20. Shares are given in the ratio of 1:1. What is this type of issue?

Ans. Right issue.

Q. 21. Who is the borrower of call money?

Ans. Banks with temporary shortage of funds.

Q. 22. Who provides protection and guidelines to the investors?

Ans. SEBI.

Q. 23. What do you mean by penny stock?

Ans. These are securities that have no value on the stock exchange but whose trading contributes to speculation.

Q. 24. What do you mean by Bourse?

Ans. Bourse is another name for stock market.

Q. 25. 'R' Limited is a real estate company which was formed in 1950. In about 56 years of its existence the company has managed out from a niche for itself in this sector. Lately this sector is witnessing a boom due to the fact that the Indian economy is on the rise. The income of middle class are rising. More people can afford to buy homes for themselves due to easy availability of loans and accompanying tax concessions.

To expand its business in India and abroad the company is weighing various options to raise money through equity offerings in India. Whether to tap equity or debt market whether to raise money from domestic market or international market or combination of both? Whether to raise the necessary finance from money market or capital market. It is also planning to list itself in New York Stock Exchange to raise money through ADR.

To make its offering attractive it is planning to offer lots of financial plans, products to its stakeholders and investors and also explain its listing at NSE after complying with the regulations of SEBI.

(a) What are the regulations of SEBI that company must comply with?

Ans. Explain regulatory functions, *refer to page no. 450.*

(b) How does the SEBI exercise control over 'R' limited in the interest of investors?

Ans. To protect the interest of investor the SEBI performs following functions:

[*Explain protective functions page 449*]

(c) What do you mean by a stock index? How is it calculated?

Ans. A stock market index is a barometer of market behaviour. It measures overall market-trend through a set of stocks which are representatives of the market. An Ideal index must represent changes in the prices of securities and also shows the price movement of different classes of shares. It also indicates market direction and day to day fluctuations in stock prices common.

Stock market indices used in India are SENSEX, NIFTY, etc.

(d) What conclusions can you draw from the various movements of NSE stock indices?

Ans. On comparing the previous and current index of NSE we can see that there is depression in the market as index is down for all the sectors.

(e) What factors affect the movement of stock indices? Elaborate on the nature of these factors.

Ans. The factors which affect the movement of stock indices are:

(i) Demand and supply of various securities (ii) Financial position of the company

(iii) Bank rate
(iv) Speculative pressure
(v) Activities of financial institutions
(vi) Government policy
(vii) Political development

(f) What relationship do you see between the movement of indices in World Market and NSE indices?

Ans. We can see that world indices and NSE indices are moving in same direction there is direct relation between NSE indices and world market indices. As there is negative trend in World Index it is bringing negative trend in NSE index also.

II. NSE Indices				World Indices			
Index	**Current**	**Pre.**	**% Chg**	**Index**	**Current**	**Pre.**	**% Chg**
S & PCNX Nifty	3641.1	3770.55	(–) 3.43%	NYSE Comp.	8926.88	9120.93	– 2.13%
CNX Nifty Junior	6458.55	6634.85	(–) 2.66%	NASDAQ Comp.	2350.51	2402.29	– 2.15%
CNX IT	5100.5	5314.05	(–) 4.02%	DOW Jones I	12076	12318.6	– 1.97%
Bank Nifty	5039.05	5251.55	(–) 4.05%	S & P 500	1377.95	1406.6	– 2.04%
CNX 100	3519.35	3640.35	(–) 3.32%	Nikki 225	16675.9	17178.8	– 2.92%
More							

(Source: www.nseindia.com)

The above figures are taken from the website of national stock exchange of India. They illustrate the movement of NSE stock indices as well as World stock indices on the date indicated.

Q. 26. Few years ago, there were many malpractices, unfair trade practices and frauds and scams were taking place in Stock Exchange. All these affected investor's confidence, faith and trust in Stock Exchange. The Government of India decided to set up a separate body for this purpose who was given control of stock exchange. This separated ownership and control of stock exchange.

(i) Name the concept which separates the ownership and control of stock exchange.
(ii) Name the body set up by the government of India to contract the stock exchange.
(iii) State the objectives of that regulating body.

Ans. (i) The concept which separates ownership and control is called as demutualisation.

(ii) The regulatory body set up by government of India is "SEBI" Securities and Exchange Board of India.

(iii) The objectives of SEBI are:

The overall objectives of SEBI are to protect the interest of investors, to promote the development of stock exchange and to regulate the activities of stock market. The objectives of SEBI are:

1. To regulate the activities of stock exchange.
2. To protect the rights of investors and ensuring safety to their investment.
3. To prevent fraudulent and malpractices by having balance between self regulation of business and its statutory regulations.
4. To regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.

Q. 27. A Stock Exchange is a place where financial assets can be converted into cash. It helps in fixing the market value of securities and helps to know the economic growth of any country.

(i) State the functions of state exchange refused in above para.

(ii) State any other two functions of Stock Exchange.

Ans. (i) The functions referred in above para are:

(a) Provide liquidity

(b) Helps in price discovery

(c) Economic barometer

(ii) Other functions of stock exchange are:

(a) Provides equity cult

(b) Safety of transactions

Q. 28. Saqib Ltd. is a large creditworthy 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.

As a finance manager of the company, name and explain the alternative to bank borrowing that the company can use to resolve the crisis. *[CBSE Sample Paper 2015]*

Ans. **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.

Guidelines to NCERT Questions

Multiple Choice Questions

1. Primary and secondary markets

(a) Compete with each other (b) Complement each other

(c) Function independently (d) Control each other

2. Total number of Stock Exchange in India are

(a) 20 (b) 21

(c) 22 (d) 23

3. The settlement cycle in NSE is

(a) T + 5 (b) T + 3

(c) T + 2 (d) T + 1

4. National Stock Exchange of India was recognised as Stock Exchange in the year

(a) 1992 (b) 1993

(c) 1994 (d) 1995

5. NSE commenced futures trading in the year
   (a) 1999 (b) 2000
   (c) 2001 (d) 2002
6. Clearing and settlement operations of NSC is carried out by
   (a) NSDL (b) NSCCL
   (c) SBI (d) CDSL
7. OTCEI was started on the lines of
   (a) NASDAQ (b) NYSE
   (c) NASAQ (d) NSE
8. To be listed on NSEI, the minimum capital requirements for a company
   (a) ₹ 5 crores (b) ₹ 3 crores
   (c) ₹ 6 crores (d) ₹ 1 crore
9. Treasury Bills are basically
   (a) An instrument to borrow short term funds
   (b) An instrument to borrow long term funds
   (c) An instrument of capital market
   (d) None of the above
10. REPO is
   (a) Repurchase agreement (b) Reliance Petroleum
   (c) Read and Process (d) None of the above

Short Answer Type Questions

1. What are the functions of financial markets? [Refer on page no. 432]
2. "Money market is essentially market for short term funds". Discuss. [Refer on page no. 433]
3. What is treasury bill? [Refer on page no. 434]
4. What is REPO and reverse REPO? [Refer on page no. 462]
5. Distinguish between capital market and money market. [Refer on page no. 440]
6. What are the functions of Stock Exchange? [Refer on page no. 442-443]
7. What are the objectives of SEBI? [Refer on page no. 448]

Long Answer Type Questions

1. Explain the various money market instruments. [Refer on page no. 433-434]
2. What are the methods of floatation in primary market? [Refer on page no. 438-439]
3. Explain the capital market reforms in India. [Refer on page no. 437]
4. Explain the objectives and functions of SEBI. [Refer on page nos. 448-450]

TEST YOURSELF

Very Short Answer Questions

1. What do you mean by financial market?
2. Enumerate two segments of financial market.

3. What are the features of capital market instruments?
4. What functions does financial market perform?
5. Define new issue market.
6. Explain the term:
   (a) Going public (b) Water the equity
7. Describe money market.
8. What do you mean by treasury bills?
9. "Money market instruments are more liquid than capital market instruments". Comment.
10. "Money market instruments are more safe than capital market instruments". Comment.
11. "Stock market imparts liquidity to investments". Comment.
12. Describe SEBI.
13. Describe price rigging.
14. Describe insider trading.
15. State the role of SEBI in regulating the capital market.
16. Outline the major instruments of money market.
17. Give any three features of capital market.
18. Define right issue.

Short Answer Questions

1. What are the protective functions of SEBI?
2. Why is SEBI called the watchdog of stock exchange?
3. What are the regulatory functions of SEBI?
4. Explain the features of money market instruments.
5. Distinguish between capital market and money market. *[CBSE (D) 2006]*
6. Distinguish between primary and secondary market.
7. What are the possible ways for first time sale of securities by a company?
8. What do you mean by listing of securities? How are listed securities traded in the stock exchange market?
9. The Directors of a Company want to modernise its plants and machinery by making a public issue of shares. They wish to approach stock exchange. While the finance manager prefers to approach a consultant for the new public issue of shares. Advise the directors whether to approach stock exchange or consultant for the new public issue of shares and why? Also advise about the different methods which the company may adopt for the new public issue of shares. *[CBSE (D & AI) 2004]*
10. What is meant by primary market? Briefly explain the concept of initial public offer. *[CBSE (D) 2007]*
11. What is meant by SEBI? Briefly explain its objectives. *[CBSE (D & AI) 2007]*
12. In today's commercial world stock exchange performs vital role. Do you agree? Give reason to support your answer. *[CBSE (D & AI) 2005]*

13. Explain any four functions of stock exchange. [CBSE (AI) 2012]
14. Explain any four functions of financial market. [CBSE (D & AI) 2012]

Previous Years' Examination Questions (2014-2019)

One Mark Questions:

1. What is meant by a 'Commercial Paper'? [CBSE (D) 2017(C)]
2. An investor wanted to invest ₹20,000 in Treasury Bills for a period of 91 days. When he approached the Reserve Bank of India for this purpose he came to know that it was not possible.
   Identify the reason why the investor could not invest in the Treasury Bill. [CBSE 2018]
3. How do 'Floatation costs' affect the choice of capital structure of a company? State. [CBSE (F) 2015]
4. How does Financial Market facilitate 'Price Discovery' of financial assets? [CBSE 2019 (66/1/1)]
5. State any two 'Developmental Functions' of Securities and Exchange Board of India. [CBSE 2019 (66/1/1)]

   OR

   What is meant by 'Allocative Function' of Financial Markets? [CBSE 2019 (66/1/1)]
6. This market helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other. Name the market and identify the function being referred to. [CBSE 2019 (66/2/1)]

Three Marks Questions:

7. 'Financial market plays an important role in the allocation of scarce resources in an economy by performing many important functions.' Explain any three such functions. [CBSE (D) 2015]
8. Distinguish between Capital Market and Money Market on the basis of the following :
   (a) Participants (b) Instruments [CBSE (F) 2015]
9. Mr Sanjay Nehra was the Chairman of 'Taran bank.' The bank was earning good profits. Shareholders were happy as the bank was paying regular dividends. The market price of their shares was also steadily rising. The bank was about to announce taking over of 'Vena Bank.' Mr Sanjay Nehra knew that the share price of 'Taran Bank' would rise on this announcement. Being a part of the bank, he was not allowed to buy shares of the bank. He called one of his rich friends Sudhir and asked him to invest ₹5 crores in shares of his bank promising him the capital gains.

   As expected the share prices went up by 40% and the market price of Sudhir's shares was now ₹7 crores. He earned a profit of ₹2 crores. He gave ₹1 crore to Mr Sanjay Nehra and kept ₹1 crore with himself. On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity. The SEBI imposed a heavy penalty on Mr Sanjay Nehra.

   By quoting the lines from the above para, identify and state any two functions that were performed by SEBI in the above case. [CBSE (D) 2016]

10. One of the functions of Securities and Exchange Board of India is 'Promotion of fair practices and code of conduct in securities market'. State the category to which this function belongs and state any two other functions of this category. [CBSE 2019 (66/2/1)]

11. 'Financial markets are classified on the basis of the maturity of financial instruments traded in them.' Name the market in which the instruments with more than one year maturity are traded. Also state any two features of this market. [CBSE 2019 (66/5/1)]

Four Marks Questions:

12. 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 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 for short term debt.
    (c) Differentiate between both the market. [CBSE (D) 2017]

13. Give the meaning of 'Formal Organisation'. State its any four advantages. [CBSE (F) 2015]

14. 'Ganesh Steel Ltd.' is a large and credit-worthy company manufacturing steel for the Indian market. It now wants to cater to the Asian market and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost the company decides to tap the money market.
    (a) Name and explain the money-market instrument the company can use for the above purpose.
    (b) What is the duration for which the company can get funds through this instrument?
    (c) State any other purpose for which this instrument can be used. [CBSE (D) 2015]

15. State the protective functions of Securities and Exchange Board of India. [CBSE 2018]

16. Stock exchange acts as a regulator of the securities market. It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest. Through this process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues.

    To ensure that the investing public gets a safe and fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework. It also ensures wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments. Various functions performed by the Stock Exchange are discussed in the above para. By quoting the lines from the above para, state any four functions of stock exchange.

    [CBSE 2019 (66/1/1)]

17. 'Foods India Ltd.' is a company engaged in the production of packaged juice since 2010. Over this period, a large number of competitors have entered the market and are putting a tough challenge to 'Foods India Ltd.'. To face this challenge and to increase its market share, the

company has decided to replace the old machinery with an estimated cost of ₹100 crores. To raise the finance, the company decided to issue 9% debentures. The Finance department of the company has estimated that the cost of issuing the 9% debentures will be ₹10,00,000. The company wants to meet its floatation cost.

(a) Explain the instrument that the company may issue for this purpose.

(b) In which type of financial market, is the instrument explained in (a) above traded? Also explain how safe the instruments are in this market. [CBSE 2019 (66/2/1)]

18. Explain any four functions of 'Stock Exchange.' [CBSE 2019 (66/3/1)]

OR

Explain any four methods of floatation of new issues in the primary market.

[CBSE 2019 (66/3/1)]

19. Aditya Khosla, the Managing Director of 'D.L.W. Ltd.' and Rajesh Puri, the Finance Manager were discussing about the avenues of investing the idle funds of the company. Aditya Khosa was of the opinion that money should be invested in the capital market whereas Rajesh Puri, being more conservative, feels that it would be better if the investment was made in money market.

Since the economy was buoyant, the Managing Director convinced Rajesh that they should take advantage of it and invest in the capital market to get good returns. Ultimately it was decided to invest the idle funds in the capital market.

(a) What kind of instruments should the company buy?

(b) Why is the capital market expected to give a better return in a buoyant economy? State the reason.

(c) Why and how safe are the securities in this market as compared to money market?

[CBSE 2019 (66/3/1)]

20. Differentiate between Money Market and Capital Market on the following basis:

(a) Expected return (b) Safety

(c) Liquidity (d) Instruments [CBSE 2019 (66/4/1)]

OR

Differentiate between Primary Market and Secondary Market on the following basis:

(a) Company involvement (b) Price determination

(c) Location (d) Capital formation [CBSE 2019 (66/4/1)]

21. Financial market is a market for creation and exchange of financial assets. It helps to link the savers with the investors and directs available funds into their most productive investment opportunity. It also facilitates easy purchase and sale of financial assets through the stock exchange. The stock exchange not only facilitates buying and selling of existing securities but also educates public about how their investments in the financial market can yield good returns.

(a) State two functions performed by financial market in the above case.

(b) Explain two more functions of the stock exchange, other than those stated in the above case. [CBSE 2019 (66/4/1)]

22. Nayar is working as P.G.T. Commerce in a CBSE affiliated school of Kerala. One day he was teaching about capital market in the class. He informed the class that during 1980's the capital market in India witnessed a tremendous growth because of increasing participation of the public. This ever increasing investors' population and market capitalisation led to a variety of

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

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

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

[*CBSE 2019 (66/5/1)*]

Hints of the Answers for Case Studies

9. Functions that were performed by SEBI in the above case were:

(i) Regulatory function

'On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity.'

SEBI can call for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries.

(ii) Protective function

'The SEBI imposed a heavy penalty on Mr. Sanjay Nehra.'

SEBI controls insider trading and imposes penalties for such practices.

12. (a) Mobilisation of savings and channeling them into the most productive uses/Allocative function.

(b) Money market

Difference between Capital Market and Money Market: Refer to page no. 440.

14. (a) Commercial paper.

It is an instrument issued by large and creditworthy companies to raise short term funds at lower rates of interest than the market rates. It is an unsecured, negotiable promissory note with a fixed maturity period.

(b) 15 days to one year.

(c) It can also be used for seasonal and working capital needs.

16. Functions of stock exchange (Refer on page no. 442-443)

19. (a) Shares, debentures, bonds

(b) Capital market is expected to give a better return in a buoyant economy as:

(i) The securities are held for a longer duration

(ii) There is a scope of earning capital gains on shares.

(c) Securities in capital market are riskier with respect to return and principal repayment. Issuing company may fail to perform as promoters may defraud investors.

21. (a) Functions performed by Financial market:

(i) It mobilises savings and channelises them into most productive use.

(ii) It provides liquidity to financial assets by facilitating easy purchase and sale of securities through stock exchanges.

(b) Functions of stock exchange, other than those stated in the above case (any two):
(i) Pricing of securities (ii) Ensures safety of transactions
(iii) Contributes to economic growth (iv) Provides scope for speculation

22. (a) Regulatory body — SEBI

(b) Objectives of SEBI (Any three) (Refer on page no. 448)

ANSWERS OF MCQs and CASE STUDIES

Page 433

1. Functions performed by financial market in above case are:
   (i) It mobilises savings and channelises them to most productive use.
   (ii) It provides liquidity to financial assets.
2. (c) Reduce the cost of transaction

Page 436

1. (b) 15 days to one year
2. (b) Certificate of deposit
3. (i) Money market is the market from where it can raise money to fulfill its requirement. The reason is company requires money for working capital, i.e., maximum for 1 year and market for short-term is money market.
   (ii) The instruments to raise money in money market are:
   (a) Call money (b) Treasury bill
   (c) Commercial bill (d) Commercial paper
   (e) Certificate of deposits
4. (a) Commercial Paper:
   It is an unsecured promissory note issued by large and credit worthy companies to raise short term funds at lower rates of interest than the prevailing market rates.
   (b) 15 days to one year.
   (c) It can also be used for seasonal and working capital needs.

Page 442

1. (a) Primary market
2. (b) Compliment each other
3. (i) IPO (ii) Offer for sale, Private placement.
   (iii) Commercial papers

Page 451-452

1. (b) Contract note
2. (a) Pay in day
3. (a) PAN (Permanent Account Number) (b) Bank Account details
4. (a) Dematerialisation

5. (c) Watchdog of stock exchange
6. (1) Delivery of shares in D'mat form directly to investors D'mat Account by the broker.
   (2) The Securities and Exchange Board of India (SEBI)
7. Protective function and prohibition of fraudulent and unfair trade practices.
8. 1. Insider-Trading
   2. Authority is Securities and Exchange Board of India (SEBI).
   Their functions are: (i) Protective functions, (ii) Developmental functions, (iii) Regulatory functions.

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (a)	2. (b)	3. (c)	4. (b)	5. (d)
6. (a)	7. (a)	8. (c)	9. (c)	10. (b)
11. (a)	12. (c)	13. (a)	14. (c)	15. (b)
16. (d)	17. (d)	18. (a)	19. (c)	20. (d)

Fill in the Blanks

1. Savers and investment
2. Two
3. National Securities Depository Limited
4. Central Depositories Services Ltd.
5. Depository Participant.
6. Pay in Day
7. Pay out day.
8. Sensex
9. Nifty
10. Developmental

True or False

1. (F) – SEBI was set up with the main purpose of keeping a check on malpractices and protecting the interest of investors.
2. (F) – Under offer for sale company sell the whole lot to Intermediary and then Intermediary sell the whole lot to pubic.
3. (T)
4. (T) – They prefer giving high dividend.
5. (F)
6. (T)
7. (T)
8. (F)

11 MARKETING MANAGEMENT

Contents as per Latest CBSE Syllabus

- Marketing—Concept, Functions and Philosophies
- Marketing Mix—Concept and Elements
- Product—Branding, Labelling and Packaging—Concept
- Price—Concept, Factors determining Price
- Physical Distribution—Concept, Components and Channels of Distribution
- Promotion—Concept and Elements; Advertising, Personal Selling, Sales Promotion and Public Relations

11.1 INTRODUCTION AND MEANING

Marketing management refers to management of all the activities related to market. Traditionally there was no difference between selling and marketing but modern age is the age of globalisation where consumers play a very important role and marketing strategies also have become very important.

Some common definitions of marketing management:

- "Marketing management is the analysis, planning, implementation and control of programmes designed to create, build, maintain mutually beneficial exchanges and relationships with target market for the purpose of achieving organisational objectives". ***—Phillip Koetler***
- "Marketing is the business process by which products are matched with the markets and through which transfers of ownership are effected". ***—Cundiff and Still***
- "Marketing is that phase of business activity through which the human wants are satisfied by the exchange of goods and services". ***—J.F. Pyle***

All the modern definitions of marketing are based on the philosophy that, "*satisfaction of consumers is the basic purpose of business*".

11.2 MARKETING

Marketing is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

The marketers work hard to discover the needs and wants of customers and try to develop products or services which would satisfy them. All the firms try to produce the products which will be demanded by satisfying customers' needs and wants.

Features of Marketing:

1. **Need and want.** The focus of marketing is need and want of customers. All the activities in the market are carried out with the main motive of satisfying need and want of customers and organisations.
2. **Creating a market offering.** Market offering means offering a product or service by specifying its features, shape, size, colour, etc. For example, offer is T.V. then specifying the various sizes in which it is available, various technologies used, various shapes, prices of different types, etc. A good market offer should keep in mind the satisfaction of customers.
3. **Customer value.** Customer is ready to give a price for the product only when he gets satisfaction or only when product is offering utilities matching to the price. Customer values the product on the basis of satisfaction and service offered by the product. Marketer must add to the value of product so that customers prefer your product over the competitor.
4. **Exchange mechanism.** The process of marketing involves exchange of products and services for money or money's worth. In exchange customer pay money and in return they take product or services which satisfy their need and wants. Exchange can take place directly between manufacturer and customer or through middlemen. Exchange is the essence of marketing. The preconditions of exchange mechanism or pillars of marketing are:

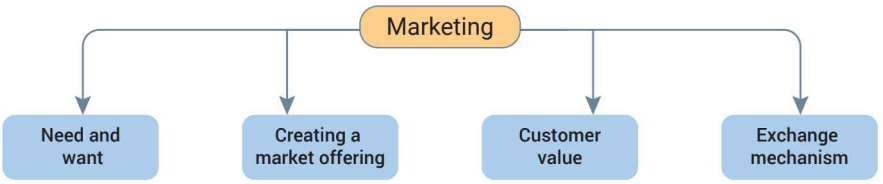
   (i) Presence of atleast two parties—*buyer* and *seller* or *customer* and marketer, etc.

   (ii) Both parties must have something viewed valuable by each other.

   (iii) Both parties are free to accept or reject the offer.

   (iv) Each party feels desirable to deal with the other, and

   (v) Each party is capable of communication and delivery.



Keywords

Need and Want

(a) Need – Basic necessity
(b) Want – More than need
(c) Demand – Want backed by purchasing power

Creating Market Offering

Designing the product

Customer Value

Offering extra benefit than your competitor

Exchange mechanism

Change of goods for a price.

MCQs and Case Studies

1. **Marketing is a**
   (a) Pre-production activity (b) Post production activity
   (c) After sale activity (d) All of the above

2. **'Time Line' watch manufacturing company is a renowned company in 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 repeated sales orders.**
   (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).

   [*CBSE Sample Paper 2016*]

(*Answers at Page no. 525*)

11.3 Marketing Management Philosophies

1. **Production concept.** Some companies believe that it is easy to sell the products when products are inexpensive and are easily available. So the firms following production concept focus on lowering the cost of production by means of mass production and distribution but the drawback of this concept is that customers don't always buy products which are inexpensive and available.

   Main focus: *Large-scale production to decrease the cost.*

2. **Product concept.** Firms which follow the product concept propose that the way to realise business goal is by making products that are of high quality. These firms manufacture the products of superior quality but they must keep in mind that customers will buy the high

quality only when they need or want it, only quality is not enough force. For example, the firm is dealing with a very high quality hair-dye but customer will demand it only when they have grey hair.

Main focus: *Good quality, added features in product.*

3. **Selling Concept.** The firms which follow the selling concept believe that in order to make a customer buy a product he or she need to be convinced and customers can be convinced by undertaking some aggressive selling and promotional efforts. With selling concept the firm can make a customer buy something even when the customer has no intention of buying it. Firms relying on selling concept make use of advertising powers and other persuation techniques to influence the customers.

   Selling concept can be summed up in the statement 'selling what you have' so under this concept the product is sold by hook or crook. Selling concentrates on the requirements and needs of producers and sell whatever is produced. They do not try to find out the requirements or needs of the customers. Selling relies on the buyer's manipulation. Under selling the primary motive of seller is to convert the goods into cash by using fair or unfair tactics.

   The firms following selling concept must know that buyers cannot be manipulated many times. The customer once wrongly convinced can spoil the image of the firm. So selling can succeed in the short run and not in the long run.

   Main focus: *To sell whatever is produced by using intensive promotional techniques.*

4. **Marketing concept.** The marketing concept concentrates on the need of the customers. This concept says that product should be designed and produced keeping in mind the need of the customer and try to satisfy the need better than the competitor so according to marketing concept the customers' satisfaction is the pre-condition for realising firms' goals and objectives. Under marketing concepts firms don't sell what they have but they produce and sell what customers want.

   Following are the pillars of the marketing concept or process of marketing concept:

   (i) Identification of market or customers who are chosen as the target market.

   (ii) Understanding the needs and wants of the customers in target market.

   (iii) Developments of products or services for satisfying the needs of the target market.

   (iv) Satisfying the needs of target market better than the competitors.

   (v) Doing all this at a profit.

   The firms adopting marketing concept give importance to two important market forces. These are customers and competitors as the firms keep a close eye on the needs and wants of customers and try to satisfy these needs better than their competitors.

   Maintaining constant vigil on customer is called customer-orientation and constant vigil on competitors is called competitor-orientation.

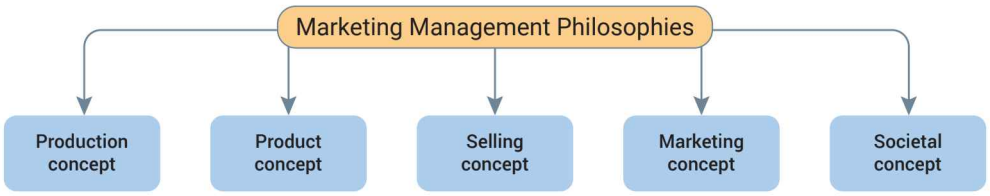
   Main focus: *Customer satisfaction.*

5. **Societal concept.** Although marketing concept is satisfying the needs of customers in the best possible manner but then also it has attracted criticism from people who are concerned about society and environment. They argue that companies should not blindly follow the goal of customer satisfaction. This may lead to many social and environmental ills for example, a customer may want to have drugs so just to satisfy customer the firms should not supply him drugs. Some products bring harmful effects on environment so these should not be supplied only to fulfil the goal of customer-satisfaction. The customer's satisfaction must be within the ethical ecological aspects of our society.

Main focus: *Customer satisfaction with in ethical and ecological boundaries of our society.*

Difference in Marketing Management Philosophies

S.No.	Basis	Production concept	Product concept	Selling concept	Marketing concept	Societal concept
1.	Starting point	Factory	Factory	Factory	Market	Market and society
2.	Main focus	Quantity of product	Quality of product	Selling existing products by hook and crook	Customer satisfaction	Customer satisfaction within the tradition of society.
3.	Means	Availability and affordability of product	Improvement of quality	Selling and promoting	Marketing techniques	Marketing techniques
4.	Ends	Profit through large volume of production	Profit through quality of product.	Profit through sales volume.	Profit through customer satisfaction.	Profit through customer satisfaction and social welfare.



Keywords

Marketing Management Philosphies/Concepts

(a) **Production Concept:** Large scale production, minimum cost, selling at low price

(b) **Product Concept**

(a) Good quality (b) Extra features in product

(c) Product improvements

(c) **Sales Concept**
   (a) Emphasis on sales volume
   (b) Aggressive promotional techniques
   (c) Attracting and persuading customers

(d) **Marketing Concept**
   (a) Identify the need and fulfill it
   (b) Customer satisfaction

(e) **Social Marketing Concept**
   (a) Customer satisfaction with welfare of the society
   (b) Social, ethical and ecological aspects of marketing

MCQs and Case Studies

1. **Persuading buyer to purchase the product is:**
   (a) Production concept
   (b) Product concept
   (c) Selling concept
   (d) Marketing concept

2. **Quantity of product is key feature of**
   (a) Production concept
   (b) Product concept
   (c) Selling concept
   (d) Marketing concept

3. **Customer need, want is related to**
   (a) Production concept
   (b) Product concept
   (c) Selling concept
   (d) Marketing concept

4. **Ginika, Tanish and Rohit were friends from college days and now they are 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, Ginika drew the attention of Tanish and Rohit towards the exploitation of consumers. She 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 she was not doing so. Tanish 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. Rohit stressed that a company cannot achieve its objectives without understanding 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 to them by the society. He further stated that he himself was taking into consideration the needs of the customers.**

   Identify the various types of thinking that guided Ginika, Tanish and Rohit in the marketing efforts of their business. Also, state one more feature of the various types of thinking identified that is not given in the above para. *[CBSE Delhi 2017]*

(Answers at Page no. 525-526)

11.4 FUNCTIONS OF MARKETING

In the process of marketing the marketer performs a variety of functions which are given below:

1. **Gathering and analysing market information (market research).** This function helps the marketeer to identify the needs of the customers, market research becomes the basis of product development and to conduct market research the marketeer performs SWOT analysis.

   While gathering information from market the marketeer focuses on the opportunities and threats in market and uses their strength to capture and grab the opportunities and prepare policies and plans to overcome their weaknesses and threats.

   Companies use internet sites, SMS facility to collect information. Some companies conduct even door to door research to gather information.

2. **Market planning.** After conducting marketing research, the marketer has to plan the steps necessary to achieve marketing objectives under market planning. They make plan to increase production, plan to increase sale, plan to use promotional tools, etc.

   Example: Suppose a marketeer on conducting research found that he has 10% share in the market then he can make a plan to increase his share to 30% then plan for increasing level of production plan for promoting product, etc.

3. **Product designing and development.** Every marketeer offers a product or service to the customer but what product or service has to be offered must be planned. The planning part includes the decisions like what should be the quality standards used in product, what shape or design would be used, what type of packing, how many models, how it can be made better than the competitor's product etc. For taking all these decisions proper product planning is done by the marketer for example, if marketeer is dealing with refrigerator then in product planning they decide the quality standard, size of refrigerators, colour, design, technology of refrigerator, etc.

4. **Standardisation and grading.** Standardisation means maintaining quality standards to achieve uniformity in the product. Standardisation provides quality assurance and consistency to consumers. Consumers are assured about the quality of product, packing etc.

   Grading means classifying the product on some bases. The bases of classification can be size, quality etc. Grading is necessary when companies are not following strictly the technique of standardisation. Through grading marketer can get higher price for quality product. Grading is generally used in agricultural products for example, wheat, rice, pulses, etc.

5. **Packaging and labelling.** The product is always supplied to customer in the packed form. Packaging refers to designing of packets, wrappers, cartons, etc. which are used to pack

the product. Packaging plays an important role in selling as attractive packing induces the customers to buy the product that is why packing is called *Silent Salesman.*

Labelling refers to informative part of packaging. Through label important information is given to customer.

6. **Branding.** Branding means giving a special name to the product. Companies may decide to sell the product in company's name or they may decide a special brand name for their products. For example, Sony, BPL, etc. are using company's name as brand names whereas Ariel, Tide, etc. are special brand name selected by company. The brand name must be selected very carefully as the customer's loyalty depends upon the brand name.
7. **Customer support services.** In present day business environment customer is the king pin in the market. So customer satisfaction is the main moto of every businessman. So a very important function of marketing management relates to developing customer support service such as handling customer complaints, after sale services, maintenance services, consumer information, technical services, etc. Customer will become your permanent customer only when he is satisfied with customer support services.
8. **Pricing of products.** Price means the money which a customer has to pay to buy a product or service. It is the most crucial element of marketing as customer is highly price sensitive, a little variation in price may take your customer to competitor's product. Marketer keeps in mind various factors such as objective of firm, demand competition etc.
9. **Promotion and selling.** After production of goods the marketer needs to offer them to customers; for this he performs two basic functions *i.e.*, promotion and selling. Promotion includes all the activities which are undertaken to communicate with the customer and increase the sale. For promotion marketer performs various functions such as advertising, sales promotion, personal selling, publicity, etc.
10. **Physical distribution.** Another important function of marketing manager is making plans regarding distribution of goods or services. Physical distribution includes decisions like choice of channel of distribution, maintaining inventory, storage, warehouses, etc.
11. **Transportation.** The goods are not necessarily consumed at the same place where these are produced. There is a place gap between the production and consumption. To cover this place gap the marketer makes use of various modes of transport so that goods can be transferred to different corners of the country. It is not only that finished goods need to be

transported but raw materials and various other inputs are also transported from their place of origin to their place of use. The marketer compares various modes of transport on various criteria and selects the best and most suitable to transport raw materials, inputs and finished goods.

12. **Storage and warehousing.** The goods are not consumed immediately when they are produced. There is a time gap between the production and consumption. So it is necessary to keep the goods safe during this time gap as goods need to be protected from moisture, insects, rodents, thefts etc. So marketers often maintain their own warehouses to store the products or they make use of public warehouses to keep the goods safe and fresh till they are demanded in the market.

Keywords

1. Market Research.
2. Thinking in Advance by Conducting SWOT.
3. Developing product.
4. Quality standard and deciding range of produce.
5. Packing and giving information on pack.
6. Selecting a name or mark for recognising the product.
7. Providing after sale service.
8. Fixing the price
9. Deciding ways to promote the role of produce
10. Distributing the product at right time in right quantity and at right place.
11. Physical movement of goods from one place to other.
12. Keeping inventory to supply when demand arise.

Case Study

1. **Soloni intends to start an enterprise that produces chocolates. Initially in order to assess the taste and preferences of the people about chocolates, she used social media and online surveys. Thereafter she prepared a detailed SWOT analysis of her enterprise to devise a strategy that will give her an edge over competitor. Based on her analysis of the market she planned another segment of Chocolate called 'Desi delight'. She planned to fix up the price of chocolate relatively lower in beginning and increasing later on when demand pricks.**

   In context of above case.

   (i) Identify the elements of marketing mix being discussed in above para.

   (ii) Explain briefly the functions of marketing discussed in above para.

(Answers at Page no. 526)

11.5 THE MARKETING MIX

Meaning. *The marketing mix refers to the ingredients or the tools or the variables which the marketer mixes in order to interact with a particular market.*

Definitions of marketing mix:

- "Marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system, the product, the price structure, the promotional activities and the distribution system". —***William J. Stanton***
- Marketing mix are the set of marketing tools that firm uses to pursue its marketing objectives in the target market". —***Phillip Koetler***

The marketing mix is the essence of any marketing endeavour. It is the main building block of marketing efforts of a firm.

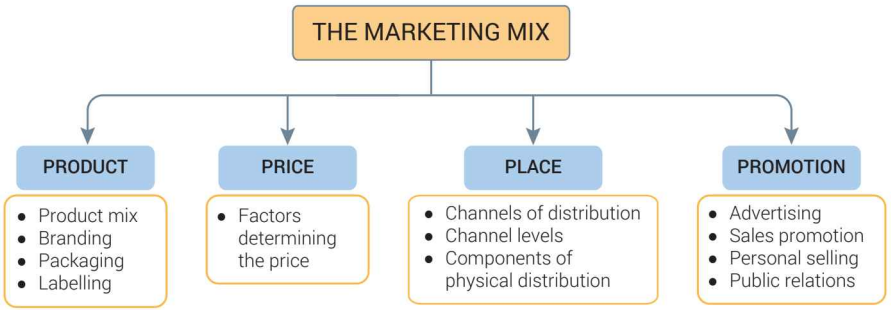
In the concept of marketing on one side there is customer and on the other side there is producer or marketer. The firm looks for having transaction with the customer but to have a transaction the firm has to develop a product or service, design it, pack it, name it, price it, promote it and distribute it. All these decisions are the core of marketing mix. The elements of marketing mix can be classified into four categories and through fine mixing of these elements the superior value products or services are created for customers.

11.5.1 Elements of Marketing Mix

The four main elements of marketing mix as classified by MCcarthy are:

A. Product
B. Price
C. Place/Physical Distribution
D. Promotion

These elements are more popularly known as four P's of the marketing.



A. PRODUCT

The product element of the marketing mix signifies the tangible or intangible product offered to the customer which is the satisfier of the need. Product is a bundle of utilities.

Product Mix

The *product mix* refers to important decisions related to the product such as quality of product, design of product, packing of product, etc. Another important thing included in product mix is product assortment. It refers to number of products and items a particular producer offers to the market. For example, the Hindustan Lever is dealing with soaps, detergents, tea, toothpaste, etc. When a firm starts its marketing operations it starts with one product but later on it expands and diversifies its activities by introducing more varieties of product or more lines of products for example, Nirma made its entry with the detergent powder but slowly it got entered into other lines of products such as salt, toilet soap, toothpaste, etc.

11.5.2 Important Components of Product Mix

1. *Branding*

One of the most important decision that a marketer has to take in the area of a product is respect of 'branding' is that he has to decide whether the firm's product will be marketed under brand name or a generic name. **Generic name** refers to the name of whole class of the product for example Toilet Soap is a generic name but Lux is a brand name. Same way mobile phone is a generic name but Apple, Samsung, Nokia are brand name.

If products are sold by generic name then it will be difficult for marketeer to differentiate his products from that of their competitor that is why a brand is given to product.

Meaning. *A brand is the identification of a product. It can be in the form of a name, symbol, or design etc. The branding is not only done to identify the seller or producer but also to make your product superior than competitor's product.*

Branding is much more than an identification mark. It is a seller's promise to deliver quality and satisfaction of buyer's expectations. With brand we can easily identify which all products belong to a particular company. When firms develop good reputations about quality then brand helps them enjoy greater control over the customers and develop brand loyalty.

Various terms related to brand are:

1. **Brand.** A brand is the identification of a product it can be in the form of name, symbol or design etc. For example, Surf, Dettol, Nike, etc. even various symbols such as ✓ etc. are also the brands.
2. **Brand name.** The part of brand which can be spoken is called brand name. In other words we can say it is the verbal part of a brand. For example, Dettol, Surf.
3. **Brand mark.** The part of brand which can not be spoken but can be recognized is known as brand mark. For example, Maharaja sign of Air India, Pepsi sign of Red and Blue Ball, Nike sign of arrow, Mercedez sign of Star, etc.
4. **Trade mark.** A part of brand which is given legal protection is called trade mark. No the firm can use the name or sign for which a company get legal protection.

Qualities/Features of a good brand name. While selecting a brand name attention must be paid to the following:

(i) Brand name should be short and simple. ***For example,*** Lux, Dettol, Surf, etc. As long and complicated names are difficult to recognise and remember.

(ii) Brand names should be easy to pronounce as if it is difficult to pronounce the customer will hesitate to demand for it *e.g.*, product names like Heinz etc. are difficult to pronounce.

(iii) Brand name should be suggestive *i.e.*, it must suggest the utility of the product for example, Hajmola suggests digestive property, Ujala suggests brightness, Hair and Care suggests care of hair, etc.

(iv) The brand name should be *unique and distinctive*. The brand name should be very different and should not lose its identity for example, Ariel, Tide, etc.

(v) Brand name should be selected after considering its meaning in other languages and cultures for example, the brand name Nova (given to Ambassador car) means 'does not go' in Spanish. Such types of names should be avoided.

Advantages of brand name:

1. **Helps in product differentiation.** With branding marketer can differentiate his products from the competitors product.
2. **Helps in advertising.** With the brand name advertising become more effective as it not only makes people aware about the features of product but also about brand which can provide these benefits.
3. **Differential pricing.** With established brand name the firm can easily change high price for its product as compared to competitor's product.
4. **Easy introduction of new product.** The companies which use their company's name as brand name then it becomes very easy for such company to popularize the new product it is planning to introduce.

Advantages to Customers:

1. **Helps in identification of product.** Branding helps the customers to select the products easily as the brand which is giving them satisfaction can be selected easily over the competitor product.
2. **Ensures quality.** Brand name gives quality assurance and customers can buy branded goods with no doubts about qualities of product.
3. **Status symbol.** Use of branded goods adds to status symbol of customers and adds to their confidence level.

2. *Packaging*

The companies always supply the products in packaged form for example, Coke comes in bottle, Tide in bag, Biscuits in wrapper, Oil in jar, etc.

Packaging is the basic activity of every company. It can be defined as *"A set of tasks or activities which are concerned with the designing, production of an appropriate wrapper, container or bag for the product"*.

Levels of Packaging

There are three levels of packaging:

1. **Primary package.** It refers the immediate packing of product. It remains with product till it is used for example, tube of paste, match box, etc.

2. **Secondary package.** These are additional packings which give more protection. Generally consumers throw that when they start using the product for example, card board box used to keep tooth paste. People throw box when they start using paste.

3. **Transportation packaging.** These are packagings used for storing or transporting the goods. This packing gives protection to goods, for example, corrugated boxes used to shift Ruffle Lays, Kurkure, etc.

Functions of Packaging/Features of Packaging:

Packaging is an essential function of companies because of following reasons:

1. **Protection.** The fundamental function of packaging is that it protects the product from damage. Appropriate packaging protects the product from sun, rains, moisture, breakage, insects, etc., for example, Airtight containers and packets are used for Chips, Biscuits, Jams, Cola, etc. which need protection from atmospheric contacts.

   Products like television or other appliances need to be protected from damage in transit so they are packed in big board cartons, etc.

2. **Identification.** With the help of packaging the product can be easily identified for example, with the yellow and black packing and alphabet K we can recognise from far off that it is a Kodak product, of red colour and unique shape of coke bottle we can identify it from distances also.

3. **Convenience.** The handling of the product becomes more convenient with appropriate packing. It makes it convenient to store and convenient to shift from one place to other for example, new pet bottles of cold drink has made it very convenient for middle men to transport it, supply it and store it.
4. **Promotion**. Packaging plays a role of silent salesman because it promotes or enhances the sale of the product. The attractive colourful and innovative packing attracts the customers specially if the product is children's product. Attractive packing always induces the customers to buy the product.
5. **Rising standard of health and sanitation.** Packing has become essential because of rising standard of health and sanitation. In a packed good there are less chances of contamination of products. People prefer packed products over loose as there are less chances of adulteration in packed product.
6. **Self-service outlets.** The self-services outlets are becoming very popular. In these stores generally products with attractive packing are picked by buyers more quickly.
7. **Product differentiation.** Packing help the customers to differentiate between goods on the basis of quality as with the type of packing customer can guess about the quality of goods.
8. **Innovational opportunities.** Recent developments in packaging have completely changed the marketing. For example new packing in soft drinks, chips, biscuits keep them fresh for a longer period. Even milk can be stored for 4-5 days without refrigeration. Scope of marketing is increasing with new innovations in packaging.

3. Labelling

Labelling means putting identification marks on the package. Label is the carrier of information. It provides information like—name of the product, name of manufacturer, contents of products, expiry and manufacturing date, general instruction for use, weight, price, etc.

Labels are attached on the product to provide some information to customer. Product labels can be:

(a) In simple tag form as in case of local products like rice, pulses, etc.

(b) *Elaborate labels:* as used by reputed companies. These are very attractive and give complete information about product to customer.

Apart firm details of product some statutory warnings which are essential for some products must be printed on label. **For example**, on Tobacco, Liquor it is compulsory to mention that its consumption is injurious to health.

Labels perform following functions/ Features of Labelling

1. **Describe the product and specify its contents.** The manufacturer cannot communicate to each and every customer personally so if he wants to communicate and share some information about the product with the customer it is done through labels. The manufacturer prints all the information related to product such as the contents, price, instruction to use, etc.
2. **Identify the product.** The label helps the customers to identify the product from the various types available for example, we can easily identify a Cadbury chocolate from the various chocolates kept in the shelf of a shop by the colour of its label.
3. **Help in grading.** With the help of label products can be graded in different categories for example, Brooke Bond Red Label, Brooke Bond Yellow Label, Green Label, etc.
4. **Promote sale.** Attractive and colourful labels excite customer and induce him to buy the product. Specially in consumer goods attractive labels increase sales volume.
5. **Providing information required by law/legal requirement.** The label is also used to fulfil the legal requirement as it is legal compulsion to print batch no., Contents, max. retail price, weight or volume on all the products. On some products giving statutory warning is also a legal compulsion and these legal requirements are fulfilled through label.

MCQs and Case Studies

1. **Which element of product concept help in fulfilling the right to information**
   (a) Branding (b) Packaging
   (c) Labelling (d) All of the above
2. **The spoken part of Brand is known as**
   (a) Brand (b) Brand name
   (c) Brandmark (d) Trademark
3. **As a project work in Business Studies subject, the Commerce students of 'Knowledge School' thought of setting up a recycling plant to recycle all the waste papers from the school and prepare registers and exercise books to be used by the school students. They approached their Principal who not only appreciated the idea of the students but also gave them consent for the same. The school also decided to donate 50% of the revenue generated from the sale of registers and exercise books to a nearby blind school.**
   (i) State the product related decisions which the children have to take.
   (ii) Suggest any two factors the children should keep in mind while choosing the right name for their exercise books and registers.

(Answers at Page no. 526)

B. PRICE

Price is the value which a buyer passes on to the seller in lieu of the product or service provided. Price is the crucial element of marketing mix because customer is very sensitive to this element. Little variation in the price may shift your customer to competitor's product for example, if the price of Pepsi is changed from ₹8 to ₹8.50 then the customer will start demanding Coke which is still available at ₹8. It is therefore important that the pricing decisions are taken with care and caution. Price must match the utility offered by the product or service. The customer is always ready to pay a price equal to utilities he gets from the product.

Price is normally expressed in monetary terms. It is the worth of a product or service in monetary terms. It is the monetary sacrifice which a buyer makes when he buys something.

Price may be called by different names for example, price for education is tuition fees, price for using road etc. is toll, price for job is salary, price for apartment is rent, etc.

Price mix refers to important decisions related to fixing of price of a commodity. These decisions can be related to price of competitors, decisions related to demand, decisions related to fixing cost, etc.

Assigning a monetary value to a product or service or fixing the price of a product or service is not an easy job. Various factors lie evaluated.

The factors kept in mind while fixing the price of a commodity or service:

1. **Pricing objectives.** What is the objective of firm is a very important factor which helps in deciding the price.

   Apart from profit maximisation, the pricing objective of a firm may include:

   (a) Obtaining market share leadership. If firm wants to capture big share in the market then it has to keep its price low so that more number of people are attracted to purchase the products.

   (b) Surviving in a competitive market. To survive in a competitive market the firms have to reduce their price by offering discounts.

   (c) Attaining product quality leadership. In this case generally high prices are charged to cover the cost and high cost of research and development.

2. **Product cost.** The second important factor which is kept in mind while fixing the price is the cost of product or service. The price of the product must be able to cover the total cost of product. Total cost means fixed cost and variable cost. Fixed costs are fixed irrespective of production level for example, rent of factory, cost of machinery, salary of permanent staff etc. The variable costs vary with production, *e.g.*, cost of raw materials, wages of labour etc.

   The price is fixed after calculating the total cost. In case of high competition and to capture big share if firm has to fix low price then atleast the price must cover variable cost and fixed cost can be ignored for some time.

3. **Extent of competition in the market.** The third important factor which is kept in mind while setting up the price is the level of competition firm has to face. When a firm does not

face any competition then it can enjoy complete freedom in fixing the price. But when the competition is more then price is fixed keeping in mind the price of competitor's product for example, Pepsi Company cannot fix the price of its drinks without considering the price of Coke and other cold drinks available in market.

4. **Customer's demand and utility.** The last but not the least factor which is kept in mind while fixing the price is the demand of product or service when demand of the product is inelastic *i.e.*, no or very less substitutes are available then company can fix up high price.

   Whereas when demand is elastic *i.e.*, more substitutes are available then price has to be brought down.

   On the other hand, if product is highly demanded then price can be high but at the time of low demand price has to be brought down.

   If product is offering higher utility one can easily charge high price as customer is ready to pay high price if he gets high value from the product. Whereas if utility is low, you cannot charge high price.

5. **Government and legal regulations.** To protect the interest of general public, the government has all the right to control the prices of various products and services by including the products in the category of essential commodities. The common commodities in essential commodities are Drugs, some food items, LPG etc. With government intervention there can be a check on monopolist as they cannot charge unfairly high price for essential commodities.

6. **Marketing methods used.** The price of the product also gets affected by various techniques of methods of marketing used to promote the products. If company is using intensive advertising to promote the sale of product then it will charge high price. Other marketing methods which affect price of a product are, type of packing, distribution system, salesmen employed, customer support services, etc.

MCQs and Case Studies

1. **High price is related to**
   (a) High competition (b) Low competition
   (c) Both (a) and (b) (d) None of the above

2. **Pricing objectives does not include**
   (a) Market share leadership (b) Surviving in competitive market
   (c) Cost of production (d) To deliver goods to rural area

3. **After acquiring the necessary knowledge and skills on starting an Aloevera Farm, Ashok wanted to be the leading manufacturer of Aloevera products worldwide. He observed that the products were expensive as the demand of the products was more than the supply. He was also keen to promote the methods and practices that were economically viable, environmentally sound and at the same time protecting public health.**

Ashok's main consideration was about the amount of money paid by the consumers in consideration of the purchase of Aloevera products. He also thought that competitors prices and their anticipated reactions must also be considered for this.

After gathering and analyzing information and doing correct marketing planning, he came to know that the consumers compare the value of a product to the value of money they are required to pay. The consumers will be ready to buy a product when they perceived that the value of the product is at least equal to the value of money which they would pay.

Since he was entering into a new market, he felt that he may not be able to cover all costs. He knew that in the long run the business will not be able to survive unless all costs are covered in addition to a minimum profit.

He examined the quality and features of the products of the competitors and the anticipated reactions of the consumers. Considering the same he decided to add some unique features to the packaging and also decided to provide free home delivery of the products.

The above case related to a concept which is considered to be an effective competitive marketing weapon. In conditions of perfect competition most of the firms compete with each other on this concept in the marketing of goods and services.

(a) Identify the concept.

(b) Explain briefly any four factors discussed in the above case related to the concept so identified. *[CBSE (AI) 2017, 2018]*

(Answers at Page no. 526)

C. PLACE/PHYSICAL DISTRIBUTION

Place refers to the set of decisions that need to be taken in order to make the product available. If the products are not made available to the customers at the right place at the right time then customer would not be able to buy them. Place element is a process by which the goods are transferred from the place of production to the place of consumption.

Place mix refers to important decisions related to physical distribution of goods and services. These decisions are deciding the channel of distribution, market for distribution etc. Place mix include: (i) Channels of distribution (ii) Physical movement of goods.

Channels of Distribution:

Channel of distribution refers to the people or middlemen who help in distributing the goods. Goods are produced at one place and customers are scattered all over the country so it is very difficult for the producer to distribute goods to the place of consumption for example, tea is produced in Darjeeling, Assam but it is consumed all over the country. It is very difficult for

producer to distribute tea all over the country so he takes the help of some middlemen so that it can be supplied to all the consumers.

Channels of distributions are the firms and individuals who help in transferring the goods from place of manufacturing to place of consumption. The common type of channels of distributions are, wholesaler and retailer.

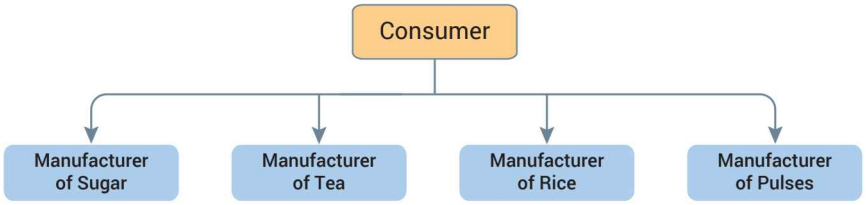
Channels of Distributions

Channels of distributions make shopping easy for consumer and distribution simple of manufacturer for example, consumer can get variety of products by visiting one retail showroom whereas if there is no retailer then to buy various products he will have to visit various manufacturers which involves lot of efforts.

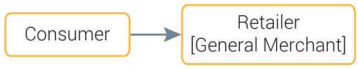
Along with being economy of efforts middlemen also help in bringing efficiency in distribution by providing facilities like transportation, warehousing order processing etc.

Following diagram shows the situation of customer with and without channels of distribution. **For example,** consumers need sugar, tea, rice, pulses.

Case I. When no middleman or distribution channel:



Case II. When middleman is available:



In above diagram we can see how customer's efforts are reduced with the presence of middlemen.

Channel Levels

Types of Distribution Levels:

1. **Zero Level Channel/Direct Channel:**

   It is a case when firms sell their products directly to customers without adopting any intermediary for example, Bata, sell their shoes directly, sale through mail order, Internet, Eureka Forbes sells all its water purifier directly without any intermediary, etc.

Example, Eureka Forbes, Bata, etc.

Common types of direct channels are:

- Direct sale by appointing salesmen
- Through mail order house
- Through internet
- Through teleshopping

2. **Indirect Channel**

(i) **One level channel.** In this only one intermediary is adopted i.e., the retailer. Firms directly supply the product to retailer who sells the product direct to customer for example, cars are sold through dealers, expensive watches through watch showrooms, etc.

(ii) **Two level channels.** This is most commonly used distribution path where two intermediaries are adopted by firms to sell the products i.e., the wholesaler and retailer. The manufacturer sells the goods in bulk to wholesaler who sells in small lot to retailers who supply it to ultimate customers. Generally convenient goods such as soaps, salts etc. are sold through this path.

(iii) **Three level channels.** In this path one more middleman is added so there are three intermediaries involved, these are distributors, wholesalers and retailers. When products are distributed in deep corners of the country then distributors are appointed area-wise **for example**, North India distributor, South India, etc. The wholesalers buy from distributors and pass it to retailers.

Decisions in Physical Distribution/Components of Physical Distribution

There are *four* major activities involved in physical distribution of goods. There are the four major decisions which management has to take while providing physical distribution service:

1. **Order Processing.** Order processing means the time and steps involved between taking order from customer and delivery of goods as per order. Generally the order processing involves steps like order placement to salesman, order transmission by salesman to company, credit chart of customer by company, inventory and production schedule situation check by company, delivery of goods as per order, etc.

There is direct relation between the time taken in order processing and satisfaction of customer. Fast order processing gives more satisfaction to customer but this involves cost of maintaining sufficient inventory, etc. Companies are now looking forward for information technology based system of order processing to make it fast and satisfy its customers.

2. **Transportation.** Transportation means physical movement of goods from place of production to place where they are required. Transportation adds value to the goods by moving them to place where these are required for example, tea plantation is done in Darjeeling, Gangtok, Assam etc. but these are transported all over the country and the value of tea is much higher in other parts of country as compared to the place of production. So transportation adds value to product but transportation involves cost so it must be seen that the value added to product by transportation must be higher than the cost of transportation.

   There are various means of transportation available *i.e.*, Rail, Road, Air, Pipeline, Water transport etc. Each mode has its own advantages and disadvantages. These modes are evaluated and compared on the basis of speed, frequency, flexibility, cost, availability etc. and the best suited mode is selected by the company.

3. **Warehousing.** Whatever is produced is not sold off immediately. Therefore every company needs to store the finished goods until they are sold in the market. Storage of goods is necessary because some goods like crops are seasonal in production but are demanded throughout the year so these have to be stored for supplying throughout the year. Some goods are produced throughout the year but are demanded in particular season only. These are also stored during off season till the demand comes for example, Woollen clothes, A.C. etc. Maintaining stock in warehousing involves cost whether company has its own warehouse or used hired one. So firm must compare the cost involved in using warehouses and benefits which company gets and try to create a balance between both.

4. **Inventory.** Inventory refers to maintenance of stock of goods. The inventory needs to be maintained so that goods can be supplied whenever demanded. The proper inventory maintenance ensures product availability. But inventory also involves costs. These include cost of capital blocked in and risk of price fluctuation. The firm must weigh the benefits of inventory and the cost involved and accordingly the optimum level of inventory should be maintained.

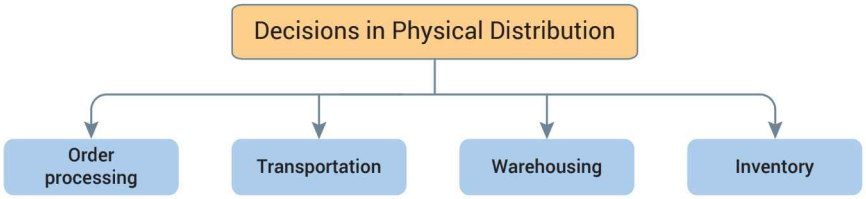
Factors which help in determining level of inventory are:

(i) **Firm's policy on customer service.** If firm has a policy of offering high level customer service then they keep large stock. So that there is no delay in supply of goods.

(ii) **Degree of accuracy of sales forecast.** If sales forecast is done accurately then the inventory is maintained at minimum level.

(iii) **Responsiveness of distribution system.** If to meet additional demand producer requires more time then high level of inventory is maintained but if additional demand can be met in less time then need for inventory will also be low.

(iv) Cost of inventory. Cost of inventory includes warehouse charges, tie up capital. If cost is more, then low inventory is maintained but if cost of inventory is low then high inventory can be maintained.



MCQs and Case Studies

1. **Nike, a shoe manufacturing company sell its product through its own showrooms and websites. This method of selling comes under which method of selling.**
   (a) Zero level channel (b) One level channel
   (c) Two level channel (d) Three level channel
2. **Time period between receiving order and delivery of goods is known as**
   (a) Transportation (b) Inventory
   (c) Order processing (d) All of the above
3. **"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.**

   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. [*CBSE Sample Paper 2015*]

(*Answers at Page no. 527*)

D. PROMOTION

Introduction. The promotion element of marketing mix is concerned with activities that are undertaken to communicate with customers and distribution channels to enhance the sales of the firm.

The promotional communication aims at informing and persuading the customer to buy the product and informing him about the merits of the products.

Promotion mix. It refers to all the decisions related to promotion of sales of products and services. The important decisions of promotion mix are selecting advertising media, selecting promotional techniques, using publicity measures and public relations, etc.

There are various tools and elements available for promotion. These are adopted by firms to carry on its promotional activities. The marketer generally chooses a combination of these promotional tools.

Following are the tools or elements of promotion. They are also called elements of promotion mix:

(I) Advertising (II) Sales promotion

(III) Personal selling (IV) Public relations

(I) ADVERTISING

Advertisement can be defined as the "*paid form of non-personal presentation and promotion of idea, goods or services by an* ***identified sponsor***".

It is an impersonal presentation where a standard or common message regarding the merits, price and availability of product or service is given by the producer or marketer. The advertisement builds pull effect as advertising tries to pull the product by directly appealing to customer to buy it.

From the above definition we can find that the three distinct features of advertising are:

1. **Paid form.** The sponsor has to pay for advertising he has to bear a cost to communicate with customers.
2. **Impersonality.** There is no face to face contact between customers and advertiser. It creates a monologue and not a dialogue.
3. **Identified sponsor.** Advertisement is given by an identified company or firm or individual.

Features of advertising and advantages/merits of advertisement:

(i) **Reach.** Advertising can reach a large market. As through various media of advertising there is benefit of mass reach for example, any message given on All India Radio or TV can reach in different corners of the country wherever TV and Radio network is available.

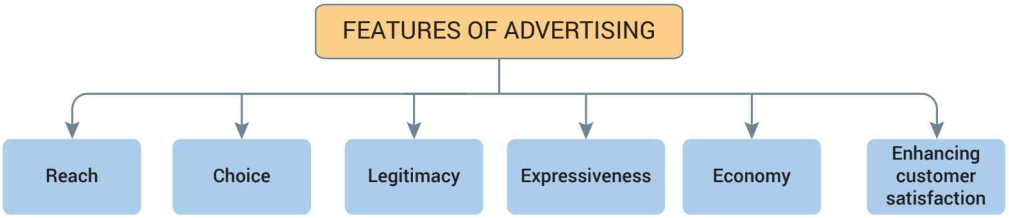
(ii) **Choice.** There is wide variety of media available for advertising for video, audio, visual audio, print media etc. Under each category large variety is available for example, in print media we can select from magazines, newspaper, banner etc. This variety or choice helps the marketer to select the media, keeping in mind the target customer.

(iii) **Legitimacy.** In advertisement the messages regarding the product or service are given publicly to customers so there is always a proof for it and customers believe that publicly the company will not give false information of the product. The customer feels comfortable to buy a product which is widely advertised.

(iv) **Expressiveness.** Advertising provides enough opportunities to marketers to dramatise the message with the help of drawings, colours, pictures, music, dance etc. They can easily express the use of product through various techniques, and can add multimedia effect also.

(v) **Economy.** It is always felt that advertising increases the cost of product or service but advertising is considered economical as compared to other promotional techniques because it reaches masses and if we calculate cost per customer it is very low or nominal.

(vi) **Enhancing customer satisfaction and confidence.** Customer feel more assured about quality and feel more comfortable if sponsors claim these benefits in advertising.



MCQs and Case Studies

1. **Advertisement is always given by an**
   (a) Identified sponsor (b) Unidentified sponsor
   (c) Government (d) None of the above

2. **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.** *[CBSE Sample Paper 2015]*

(Answers at Page no. 527)

(II) SALES PROMOTION

Sales promotion refers to short term use of incentives or other promotional activities that stimulate the customer to buy the product. Sales promotion techniques are very useful because they bring:

(a) Short and immediate effect on sale.

(b) Stock clearance is possible with sales promotion.

(c) Sales promotion techniques induce customers as well as distribution channels.

(d) Sales promotion techniques help to win over the competitor.

(III) PERSONAL SELLING

Meaning. *Personal selling means selling personally. This involves face-to-face interaction between seller and buyer for the purpose of sale.*

The personal selling does not mean getting the prospects to desire what seller wants but the concept of personal selling is also based on customer satisfaction.

Features of Personal Selling:

(i) **Personal interaction.** In personal selling the buyers and sellers have face to face interaction. This closeness allows both the parties to observe each other's action closely.

(ii) **Two way communication.** In personal selling the sellers give information about the product, at the same time the buyer get a chance to clarify his doubts. It is suitable for sale of complex products where buyer wants to interact with the manufacturer.

(iii) **Better response.** When seller is personally explaining the utilities of product to the customers then customer do pay some attention and listen to the information.

(iv) **Relationship.** When the seller and buyer come together this may improve relation between the customer and seller. Salespersons normally make friendly relations with the customers.

(v) **Better convincing.** Personal selling is most effective form of promotion because with this the sales person can convince the buyer by demonstrating the use of product and making changes in the product according to the need of customer.

Difference between Advertising and Personal Selling

S.No.	Point of Difference	Advertising	Personal Selling
1.	Form	It is an impersonal form of communication.	It is an personal form of communication.
2.	Flexibility	Less flexible as standardised messages are used.	Flexible messages can be changed according to the type of customers.
3.	Reach	It reaches masses.	Only limited number of customers can be contacted.
4.	Cost	Cost per person is less as at it covers large number of people.	Cost per person is high as at a time limited members can be contacted.
5.	Coverage	Covers market in short time.	Takes long time to cover market.
6.	Use of mass media	Makes use of mass media such as T.V., Radio, Newspaper.	Do not make use of mass media.
7.	Feedback	No direct feedback can be obtained.	Direct feedback can be collected by salesman.
8.	Useful for	More useful for standardised and customer products.	More useful for industrial and customerised products.

MCQs and Case Studies

1. **"You don't close a sale, you open a relationship, if you want to build a long term successful enterprise". Identify the promotion tool referred in this line**
   (a) Advertisement (b) Personal selling
   (c) Sales Promotion (d) Public Relation
2. **Mr. Rajiv, the sales executive of ABC Ltd. possess good marketing techniques, his techniques involve oral presentation of message, convincing the customer with face to face interaction, etc.**
   (i) Name the element of marketing mix under which the above technique fall.
   (ii) Identify the element used by Rajiv.
   (iii) Name any other element of marketing.

(*Answers at Page no. 527*)

(IV) PUBLIC RELATION

Apart from four major elements of marketing mix, another important tool of marketing is maintaining Public Relations. In simple words, public relations means maintaining public relations with public. By maintaining public relations, companies create goodwill.

Public relations evaluate public attitudes, identify the policies and procedures of an organisation with the public interest to earn public understanding and acceptance.

Public does not mean only customers, but it includes shareholders, suppliers, intermediaries, customers etc. The firm's success and achievement depends upon the support of these parties for example, firm needs active support of middle men to survive in market, it must have good relations with existing shareholders who provide capital. The consumers' group is the most important part of public as success of business depends upon the support and demand of customers only.

Definition of public relations:

- Public Association Relations defines public relations as the Art and Social Science of analyzing trends, predicting their consequences, counselling, organisational leaders and implementing planned programme of action which will serve both the organisation and the public interest.
- The Chartered Institute of Public Relations defines Public Relations as a strategic management function that add value to an organisation by helping it to manage its reputation.
- Public Relations covers a wide range of activities such as providing information to media source in the hope of gaining favourable coverage. It also involves a mix of promoting specific products, services and events and promoting the overall brand of an organisation.

Ways/Methods and Tools of Public Relations:

The companies can use the following tools to improve their relations with public:

1. **News.** Sometimes companies get involved in such kind of activities or make such policies so that they get some positive coverage in news. For example, a company's name may be covered in news for reservation of jobs for women or for introducing new technology, etc.

2. **Speeches.** The speeches given by the leaders of corporate sectors influence various members of public specially banks, shareholders etc. Public relations department creates occasion when the speeches are delivered by the leader of company.
3. **Events.** Events refer to organising press conferences, multimedia presentation, matches, stage shows etc.
4. **Written materials.** Sometimes written materials such as Balance Sheet, Annual Reports, Special documents, Brochures, etc., are circulated to various parties to improve and maintain public image of the company.
5. **Public service activities.** Big business houses often associate themselves with various social service projects such as women welfare programmes, charity shows, up-keeping of parks, planting trees on road side, training schools, running schools, colleges, hospitals, etc.

MCQs and Case Studies

1. **The communication tool which can help in improving the image of the company is**

   (a) Advertisement (b) Personal Selling

   (c) Sales Promotion (d) Public Relation

2. **'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.**

   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 Joy's Ltd.' products.

(a) Identify and explain the communication tool used by 'Coconut Joy Ltd.'.

(b) Briefly explain the role of the tool identified in (a) above. [*CBSE Sample Paper 2016*]

(*Answers at Page no. 527*)

Keywords

Marketing Mix/Elements of Marketing

(a) **Product Mix:**
  - (i) Related to various features related to the product.
  - (ii) Variety of products.

(b) **Price Mix:** Elements of marketing mix which generate revenue for organisation.

(c) **Place Mix:** This element make sure goods/services available at the right place in right quantity to right persons.

(d) **Promotion Mix:** This element is used by organisation to communicate and persuade customers to buy its products.

Elements of Promotion

(a) **Advertisement**
  - (i) Impersonal form to communicate
  - (ii) Paid form

(b) **Sales Promotion**
  - (i) Short term incentives
  - (ii) Increase in sale with immediate effect

(c) **Personal Selling**
  - (a) Personal form of communication to pursue customer
  - (b) Face to face interaction

(d) **Public Relation**
  - (a) Improves image of company
  - (b) Help to bring back the reputation and goodwill of the company.

Quick Revision

- Marketing Management. Managing all the activities related to market. It is done to he customers solve their diverse consumption problems in ways compatible with the objectives of the firm.
- Marketing. Marketing is a process by which the marketer attempts to match products or services with customer needs with the purpose of satisfying them at a profit.
- Difference between selling and marketing. The marketing and selling can be differentiated on the basis of:

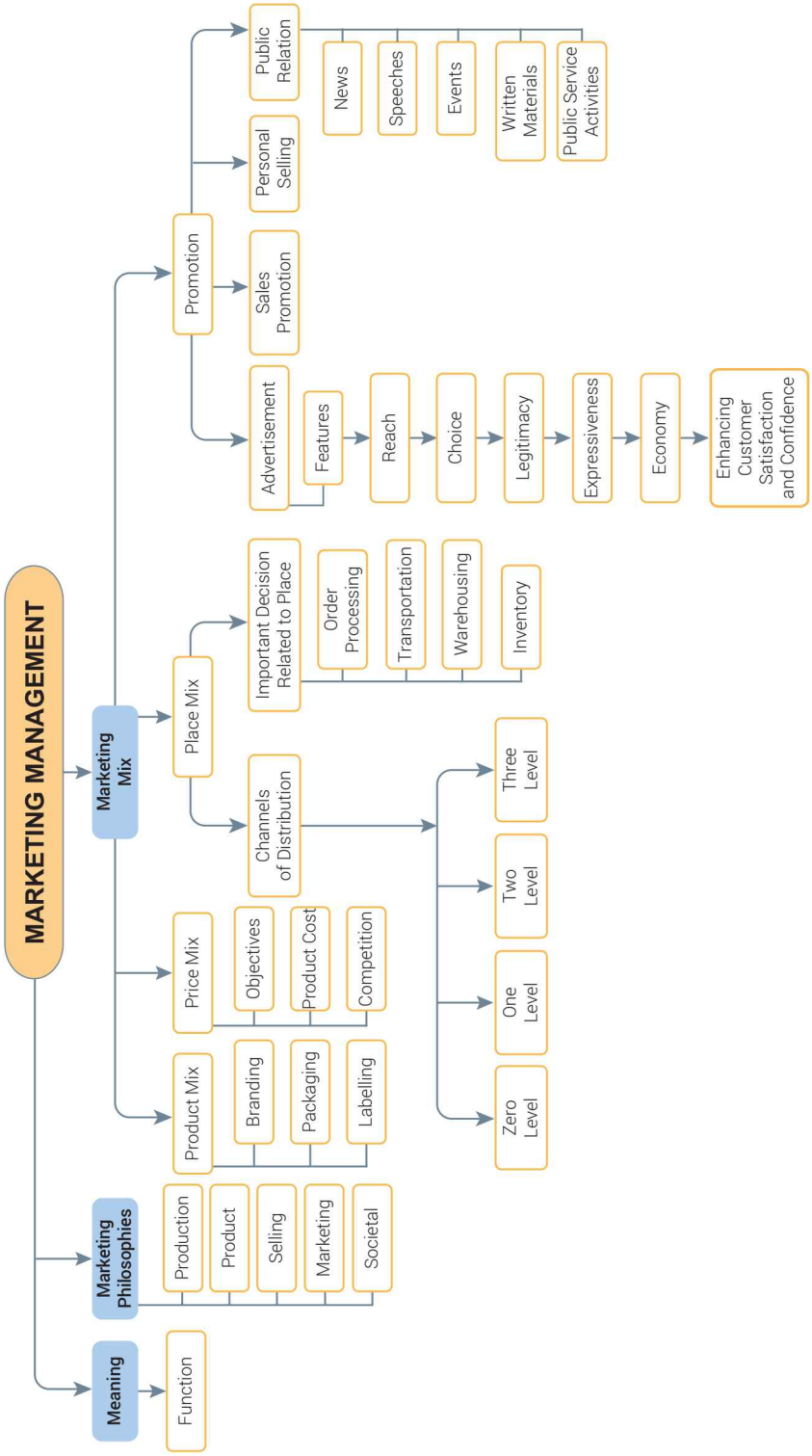
(1) Focus	(2) Objective	(3) Scope	(4) Start and end
(5) Efforts	(6) Supremacy	(7) Approach	(8) Demand.

- **Various concepts of marketing management:**
  (a) **Production concept.** Firm can sell its product by producing inexpensive products
  (b) **Product concept.** It concentrates on production of quality product.
  (c) **Selling concept.** This concept insists on selling what is produced.
  (d) **Marketing concept.** This concept is consumer-oriented and insists on designing product according to needs of customer and selling by keeping in mind consumer satisfaction.
  (e) **Societal concept.** This concept intends to include social goal with need satisfaction.
- **Functions of marketing.** Marketer performs following functions:
  (a) Gathering and analysing market information
  (b) Market Planning
  (c) Product designing and development
  (d) Standardisation and grading
  (e) Packing and labelling
  (f) Branding
  (g) Customer support services
  (h) Pricing of products
  (i) Promotion and selling
  (j) Physical distribution
  (k) Transportation
  (l) Storage and warehousing
- **Marketing mix.** Four important variants or tools of marketing are called marketing mix: These are:
  (a) Product
  (b) Price
  (c) Place/physical distribution
  (d) Promotion
- **Product.** It means what a seller sells and what a buyer buys.
- **Product mix.** The total number of products and items that a particular marketer offers to the market is called product mix: The variants of product mix are product line, width, depth, length and consistency.
- **Branding.** It is the process of using a name, term, symbol or design to identify the product.
- **Trade mark.** It is the mark of a trade carried on by an identified entity.
- **Packaging.** It can be defined as a set of tasks or activities which are concerned with the design and production of an appropriate container for the product.
- **Labelling.** Labels are attached to the product package to provide some information to customer apart from providing information, labels identify the product also.
- **Price.** Price is the value which a buyer passes on to the seller in lieu of the product or service provided.
- **Price determination depends upon number of factors. These are:**
  (a) Pricing objectives. A firm with profit maximisation objective prefers high price and firm with sales maximisation prefers to fix the low price of the product.
  (b) Product cost. The price of the product must cover the fixed as well as the variable cost of the product.
  (c) Extent of competition in the market. When firms have to face high competition then generally low price is fixed. In case of less competition price can be high.
  (d) Customer's demand and utility. The products with elastic demand are priced low and products with inelastic demand are priced high.

(e) Government and legal regulations
(f) Marketing methods used

- **Place/physical distribution.** This ingredient of marketing mix is related to decisions that are taken in order to make the product available to the customers. If the product is not made available to the customers at the right place in the right quantity and at the right time, then customer would not be able to buy them.
- **Channels of distribution.** The channels of distribution perform a number of functions:
  (a) They are source of marketing information,
  (b) They gather information about customers, competitors and other trends in the market,
  (c) They pursue the customers,
  (d) They bear risk,
  (e) They help in storage and movement of goods,
  (f) Help in transfer of ownership of goods and services.
- **Channel levels.** There are four important channel levels:
  (i) Zero level channel (ii) Indirect channel
- **Physical distribution.** Decisions in physical distribution:
  (i) Order processing (ii) Transportation
  (iii) Warehousing (iv) Inventory
- **Promotion.** Promotion refers to all the activities which are undertaken to communicate with the customer and enhance the sale of product or service. The various communication tools are
  (i) Advertising (ii) Sales promotion
  (iii) Personal selling (iv) Public relation
- **Advertising.** There are various media of advertising. The common are:
  (i) Reach (ii) Choice
  (iii) Legitimacy (iv) Expressiveness
  (v) Economy
  (vi) Enhancing customer satisfaction and confidence
- **Personal selling.** It involves face to face interaction between the seller and the prospective buyer for the purpose of making sale.
- **Features of Personal Selling.** The steps in the sales process of personal selling are
  (a) Personal interaction (b) Two way communication
  (c) Better response (d) Relationship
  (e) Better convincing
- **Public Relations**
- **Methods and Tools of Public Relations:**
  1. News 2. Speeches
  3. Events 4. Written materials
  5. Public service activities.

Marketing Management – A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. The concept which focuses on large scale production and minimum cost is called
   (a) Production concept (b) Product concept
   (c) Selling concept (d) Marketing concept
2. The concept which forces on quality of product is called
   (a) Production concept (b) Product concept
   (c) Selling concept (d) Marketing concept
3. The concept which focuses on customer satisfaction is called
   (a) Production concept (b) Product concept
   (c) Selling concept (d) Marketing concept
4. The concept which focuses on customer welfare is called
   (a) Production concept (b) Product concept
   (c) Marketing concept (d) Societal concept
5. Product, price, place and promotion are part of
   (a) Product mix (b) Price mix
   (c) Marketing mix (d) Place mix
6. The carrier of information is called
   (a) Packaging (b) Labelling
   (c) Branding (d) Goodwill
7. The only element of marketing mix, which generates revenue is called
   (a) Product mix (b) Place mix
   (c) Price mix (d) Promotion mix
8. The product reaches the customer at the right time, in the right quantity and at the right place by using the following element of marketing mix.
   (a) Product mix (b) Price mix
   (c) Promotion mix (d) Place mix
9. The time period between receiving of order and delivery of goods and services is called
   (a) Order Processing Time (b) Inventory
   (c) Warehousing (d) Transportation
10. To reach the mass customer in non personnel manner, the following element of promotion mix is used.
    (a) Advertisement (b) Sales Promotion
    (c) Personal Selling (d) Public Relation
11. To regain the lost reputation and to build goodwill, firm uses
    (a) Advertisement (b) Sales Promotion
    (c) Personal Selling (d) Public Relation

12. To bring rise in sale with immediate effect for short period, firm uses
    (a) Advertisement (b) Sales Promotion
    (c) Personal Selling (d) Public Relation
13. The first level packing in which product is initially packed is called
    (a) Primary Packing (b) Secondary Packing
    (c) Transportation Packing (d) None of the above
14. Following level of packing is optional, products may have or may not have
    (a) Primary Packing (b) Secondary Packing
    (c) Transportation Packing (d) None of the above
15. The firms can charge high price for their product, when the product has
    (a) Low demand and low utilities (b) High demand and high utilities
    (c) Both (a) and (b) (d) None of the above
16. What can be marketed?
    (a) Any physical object with a definite shape
    (b) Any physical object which creates value to customers
    (c) Any physical object that has a selling price
    (d) Any physical object that can be tested
17. Quality and performance of the product is the main focus of which marketing management philosophies.
    (a) Selling Concept (b) Marketing Concept
    (c) Production concept (d) Product concept
18. Marketing can be best understood as
    (a) Pre production activity (b) Post production activity
    (c) Pre and Post production activity (d) Selling activity
19. Price of a product can be referred as:
    (a) Product cost (b) Brand value
    (c) Value of utility for customer (d) Promotion cost
20. Which of the following is the right marketing mix for a Television Set
    (a) Price, Place, Promotion, Process (b) Product, Price, Promotion, process
    (c) Product, Price, Place, Process (d) Product, promotion, price, place

(Answers at Page no. 528)

Fill in the Blanks

1. _____ is also called as silent salesman.
2. _____ is legal protection given to a brand.
3. Range of products or variety or assortment of products a company is manufacturing is called _____.
4. The decisions related to distribution of product is called _____.
5. Decisions related to increasing the sale of the product is called _____.
6. Under direct channels, firm has _____ intermediaries.

7. Maintenance of stock is called .
8. is a paid form of presentation of a product or idea by an identified sponsor.
9. The communication tool which is used to improve the image or goodwill of the company is called .
10. Firm shares and informs all the details about the product to customers through _____.

(*Answers at Page no. 528*)

True or False

1. Selling concept focuses on customer satisfaction. (True/False)
2. Undergrading the quality of product is decided. (True/False)
3. Packaging and Labelling are same or synonyms of each other. (True/False)
4. The spoken part of brand is called brand name. (True/False)
5. The brand name should be suggestive. (True/False)
6. In case the time required to respond to the additional demand for the products is high there is need to maintain higher level of inventories. (True/False)
7. Personal selling is more rigid than other tools of promotion. (True/False)
8. Transportation packaging refers to additional layers of protection that are kept till the product is ready for use. (True/False)
9. Grading of product is the important function performed by packaging. (True/False)
10. In primary packaging the container is kept throughout the entire life of the product. (True/False)

(*Answers at Page no. 528*)

Remembering and Understanding-based Questions with Answers

Q. 1. It is necessary that goods and services must be made available to the customers at the right place, in the right quantity and at right time.

(a) Name and explain the concerned element of Marketing Mix given above.

(b) Explain the components of this element. [*CBSE Sample Paper 2014*]

Ans. (a) **Name:** Place/physical distribution

The physical handling and movement of goods from place of production to the place of distribution is referred to as physical distribution.

(b) **Components of Physical distribution/Place:**

1. Transportation
2. Warehousing
3. Inventory control
4. Order processing

Q. 2. Explain any two factors affecting price of a product. [*CBSE Sample Paper 2015*]

Ans. Factors affecting price of a product: (Any two factors)

(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

Q. 3. At which level of packing, the immediate container is referred to?

Ans. In primary package immediate container is referred to.

Q. 4. Distinguish between marketing and selling on the basis of objective.

Ans. Main objective of selling is to maximise sale and profit. Main objective of marketing is to earn optimum profit with customer satisfaction.

Q. 5. What is the focus of product concept?

Ans. The main focus of product concept is maintaining high quality of product.

Q. 6. What do you mean by marketing mix?

Ans. Marketing mix refers to the four tools or ingredients which a marketer mixes in order to interact with market.

Q. 7. Name four elements of Marketing Mix.

Ans. Four elements of marketing mix are (i) Product, (ii) Price, (iii) Place, (iv) Promotion.

Q. 8. Give any two benefits of branding to marketer.

Ans. (i) Product differentiation, (ii) Helps in advertising.

Q. 9. Why is packing called silent salesman?

Ans. Packing is considered as silent salesman because like a salesman attractive packing induces people to buy the products.

Q. 10. Who are called the channels of distribution?

Ans. Channels of distribution refer to the people or middlemen who help in distributing the goods.

Q. 11. Who is a marketer?

Ans. A person or an organisation or a group of persons who provide goods or services to satisfy the needs of customers. He is called as provider of satisfaction.

Q. 12. Who is a customer?

Ans. People or an organisation who want to satisfy their need. They are also called seekers of satisfaction.

Q. 13. *'They don't sell what they can make, but they make what they can sell'*. Name the concept to which this statement is related?

Ans. It is related to marketing concept.

Q. 14. What is meant by product?

Ans. Product refers to bundle of utility.

Q. 15. What is meant by Product Mix?

Ans. It refers to assortment of products a firm is manufacturing. It also means all the decisions related to product ***e.g.***, designing of product, packing of product, size of product etc.

Q. 16. What is meant by Price Mix?

Ans. It refers to all the decisions related to price of a product.

Q. 17. What is meant by Place Mix?

Ans. It refers to all the decisions related to physical distribution of goods and services.

Q. 18. What is meant by Promotion Mix?

Ans. It refers to all the decisions related to increase in sale of goods and services, *e.g.*, advertisement, publicity, etc.

Q. 19. What is meant by Personal Selling?

Ans. Selling the goods through face to face interaction between salesman and buyer is known as personal selling.

Q. 20. What is meant by Sales Promotion?

Ans. It refers to incentives offered to customers and traders to increase the sale. *e.g.*, discount, rebate, etc.

Q. 21. What is meant by Publicity?

Ans. It refers to non-paid form of impersonal communication by seller.

Q. 22. Name any two factors which help in fixing the price of a product.

Ans. (i) Product cost,

(ii) Competition.

Q. 23. *'Blindly following the goal of customer satisfaction has led to many social and environmental ills'*. Do you agree? What should be done?

Ans. Despite of superiority of marketing concept, it has faced criticism from the people who are concerned about society and environment.

[*After this explain the societal concept of marketing, refer to page 477.*]

Q. 24. You have invented a new device to detect impurities of petrol. Which two advertising media would you use and why?

Ans. I would prefer to use following two media: (i) Newspapers, (ii) TV.

[*Give advantages of both the media*]

Q. 25. *'It pays to advertise'*. Do you agree with this statement? Give reasons.

Ans. Yes, it is right to say that it pays to advertise because advertisement offers following benefits.

[*Give advantages of advertisement, refer to page no. 495-496*]

Q. 26. What is meant by direct channels of distribution? List any four methods of direct distribution.

Ans. Direct channels of distribution refer to selling the products directly without involving any middlemen or intermediaries. It is also called zero level channel of distribution.

Common methods of direct distribution are:

(i) Direct sale by appointing salesmen *e.g.*, Tupperware, Eureka Forbes are following this method.

(ii) Through internet.

(iii) Sale by company's own retail outlet.

(iv) Sale through mail order, teleshoppers, etc.

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. Zoom Udyog, a car manufacturing Co., has started its business with Zoom 800 and slowly **launched Zoom-1000, Wagon-Z, Swy-fy etc. and offered various services like after sale service, availability of spare parts etc. Identify the element of marketing mix referred here.**

[*CBSE Sample Paper 2014*]

Ans. Product.

Q. 2. Radha found a worm crawling out of newly opened tetra pack of a juice manufactured by a reputed company, Zest, Ltd.. She went back to the shopkeeper from whom the pack was purchased who directed her to call up the customer care centre. When all her efforts failed,

she went to a consumer activist group to seek help. The group decided to help Radha and take measures to impose restrictions on the sale of the firm's products of the particular batch and urge customers to refrain from buying the products of the company. Zest Ltd. lost its image in the market. The CEO gives the responsibility of bringing back the lost image of the company to a Manager.

(a) Identify the concept of Marketing Management which will help the manager getting the firm out of the above crisis.

(b) Also explain the role of above identified concept by stating any two points.

[CBSE Sample Paper 2014]

Ans. (a) Public Relations.

(b) Role of public relations can be discussed with respect to the functions which the department performs: (*any two*)

(i) Press relations (ii) Product publicity

(iii) Corporate communication (iv) Lobbying.

(v) Counselling.

Q. 3. 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. *[CBSE Sample Paper 2015]*

Ans. The packaging of tablets in a corrugated box is necessary for the purpose of storage, identification and transportation.

Q. 4. Shyam bought a pain relieving ointment after seeing it being displayed in the chemist's shop. The ointment tube was packed in a cardboard box. Identify the different levels of packaging of the pain relieving medicine, when it was purchased by Shyam. Also state the functions of packaging. *[CBSE Delhi (C)]*

Ans. Different levels of packaging of the pain relieving medicine are:

Ointment tube: Primary packaging

Cardboard box: Secondary packaging

Functions of packaging: (Any three)

(i) It helps in product identification.

(ii) It helps in protection of the product from spoilage, breakage, leakage damage etc.

(iii) It facilitates use of the product to the consumers through appropriate sizes and shapes.

(iv) It helps in promotion of the product as a good package attracts the attention of the people at the time of purchase.

Q. 5. Raman, Joginder, John, Iqbal and Shreya are friends. They are operating different business. Each one has his/her own concept regarding operating their business.

Raman believes in producing products at a large scale. Thereby decreasing the average cost of the products and selling it at a reasonable price.

Joginder focuses on providing best quality products because he believes that a customer always wishes to buy a good quality product. The price of the product is secondary, John is of the belief that most important aspect of business is sales and so he undertakes aggressive selling and promotional effort.

Iqbal believes that his firm can achieve its goals only by identifying the needs of the customer and satisfying them better than the competitors.

Shreya on the other hand feels that her firm has a responsibility towards the society as well. So she provides customer satisfaction along with using techniques which are environmental friendly.

(i) What are the marketing concepts followed by each of them?

(ii) Raman's concept is successful for him because he is into manufacturing and selling iodised salt under the brand 'Healthy salt, this product has a ready market and vast consumer base, also the products are standardised so he can focus on production at a large to cut down the cost per unit. Write any business which can be successfully run by the others using their concepts.

(Joginder—John—Iqbal—Shreya)

Ans. (i) Raman—Production, Joginder—Product Concept, John—Selling Concept
Iqbal—Marketing, Shreya—Societal Concept

Q. 6. "An important task in the marketing of goods relates to designing the label as it provides useful and detailed information about the products". In the light of this statement, draw a label for "Tea" and highlight the important information to be provided on it.

Ans. Student must give information such as—MRP, Date of manufacturing, Date of expiry, Brand name, Batch no., Contents, etc. on Label.

Q. 7. One manufacturer of electronic product produces such products which need special care while using it. But the company has not given the instructions to consumers. If you were the manager of the company what steps you would take?

Ans. Give all the information on Label.

Q. 8. Recently, prices of perfumes, which are one of the major ingredients of agarbattis, have gone up substantially. Since there is keen Competition in the agarbatti market, no manufacturer increased the price of agarbattis. In turn, most of the manufacturer opted to reduce the quantity of perfumes in agarbattis to cut their cost of production. This has resulted in decreased quality of agarbattis though their prices have not changed. In order to overcome this problem, Garden Ltd. introduced a new set of agarbattis under the brand name Khushboo. Khushboo agarbattis captured the agarbattis market very quickly.

(i) Identify the product-related issue involved in the above case and explain its three functions.

(ii) Mention three features of that concept.

Ans. (i) Branding concept; Function (483)

(ii) Features (refer to page 484)

Q. 9. Simone, a budding entrepreneur wishes to operate a business of Flowers. Since they are perishable in nature, she plans to open a flower shop so that she can directly sell them to the customers. Being a small venture, the number of consumers is also less. So she decides that the direct channel of distribution is better. Her friend, Ankit is a manufacturer of gift items. He is confused regarding the level of channel he should follow. Can you guide him regarding the problem? Give points for support of yours answer.

Ans. Indirect.

Q. 10. You have an advertising agency. A manufacturer of consumer product like Soap, Tooth Paste has come to you to help him in promotion of his products. Convince him how advertising can assist in giving boost to his sales?

Ans. Advantages of Advertisement, Page no. 495-496.

Q. 11. A commercial unit uses rocks, trees, electric poles, historical managements and walls to advertise its products. Which faults of the company does this advertising policy show?

Ans. Misuse of Public Property.

Q. 12. 'Various tools of communication are used by the marketers to promote their products.'

(i) Why do companies use all tools at the same time?

(ii) Name and explain the most commonly used non-personal tool of promotion which is paid for by the marketer.

(iii) Which tool of promotion will primarily be used for the following?

(a) To promote or protect a company's image or its individual products.

(b) An existing product meant for mass usage by literate people.

(c) To introduce a new product to a particular class of people through door-to-door visits.

(d) To attract attention of the people by using incentives.

Ans. (i) Synergy in Total Promotion Efforts

(ii) Advertisement

(iii) (a) Public Relation (b) Advertisement

(c) Personal selling (d) Sales Promotion

Q. 13. Which marketing philosophy give more importance to 'consumer welfare' instead of consumer satisfaction?

Ans. Societal marketing concept.

Q. 14. Which concept of marketing suggest that the organisation earn profit through volume of production?

Ans. Production concept.

Q. 15. Name the element of marketing which makes the product available to the target customer?

Ans. Physical distributions.

Q. 16. Write one example of exchange of goods in which buyer is a marketer.

Ans. In situation of rare supply, where buyer may be taking extra efforts in persuading the seller to sell the products to him/her.

Q. 17. A cosmetic manufacturing company is spending a lot of money on advertisement to sell their products as they believe that the sale of good depends largely on the quality of advertisement. Name the marketing philosophy followed by him. State any other two marketing philosophy.

Ans. The type of marketing philosophy followed by this firm is "selling concept".

Q. 18. Haldiram is selling fast food to the customers. Write the name of channel of distribution used by the company.

Ans. Direct channel (zero level of distribution channels).

Q. 19. For selling its cars and vans. Maruti Udyog is making used of which channel of distribution?

Ans. Indirect channel (one level of distribution channel).

Q. 20. A tube of shaving cream is always offered in a cardboard box. Name the type of packaging used in this case.

Ans. Secondary level package.

Q. 21. A dealer wants to send some gift items of glassware to Delhi from Mumbai. Which type of packaging is needed here?

Ans. Transport level packaging.

Q. 22. A leading leather manufacturing company is using banned animal skin to make huge profit. Name the marketing concept which is ignored here.

Ans. Societal marketing concept is ignored here.

Q. 23. Mr Rajiv wants to buy LCD T.V. for his family. Now he has come to Jagota Electronics, Model Town, after coming to shop he gets confused. Write the name of promotion tool which has brought him to the shop and promotion tool needed now. Also write the four points of features of latter tool.

Ans. The just promotion tool which brought Rajiv to the shop is advertisement and the promotion tool required now is personal selling. *For features of personal selling, refer to page no. 497.*

Q. 24. One of the element of marketing mix is concerned with designing the shape, size and quality of goods and services.

(i) Name that element of marketing mix

(ii) Name the important features of that element.

Ans. (i) Product Mix

(ii) Features of Product Mix are:

(a) Labelling (b) Branding (c) Packaging

Q. 25. ITC started its business with Jobaico Industry, later on its entered in hotel industry, consumer goods industry, stationery, etc. ITC assured quality to customer and kept company's name as its identity. This help the customers in product identification and hence ensured quality. It also built up their confidence and help in increasing their level of satisfaction.

(i) Name the element of marketing mix referred in above para.

(ii) Name the other elements of marketing mix.

(iii) Name the concept which assure quality and help in identification of product.

Ans. (i) Product Mix

(ii) Other elements: Price mix, Place mix, Promotion mix.

(iii) Concept which help in identifying the product and assure quality is branding.

Q. 26. Ajay was appointed as a marketing head of Alfa Enterprise manufactures of toothpaste and tooth brushes. His target sale was zero units a month. Apart from thinking about various channels of distribution to achieve the target, he himself started visiting schools in backward areas. He found that even after taking various steps and counselling some school children had not started brushing their teeth. He investigated and found that they could not afford to buy toothbrush and toothpaste. So with due permission the started donating 200 toothbrush and toothpaste to schools.

Identify the channels of distribution Ajay would adapt for distribution of toothbrush and toothpaste, justify by giving reasons.

Ans. The channel of distribution Ajay would adapt is indirect because he is dealing with consumer goods

Q. 27. 'Advertising' and 'Personal Selling' both are communication tools used by the marketers to promote their products. Yet they differ in their approach. Differentiate between the two by giving any six differences.

Ans. Refer to page no. 497.

Q. 28. Mansi, a shoe manufacturer for school students, decided to maximise her profit by producing and distributing at large scale and thereby reducing the average cost of production:

(i) Identify the marketing management philosophy adopted by Mansi.

(ii) Explain this philosophy on the basis of:

(a) Main focus (b) Means and ends.

Ans. (i) Production concept

(ii) Give difference, see page no. 477.

Q. 29. 'Be Healthy' is one of the top selling organic food brand in India. It has more than hundred products in over ten categories and thus established a brand average in market. The company sell its products through online and company owned showrooms only.

In context of above case :

(i) Identify the components of marketing mix being discussed above.

(ii) Name the important decisions related to both of these concept.

Ans. (i) (a) Place concept (b) Product concepts

(ii) (a) Important decisions related to place concepts are

(i) Transportation (ii) Warehouse

(iii) Order Processing (iv) Inventory

(b) Important decisions related to product

(i) Branding (ii) Packaging

(iii) Labelling

Guidelines to NCERT Questions

Very Short Answer Type Questions

1. Explain the advantages of branding to marketers of goods and services. [Refer on page no. 484]
2. List the characteristics of a good brand name. [Refer on page no. 483]
3. What is the societal concept of marketing? [Refer on page no. 477]
4. Enlist the advantages of packaging of a consumer products. [Refer on page no. 485]

Short Answer Type Questions

1. What is marketing? What functions does it play with process of exchange of goods and services? Explain. [Refer on page no. 473-474]
2. Distinguish between the product concept and production concept of marketing. [Refer on page no. 476]
3. Product is a bundle of utilities. Do you agree? Comment.

4. 'Product is a mixture of tangible and intangible attributes'. Discuss.
[Refer on page no. 483-484]
5. Describe the functions of labelling in the marketing of products. [Refer on page no. 486]
6. Explain briefly the components of physical distribution. [Refer on page no. 492-493]
7. Define advertising. What are its main features? Explain. [Refer on page no. 495]
8. Discuss the role of 'sales promotion' as an element of promotion mix.
[Refer on page no. 500-501]

Long Answer Type Questions

1. What is the marketing concept? How does it help in the effective marketing of goods and services? [Refer on page no. 476]
2. What is marketing mix? What are its main elements? Explain. [Refer on page no. 482-483]
3. How does branding help in creating product differentiation? Does it help in marketing of goods and services? Discuss. [Refer on page no. 484-485]
4. What are the factors affecting determination of the price of a product or service? Explain.
[Refer on page no. 488-489]
5. What do you mean by 'channels of distribution'? Explain. [Refer on page no. 490-491]
6. Explain the major activities involved in the physical distribution of products.
[Refer on page no. 492-493]
7. Distinguish between advertising and personal selling. [Refer on page no. 497]

TEST YOURSELF

Very Short Answer Questions

1. Who is a marketer?
2. Define customer.
3. What do you mean by 'market'?
4. What is the role of consumer in present day concept of marketing?
5. Define marketing management in present context.
6. How does the process of marketing establish a place for the business in the market?
7. What is the purpose of packaging a product?
8. What is marketing research?
9. What is meant by 'product mix'?
10. Why are packaging called silent salesman?

11. Explain the meaning of the term promotion mix.
12. Define marketing mix.
13. What do you mean by labelling?
14. Define a product.
15. What is a trade mark?
16. Define Place as one of the 'P's of marketing mix.
17. What is the meaning of advertisement?

Short Answer Questions

1. Explain briefly the pillars of marketing concept.
2. Explain product concept and the societal concept of marketing.
3. Bhuvan & Co. has launched a new product in the market. As a marketing manager suggest the sales promotion techniques which Bhuvan & Company can adopt to increase the sale of new product.
4. Rajiv has written a book on management studies. What factors must be considered by Rajiv before fixing the price of the book?
5. Define advertising. What are its important features?
6. What is a product mix? Describe briefly the salient features of the product mix.
7. Explain in brief the concept of personal selling.

Long Answer Questions

1. What do you mean by marketing management? Explain its important functions.
2. What is meant by marketing mix? Explain different elements or components of marketing mix.
3. What is price mix? Explain the factors which are kept in mind while fixing the price of a product.
4. What are the major activities involved in the physical distribution of goods?
5. Bhuvan & Company has invented a fuel saving instrument which can reduce the consumption of petrol and diesel if it is attached in the engine of vehicle. Suggest any two media which the company must select to advertise for this product and why.
6. Explain briefly the functions of labelling.
7. Nisha a school bag manufacturer decided to improve the product for profit maximisation and thus added a water bottle holder to the existing design.
   (i) Identify the marketing management philosophy adapted by Nisha.
   (ii) Explain this philosophy.

   [**Hint:** Product concept.]

Previous Years' Examination Questions (2014-2019)

One Mark Questions

1. Why is the understanding of 'Marketing Management Philosophies' important? [CBSE 2018]
2. 'Buy one get one free' is printed on the label of the package of a mosquito repellant.

   State the labelling function being performed by this statement. [CBSE 2018]
3. Name the function of marketing which is concerned with the cost and location of target market. [CBSE (AI) 2016]
4. 'Beauty Products Ltd' is a natural and ethical beauty brand famous for offering organic beauty products for men and women. The company uses plant based materials for its products and is the No.1 beauty brand in the country. It not only satisfies its customers but also believes in overall protection of the planet.

   Identify the marketing management philosophy being followed by 'Beauty Products Ltd.'

   [CBSE (F) 2015]
5. Name the marketing function which is concerned with informing the customers about the firm's products. [CBSE (D) 2016]
6. 'Maruti Vega Ltd.' entered into the market with coloured television and have now introduced products like audio systems, air conditioners, washing machines, etc. The company is not only offering the products but also handling complaints and offering after-sales services.

   Identify the element of marketing-mix discussed here. [CBSE (AI) 2015]
7. Name the marketing function which is concerned with the important decision of managing inventory. [CBSE (F) 2016]
8. Give the meaning of 'Physical Distribution' as an element of Marketing Mix.

   [CBSE 2019 (66/1/1)]

   OR

   What is meant by 'Marketing Management'? [CBSE 2019 (66/1/1)]
9. Kumar wanted to purchase a fuel efficient car having the latest standards regarding minimisation of pollution. He saw an advertisement offering such a car and visited the showroom of the company wherein the car was displayed. In his discussion, the Marketing manager told him that the company is providing credit facilities, maintenance services and many other effective services which are helping in bringing repeat sales and developing brand loyalty.

   Identify the marketing function which the Marketing manager was discussing with Kumar.

   [CBSE 2019 (66/2/1)]
10. People think that it is the 'Product' only that can be marketed. But something else can also be marketed, e.g. 'Visit Kerala for Health Tourism'. Identify what is being marketed here.

    [CBSE 2019 (66/3/1)]

11. Give the meaning of 'Price' as an element of marketing mix. [*CBSE 2019 (66/3/1)*]

OR

What is meant by 'Public Relations'? [*CBSE 2019 (66/3/1)*]

12. What is the meant by 'Packaging'? [*CBSE 2019 (66/4/1)*]

13. 'Nayan Medicare Equipment Ltd.' manufactures equipment for surgeons having a unique laser technique. The equipment can be used by the surgeons only after proper training. Even their maintenance requires guidance of specialised engineers. Because of this, the equipment is used in a limited number of hospitals. The company wants to increase the sale of the equipment. Suggest the promotion tool to be used by the company giving reason in support of your answer. [*CBSE 2019 (66/5/1)*]

Three Marks Questions

14. Explain how the 'Product Related Factors' affect the choice of channels of distribution? [*CBSE (D) 2015*]

15. 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 seller 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 paragraph. [*CBSE (AI) 2014*]

16. JTM Ltd launched 'Buddyline', an exercise book and comprehensive stationery brand name comprising of ball pens, gel pens and geometry boxes after identifying the target market and understanding the needs and wants of the consumers of that market. All their products were of good quality and eco-friendly but expensive. They wanted to distinguish their product from that of their competitors. They spent lot of effort, time and money in creating the brand name, as they knew that without a brand name, they can only create awareness for the generic product and can never be sure of the sale of their products. The effort paid off and the demand

for the products started growing. The customers liked the brand and became habitual to it. They did not mind paying a higher price.

Over a period of time, it became a status symbol to buy 'Buddyline' brand because of its quality. The consumers felt pride in using them.

(i) Identify the marketing management philosophy followed by JTM Ltd.

(ii) Explain the advantages of branding to the marketers highlighted in the above case.

[*CBSE 2019 (66/1/1)*]

Four Marks Questions

17. A company was marketing 'water purifiers' which were very popular due to their quality and after sales services provided to the customers. The company was a leading company in the market and earning huge profits. Because of huge profits the company ignored the after sales services. As a result its relations with the customers got spoiled and the image of the company was damaged in the public. Top management became concerned when the profits for the current quarter fell steeply. On analysis it was revealed that ignoring the after sales services was its reason. Therefore the company took all possible measures to protect and promote its favourable image in the eyes of the public. As a result the goodwill of the company improved in the society.

Name and state the communication tool used by the marketer in the above case to improve its image. [*CBSE (D) 2016*]

18. Explain the following functions of marketing:

(i) Product designing and development

(ii) Standardization and Grading [*CBSE 2019 (66/1/1)*]

19. Explain any four factors which affect the fixation of price of a product. [*CBSE 2019 (66/2/1)*]

20. Tapas Sen, a manufacturer, redesigned his existing soup making machine into a small portable machine. For selling the machine, he entered into an agreement with his uncle who agreed to finance the project with a 50% share in the profits. To launch the machine, they decided to start with direct channels of distribution. They named the venture 'Cup-a-Soup'. In the first year, their main objective was profit maximisation. They appointed 30 trained salesmen for distribution of the machine across the country. They offered incentives and awards to salesmen for achieving their sales targets.

(a) Identify the marketing philosophy used by 'Cup-a-soup'.

(b) Identify the tool of promotion used by 'Cup-a-Soup'.

[*CBSE 2019 (66/3/1)*]

21. What is meant by 'Branding'? State any three advantages of branding to customers.

[*CBSE 2019 (66/3/1)*]

OR

What is meant by 'Packaging'? State any three functions of packaging. [*CBSE 2019 (66/3/1)*]

22. Mudit Gupta set up 'Healthy Biscuits', a company manufacturing various kinds of biscuits like oat biscuits, soya biscuits, ragi biscuits and wholewheat biscuits. He knew that a customer would only pick up a small quantity of the product, so he did not want to invest in starting his own retail outlets. He planned to market the product at the 'In and Out' stores at various petrol pumps in the city though the other biscuit manufacturers were using other channels of distribution.

Give the meaning of 'Channels of Distribution'. [*CBSE 2019 (66/4/1)*]

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

(i) controllable factors, and (ii) non-controllable factors. Jay further explained that controllable factors became marketing tools that can be constantly shaped and reshaped by marketing managers, to achieve marketing success.

Identify and explain the set of marketing tools that can be constantly shaped and reshaped by marketing managers. [*CBSE 2019 (66/5/1)*]

Five/Six Marks Questions

24. State the functions performed by financial Market. [*CBSE (AI) 2016*]

25. 'Hayaram' is a famous chain selling a large variety of products in the Indian market. Their products include chips, biscuits, sweets and squashes. It charges a comparatively higher price than its competitors as it sells quality products. Besides, it offers regular discounts to its customers and easy credit terms to its retailers. It has five of its own retail shops. It also sells its products through various grocery stores so that the products are made available to customers at the right place, in the right quantity and at the right time. It regularly uses different communication tools to increase its sales.

The above para describes the combination of variables used by Hayaram to prepare its market offering. Identify and explain the variables. [*CBSE (D) 2015*]

26. Vasvi purchased a bottle of pickle from the local grocery shop. The information provided on the bottle was not clear. She fell sick on consuming it. She filed a case in the District Forum under Consumer Protection Act and got the relief.

(a) Identify the important aspect neglected by the marketer in the above case.

(b) Explain briefly the functions of the aspect identified in (a) above. [*CBSE (AI) 2016*]

27. Vasvi was a student of Commerce in class XII. Her father was a farmer, who grew different varieties of wheat and was well versed about various aspects of wheat cultivation. He was also selected by the government for a pilot-project on wheat cultivation. As a project she decided to study the feasibility of marketing good quality wheat at reasonable price. Her father suggested to her to use internet to gather customers' views and opinions. She found that there was a huge demand for organic-packed wheat. She knew that there were no predetermined specifications in case of wheat, because of which it would be difficult to achieve uniformity in the output. To differentiate the product from its competitors, she gave it the name of 'Mahan-organic-wheat' and classified it into three different varieties namely - Popular, Classic and Supreme, based on the quality. She felt that these names would help her in product differentiation.

Explain the three functions of marketing, with reference to the above paragraph.

[CBSE (AI) 2016]

28. 'Pushpanjali Ltd.', is manufacturing chocolates, biscuits, cakes and other similar products. The company is not generating enough profits. Saurabh, the Marketing manager of the company got a survey conducted to find out the reasons. The finding of the survey revealed that in spite of better quality, the customers were not able to distinguish the products of the company from its competitors. Though the customers wanted to buy the products of 'Pushpanjali Ltd.' again and again because of its goods quality, but they were not able to identify its products in the market. Because of this, the sales of the company could not pick up resulting in inadequate profits. Saurabh, the Marketing manager now realised that 'Pushpanjali Ltd.' had forgotten to take one of the most important decisions related to the product. What decision should 'Pushpanajali Ltd.' take so that its customers are able to identify its products in the market? Explain the benefits that may result to 'Pushpanjali Ltd.' and its customers if the above decision is taken. *[CBSE 2019 (66/2/1)]*

29. Since childhood Niru and Janak had been watching their grandmother procuring wheat from the market, washing it well drying it and getting it converted into atta. They conducted a survey to collect data to identify whether there is demand for readymade atta and realised that with the growing number of working women, it is the need of the hour to manufacture high quality atta. They named their product 'Srijan' and set up 'Srijan Atta Factory' at Jaunpur Village. To penetrate in the market, they decided to keep the price low. For maintaining smooth flow of their product into the market and avoiding delays in delivery, it was decided to store wheat at SKM Services which had scientific processes and logistics facilitating quick delivery. They also set up an online complaint portal to take care of consumer grievances.

By quoting the lines from the above paragraph, state five marketing functions undertaken by Niru and Janak for successful marketing of 'Srijan' atta. *[CBSE 2019 (66/4/1)]*

Hints of the Answers for Case Studies

2. Labelling function performed is –

'Helps in Promotion of products' as labelling plays an important role in sales promotional schemes launched by companies.

4. Social Marketing Concept.

5. Promotion

6. Product/Product Mix

7. Warehousing

9. Customer Support Service

10. Place

13. Personal Selling.

This is because it is a complex product requiring technical details and is best sold through shorter channels.

15. Various types of thinking that guided the marketing efforts were:

Hemant

Societal Marketing concept

Feature of Societal marketing concept: (Any one)

(i) It takes care of long term well being of the consumers as well as the society.

(ii) It uses integrated marketing as a means to achieve the objective.

(iii) Its objective is to earn profits through customer satisfaction and social welfare.

(iv) The marketing efforts start from the identification of needs of the target market and the society.

Guddu

Selling concept

Feature of Selling concept: (*Any one*)

(i) It uses aggressive selling and promotional techniques like advertising, personal selling and sales promotion to achieve the objective.

(ii) It involves pushing the sale of existing products.

(iii) Its objective is to earn profits through increased volume of sales.

(iv) The marketing efforts start after the product is produced in the factory.

Toshita

Marketing concept

Feature of Marketing concept: (*Any one*)

(i) It involves development of products for satisfying needs of the target market better than the competitors.

(ii) Its focus is on satisfaction of customers' needs.

(iii) It uses integrated marketing as a means to achieve the objective.

(iv) The marketing efforts start from the identification of needs of the target market.

16. (i) Societal marketing philosophy.

(ii) Advantages of branding highlighted in the above case are: (*Any two*)

(a) Helps in product differentiation.

(b) Helps in advertising and display programmes.

(c) Differential pricing.

17. (a) Public Relations.

Public Relations refer to a variety of programmes to promote and protect a company's image or its products in the eyes of the public.

20. (a) Product concept

(b) Personal Selling.

22. (a) Channels of Distribution mean a set of individuals and firms that take title, or assist in transferring title to particular goods or services as it moves from the producers to the consumers.

(b) Factors affecting determination of choice of channels

(i) Product related factor: Since the product is a consumer product, its unit value is low and is standardized, longer channels should be used.

(ii) Market related factor: Since the size of order of biscuits for 'Healthy Biscuits' was small, large number of intermediaries were used.

(iii) Competitive factor: The company decided to be different from the choice of channel selected by the competitors, so it decided to market the product at the 'In and Out' stores at various petrol pumps in the city.

23. Set of marketing tools that can be constantly shaped and reshaped by marketing managers are:

(i) Product: Product is a mixture of tangible and intangible attributes which are capable of being exchange for a value with ability to satisfy customer needs.

(ii) Price: Price may be defined as the amount of money paid by the buyer (or received by the seller) in consideration for the purchase of a product or a service.

(iii) Place or Physical Distribution: Place or Physical Distribution is concerned with making the goods and services available at the right place, in right quantity and at the right time so that the consumers can purchase the same.

(iv) Promotion: Promotion refers to the use of communication with the objective of informing potential customers about the product and persuading them to buy the same.

25. The combination of variables used by Hayaram to prepare its market offering are:

(i) PRODUCT

It refers to the combination of various aspects relating to the product or service to be offered for sale. It relates to decisions regarding planning, designing and developing the right type of products and services for the consumers. It includes branding, labelling and packaging.

'Their products include chips, biscuits, sweets and squashes'.

(ii) PRICE

Price Mix involves different Pricing Methods, Pricing strategies, Pricing Policies and Price Changes. It involves decisions regarding the basic price of the product, discount, allowances, terms of payment etc.

'It charges a comparatively higher price than its competitors'.

OR

'It offers regular discounts to its customers and easy credit terms to its retailers'.

(iii) PLACE/PHYSICAL DISTRIBUTION

It includes activities that make firm's products available to the target customers. It consists of all the activities involved in transferring ownership and physical possession of the product to the consumers.

It consists of physical distribution i.e. activities involving the movement of products or services from producers to consumers as well as channels of distribution i.e. the route through which the goods move form the producer to the consumer.

'It has five of its own retail shops'.

OR

'It also sells its products through various grocery stores....right time'.

(iv) PROMOTION

It consists of all the activities aimed at persuading customers to buy the product through advertising, personal selling, sales promotion and publicity.

'It regularly uses different communication tools to increase its sales'.

26. (a) Labelling.

(b) Functions of labelling: (any five points with explanation)

(i) Describes the product and specifies its contents.

(ii) Identifies the product or brand.

(iii) Helps in grading of products.

(iv) Helps in promotion of products.

(v) Provides information required by law.

27. Functions of marketing, with reference to the above paragraph are:

(i) Gathering and analysing market information.

'...use internet to gather customers' views and opinions.'

(ii) Standardisation and Grading/ Grading.

'...no pre-determined specifications in case of wheat because of which it would be difficult to achieve uniformity in the output.'

OR

'...classified it into three different varieties namely – Popular, Classic and Supreme, based on the quality'.

(iii) Branding.

'To differentiate the product from its competitors, she gave it the name of 'Mahan Organic Wheat'.'

OR

She felt that these names would help her in product differentiation.

28. The decision which 'Pushpanjali Ltd.' should take so that its customers are able to identify its products in the market is Branding.

Benefits that may result to Pushpanjali Ltd.: (*Any two*)

(i) Enables marking product differentiation.

(ii) Helps in advertising and display programmes.

(iii) Differential pricing.

(iv) Ease in introduction of new product.

Benefits that may result to the customers: (Any two)

(i) Helps in product identification.

(ii) Ensures quality.

(iii) Status symbol.

29. Marketing functions undertaken by Niru and Janak:

(i) Gathering and analyzing market information is necessary to identify the needs of the customers and take various decisions for successful marketing of products and services.

"They conducted a survey to collect data to identify whether there is demand for readymade atta and realised that with the growing number of working women, it is the need of the hour to manufacture high quality atta."

(ii) Branding is the process of giving a name/sign/symbol to the product in order to distinguish the product from that of competitors.

"They named their product 'Srijan"

(iii) Pricing of product involves fixation of price of a product and taking various related decisions like pricing strategies.

"To penetrate in the market, they decided to keep the price low."

(iv) Storage or warehousing refers to arranging for proper storage of goods to maintain smooth flow of goods in the market and avoid delay in delivery.

"For maintaining smooth flow of their product into the market and avoiding delays in delivery, it was decided to store wheat at SKM Services which had scientific processes and logistics facilitating quick delivery."

(v) Customer support Services aim at providing maximum satisfaction to the customers for developing brand loyalty for a product.

"They also set up an online complaint portal to take care of consumer grievances."

ANSWERS OF MCQs AND CASE STUDIES

Page 475

1. (d) All of the above
2. (a) Marketing

   (b) Features of marketing:

   (1) Need and wants

   (2) Creating market offering

   (3) Customer value

   (4) Exchange mechanism

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1. (c) Selling concept
2. (a) Production concept
3. (d) Marketing concept
4. Various types of thinking that guided the marketing efforts were:

Ginika

Societal Marketing concept

Feature of Societal marketing concept: (***Any one***)

(i) It takes care of long term well being of the consumers as well as the society.

(ii) It uses integrated marketing as a means to achieve the objective.

(iii) Its objective is to earn profits through customer satisfaction and social welfare.

(iv) The marketing efforts start from the identification of needs of the target market and the society.

Tanish

Selling concept

Feature of Selling concept: (*Any one*)

(i) It uses aggressive selling and promotional techniques like advertising, personal selling and sales promotion to achieve the objective.

(ii) It involves pushing the sale of existing products.

(iii) Its objective is to earn profits through increased volume of sales.

(iv) The marketing efforts start after the product is produced in the factory.

Rohit

Marketing concept

Feature of Marketing concept: (*Any one*)

(i) It involves development of products for satisfying needs of the target market better than the competitors.

(ii) Its focus is on satisfaction of customers needs.

(iii) It uses integrated marketing as a means to achieve the objective.

(iv) The marketing efforts start from the identification of needs of the target market.

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1. (i) The elements of marketing discussed in above para are—

(a) Product

(b) Price

(ii) The functions of Marketing discussed in above para are—

1. Gathering and analysing market Information.
(she used social media and online survey)
2. Market Planning (She prepare SWOT analysis)
3. Product designing and development (started new segment)
4. Pricing (Fixed Low Price)

Page 487

1. (c) Labelling

2. (b) Brand name

3. (i) Branding, Labelling, Packaging

(ii) Short and Simple, Unique

Page 489-490

1. (a) High competition
2. (d) To deliver goods in rural area
3. (a) Price/Pricing

(b) Factors discussed in the above case are: (Any four)

(i) Product Cost

(ii) Utility and Demand

(iii) Extent of competition

(iv) Marketing methods used

(v) Pricing objectives

Page 494

1. (a) Zero level channel.
2. (c) Order processing
3. 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.

Page 496

1. (a) Identified sponsor
2. Advertising.

Page 498

1. (b) Personal selling
2. (i) Promotion

   (ii) Personal Selling

   (iii) Advertising, Public Relations, etc.

Page 499-500

1. (d) Public relation
2. (a) Public Relation.

   (b) (i) Press Relation.

   (ii) Product Publicity.

   (iii) Corporate Communication.

   (iv) Counselling.

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (a)	2. (b)	3. (d)	4. (d)	5. (c)
6. (b)	7. (c)	8. (d)	9. (a)	10. (a)
11. (d)	12. (b)	13. (a)	14. (b)	15. (b)
16. (b)	17. (d)	18. (c)	19. (c)	20. (d)

Fill in the Blanks

1. Packaging	2. Trade mark	3. Product mix	4. Place Mix
5. Promotion mix	6. Zero	7. Inventory	8. Advertisement
9. Public Relation	10. Labelling		

True or False

1. (F) – It focus on sales maximisation.
2. (F) – Under grading the product is classified on the basis of size, quality, etc.
3. (F)
4. (T)
5. (T)
6. (T)
7. (F)
8. (F)
9. (F)
10. (T)

12 CONSUMER PROTECTION

Contents as per Latest CBSE Syllabus

- Concept and importance of consumer protection
- Consumer Protection Act 1986:
  - Meaning of consumer
  - Rights and responsibilities of consumers
  - Who can file a complaint?
  - Redressal machinery
  - Remedies available
- Consumer awareness—Role of consumer organizations and Non-Governmental Organizations (NGOs).

INTRODUCTION AND MEANING

Consumer protection refers to protecting the interest of consumers. An analysis of marketing management has made it clear that consumer is a king pin in the market. The producer should produce goods keeping in mind the requirements of consumers and satisfy the consumer but it is observed that this obligation is neglected by some businessmen and they are involved in the unfair practices such as supply of substandard quality, adulteration, etc. So there is need for consumer protection. Hence consumer protection means protecting the interest of consumer.

12.1 IMPORTANCE OF CONSUMER PROTECTION

Consumer protection is very wide. It includes rights, responsibilities and various remedies available to consumers. It is not only beneficial for consumer but it is equally important for businessmen also.

Importance of Consumer Protection from Consumers' Point of View:

1. **Consumer Ignorance.** Consumer protection provides information to the ignorant customers regarding rights and remedies available to them. It spreads awareness so that consumer can know about the various redressal agencies where they can approach to protect their interests.

2. **Unorganised Consumers.** In developing countries like India, consumers are not organised. There are very few consumer organisations which are working to protect the interests of consumers. Consumers protection encourages establishment of more consumer

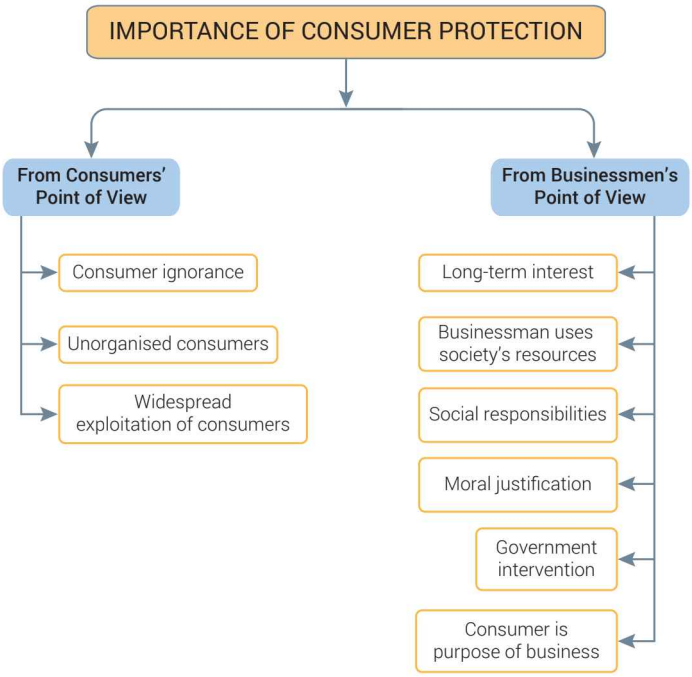
organisations. Consumer protection provides power and rights to these organisations as these organisations can file case behalf of customers.

3. **Widespread Exploitation of Consumers.** Although nowadays consumer is the king pin of market but then also there is lot of exploitation of consumers as businessmen use various unfair trade practices to cheat and exploit consumers. Consumer protection provides safeguard to consumers from such exploitation.

Importance of Consumer Protection from Businessmen's Point of View:

Businessmen cannot survive for a long time by ignoring the interest of consumer. They have to give due importance to consumer if they want to prosper in competitive market. Consumer protection provides following benefits to businessmen:

1. **Long-term Interest of Business.** After the liberalisation and globalisation the level of competition has increased so much that not only internal but business has to face international competition. In the race of competition the businessmen can win and capture a big share in the market only when they are able to satisfy its customers by designing the products keeping in mind the requirements of customers. The businessmen who ignore the interest and satisfaction of customers lose their goodwill and clients. So it is in interest of business itself to keep its customers satisfied.
2. **Businessman Uses Society's Resources.** Businessmen use the resources of society. They earn profit by supplying goods and services to the members of society so it must do something for society. Businessmen are merely trustee of resources, they must use these resources for the benefits of consumers.
3. **Social Responsibilities.** A businessman has social obligations towards various groups and customer is one of the important groups. It is responsibility of businessmen to provide quality goods at reasonable price. Consumer protection guides businessmen to provide social responsibilities.
4. **Moral/Ethical Justification.** Traditionally ethics was part of profession only, but today ethics is playing very important role in business also. The ethics or moral values practised by the businessmen adds glory to businessmen. In today's environment business without ethical value is not more than a criminal activity and no civil society can tolerate and allow the existence of unethical business.
5. **Government Intervention.** If businessmen want to avoid intervention of government then they should not involve in unfair trade practices. Government intervention may spoil the image of business. Businessmen should voluntarily involve in the activities which protect the interest of consumer.
6. **Consumer is the Purpose of Business.** The basic purpose of business is to create more and more customers and retain them and businessmen can create more customers only by satisfying the customers and protecting the interest of consumer. The customer is the foundation of business.



MCQs and Case Studies

1. **In developing countries like India the number of consumer organisations are very less. This is related to which importance of consumer protection.**

   (a) Widespread exploitation of consumers (b) Consumer ignorance

   (c) Unorganised consumers (d) None of the above

2. **'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.**

   State three points that highlight the need for consumer protection as discussed in 'Grahak Shakti's workshop. *[CBSE Sample Paper 2016]*

(Answers at Page no. 559)

12.2 LEGAL PROTECTION TO CONSUMERS

Government of India has provided various laws and legislations to protect the interest of consumer and some of these regulations are:

The Consumer Protection Act 1986. Enactment of consumer protection Act 1986 was one of the most important steps taken to protect the interest of consumer. The provision of act came into force from July 1, 1987. The main features of this act are:

(i) This act has provided various rights and responsibilities to consumers.

(ii) It provides safeguard to customers against defective goods, deficients, services, unfair trade practices and other forms of their exploitation.

(iii) The act has provided three tier redressal agencies where consumer can file complaints. These are district forum, state commission and national commission.

12.3 CONSUMER RIGHTS

Although businessman is aware of his social responsibilities even then we come across many cases of consumer exploitation. That is why government of India provided following rights to all the consumers under the Consumer Protection Act:

1. **Right to Safety.** According to this right the consumers have the right to be protected against the marketing of goods and services which are hazardous to life and property. This right is important for safe and secure life. This right includes concern for consumer's Long-term interest as well as for their present requirement. Sometimes the manufacturing defects in pressure cookers, gas cylinders and other electrical appliances may cause loss to life, health and property of customers. This right to safety protects the consumer from sale of such hazardous goods or services.

2. **Right to Information.** According to this right the consumer has the right to get information about the quality, quantity, purity, standard and price of goods or service so as to protect himself against the abusive and unfair practices. The producer must supply all the relevant information at a suitable place.

3. **Right to make Choice.** According to this right every consumer has the right to choose the goods or services of his or her likings. The right to choose means an assurance of availability, ability and access to a variety of products and services at competitive price and competitive

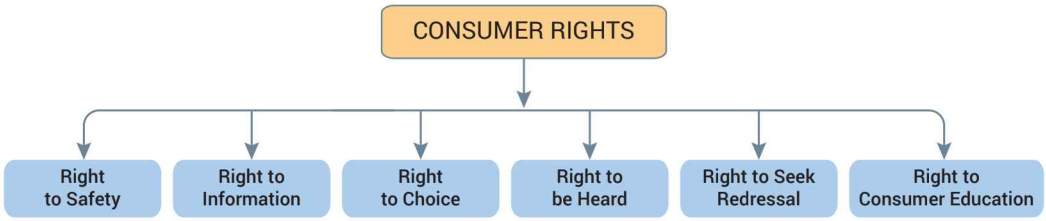
price means just or fair price. The producer or supplier or retailer should not force the customer to buy a particular brand only. Consumer should be free to choose the most suitable product from his point of view.

4. **Right to be Heard or Right to Representation.** According to this right the consumer has the right to represent himself or to be heard or right to advocate his interest. In case a consumer has been exploited or has any complaint against the product or service then he has the right to be heard and be assured that his/her interest would receive due consideration. This right includes the right to representation in the government and in other policy making bodies. Under this right the companies must have complaint cells to attend the complaints of customers.

5. **Right to Seek Redressal.** According to this right the consumer has the right to get compensation or seek redressal against unfair trade practices or any other exploitation. This right assures justice to consumer against exploitation. The right to redressal includes compensation in the form of money or replacement of goods or repair of defect in the goods as per the satisfaction of consumer. Various redressal forums are set up by the government at national level and state level.

6. **Right to Consumer Education.** According to this right it is the right of consumer to acquire the knowledge and skills to be informed to customers. It is easier for literate consumers to know their rights and take actions but this right assures that illiterate consumer can seek information about the existing acts and agencies are set up for their protection. The government of India has included consumer education in the school curriculum and in various university courses. Government is also making use of media to make the consumers aware of their rights and make wise use of their money.

Apart from the above six rights two additional rights are recommended by the UNO.



Keywords

Consumer Rights

(i) **Right to Safety:** Supply of safe goods. It is violated when consumer suffers injury or sickness after consuming the product, supply of adulterated product, expired product, etc.

(ii) **Right to Information:** Seller or manufacturer must give complete information regarding the content or use of product. Is violated when complete information is not given to consumer or wrong information is given to consumer about the product.

(iii) **Right to Choice:** Consumer must be allowed to select the product independently with his choice, violated when salesmen or marketeer insist the consumer to buy a particular brand only.

(iv) **Right to be Heard:** Consumer has the right to file a complaint. It is violated when marketeer makes no arrangement of filing complaint and refuse to accept complaint of consumer.

The right is followed when marketeer gives toll free number to file a complaint.

Set a special counter for filing of complaint.

(v) **Right to Seek Redressal:** Consumer has the right to get compensation for the damage he suffered due to wrong product/service.

It include:

(a) Exchange of product/service (b) Repair of product/service

(c) Paying compensation (d) Withdrawal of goods from market

Note: Main difference between Right to be heard and Redressal is that Right to be heard is concerned regarding filing of complaint and redressal focus on next step, i.e., result of complaint-compensation.

(vi) **Right to Consumer Education:** Consumer has right to be informed about provisions of consumer protection act, i.e., what are his rights. Generally, NGO, government educate consumer by giving advertisements in TV, magazine, newspapers, etc. conduct seminars, conferences, etc.

Note: Difference between Right to Information and Right to Consumer Education is Right to Information informs about the product its contents, use, etc. whereas Right to Consumer Education informs consumers about their right.

In Right to Information, information is given by manufacture, supplier, marketeer whereas Right to Education, information is given by government, NGO, etc.

MCQs and Case Studies

1. **Labelling, a component of product mix help the consumer to exercise:**

(a) Right to safety (b) Right to consumer education

(c) Right to information (d) Right to be heard

2. **"Jago Grahak" advertisement is highlighting which consumer right:**

(a) Right to safety (b) Right to consumer education

(c) Right to information (d) Right to be heard

3. **Himesh after completing his graduation started working with a multinational company in Delhi. But due to ill health of his parents he had to go back to his village. There he noticed that the villagers were literate but ignorant about their rights. Many vegetable vendors were using stones as weights to sell their vegetables. Some shopkeepers were selling food items without having 'FPO mark'. Villagers did not find anything wrong with these practices. So to create awareness among villagers Himesh decided to publish a weekly Journal 'Jan Jagriti'. State the 'Right' which Himesh has exercised by doing so.** *[CBSE Sample Paper 2014]*

4. **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 hum 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. *[CBSE Sample Paper 2016]*

(Answers at Page no. 559)

12.4 CONSUMERS' RESPONSIBILITIES

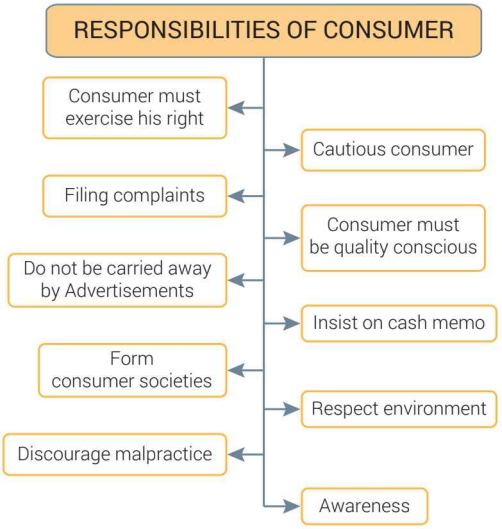
Various efforts have been made by government and non-government organisations to protect the interest of consumer but exploitation of consumer will stop only when consumer himself will come forward to safeguard his own interest. Consumers have to bear some responsibilities which are given below:

1. **Consumer must Exercise his Right.** Under Consumer Protection Act the consumer is granted various rights such as right to safety, right to choose, right to be heard, etc. but these rights will be useful only when consumer exercises these rights. The consumer must select the product according to his preferences, he must file a complaint if he is not satisfied with the quality of product, he must be aware of his rights and exercise them whenever required.
2. **Cautious Consumer.** The consumer should not blindly believe on the words of seller. He must insist on getting full information on the quality, quantity, utility, price etc. of the goods or services.

3. **Filing Complaints for the Redressal of Genuine Grievances.** Most of the time consumer ignores the loss he suffers on purchase of defective good or service but this attitude of not filing complaint encourages the corrupt businessmen to supply low standard or defective goods and services. The consumer must file a complaint even for a small loss. This awareness among consumers will make the sellers more conscious to supply quality product. Whenever consumer is filing a complaint it must be genuine. The consumer should not exaggerate the loss or defects of goods.
4. **Consumer must be Quality-Conscious.** The problems of supply of substandard goods, adulterated products and duplicate products can be solved only when consumer himself stops compromising the quality of product. While purchasing the goods or services consumer must look for quality marks such as ISI mark, Agmark, ISO, Wool Mark, etc.
5. **Do not be Carried Away by Advertisements.** The advertisements often exaggerate the qualities or features of product or service. The consumer must compare the actual use of product with the use shown in advertisement and whenever there is any discrepancy or

difference it must be brought to the notice of sponsor of advertisement and insist to stop showing exaggerated qualities.

6. **Insist on Cash Memo.** To file a complaint the consumer needs the evidence of purchase, and cash memo is the evidence or proof that consumer has paid for the goods or service. A seller is bound to give a cash memo even if buyer does not ask for it. To file a complaint and get compensation the consumer must ask for cash memo.
7. Form consumer societies which could play an active part in educating consumers and safeguarding their interest.
8. Respect the environment, avoid waste littering and contribution to pollution.
9. Discourage black marketing, hoarding and choose only legal goods and services.
10. Be aware of variety of goods and services available in market.



MCQs and Case Studies

1. **While purchasing gold jewellery which mark one should look for**
   (a) Hall mark (b) ECO mark
   (c) ISI mark (d) All of the above
2. **On a packet of juice, chips, biscuits what mark should be present:**
   (a) Agmark (b) FPO
   (c) ISI mark (d) None of the above
3. **Neha's elder brother purchased "I Phone 11–Apple" mobile phone for ₹ 65,000 without cash memo from one of his friend-an authorised dealer with a guarantee that the mobile phone will be replaced with a new one if any of its parts become**

defective within 1 year from the date of purchase. Within 1 month, the mobile stopped working. When Neha's brother approached his friend for replacement of mobile, he refused.

Name the redressal agency under the consumer protection act where Neha's elder brother can file the complaint.

(*Answers at Page no. 559*)

Marks indicating quality in different products:

1. **ISI:** On consumer durable products, electronic items, etc.

IS 8034
CM/L-7891807

2. **AGMARK:** On agricultural commodities and live stock product.

3. **BIS Mark (Hallmark):** On gold jewellery.

मानक: पथप्रदर्शक:
Bureau of Indian Standards

4. **Woolmark:** It signifies 100% pure wool.

5. **ECO MARK:** For environmental friendly products.

Reliefs or Remedies are available to Consumer on Complaints filed by him

Following reliefs are available to consumer:

(a) Removal of defects from the goods.
(b) Replacement of the goods.
(c) Refund of the price paid.
(d) Compensation of loss or injury suffered.
(e) Removal of deficiency in service
(f) Discontinuance of unfair trade practices.
(g) Stopping the sale of hazardous goods.
(h) Withdrawal of hazardous goods from market.
(i) Payment of adequate cost to grieved party.

(j) To pay any amount (not less than 5% of the value of defective goods or deficient services provided) to be credited to consumer welfare fund or any other organisation/person to be utilised in prescribed manner.

(k) To issue corrective advertisement to neutralise the effect of a misleading advertisement.

(l) To pay adequate cost to appropriate party.

Q. 1. Who is a consumer?

Ans. According to consumer protection act a consumer is

(a) One who buys goods or hires services for some value.

(b) Any user of such goods or beneficiary of services with approval of the buyer.

(c) Anyone who uses the goods bought or services hired for earning livelihood by self-employment.

Q. 2. When or under what circumstances can the complaints be filed?

Ans. Complaints can be filed and compensation can be claimed by the consumer with respect to

(a) Fraudulent practices of traders and manufacturers.

(b) If goods are defective.

(c) If there is any deficiency in the services hired.

Q. 3. Where can the complaints be filed or which judicial machineries are available to deal with consumer grievances?

Ans. There are three important judicial machineries or three important redressal forums available to deal with consumer grievances. These are:

(i) District forum to deal with complaints where the value of goods and compensation claim does not exceed ₹20 lakhs.

(ii) State commission to deal with cases where the value of goods or compensation is more than 20 lakhs but does not exceed 1 crore.

(iii) National Commission to take up all cases exceeding the value of ₹1 crore.

Appeals against district forum can be filed in State Commission within 30 days and the person who is declared guilty has to deposit ₹25,000 or 50% of fine amount whichever is less.

The appeal against the State Commission can be filed with National Commission within 30 days and the person who is declared guilty by State Commission has to deposit ₹35,000 or 50% of amount of compensation whichever is less.

Q. 4. Within what period can the complaint be filed?

Ans. The complaint must be filed within 3 months of purchase and if some testing of goods is required then within 5 months.

Q. 5. Who are not considered as consumer under Consumer Protection Act 1986?

Ans. Following persons are not considered as Consumer under Consumer Protection Act:

(i) The person who obtains goods for re-sale.

(ii) The person who uses the goods without the approval of the buyer.

(iii) The person who avails of the services without the approval of the hirer.

(iv) The person who obtains goods without any consideration,

(v) The person who hires or avails of any services without consideration.

Q. 6. Who can file a complaint?

Ans. A complaint can be filed by:

(i) Any consumer.

(ii) Any registered consumer association.

(iii) The central or state government.

(iv) One or more consumers on behalf of numerous consumers.

(v) A legal heir or representative of a deceased consumer.

Q. 7. Against whom can the complaint be filed?

Ans. The complaint can be filed against:

(a) The seller, manufacturer or dealer of goods which are defective.

(Defect means any fault, imperfection or shortcoming in quality, quantity or purity of goods.)

(b) The provider of services if they are deficient in any manner.

(Deficiency means any imperfection, shortcoming or inadequacy in the quality, nature and manner of performance of services.)

12.5 REDRESSAL AGENCIES UNDER THE CONSUMER PROTECTION ACT, 1986 AND THEIR JURISDICTION

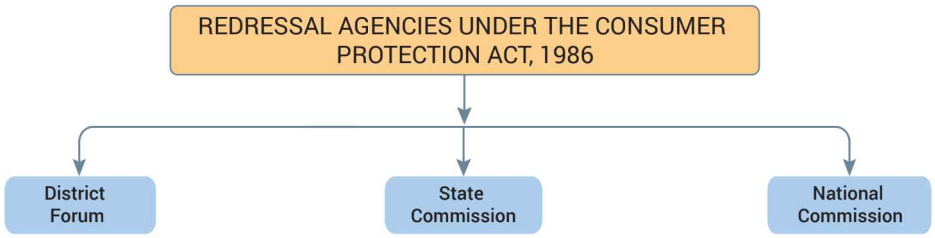
Three-tier Consumer Grievances Machinery under the Consumer Protection Act:

1. **District Forum.** District forum consists of a president and two other members. The president can be a retired or working judge of District Court. They are appointed by state government. The complaints for goods or services worth ₹20 lakhs or less can be filed in this agency. The agency sends the goods for testing in laboratory if required and gives decisions on the basis of facts and laboratory report. If the aggrieved party is not satisfied by the jurisdiction of the district forum then they can file an appeal against the judgement in State Commission within 30 days.

2. **State Commission.** It consists of a president and atleast two other members. The president must be a retired or working judge of high court. They all are appointed by state government. The complaints for the goods worth more than ₹20 lakhs and less than ₹1 crore can be filed in State Commission on receiving complaint the State commission contacts the party against whom the complaint is filed and sends the goods for testing in laboratory if required. In case the aggrieved party is not satisfied with the judgement then they can file an appeal in National Commission within 30 days.

3. **National Commission.** The national commission consists of a president and four members one of whom shall be a woman. They are appointed by Central Government. The complaint can be filed in National Commission if the value of goods exceed ₹1 crore. On receiving the complaint the National Commission informs the party against whom complaint is filed and sends the goods for testing if required and gives judgement. If aggrieved party is not satisfied with the judgement then they can file a complaint in Supreme Court within 30 days.

Basis	District	State Commission	National Commission
1. Composition	It consists of a president and two other members; one of the member has to be a woman.	It consists of a president and not less than two other members; one of the member has to be a woman.	It consists of a president and atleast four other members and one of the member has to be a woman.
2. Who can be a President	A working or retired Judge of District Court.	A working or retired Judge of High Court.	A working or retired Judge of Supreme Court.
3. Appointment of President	The president is appointed by the state government on the recommendation of the selection committee.	The president is appointed by the state government after consultation with the Chief Justice of the High Court.	The president is appointed by the central government after consultation with the Chief Justice of India.
4. Jurisdiction	Entertain complaints where the value of goods or services does not exceed ₹ 20 lakhs.	Entertain complaints when the value of goods or services exceeds ₹ 20,00,000 and upto ₹ 1 crore.	Entertain complaints where the value of goods or services exceeds ₹ 1 crore.
5. Appeal against orders	Any person who is aggrieved by the order of District Forum can appeal against such order to State Commission within 30 days.	Any person who is aggrieved by the order of State Commission can appeal against such order to National Commission within 30 days.	Any person who is aggrieved by the order of the National Commission can appeal against such order to Supreme Court within 30 days only cases where value of goods or services exceeds ₹ 1 crore can file appeal in Supreme Court.



MCQs and Case Studies

1. **Who can be a Judge of State Commission**
   (a) Retired or working Judge of District Court
   (b) Retired or working Judge of High Court
   (c) Both (a) and (b)
   (d) None of the above

2. **Mukul purchased a house for ₹30 lakhs from a housing company and found it being defective. Despite many complaints the defect was not rectified. He filed a complaint in the state commission but was not satisfied with the order. Where can he appeal and in how many days.**

3. **A farmer purchased seeds worth ₹ 20,000 from "Bharat Fertilisers" for agricultural purposes. The seeds were very costly as they were of hybrid variety. After 6 months he noticed that the agricultural produce was not upto expected standard. He reported this matter to the seller, but he refused to accept the liability. Mention the redressal agency in which he can file a complaint.**

(Answers at Page no. 559)

12.6 ROLE OF CONSUMER ORGANISATIONS AND NGOs

In India there are about 500 consumer organisations working in the field of consumer protection. The most popular are: Consumer Guidance Society of India (Mumbai), Citizen Action Group (Mumbai), Consumer Education and Research Centre (CERC) Ahmedabad, Common Cause (New Delhi) etc. Consumer Unity and Trust Society (CUTS). These associations are performing following functions:

(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.

(viii) Helping government agencies to resolve cases of consumer expolitation and to carry on consumer awareness programs.

(ix) Motivating people to ask for quality marks such as ISI mark, Agmark, etc.

Case Study

1. **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 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.

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.

State the functions that the organisation established by Aman will be performing. (Any six points.) *[CBSE Sample Paper 2015]*

(Answers at Page no. 559-560)

Quick Revision

- **Meaning.** Consumer protection means protecting the consumer from the clutches of fraud producers or sellers.
- **Importance of Consumer Protection**
  - I. **From Consumer's point of view:**
    - (i) Consumer ignorance.
    - (ii) Unorganised consumers.
    - (iii) Widespread exploitation of consumers.
  - II. **From Businessmen's point of view:**
    - (i) Long-term interest of business.
    - (ii) Businessman uses society's resources.
    - (iii) Social Responsibilities
    - (iv) Moral/Ethical justification,
    - (v) Government intervention.
    - (vi) Consumer is the purpose of business.
- **Need for Consumer Protection in India.** There is more requirement of consumer protection in India and other developing countries because of:
  - (i) Poverty and unemployment
  - (ii) Illiterate consumer
  - (iii) Consumers are not organised.
- **Legal Protection for Consumers**
  - (i) The Consumer Protection Act 1986
  - (ii) The Contract Act 1982
  - (iii) The Sale of Goods Act 1930
  - (iv) The Essential Commodities Act 1955

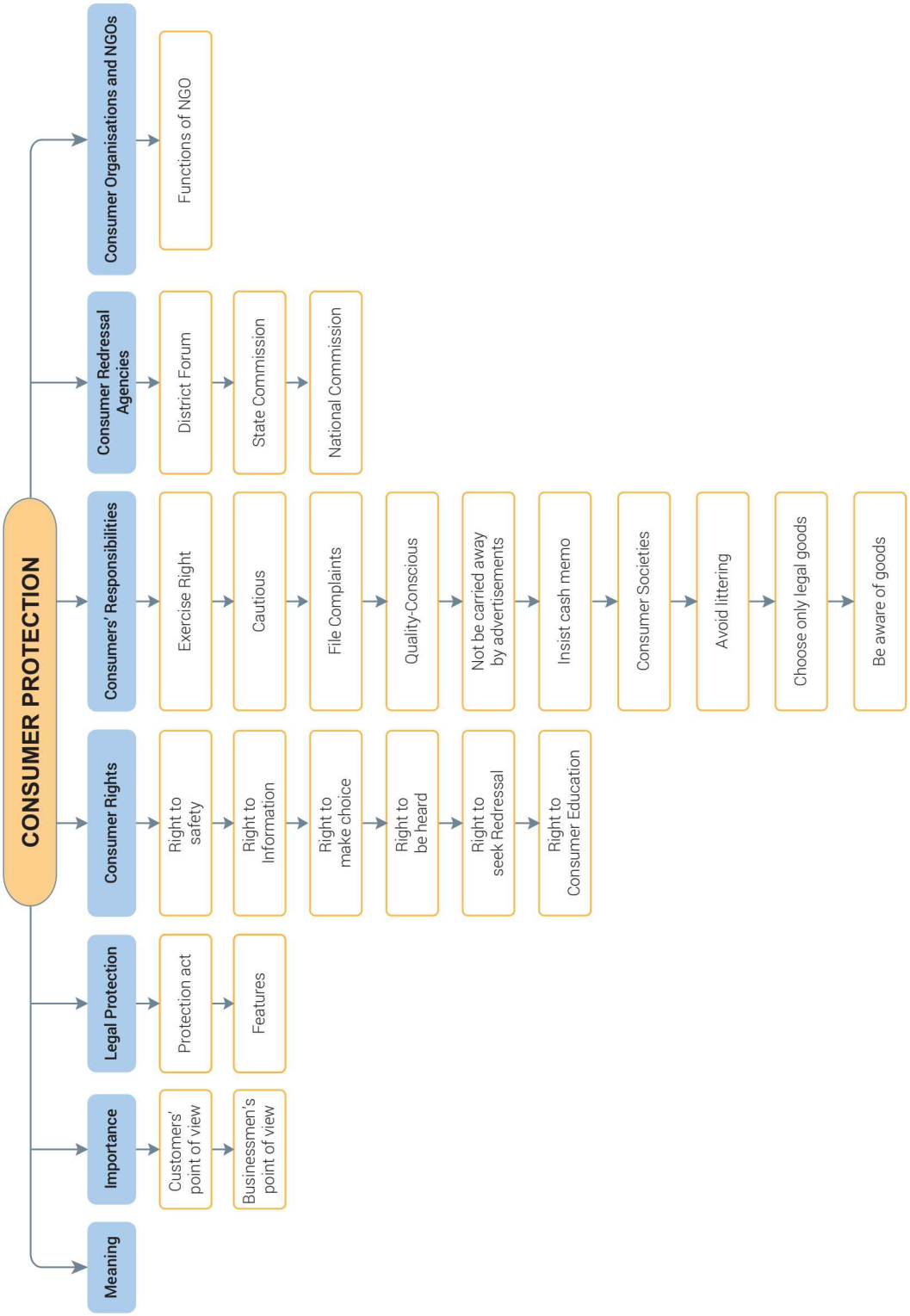
(v) The Agricultural Produce
(vi) The Prevention of food Adulteration Act 1954
(vii) The Standard of Weights and Measure Act 1976
(viii) The Trade Mark Act 1999
(ix) The Competition Act 2002
(x) The Bureau of Indian Standard Act 1986

- **Consumer Rights.** Consumer Protection Act 1986 has provided following rights to consumers:
  (i) Right to safety
  (ii) Right to information
  (iii) Right to make choice
  (iv) Right to be heard
  (v) Right to seek redressal
  (vi) Right to consumer education

  Two more rights given by UNO are:
  (vii) Right to basic needs
  (viii) Right to healthy environment.
- **Consumers' responsibilities.** Some responsibilities of consumer are:
  (i) Consumer must exercise his rights
  (ii) Cautious consumers
  (iii) Filing complaints for the redressal of genuine grievances
  (iv) Consumer must be quality conscious
  (v) Do not be carried away buy advertisements
  (vi) Insist on cash memo.

  Three-tier Judicial Machinery to Provide Protection to Consumers
  (i) District forum
  (ii) State commission
  (iii) National commission.
- **Role of Consumer Organisations and NGOs.** There are about 500 consumer associations which are working in the field of consumer protection. These organisations are performing various functions to protect the interest of consumers and spread awareness among the consumers.

Consumer Protection — A Flow Chart



Exercise

Objective Type Questions

Multiple Choice Questions

1. The Provisions of Consumer Protection act came into force from
   (a) 1986 (b) 1987
   (c) 1988 (d) 1991
2. Informing consumer about their rights is part of
   (a) Right to Safety (b) Right to Information
   (c) Right to Consumer Education (d) Right to be Heard
3. Informing consumer about the contents of the product, its usage, etc. is part of
   (a) Right to Safety (b) Right to Information
   (c) Right to Consumer Education (d) Right to be Heard
4. Right to safety
   (a) Protects consumer from physical damage or injury
   (b) Informs the consumer
   (c) Both (a) and (b) (d) None of the above
5. If the value of product is ₹10 lakhs the consumer can file case in
   (a) District Forum (b) State Commission
   (c) National Commission (d) All of the above
6. If the value of goods or services is more than 20 lakhs but less than one crore, then consumer can file case in
   (a) District Forum (b) State Commission
   (c) National Commission (d) All of the above
7. If a customer is not satisfied with the judgement of state commission, he can file appeal in
   (a) District Forum (b) Supreme Court
   (c) High Court (d) National Commission
8. As per Consumer Protection Act, the retailer or wholeseller is
   (a) A consumer (b) Not a consumer
   (c) Both (a) and (b) (d) None of the above
9. To avail the benefits of Consumer Protection Act, the consumer
   (a) Must insist on cash memo (b) No necessity for cash memo
   (c) Need a certificate of consumer (d) None of the above
10. If goods require no testing, then complaint must be filed within
    (a) 1 month (b) 2 months
    (c) 3 months (d) 4 months
11. The consumer must be assured whenever possible access to a variety of goods and services at competitive prices.
    (a) Right to Consumer Protection Act (b) Right to choose
    (c) Right to safety (d) Right to be heard
12. Consumer Protection Act is applicable:
    (a) Immovable goods (b) Movable goods
    (c) specific goods and services (d) All goods and services.

13. Which of the following is importance of consumer protection in the view of business:
    (a) Unorganised consumers (b) Consumer ignorance
    (c) Moral justification (d) Organised consumers
14. Right of consumer protection are protected under
    (a) CPA, 1988 (b) CPA, 1986
    (c) CPA, 1982 (d) CPA, 1984
15. Consumer should use ISI marked electrical appliance, is an example of
    (a) Right to safety (b) Right to be informed
    (c) Right to choose (d) Right to be heard
16. The members of the District Forum are appointed by:
    (a) Central Government (b) State Government
    (c) Local authority (d) None of the above

(Answers at Page no. 560)

Fill in the Blanks

1. In district forum, president can be .
2. The president and member of National Commission are appointed by .
3. District Forum entertains complaints for the goods or services, whose value does not exceed .
4. State Commission entertains complaints of goods or services, whose value exceeds and less than _____.
5. The consumer must insist on _____.

(Answers at Page no. 560)

True or False

1. Consumer can file direct case in Supreme Court. (True/False)
2. In place of consumer, NGO can also file a case on behalf of consumer. (True/False)
3. Appeal against district forum can be filed in National Commission. (True/False)
4. The right to be heard provides compensation to consumers. (True/False)
5. Consumer Protection Act is beneficial only for consumer; it is a penalty for businessmen. (True/False)
6. NGOs does not take initiative in filing cases in consumer courts in the interest of general public. (True/False)
7. Resale goods are covered under CPA. (True/False)
8. Service provided by a lawyer or doctor are covered under CPA. (True/False)
9. CPA is not fruitful for producers. (True/False)
10. NGO's provide workshops, training programmes for educating consumer. (True/False)

(Answers at Page no. 560)

Remembering and Understanding-based Questions with Answers

Q. 1. Which consumer right gives the business firm freedom to set up their own consumer services and grievance cell. *[CBSE Sample Paper]*

Ans. Right to be heard.

Q. 2. Sandeep purchased a Diesel Car for ₹7 lakhs from an Automobile Co. and found that engine is defective. Despite many complaints the defect was not rectified. Suggest him the appropriate authority where he can file the complaint under Consumer Protection Act. [*CBSE Sample Paper*]

Ans. District forum.

Q. 3. Name any two consumer rights.

Ans. (i) Right to safety, (ii) Right to choice.

Q. 4. Can a consumer file a complaint in consumer court without having the cash memo?

Ans. No, without cash memo he cannot file the complaint. Cash memo is the proof of transaction.

Q. 5. Name the three consumer grievance agencies.

Ans. (i) District forum, (ii) State commission

(iii) National commission.

Q. 6. Explain any two points of responsibilities of a consumer.

Ans. (i) Consumer must exercise his rights, (ii) Insisting on cash memo.

Q. 7. Give names of two consumer organisations.

Ans. (i) Consumer Guidance Society of India (Mumbai),

(ii) Common Cause (New Delhi).

Q. 8. Suggest any two remedies available under Consumer Protection Act.

Ans. (i) Removal of defects from goods, (ii) Replacement of goods.

Q. 9. Who is a consumer?

Ans. According to consumer protection act, a consumer is:

(i) One who buys goods or hires services

(ii) Any use of such goods or service with approval of buyer

(iii) Anyone who bought the goods for earning livelihood.

Q. 10. "Bhuvan, who was a vegetarian went to a snack bar for having French fries and later found out that it had non vegetarian content. Neither the advertisement nor the packing of the product displaced that the product has non vegetarian content. Will Bhuvan be able to claim compensation, which right of the consumer is violated"?

Ans. Bhuvan will be able to claim the compensation as the seller has violated the right to information according to this right.

Explain the consumer rights, refer to page no. 532-533.

Q. 11. What is the need for consumer protection?

Ans. Explain importance of consumer protection, at page no. 529-531.

Q. 12. Rajiv, a consumer purchased medicines without noticing the date of expiry. He also did not obtain the cash memo. Do you think he will be able to protect himself by the loss caused due to expired medicine? Give reasons to support your answer.

Ans. Rajiv will not be able to protect himself by the loss caused due to expired medicine because Rajiv did not fulfil his responsibility on following grounds:

(i) He did not go through the packing instructions mentioned on the label of the packet.

(ii) He did not obtain the cash memo from the seller. Cash memo is a proof of purchase and it is must for filing any complaint.

HOTS (Higher Order Thinking Skills) and Case Studies

Q. 1. Sirajuddin purchased a car for ₹ 15 lakhs 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. *[CBSE Sample Paper 2016]*

Ans. 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 ₹1 crore, are appealable before Supreme Court.

Q. 2. State any two reliefs that the Consumer court can grant to consumers in case of genuine complaints in each of the following situations:

(i) Divya was charged more than the printed maximum retail price (MRP) for a bottle of water.

(ii) Clara was sold a car with a defective engine.

(iii) Antony suffered injury while using newly bought defective electric heater. *[CBSE (D) 2017(C)]*

Ans. (i) Reliefs that the Consumer court can grant to the customers are: (*Any two*)

(a) To refund the price paid.

(b) To pay punitive damages.

(c) To discontinue the unfair/ restrictive trade practice and not to repeat the same in future.

(d) To pay any amount (not less than 5% of the value of the bottle of water) to be credited to the Consumer Welfare Fund or any other organisation/person, to be utilised in the prescribed manner.

(e) To pay adequate costs to the appropriate party.

(ii) Reliefs that the Consumer court can grant to the customers are: (*Any two*)

(a) To remove the defect in engine.

(b) To replace the defective engine with a new one, free from any defect.

(c) To refund the price paid.

(d) To pay punitive damages.

(e) To pay any amount (not less than 5% of the value of the defective engine) to be credited to the Consumer Welfare Fund or any other organisation/person, to be utilised in the prescribed manner.

(f) To pay adequate costs to the appropriate party.

(iii) Reliefs that the Consumer court can grant to the customers are: (*Any two*)

(a) To remove the defect in electrical heater.

(b) To replace the defective electrical heater with a new one, free from any defect.

(c) To refund the price paid.

(d) To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to negligence of the opposite party.

(e) To pay punitive damages.

(f) To discontinue the unfair/ restrictive trade practice and not to repeat the same in future.

(g) Not to offer hazardous goods like defective electrical heater for sale.

(h) To withdraw hazardous goods like defective electrical heater from sale.

(i) To cease manufacture of hazardous goods like defective electrical heater.

(j) To pay any amount (not less than 5% of the value of the defective goods) to be credited to the Consumer Welfare Fund or any other organisation/person, to be utilised in the prescribed manner.

(k) To pay adequate costs to the appropriate party.

Q. 3. Sonu purchased a medicine from 'Alpha Medical Stores' for his wife who had stomach pain. But even after giving the medicine, wife's condition did not improve and she had to be admitted to a nearby hospital for treatment. Doctors on examination found that the medicines given to Sonu's wife were spurious. Sonu complained about this to 'Alpha Medical Store'. As a result Alfa medical decided to file a complaint against the manufactures in the consumer court. Can Alpha Medical Store lodge the complaint? Give reason.

Ans. No, Alpha Medical Store is a retailer and retailer is not a consumer. Only consumer can file a complaint.

Q. 4. Rama, who was a vegetarian, went to a bakery and bought a vanilla cake. On reaching home. She found that it had non-vegetarian content. Neither the advertisement nor the packaging of the product displayed that the product had non-vegetarian content. Will Raman be able to claim compensation? Which right is violated here?

Ans. Yes, Right to Information.

Q. 5. Name the Consumer Court where the complaint will be filed by the consumer.

Ans. (i) District Forum, (ii) State Commission, (iii) National Commission

Q. 6. Naresh purchased a 'BMW' car for ₹ 50,00,000 on instalments. He found that the engine of the car was defective. Despite many complaints to 'BMW Motors', the defect was not rectified. He filed a complaint in state commission but was not satisfied with its order. Where can he appeal and within how many days?

Ans. National Commission, with in 30 days.

Q. 7. On securing 95% marks in class XII, Ram's father gifted him a gold chain. But after 2 months, Ram noticed that the gold chain was loosing the shine. He checked the mark on chain and found that it was not a proper hall mark (BIS). He lodged a complaint in the district forum, which rejected it. Not satisfied by the decision of district forum, he was very much disturbed and after 45 days, he decided to appeal further.

Can Ram appeal against the decision of the district forum? Give reasons in support of your answer. Explain feature of district forum.

Ans. No, as appeal must be filed within 30 days of decision.

Q. 8. On the occasion of 'Dhan Teras' Mr. Aakash went to market for purchasing utensils. He bought pressure cooker from a shop. The shop was over-crowded on the festival, so he did not obtain the cash-memo for the purchase and did not check its certification. Next day, his wife used the cooker, which bursted and his wife suffered injuries.

(i) Identify and explain the Consumer liabilities which have not been discharged by Mr. Aakash.

(ii) Mention the values which have been ignored by the seller as well as of Mr. Aakash.

Ans. (i) Insist on cash memo (ii) Cautious Consumer, concern for quality.

Q. 9. Tanya purchased some household goods from a 'General Store'. On reaching home, she found that one face cream, (₹ 250) had not been billed. She became happy that, she got it without paying for. After checking the expiry date and other details, she started using it. Her face burnt due to the use of cream.

Where should Tanya file the complaint for the cream? Justify.

Ans. She can not file as no cash memo.

Q. 10. Smriti purchased a hand blender from an electronic store and got the cash memo of ₹1,500 which she paid for the blender. Later, she found that the actual price of the blender was ₹1,200 but the shopkeeper had pasted a sticker of ₹ 1,500 on the original price. Can Smriti recover the extra money that she paid? What other options are available to her against the shopkeeper?

Ans. Yes.

Q. 11. Joseph had got a confirmed ticket of Jet Airways. The flight was later cancelled on account of technical problem. Is it a deficiency in service? What relief can Joseph seek in this regard?

Ans. Refer to Page no. 537-538.

Q. 12. 'Sehaj bought Teak wood furniture for his drawing room from "Akshay Decors" of Kirti Nagar, Delhi for ₹ 4 lakhs. At the time of purchase the firm assured Sehaj about the best quality of the said furniture and gave 2 years warranty stating that if anything goes wrong, the firm shall replace it with a new one or refund the purchase amount. But the dining table and chairs started developing cracks at various places and the polish' became very dull within 30 days of purchase. Sehaj reported the matters to the firm and requested a number of times to replace the furniture. The firm neither paid attention to these requests nor replaced the furniture.

(i) Identify the consumer rights which have been violated by the furniture manufacturer.

(ii) Where can Sehaj lodge complaint for this?

Ans. (i) Right to be Heard and Right to Seek Redressal.

(ii) District forum

Q. 13. Name the products to which the following quality certification marks are associated.

(i) (ii) (iii)

(iv) (v) (vi)

Ans. (i) Food product (ii) Electronic
(iii) Agricultural Product (iv) Woollen garment
(v) Gold (vi) Eco mark

Q. 14. What are two major activities of Bureau of Indian Standard Act?

Ans. (i) Formulation of quality standard of goods.
(ii) Certification of goods through B's.

Q. 15. Name the ministry which introduced eco mark.

Ans. Ministry of environment and forest.

Q. 16. Name the quarterly journal published by Government of India on consumer awareness.

Ans. Upbhokta jagran.

Q. 17. Name two mass media programmes telecasted on T.V. or radio based on consumer awareness.

Ans. (i) Apne adhikar, (ii) Jago grahak.

Q. 18. What can serve as a proof of purchase made for filing a complaint against defective goods?

Ans. Cash memo.

Q. 19. To publish a magazine on consumer rights is example of which consumer right?

Ans. Right to consumer education.

Q. 20. To publish a magazine under the title Upbhokta Jagran is the example of which consumer right?

Ans. Right to consumer education.

Q. 21. Name the quality certification mark used in case of food products.

Ans. FPO.

Q. 22. The earlier approach of Caveat Emptor which means, "let the buyer beware" has now been changed to what?

Ans. It is changed to 'let the seller be ware'.

Q. 23. Which Act has replaced MRTP Act?

Ans. 'The Competition Act 2002' has replaced MRTP act.

Q. 24. Bhuvan saw an advertisement in the newspaper regarding a steam iron and ordered for the purchase of the same to shopkeeper. What will be his responsibilities as a consumer so that he should not be exploited by the shopkeeper? Write any four such responsibilities.

Ans. The four responsibilities which must be taken care of by Mr. Bhuvan are, refer to topic responsibilities of consumer, at page no. 535-536.

Q. 25. The owner of a restaurant is charging ₹30 for a bottle of water from customer. Whereas the MRP of the bottle is ₹10. One of the consumers objected to it but the owner did not agree and continued with that malpractice.

(i) What are the possible reasons that other consumers are not agreeing.

(ii) Which right of consumer can remove this ignorance of consumer?

Ans. (i) The other consumers may not be aware of their rights.

(ii) Right to consumer education can help to spread awareness to consumers.

Q. 26. Anita purchased a book from 'Satish Book Stores'. While reading the book she found that ten pages were missing. She approached the seller of the book and complained about the missing pages. The seller promised that if the publisher was ready to change the book he would change the same. After a week the seller informed Anita that the publisher had refused to change the book.

Where can Anita file a complaint against the seller of book? Give reason in support of your answer. Also, explain who is a 'consumer'.

Ans. 1. District forum

2. Define consumers, see answer page no. 538.

Guidelines to NCERT Questions

State True or False

1. Consumer protection has a moral justification for business. *(True)*
2. In addition to rights, a consumer also has some responsibilities. *(True)*
3. A complaint can be made to a District forum when the value of the goods or services in question, along with the compensation claimed, exceeds ₹20 lakhs. *(False)*
4. The consumer protection act provides for six consumer rights. *(True)*
5. ISI is the quality certification mark used in case of food products. *(False)*
6. Under the consumer protection act, a complaint can be filed by a consumer for a defective goods and also for deficiency in service. *(True)*

Short Answer Questions

1. Explain the importance of consumer protection from the point of view of a business. *[Refer to page no. 530-531]*
2. Enumerate the various acts passed by the government of India which help in protection of consumers' interests. *[Refer to page no. 532]*
3. What are the responsibilities of a consumer? *[Refer to page nos. 535-536]*
4. Who can file a complaint in a consumer court?
5. What kind of cases can be filed in a State Commission?

   [Hint: Case for goods or services whose value exceeds ₹20 lakhs and is less than 1 crore.]
6. Explain the role of consumer organisations and NGOs in protecting and promoting consumers' interests. *[Refer to page no. 541]*

Long Answer Questions

1. Explain the rights and responsibilities of a consumer. *[Refer to page nos. 532-536]*

2. What are various ways in which the objective of consumer protection can be achieved? Explain the role of consumer organisations and NGOs in this regard. [Refer to page nos. 541]
3. Explain the redressal mechanism available to consumers under the Consumer Protection Act, 1986. [Refer to page no. 539-540]

TEST YOURSELF

Short Answer Questions

1. Explain the need of consumer protection.
2. Why is consumer protection required in India?
3. Give three points showing the importance of consumer protection.
4. Explain any three responsibilities of a consumer.
5. Which type of complaints can be lodged by the consumer?
6. List any three consumer organisations in India.
7. Explain the role of universities and schools in consumer protection.
8. Explain the role of press in consumer protection.
9. What types of judicial machinery is available to deal with consumer grievances and disputes?
10. List the various reliefs available to consumer on his complaints.
11. Describe briefly the features of state commission.
12. Describe briefly the features of national commission.
13. Who is a Consumer?

Long Answer Questions

1. What are the salient features of consumer protection act?
2. Explain ways and means of consumer protection.
3. Explain in brief the following rights:
   (a) Right to representation (b) Right to information
   (c) Right to make choice.
4. Explain all the rights of consumers.
5. Explain briefly the ways and means of consumer protection.
6. Enumerate the various acts passed by the government of India which helps in protection of consumer interest.
7. Explain following rights of consumer:
   (a) Right to safety. (b) Right to consumer education.

Previous Years' Examination Questions (2014–2019)

One Mark Questions

1. Give the constitution of the District Consumer Disputes Redressal Forum under the Consumer Protection Act, 1986. [CBSE 2018]

2. Suman bought a box of cheese of a reputed brand from a local shopkeeper. On opening the box she found a piece of stone in the cheese. She reported the matter to the shopkeeper who forwarded her complaint to the concerned company. Within a week the representative of the company visited Suman's residence with an apology and as a replacement offered her a new cheese pack with four other varieties of cheese as compensation for the inconvenience to her.

   State the consumer right which Suman exercised. *[CBSE (AI) 2016]*

3. Pankaj purchased a car from 'Abhishek Motors' for ₹ 50 lakhs. The company offered many attractive gifts to Pankaj like — free insurance for first two years, free pick-up and drop facilities for free servicing upto 20,000 km, etc. But after a few days Pankaj noticed that the pick-up of the car was not good and there was some problems in the engine. The company serviced the car free of cost but even then Pankaj was not satisfied with its performance. 'Abhishek Motors' is not giving him the due response. So he filed a complaint in the State Commission but was not satisfied with its decision also. He was very much disturbed and after two months decided to appeal against it. Can Pankaj appeal against the decision of the State Commission? Give reason in support of your answer. *[CBSE (F) 2015]*

4. On Sonika's birthday her mother gave her a pair of gold earrings. After one month Sonika observed that the ear-rings are losing their shine. She checked the mark on the ear-rings and found that it was not a proper Hallmark and her mother had been cheated by the shopkeeper. So, she filed a complaint in the district forum which rejected it. Not satisfied by the decision of district forum, she was very much disturbed and after two months decided to appeal further.

   Can Sonika appeal against the decision of the district forum? Give reason in support of your answer. *[CBSE (D) 2015]*

5. Manuj bought a packet of chips from a local shopkeeper and found that the ingredients given on the label were not legible. He complained about it to the company. The company sent a written apology stating that they will make sure that existing packets are withdrawn from the market and new packets with legible lables are soon made available.

   State the consumer right which Manuj exercised. *[CBSE (D) 2016]*

6. Manvendra always went to a specific shop to buy all consumable and non-consumable goods. In this shop variety of products of different brands were displayed nicely and the sales person available also gave good sales presentation if required. But this shop was quite far off from his residence. His friend Annant always wondered why Manvendra wastes so much time in going to that shop whereas there were many big brand shops situated near his residence having consumable and non-consumable goods.

   Annant asked Manvendra the reason of going to that particular shop. Manvendra told that he was exercising one of his 'Rights' which he could not exercise in nearby big brand shops. State the consumer's right which Manvendra had exercised. *[CBSE (F) 2016]*

7. State any one function performed by non-governmental organisations for protection and promotion of interest of consumers. *[CBSE 2019 (66/4/1)]*

8. Vivek purchased a bike from Saranath Automobiles with a written guarantee to repair or replace, if necessary, within six months or 5,000 kms of distance travelled whichever is earlier. After covering the distance of 400 kms in two months, the gears of the bike started giving problems. Vivek took the bike to the dealer who refused to listen to his complaint. He was confused about what he should do.

   Suggest the rights that Vivek may exercise in the above case. *[CBSE 2019 (66/5/1)]*

Three Marks Questions

9. Explain briefly any two points of importance of consumer protection from the point of view of business. [CBSE 2018]
10. State any three functions performed by non-governmental organisations for consumer protection. [CBSE (D) 2016]
11. State any three direction which can be issued by the consumer court to the opposite party if it is satisfied about the genuineness of the complaint. [CBSE (F) 2016]
12. Gopal, Mohan and Shyam are three friends having their separate small manufacturing units in an industrial estate. They are hard-working and honest and undertake their respective production activities following the good practices of business. They use good quality raw materials and adopt standardised process. They fix the prices of their products with a reasonable profit margin. But all of them are worried about the malpractices like manufacturing sub-standard, duplicate and defective goods by the fellow manufacturers. Therefore, they decided to form an organisation with a constitution of its own which is free from government interference. This organisation would encourage consumers to strongly protest and take action against unscrupulous, exploitative and unfair trade practices of sellers. State three other functions which may be performed by this organisation in addition to those mentioned above.

[CBSE 2019 (66/5/1)]

Four Marks Questions

13. Sumit purchased an ISI marked washing machine of a famous brand 'MG' from TG Electronics Ltd. The shopkeeper asked him to wait for two days for installation of the machine. His friend, Vivek, was very fond of experimenting with new electronic products. He told Sumit that there is no need to wait for the company's representative to install the machine and that he could do it. So, both of them installed the machine without following the manufacturer's instructions. Initially, the machine worked effectively and the wash was good. But after two days, the machine started stopping in between the wash cycle. Sumit and Vivek tried their best to start the machine but failed in their efforts. Sumit, therefore, approached TG Electronics Ltd., which refused to provide any service on the plea that installation of the machine was not done by the company.
    (a) State the responsibility which Sumit has to fulfil as an aware consumer to get the services of the company.
    (b) Explain briefly any two rights which Sumit could have exercised, had he fulfilled his responsibility identified in part (a). [CBSE 2018]
14. Explain the following rights of a consumer as provided under Consumer Protection Act, 1986
    (a) Right to Safety (b) Right to Consumer Education [CBSE (F) 2015]
15. Explain the following rights of a consumer as provided under Consumer Protection Act, 1986:
    (a) Right to be informed; and (b) Right to seek redressal.

[CBSE (D) 2015, 2019 (66/4/1)]

16. Explain any four points of importance of 'consumer protection' from the point of view of business. [CBSE (AI) 2015]
17. Define a 'Consumer' according to the provisions of the Consumer Protection Act, 1986.

[CBSE 2019 (66/2/1), (AI) 2016]

OR

State any eight reliefs available to the consumer, if the court is satisfied about the genuineness of the complaint. *[CBSE 2019 (66/2/1)]*

18. Describe the following rights of a consumer as per consumer protection Act, 1986:

(a) Right to be Heard

(b) Right to Safety *[CBSE 2019 (66/4/1)]*

Five/Six Marks Questions

19. '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.

State any six directions that might have been issued by the court. *[CBSE (AI) 2017]*

20. 'VOICE' is an important consumer organisation. It organised workshops in the months of December in Delhi/NCR for consumers. The theme was 'Organic Food –From Farm to Plate' to spread awareness on the importance of organic farming and to encourage consumers to switch from conventional food that contains chemicals and pesticides to organic food. Expert speakers from farmers' community explained the harmful effects of usage of pesticides in farming and the importance of organic food. People were informed that the organisation regularly tests samples to detect adulteration like presence of heavy metals or pesticides. The results of the tests are published in their monthly magazine' Consumer Voice' to make people aware of quality of different products. It also provides aid and legal advice to the consumers in seeking a remedy.

State the functions performed by the Consumer Voice for the protection and promotion of consumer interest by quoting lines from the above para. *[CBSE 2019 (66/1/1)]*

21. Suman wanted to purchase a sandwich toaster. She checked about the various sandwich toasters available online and compared the prices so that an intelligent and wise choice could be made. Then she went to a nearby market to buy the sandwich toaster. Being an informed consumer, she looked for the correct standardisation mark. The shopkeeper showed her different toasters but was quoting higher price than the price she had checked online. After negotiating with the shopkeeper, she was able to bring the price down. As a responsible consumer, she asked for a cash memo against the amount paid for the product and took the toaster home. On opening the package, she found an instruction booklet, which she read

carefully. Then she followed all instructions step by step and made nicely toasted paneer sandwiches for her family.

(a) State the consumer responsibilities, which have been discharged by Suman besides asking for a cash memo.

(b) Explain the two rights being discussed in the above case. [*CBSE 2019 (66/3/1)*]

Hints of the Answers for Case Studies

2. Right to safety which states that the consumer has a right to be protected against goods and services which are hazardous to life and those which do not conform to the safety norms.

OR

Right to seek redressal which states that a consumer has a right to get relief such as replacement of product, removal of defect in the product, compensation for any loss or injury suffered by the consumer in case the product or service falls short of his expectations.

3. No, Pankaj cannot appeal now as the appeal has to be filed within 30 days of passing of the order by the State Commission.

4. No, Sonika cannot appeal now as the appeal has to be filed within 30 days of passing of the order by the district forum.

5. Right to be informed which states that a consumer has a right to have complete information about the product he intends to buy such as, ingredients, date of manufacture, price, quantity etc.

OR

Right to be heard which states that a consumer has right to file a complaint and to be heard in case of dissatisfaction with a product or a service.

6. Right to choose which states that the consumer has the freedom to choose from a variety of products at competitive prices.

8. (a) Right to Safety (b) Right to seek redressal

12. Three other functions which may be performed by this organisation in addition to those mentioned above are: (*Any three*)

(i) Educating the general public about consumer rights by organising training programmes, seminars and workshops.

(ii) Publishing periodicals and other publications to impart knowledge about consumer problems.

(iii) Carrying out comparative testing of consumer products in accredited laboratories.

(iv) Providing legal assistance to consumers.

13. (a) Responsibility which Sumit has to fulfill as an aware consumer to get the services of the company: Learn about the risks associated with products and services, follow manufacturer's instructions and use the products safely.

(b) Two rights which Sumit could have exercised, had he fulfilled his responsibility:

(i) Right to be heard:
The consumer has right to file a complaint and to be heard in case of dissatisfaction with a product or a service.

It is because of this reason many firms have set up their own consumer service and grievance cells.

(ii) Right to seek redressal:

The consumer has a right to get relief in case the product or service falls short of his expectations.

The Consumer Protection Act, 1986 provides reliefs to consumers such as replacement of product, removal of defect in the product, compensation for any loss or injury suffered by the consumer.

19. Directions that might have been issued by the court: (Any six)

(i) To remove the deficiency in service.

(ii) To refund the price paid for the service provided.

(iii) To pay a reasonable amount of compensation for any loss suffered by the inmates of old age home.

(iv) To pay punitive damages.

(v) To discontinue the unfair/ restrictive trade practice and not to repeat the same in future.

(vi) To pay any amount (not less than 5% of the value of the service provided) to be credited to the Consumer Welfare Fund or any other organisation/person, to be utilised in the prescribed manner.

(vii) To issue corrective advertisement to neutralize the effect of misleading pamphlet.

(viii) To pay adequate costs to RO Youth Club

20. Functions performed by the Consumer Voice for the protection and promotion of consumer interest:

(a) Educating the general public about consumer rights by organising training programmes, seminars and workshops. 'Organised consumer workshops in the months of December in Delhi/ NCR on the theme, of 'Organic Food –From Farm to Plate', as a part of its initiative to spread awareness on the importance of organic farming'

(b) Publishing periodicals and other publications to impart knowledge about consumer problems, legal reporting, reliefs available and other matters of interest. 'The results of the tests are published in their monthly magazine' Consumer Voice' to make people aware of quality of different products'

(c) 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. 'People were informed that the organisation regularly tests samples to detect adulteration like presence of heavy metals or pesticides'

(d) Providing legal assistance to consumers by the way of providing aid, legal advice, etc., in seeking legal remedy. 'It also provides aid and legal advice to the consumers in seeking a remedy'

21. (a) Consumer responsibilities, which have been discharged by Suman besides asking for a cash memo: (Any three)

(i) She was aware about various goods and services available in the market and made an intelligent and wise choice.

(ii) She bought standardised product as standardisation provides quality assurance.

(iii) She learnt about the risks associated with product and followed manufacturer's instructions

(iv) She asserted herself to get a fair deal.

(b) Rights discussed in the above case are:

(i) Right to choose (ii) Right to be informed

(iii) Right to safety

ANSWERS OF MCQs AND CASE STUDIES

Page 531

1. (c) Unorganised consumers
2. (i) Widespread exploitation of consumers

   (ii) Unorganised consumers

   (iii) Social responsibility.

Page 534-535

1. (c) Right to information
2. (b) Right to consumer education
3. Right to consumer education.
4. Right to safety

Page 536-537

1. (a) Hallmark
2. (b) FPO
3. He can not file a complaint as he did not take cash memo.

Page 540-541

1. (b) Retired or working Judge of High Court
2. National Commission within 30 days of passing of the order of State Commission.
3. District forum.

Page 541-542

1. Functions of an NGO/Consumer organisation: (*Any six*)

   (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.

ANSWERS OF OBJECTIVE TYPE QUESTIONS

Multiple Choice Questions

1. (b)	2. (c)	3. (b)	4. (a)	5. (a)
6. (b)	7. (d)	8. (b)	9. (a)	10. (c)
11. (b)	12. (d)	13. (c)	14. (b)	15. (a)
16. (b)				

Fill in the Blanks

1. Working or retired judges of district court.
2. Central Government
3. ₹ 20 lakhs
4. ₹ 20 lakhs and one crore
5. Cash Memo

True or False

1. (F)
2. (T)
3. (F) – It can be filed in State Commission.
4. (F)
5. (F) – In long term it is fruitful for the interest of businessmen also.
6. (F) – It takes part.
7. (T)
8. (T)
9. (F) – It is fruitful for both producers and consumers.
10. (T)

CBSE

SAMPLE QUESTION PAPER– 2020 (SOLVED)

CBSE SAMPLE QUESTION PAPER–2020 (SOLVED)

Time Allowed: 3 hours **Max. Marks: 80**

General Instructions:

(i) This question paper contains five Sections : A, B, C, D and E.

(ii) Section A contains questions 1 to 20 carrying one mark each.

(iii) Section B contains questions 21 to 25 carrying three marks each. Answers to these questions may be given in 50 – 75 words.

(iv) Section C contains questions 26 to 28 carrying four marks each. Answers to these questions may be given in about 120 words.

(v) Section D contains questions 29 to 31 carrying five marks each. Answers to these questions may be given in about 150 words.

(vi) Section E contains questions 32 to 34 carrying six marks each. Answers to these questions may be given in about 200 words.

(vii) There is no over-all-choice in the question paper, however an internal choice has been provided in 1 question of three marks, 1 question of four marks, 2 questions of five marks and 2 questions of six marks. You have to attempt only one of the choices in such questions.

SECTION–A

1. Management is

(a) science. (b) an art.

(c) both science and art. (d) neither.

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.

3. Principles of management are NOT:

(a) Applicable only in large firms

(b) Formed by practice and experience of managers

(c) Flexible

(d) Contingent

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 workforce
(d) Administrative order issued by government authorities

5. Name the step in the process of planning which is considered the "real point of decision-making".

6. _____ gives shape to the organisation structure.

(a) Extent of delegation (b) Span of Management
(c) Number of employees (d) Planning

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

8. SCT services CEO Rajan Gopinath'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

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

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

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) Revising the schedule
(b) Assigning additional workers and equipment to the project
(c) Getting permission for further overtime work
(d) Both (b) & (c)

12. A decision to acquire a new and modern plant to upgrade an old one is known as _____ decision.

(a) Financing decision
(b) Working capital decision
(c) Investment decision
(d) Dividend decision

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

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 and 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

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

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

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

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 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)

20. Sheela went to a free eye camp and 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

SECTION–B

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.

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.

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.

24. 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.

(a) Identify and briefly explain the promotional tools being discussed above.

(b) Also explain any two other promotional tool that can be used by the company, apart from the one discussed above.

25. 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.

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.

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.

SECTION–C

26. The Government is considering a pioneer proposal to launch a single debit-cum credit 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.

27. 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.

(a) Identify and explain any two points of importance of the concept being discussed above.

(b) Name and briefly explain a suitable framework for the company within which the managerial and operating task are to be performed.

28. State any four factors which affect the determination of the price of the product.

OR

State the four components of physical distribution.

SECTION–D

29. 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.

OR

Name and explain with a suitable example, the technique of Scientific Management given by Taylor to differentiate between the efficient and the inefficient workers.

30. 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:

(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.

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.

31. What is meant by Capital Budgeting? State any four factors affecting fixed capital requirement of a firm.

OR

Enumerate any five points of importance of financial planning.

SECTION–E

32. 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.

33. What is the meaning of Directing? State any four points of importance of Directing as a function of management.

OR

What is the meaning of motivation? State the features of motivation as an element of Directing.

34. 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 flotation followed by the company. Also name and explain the other methods of flotation that can be used by the company for raising funds from the public, in the primary market.

OR

Radhika got ₹ 10, 00,000 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 and DEMAT account with Exim Bank.

(a) Identify the steps in the trading procedure for buying and selling of securities which have been discussed above.

(b) State the next four steps of the trading procedure.

ANSWERS

SECTION–A

1. (c) 2. Coordination 3. (a) 4. (a)
5. Selecting an alternative 6. (b) 7. (a) 8. (a)
9. (b) 10. (b) 11. (a) 12. (c) 13. (a)
14. (d) 15. (a) 16. (c) 17. (c) 18. (c)
19. False 20. (d)

SECTION–B

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 organisation.

OR

Following are the economic objectives of management:
(i) Survival
(ii) Profit
(iii) Growth

22. Three elements of delegation are:
    1. **Authority:** Right of an individual to command his subordinates and 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:** It implies being answerable for the final outcome, i.e. subordinate will be answerable to superior for satisfactory performance of work.

23. Controlling
    It is considered an indispensable function of management because of the following reasons (*Any two*):
    (i) Accomplishing organisational goals
    (ii) Judging accuracy of standards
    (iii) Making efficient use of resources

(iv) Improving employee's motivation

(v) Ensuring order and discipline

(vi) Facilitating coordination in action

24. (a) Public relations: It involves variety of activities designed to promote or protect company's image and its individual products in the eyes of public.

(b) Any two of the following are the promotional tools which may also be used:

(i) Advertising

(ii) Personal Selling

(iii) Sales promotion

25. (a) Right to be heard

(b) Right to seek redressal

(c) Right to consumer education

SECTION–C

26. Following are the points of importance of understanding Business Environment discussed:

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. (*Any two*)

27. **(a) Importance of Decentralisation are:**

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 and creates a reservoir of qualified workforce.
3. **Quick decision-making:** Since decisions are taken at the points of action. Therefore, no approval of superiors and 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 and top management can concentrate on important policies. (*Any two*)

(b) **Divisional structure:** In a divisional structure, the organisation structure comprises separate business units or divisions. Each division is self-contained as it develops expertise in all functions related to a product line.

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 and selling the product.
2. **Utility and Demand:** The product cost sets the lower limit of price, the utility provided by the product and 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 and services.
5. **Marketing methods used:** The price of product is also affected by the methods and techniques used to promote the product.
6. **Pricing objectives:** Apart from profit maximisation, 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.

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.

SECTION–D

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.

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 ₹ 50 per unit and those below will get ₹ 40 per unit. Now an efficient worker making 11 units will get 11 × 50 = ₹ 550 per day whereas, a worker who makes 9 units will get 9 × 40 = ₹ 360 per day. According to Taylor, the difference of ₹ 190 should be enough for the inefficient worker to be motivated to perform better.

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.

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.

The following types of plans discussed above are classified as standing plans:

(i) "Changing the vendors....."— Policy is a general statement that guides thinking or channelises 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.

31. **Meaning:** Decision to invest in fixed assets is known as capital budgeting decision.

Factors affecting fixed capital requirement:

1. **Nature of business:** The type of business has a bearing upon the fixed capital requirement.

2. **Scale of operation:** A larger organisation requires higher investment in fixed capital.
3. **Choice of technique:** A capital intensive organisation requires higher investment in plant and machinery.
4. **Technology upgradation:** Such organisations which use assets are prone to obsolescence require higher fixed capital.
5. **Growth prospects:** Higher growth of an organisation 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. (*Any four*)

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.

SECTION–E

32. Staffing

Proper staffing ensures the following benefits to the organisation—

(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.

33. Directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. (2 marks)

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.

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.**

Features of motivation—

1. It is an internal feeling.
2. It produces goal directed behaviour.
3. It can be either positive or negative.
4. It is a complex process.

34. Method of flotation used is offer for sale— In this method, securities are not offered directly to the **public but are offered for sale through intermediaries like stockbrokers.**

Other methods are:

1. Offer through prospectus— This method involves inviting subscription from public through **prospectus. The issue may be underwritten and 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.**

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. (1 × 2 = 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 and match the share and the price.
3. **Executing order:** When the shares can be bought and sold at the price mentioned, it will be communicated to the broker terminal A 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. and price of shares.

PROJECT WORK

PROJECT WORK

PROJECT WORK IN BUSINESS STUDIES

INTRODUCTION

The course in Business Studies is introduced at Senior School level to provide students with a sound 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. With the purpose to help them understand the framework within which a business operates, and its interaction with the social, economic, technological and legal environment, the CBSE has introduced Project Work in the Business Studies Syllabus for Classes XI and XII. The projects have been designed to allow students to appreciate that business is an integral component of society and help them develop an understanding of the social and ethical issues concerning them.

The project work also aims to empower the teacher to relate all the concepts with what is happening around the world and the student's surroundings, making them appear more clear and contextual. This will enable the student to enjoy studies and use his free time effectively in observing what's happening around.

By means of Project Work the students are exposed to life beyond textbooks giving them opportunities to refer materials, gather information, analyze it further to obtain relevant information and decide what matter to keep.

OBJECTIVES

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, processing, analysing and synthesizing relevant information to derive meaningful conclusions
- get involved in the process of research work; demonstrate his or her capabilities while working independently and
- make studies an enjoyable experience to cherish.

GUIDELINES FOR TEACHERS

Students are supposed to select one unit out of four and are required to make only ONE project from the selected unit. (Consist of one project of 20 marks)

1. Help students to select any ONE Topic for the entire year.
2. The topic should be assigned after discussion with the students in the class and should then be discussed at every stage of the submission of the project.

   The teacher should play the role of a facilitator and should closely supervise the process of project completion. The teachers must ensure that the project work assigned to the students whether individually or in group are discussed at different stages right from assignment to drafts review and finalization. Students should be facilitated in terms of providing relevant materials or suggesting websites, or obtaining required permissions from business houses, malls etc for their project. The periods assigned to the Project Work should be suitably spaced throughout the academic session. The teachers MUST ensure that the student actually go through the rigors and enjoy the process of doing the project rather than depending on any readymade material available outside.
3. The students must make a presentation of the project before the class.
4. The teachers must ensure that the student's self-esteem and creativity is enhanced and both the teacher and the student enjoy this process.
5. The teachers should feel pride in the fact that they have explored the different dimensions of the project in an innovative way and their students have put in genuine work.

(I) PROJECT ONE: ELEMENTS OF BUSINESS ENVIRONMENT

The teachers should help the students in selecting any one element of the following:

1. Changes witnessed over the last few years on mode of packaging and its economic impact. The teacher may guide the students to identify the following changes:
   (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.

   The teacher may guide the students to the times when India sold Coca Cola and Fanta which were being manufactured in India by the foreign companies.

   The students may be asked to enquire about
   (a) Reasons of stopping the manufacturing of the above mentioned drinks in India THEN.
   (b) The introduction of Thums up and Campa cola range.
   (c) Re entry of Coke and introduction of Pepsi in the Indian market.
   (d) Factors responsible for the change.
   (e) Other linkages with the above.
   (f) Leading brands and the company having the highest market share.
   (g) Different local brands venturing in the Indian market.
   (h) The rating of the above brands in the market.
   (i) The survival and reasons of failure in competition with the international brands.
   (j) Other observations made by the students

   The teacher may develop the following on the above lines
3. Changing role of the women in the past 25 years relating to joint families, nuclear families, women as a bread earner of the family, changes in the requirement trend of mixers, washing machines, micro wave and standard of living.

4. The changes in the pattern of import and export of different Products.
5. The trend in the changing interest rates and their effect on savings.
6. A study on child labour laws, its implementation and consequences.
7. The state of 'anti plastic campaign,' the law, its effects and implementation.
8. The laws of mining /setting up of industries, rules and regulations, licences required for running that business.
9. Social factors affecting acceptance and rejection of an identified product. (Dish washer, Atta maker, etc.)
10. What has the effect of change in environment 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 centres.
11. Change in the man-machine ratio with technological advances resulting in change of cost structure.
12. Effect of changes in technological environment on the behaviour of employee.

(II) PROJECT TWO: PRINCIPLES OF MANAGEMENT

The students are required to visit *any one* of the following:

1. A departmental store.
2. An industrial unit.
3. A fast food outlet.
4. Any other organisation approved by the teacher.

They are required to observe the application of the general Principles of Management advocated by Fayol.

Fayol's principles:

1. Division of work.
2. Unity of command.
3. Unity of direction.
4. Scalar chain
5. Espirit de corps
6. Fair remuneration to all.
7. Order.
8. Equity.

9. Discipline
10. Subordination of individual interest to general interest.
11. Initiative.
12. Centralisation and decentralisation.
13. Stability of tenure.

Or

They may enquire into the application of scientific management techniques by F.W. Taylor in the unit visited.

Scientific techniques of management:

1. Functional foremanship.
2. Standardisation and simplification of work.
3. Method study.
4. Motion Study.
5. Time Study.
6. Fatigue Study
7. Differential piece rate plan.

Tips to Teacher:

(i) The teacher may organise this visit.

(ii) The teacher should facilitate the students to identify any unit of their choice and guide them to identify the principles that are being followed.

(iii) Similarly they should guide the students to identify the techniques of scientific management implemented in the organisation.

(iv) It may be done as a group activity.

(v) 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. The arrangements of fatigue study.
- Derivation of time study.
- Derivation and advantages of method study.
- Organisational chart of functional foremanship.
- Any other identified in the organisation

(vi) It is advised that students should be motivated to pick up different areas of visit. As presentations of different areas in the class would help in better understanding to the other students.

(vii) The students may be encouraged to develop worksheets. Teachers should help students to prepare observation tools to be used for undertaking the project.

Examples; worksheets, questionnaire, interviews and organisational chart, etc.

(III) PROJECT THREE: STOCK EXCHANGE

The purpose of this project is to teach school students the values of investing and utilising 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 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 ₹ 50,000 equally in any of the 5 companies of their choice listed above over a period of twenty working days.

The students may be required to report the prices of the stocks on daily basis and present it diagrammatically on the graph paper.

- 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.
- During this period of recording students are supposed to distinctively record the daily and starting and closing prices of the week other days under the negotiable instrument act so that they acquire knowledge about closing and opening prices.
- 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 of 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.

The students are expected to find the value of their investments and accordingly rearrange their portfolio. The project work should cover the following aspects;

1. Graphical presentation of the share prices of different companies on different dates.
2. Change in market value of shares due to change of seasons, festivals, natural and human disasters.
3. Change in market value of shares due to change in political environment/ policies of various countries/crisis in developed countries or any other reasons
4. Identify the top ten companies out of the 25 selected on the basis of their market value of shares.

It does not matter if they have made profits or losses.

(IV) PROJECT FOUR : MARKETING

1. Adhesives	16. Coffee	31. Infant dress
2. Air conditioners	17. Cosmetology product	32. Inverter
3. Baby diapers	18. Crayons	33. Jams
4. Bathing Soap	19. Crockery	34. Jeans
5. Bathroom cleaner	20. Cutlery	35. Jewellery
6. Bike	21. Cycle	36. Kurti
7. Blanket	22. DTH	37. Ladies bag
8. Body Spray	23. Eraser	38. Ladies footwear
9. Bread	24. e-wash	39. Learning Toys
10. Breakfast cereal	25. Fairness cream	40. Lipstick
11. Butter	26. Fans	41. Microwave oven
12. Camera	27. Fruit candy	42. Mixers
13. Car	28. Furniture	43. Mobile
14. Cheese spreads	29. Hair Dye	44. Moisturizer
15. Chocolate	30. Hair Oil	45. Music player

46. Nail polish	57. Roasted snacks	68. Tea
47. Newspaper	58. Salt	69. Tiffin Wallah
48. Noodles	59. Sarees	70. Toothpaste
49. Pen	60. Sauces/Ketchup	71. Wallet
50. Pen drive	61. Shampoo	72. Washing detergent
51. Pencil	62. Shaving cream	73. Washing machine
52. Pickles	63. Shoe polish	74. Washing powder
53. Razor	64. Shoes	75. Water bottle
54. Ready Soups	65. Squashes	76. Water storage tank
55. Refrigerator	66. Suitcase/airbag	77. Wipes
56. RO system	67. Sunglasses	

Any more as suggested by the teacher:

The teacher must ensure that 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].

Now the students are required to make a project on the identified product/service keeping in mind the following.

1. Why have they selected this product/service?
2. Find out '5' competitive brands that exist in the market.
3. What permission and licences 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. 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

    What is the profit margin in percentage to the:

    - Manufacturer.
    - Wholesaler.
    - Retailer.

12. How will your product be packaged?
13. Which channel of distribution are you going to use? Give reasons for selection?
14. Decisions related to warehousing, state reasons.
15. What is going to be your selling price?
    (i) To consumer
    (ii) To retailer
    (iii) To wholesaler
16. List five ways of promoting your product.
17. Any schemes for:
    (i) The wholesaler
    (ii) The retailer
    (iii) The consumer
18. What is going to be your 'U.S.P'?
19. What means of transport you will use and why?
20. Draft a social message for your label.
21. What cost effective techniques will you follow for your product.
22. What cost effective techniques will you follow for your promotion plan.

At this stage the students will realise the importance of the concept of marketing mix and the necessary decision regarding the four P's of marketing:

- Product
- Place
- Price
- Promotion

On the basis of the work done by the students the project report should include the following:

1. Type of product /service identified and the (consumer/industries) process involve there in.
2. Brand name and the product.
3. Range of the product.
4. Identification mark or logo.
5. Tagline.
6. Labeling and packaging.
7. Price of the product and basis of price fixation.
8. Selected channels of distribution and reasons thereof.
9. Decisions related to transportation and warehousing. State reasons.
10. Promotional techniques used and starting reasons for deciding the particular technique.
11. Grading and standardization

PRESENTATION AND SUBMISSION OF PROJECT REPORT

At the end of the stipulated term, each student will prepare and submit his/her project report.

Following essentials are required to be fulfilled for its preparation and submission:

1. The total length of the project will be of 25 to 30 pages.
2. The project should be handwritten.
3. The project should be presented in a neat folder.
4. The project report should be developed in the following sequence:
   - Cover page should include the title of the Project, student information, school and year.
   - List of contents.
   - Acknowledgements and preface (acknowledging the institution, the places visited and the persons who have helped).
   - Introduction.
   - Topic with suitable heading.
   - Planning and activities done during the project, if any.
   - Observations and findings of the visit.
   - Conclusions (summarized suggestions or findings, future scope of study).
   - Photographs (if any).
   - Appendix
   - Teacher's observation.
   - Signatures of the teachers.
   - At the completion of the evaluation of the project, it should be punched in the centre so that the report may not be reused but is available for reference only.
   - The project will be returned after evaluation. The school may keep the best projects.

ASSESSMENT

Allocation of Marks = 20 marks

The marks will be allocated under the following heads:

1.	Initiative, cooperativeness and participation	2 marks
2.	Creativity in presentation	2 marks
3.	Content, observation and research work	4 marks
4.	Analysis of situations	4 marks
5.	Viva	8 marks
	Total	20 marks

MARKETING MANAGEMENT

PROJECT

MY PRODUCT

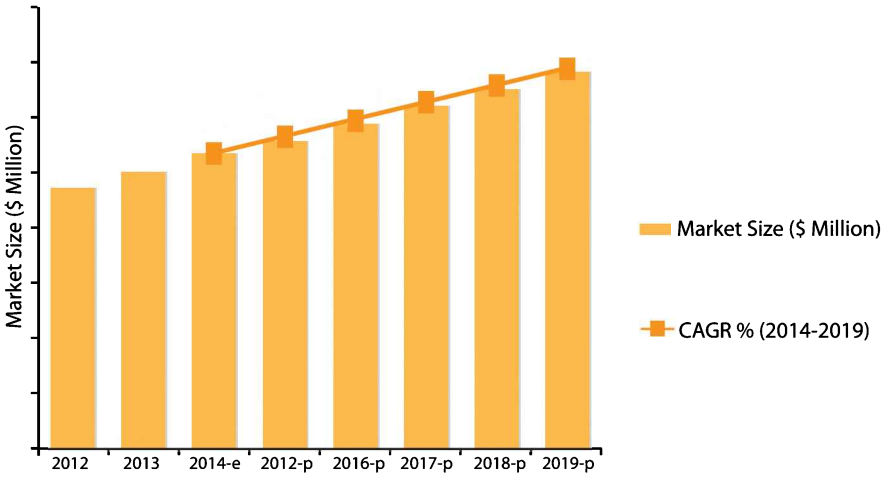
Relish Fruit Juice

Why I have Selected this Product?

Within the beverages market, the fruit based beverages category is one of the fastest growing categories, and has shown growth at a CAGR of over 30% over the past decade. At present, the Indian packed juices market is valued at ₹1,100 crore and is projected to grow at a CAGR of over 15% over the next few years.

Fruit drinks have a maximum of 30% fruit content, are the highest selling category with a 60% market share.

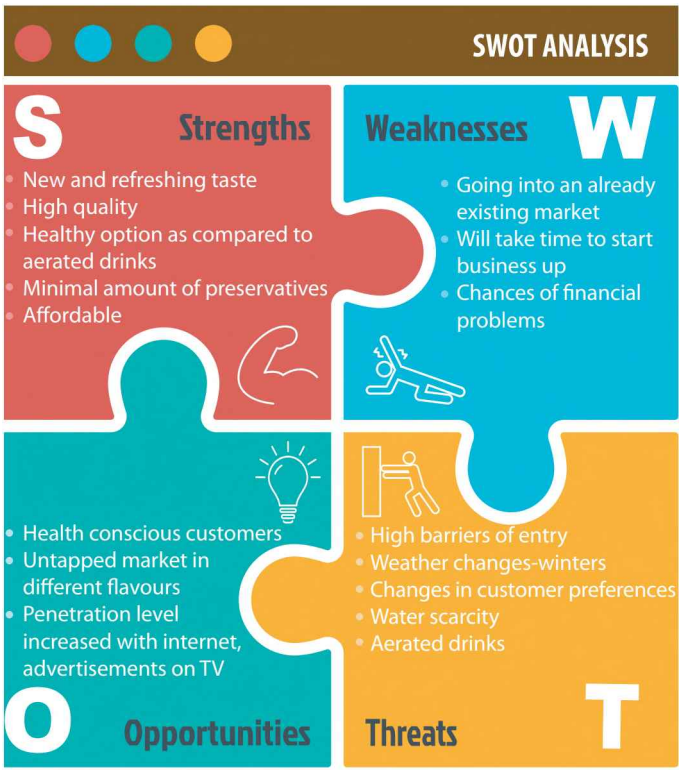
Fruit juices, on the other hand, are composed of 100% fruit content claim 30% market share.



Introduction

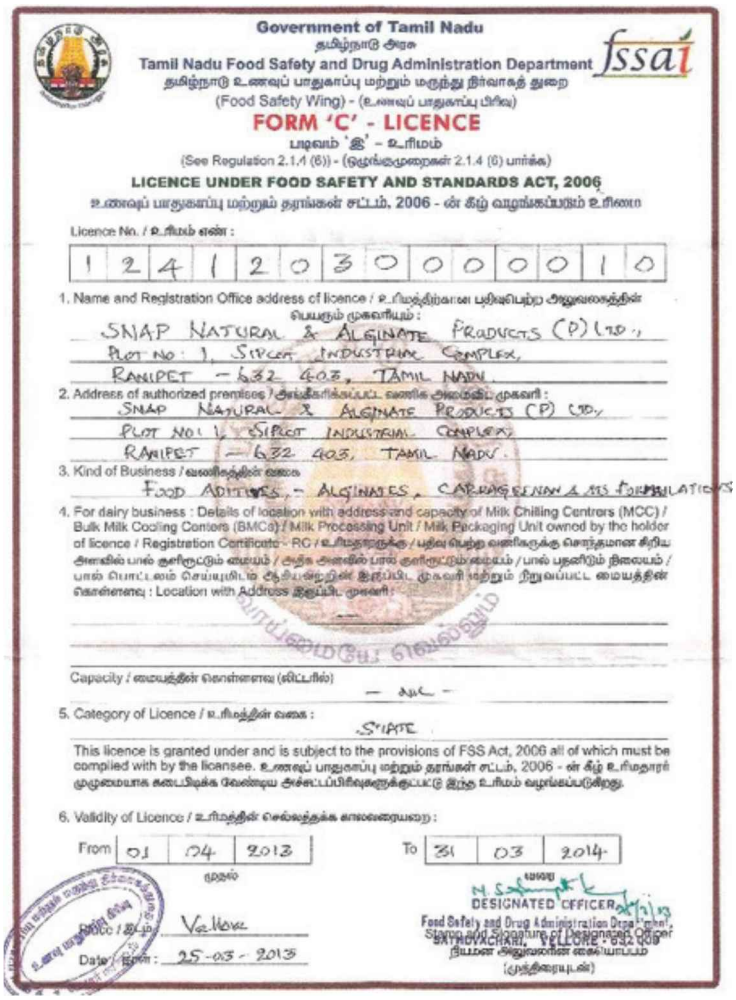
Relish is a unique fruit drink different from all the existing products in the market. There are quite a few differences.

- **Taste:** Taste of Relish is unique as well as includes all the natural fruits to make it more refreshing. It gives you instant energy and activates your taste buds. Thus making it enjoyable.
- **Fruit Content:** It has a 75% fruit pulp content to provide the consumer the nutritional value and taste, at the same not compromising on its longevity.
- **Consistency:** It is neither entirely pulpy and thick nor entirely water like. It is light.
- **Gentle on Stomach:** It has acidity regulators to curb acidity. It is made from choicest fruits.



License and Permission

Soft drink industries are granted license under the fruit products order, 1955, which is a statutory order issued under the essential act, 1955 and is administered by the Ministry of Food Processing Industries. The license is given after inspection of the premises of manufacturer as to compliance of necessary dimensions and hygiene.



Government of Tamil Nadu
தமிழ்நாடு அரசு
Tamil Nadu Food Safety and Drug Administration Department
தமிழ்நாடு உணவுப் பாதுகாப்பு மற்றும் மருந்து நிர்வாகத் துறை
(Food Safety Wing) - (உணவுப் பாதுகாப்பு பிரிவு)

FORM 'C' - LICENCE
படிவம் 'இ' - உரிமம்
(See Regulation 2.1.4 (6)) - (ஒழுங்குமுறைகள் 2.1.4 (6) பார்க்க)

LICENCE UNDER FOOD SAFETY AND STANDARDS ACT, 2006
உணவுப் பாதுகாப்பு மற்றும் தரங்கள் சட்டம், 2006 - ன் கீழ் வழங்கப்படும் உரிமம்

Licence No. / உரிமம் எண் : 1 2 4 1 2 0 3 0 0 0 0 0 1 0

1. Name and Registration Office address of licence / உரிமத்திற்கான பதிவுபெற்ற அலுவலகத்தின் பெயரும் முகவரியும் :
SNAP NATURAL & ALGINATE PRODUCTS (P) LTD.,
PLOT NO: 1, SIPCOT INDUSTRIAL COMPLEX,
RANIPET – 632 403, TAMIL NADU.

2. Address of authorized premises / அங்கீகரிக்கப்பட்ட வளாக அமைவிட முகவரி :
SNAP NATURAL & ALGINATE PRODUCTS (P) LTD.,
PLOT NO: 1, SIPCOT INDUSTRIAL COMPLEX,
RANIPET – 632 403, TAMIL NADU.

3. Kind of Business / வணிகத்தின் வகை
FOOD ADDITIVES – ALGINATES, CARRAGEENAN & ITS FORMULATIONS

4. For dairy business : Details of location with address and capacity of Milk Chilling Centrers (MCC) / Bulk Milk Cooling Centers (BMCs) / Milk Processing Unit / Milk Packaging Unit owned by the holder of licence / Registration Certificate - RC / உரிமதாரருக்கு / பதிவு பெற்ற வளாகத்துக்கு சொந்தமான சீரிய அளவில் பால் குளிரூட்டும் மையம் / அதே அளவில் பால் குளிரூட்டும் மையம் / பால் பதனிடும் நிலையம் / பால் பொட்டலம் செய்யுமிடம் ஆகியவற்றின் இருப்பிட முகவரி மற்றும் நிறுவப்பட்ட மையத்தின் கொள்ளளவு : Location with Address இருப்பிட முகவரி :
—

Capacity / மையத்தின் கொள்ளளவு (லிட்டரில்)
— NIL —

5. Category of Licence / உரிமத்தின் வகை :
STATE

This licence is granted under and is subject to the provisions of FSS Act, 2006 all of which must be complied with by the licensee. உணவுப் பாதுகாப்பு மற்றும் தரங்கள் சட்டம், 2006 - ன் கீழ் உரிமதாரர் முழுமையாக கடைபிடிக்க வேண்டிய அச்சட்டப்பிரிவுகளுக்குட்பட்டு இந்த உரிமம் வழங்கப்படுகிறது.

6. Validity of Licence / உரிமத்தின் செல்லத்தக்க காலவரையறை :
From 01 04 2013 To 31 03 2014

Place / இடம் : Vellore
Date / தேதி : 25-03-2013

DESIGNATED OFFICER
Food Safety and Drug Administration Department,
Stamp and Signature of Designated Officer
SATHUVACHARI, VELLORE - 632 009
நியமன அலுவலரின் கையொப்பம்
(முத்திரையுடன்)

Soft drink industries are granted license under the fruit products order, 1955, which is a statutory order issued under the essential act, 1955 and is administered by the Ministry of Food Processing Industries. The license is given after inspection of the premises of manufacturer as to compliance of necessary dimensions and hygiene.

Present Regulations under PFA Act:

- **2.22.** Standards for soft drinks have been prescribed under PFA act, 1954 and rules, 1955.
- **2.23.** From the two mandatory regulations it is noted that under FPO, 1955 standards for fruit drinks/juices does not mention water standards.
- **2.24.** PFA, 1954 also mentions that water has to be potable in the fruit juice.

There is voluntary BIS standards IS2346 IS 1992.

Competitors

ONJUS

Onjus is a fruit flavoured health drink owned by **Tunip Agro Ltd**.

It's tagline: ***More taste! More passion***.

Segment	Target group	Positioning
For all people seeking a healthy fruit based drink for regular occasions.	All age groups lower, middle, and upper class people.	Most popular and affordable juice.

Delmonte

Delmonte is a fruit based health drink owned by Delmonte.

It's slogan: ***Taste like never before***.

Segment	Target group	Positioning
For all people seeking a healthy fruit based drink.	All age groups lower, middle, and upper class people.	Really tasty fruit juice.

Frooti

Frooti is the largest selling mango flavoured drink in India owned by Parle Agro Pvt. Ltd.

It's tagline: ***Fresh n Juicy***.

Real

Real is one of the most trusted Fruit juice coming in various flavours.

It's slogan is: ***My Real Fruit Power***.

Segment	Target group	Positioning
For all people seeking a healthy fruit based drink for occasions.	All age groups lower, middle, and upper class people.	A fruit juice made from real fruits.

Tropicana

Tropicana Inc. which makes soft drinks and fruit juices.

It's tagline: ***Let's make breakfast 100%***.

Segment	Target group	Positioning
Fruit based beverage	Youth of lower, middle income.	Healthy fruit juice to give nutrients.

Logo

Experience freshness like never before

Relish

Fruit Juice

Tagline

Experience freshness like never before

USP (Unique Selling Proposition)

75% FRUIT CONTENT
&
NO ADDED SUGAR!!!

Packaging

Primary Package

It refers to the products immediate container:

- In some cases, the primary package is kept till consumer is ready to use the product. (e.g. plastic packets, etc.)
- Sometimes, it is kept throughout the whole life of product e.g. match box.
- Primary package of Relish is a durable and safe tetra packs, PET bottle, it is attractively printed. It contains info like License No., Batch No., Ingredients, weight measure, MRP, etc. Relish is available in:
  - 1 litre tetra pack
  - 600 ml PET bottle
  - 300 ml tetra pack

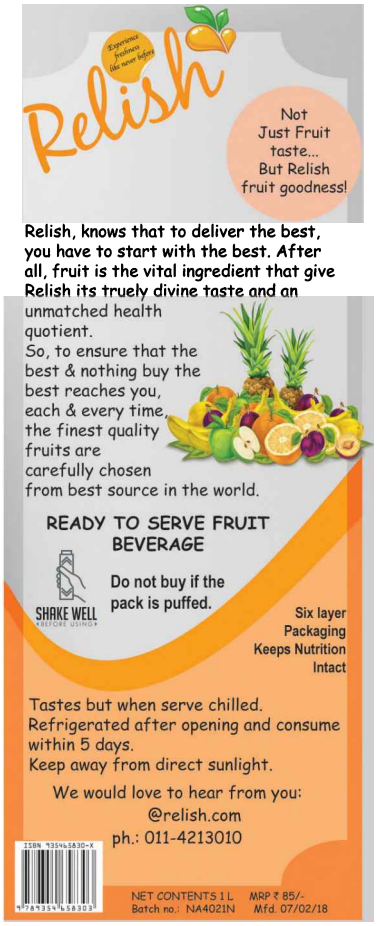
Transportation Package

Relish is stored and transportated in **corrugated boxes** containing 20 units of 1 litre pack, 30 units of 600 ml packs and 50 of rest.

Labelling

Experience freshness like never before
Relish
Fruit Juice
Mixed Fruit
75% FRUIT CONTENT
&
NO ADDED SUGAR!!!
1 litre

Experience freshness like never before
Relish
Let your kids enjoy the taste of Relish
Nutritional Facts
(Per 100 mL approx.)
Energy 56 kcal
Protein 0.4 g
Carbohydrate 14 g
Natural Fruit Sugars 6 g
Fat 0 g
Calcium 7 mg
Iron 0.25 mg
Relish Belief
Something that's good for your child should also make him smile.
That's why, your child needs the unique blend of fruit nutrition and taste.
At Relish, healthy is happy.
Ingredients
Water, Mixed Fruit Concentrate (12.03%) [Apple Juice Conc., Orange Juice Conc., Guava Puree, Mango Pulp Conc. Banana Puree, Lime Juice Conc. Pineapple Juice Conc., Sugar, Acidity Regulator (INS 330), Antioxidant (INS 300)]
*THIS CONTAINS 75% FRUIT JUICE CONTENT
BEST BEFORE SEVEN MONTHS FROM MANUFACTURE
Tetra Pak
fssa
Lic. No. 11234567485



I have chosen and designed this label for Relish because:

- **Describe Relish and specify its contents:** The label of Relish depicts its tagline, expiry date and also specifies its contents, ingredients.
- **Identification of Relish:** A customer can easily identify Relish as the label defects its logo, tagline, etc. from the various products.
- **Promotion of Relish:** The label of Relish is the key to promotion as without a proper label, I cannot launch promotional schemes.
- **Grading:** With the help of label one can easily grade as Relish 50, Original, Twister.

Range

Relish Original

The original Relish is the answer to all needs, tastes and choices.

It aims at providing nutrients and fresh taste in every glass.

It provides a full day's supply of vitamin C.

This juice contains ample amount of iron, calcium and other nutrients.

It is available in a variety of flavours:

- Mix fruit
- Orange
- Pear
- Pineapple
- Strawberry
- Mango

Relish Premium Lemonade

Relish premium lemonade has been specifically made from choicest lemons. Made for both the youth and old to rejoice their summer days.

It is made from freshly squeezed, sun-ripped lemons. It is guaranteed to make one's lips pucker and put a smile on them.

It is available both in single servings as 250 ml packs and 1 litre packs.

Relish 50′

Relish 50 is a special drink made especially for the health conscious lifestyle in the urban areas.

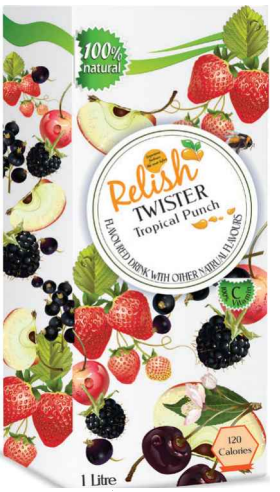
It is made with the same natural Relish juice processing but with:

- 50% less sugar.
- No artificial and added sweetness.
- Real, fresh choicest fruits.

	Relish 50	Original Relish
Sugar	5 g	11 g
Calories	25 g	55 g

Relish Twister

Relish Twister is that range of fruit juices which contains flavours which the *mother nature never intended.*



This drink comes in twisted flavour combinations like Fruit Fry which makes it different from all the other juices available in the market.

It comes in three varieties:

- Strawberry, Kiwi Cyclone
- Orange, Banana Burst
- Cherry, Apple Flood
- Tropical Punch

Channel of Distribution

There are three types of **distribution channels:**

Direct, Retail, Wholesale.

I would like to choose: **Producer → Wholesaler → Retailer → Customer** as the channel of distribution for Relish. This channel involves two intermediatory. It is preferred due to following reasons:

- The **size of market** for Relish is **large** which require longer channels.
- As I am entering the market, and have **less funds**, longer channel is used.
- The **buyers** are concentrated over a **large area**.

Warehousing

A Warehouse in Bahadurgarh

Warehousing means holding or preserving goods in huge quantities from the time of their purchase or production till their actual use or sale.

For Relish, I have chosen **Public Warehouses.**

I have chosen this because of following reasons:

- Since, I am launching a new product, I instead of building a private warehouse would acquire warehouses all over the country at **different places** at payment of **nominal rent**.
- It will be **cost effective**.
- It will be easier to transport as I can transport goods (*Relish*) to more part of country.
- *Relish* would require a ***cold*** and ***dark*** place.

Transportation

Transportation refers to the movement of goods from one location to another. Modes of transport include air, rail, road, etc.

For *Relish*, I would choose **road transport**, due to the following reasons:

Cost Effective

Ideal for my new business.

Fast Delivery

Road transport is quite fast.

Monitor Location of Goods

It will be easier for me to monitor location.

Communication

I can easily communicate with driver.

I would choose **refrigerated trucks** with cold plate refrigeration system.

I would try to sign a deal with **Samsung cold chain transports** and also give them a marginal share in profits.

Promotion

As we are in introduction phase, our objective is to create brand awareness by informative advertising.

- I would use **print media**, **radio advertising**, **hoardings in public sports**.
- I would **tie-up** with major **cinema halls** to promote my products during **intervals**.
- In **film advertising** is another prospective option.

WEB MARKETING

In order to reach a **wider basis**, I would use social networking sites:

- Create a **community** on facebook.
- Create a **fan page**.
- **Advertise** on facebook.

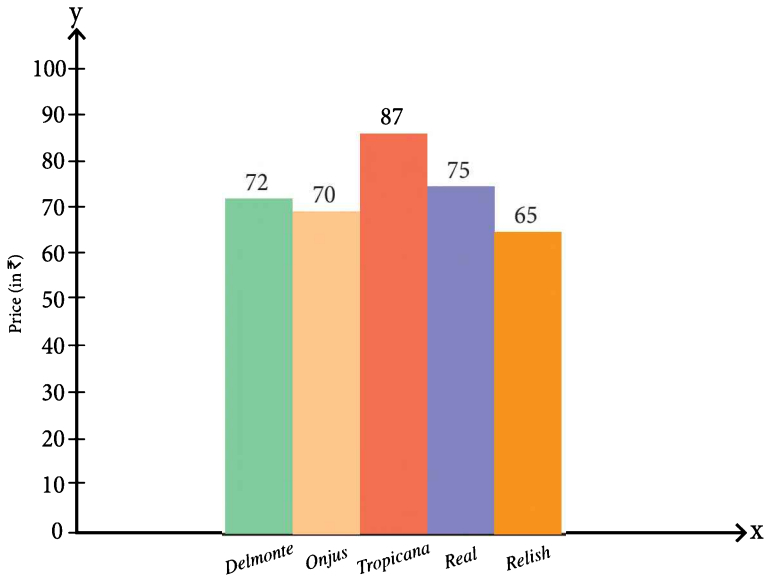
This will enable the brand to keep the consumers updated about the products and give them knowledge of the product.

Create an active **account** and **posting regular tweets** about the product and updates to ensure interaction.

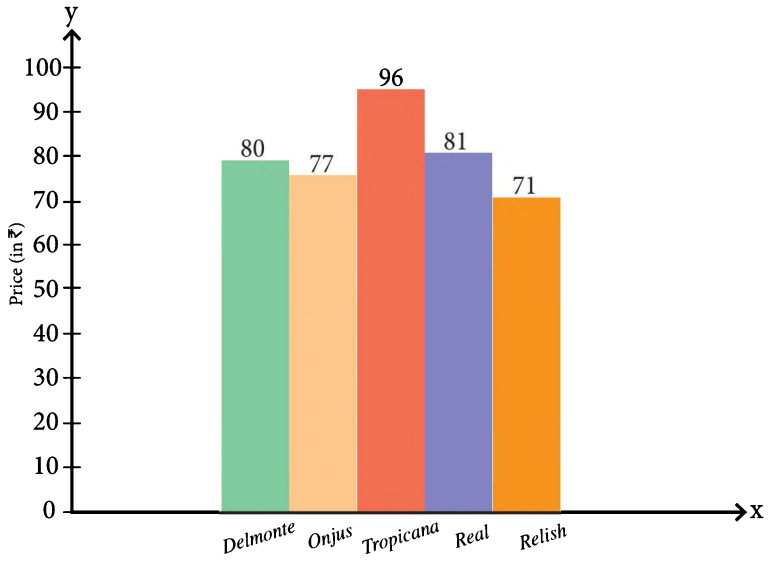
Followers will be encouraged to **tweet their suggestions**.

Pricing Strategy

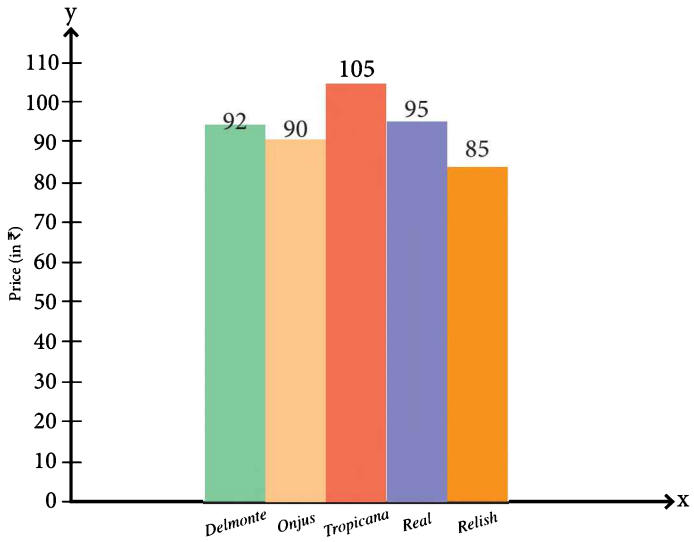
Selling Price to: Wholesalers



Selling Price to: Retailers



Selling Price to: Consumers



Pricing Strategy

As a new comer, our pricing strategy is to introduce our products in the market at **Lower Prices**.

As we gain and *capture customer's preferences, demand*, we will *increase prices* and provide more efficient and premium quality juices.

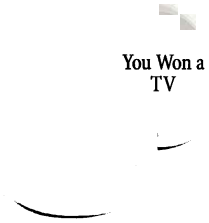
	Price		
Product	**Wholesaler**	**Retailer**	**Consumer**
Tropicana	87	96	105
Real	75	81	95
DelMonte	72	80	92
Onjus	70	77	90
Relish	65	71	85

*Introductory prices.

Sales Promotion Techniques

UNDER THE CAP SURPRISE!!!

- 10 lucky winners to get T.V.
- 15 lucky winners to get I-pad and many more surprises . . .



SURPRISES FOR KIDS!!

- Get batman, superman and other superheroes stickers with 300 mL tetra pack.

BUY TWO 1 LITRE TETRA PACKS AND GET 1 ABSOLUTELY FREE!!!

Social Service

Relish will tie its corporate social responsibility efforts to its core mission. It will commit its brand to efforts to relieve and ultimately *end childhood hunger,* and in the following years will integrate social media into its hunger relief efforts.

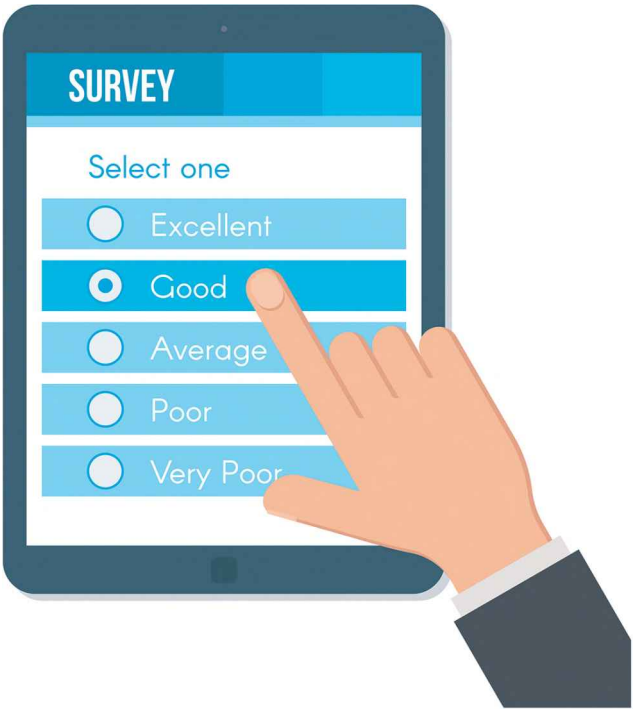
For example, it will launch a campaign in Chhattisgarh and Odisha in which it will donate 5 kg of rice to the capital area food bank for every comment on its twitter handle and facebook page.

In the coming years, *Relish* looks forward to launch nationwide campaign to end childhood hunger.

Questionnaire

Good day! The Relish fruit juice is dedicated to improving customer satisfaction. Through this brief survey, your answers will be helpful in enhancing our services and meeting your needs.

Your response will only be used for survey purposes. Thank you very much for your time and suggestions. We promise your information will remain confidential.



MOCK VIVA

(Expected Questions in Viva)

1. What is the name of your product?
2. Why you choose this name?
3. What is the tagline of your product?
4. What is the logo of your product?
5. What information have you given on label?
6. What type of packing will you be using?
7. State clearly your primary, secondary and transport packing.
8. What are the features of a good brand name?
9. Does your name has the features of a good brand name?
10. At what price will you be selling your product?
11. Is it higher or lower than your competitors?
12. Apart from competition, what other factors you kept in mind while fixing the price of the product?
13. How will you be distributing your product?
14. If direct, then why have you choosen direct or zero level channels of distribution?
15. If indirect, then why have you choosen indirect channels of distribution?
16. What are the benefits of intermediaries or channels of distribution?
17. What factors you kept in mind while deciding the channels of distribution?
18. What sales promotion techniques are used by you to promote the sale?
19. What benefits you get by salesman to convince the customers?
20. What trial can you use to build-up goodwill or image of your company?
21. What advantages will you get by advertisement?

PERSONAL INFORMATION

Name: _____

Age: _____

Sex (M/F): _____

1. Which of the following drinks you drink the most?

   (a) SODA based drinks ☐ (b) Fruit based drinks ☐

2. Select the average frequency of consumption of fruit drinks in a week?

   (a) Once-twice ☐ (b) 3-6 times ☐

   (c) 7 days ☐

3. Which of the packs you most commonly buy for storage and future consumption? Tick (✓) any one:

   (a) 250-350 ml ☐ (b) 600-700 ml ☐

   (c) 1 L - 2 L ☐

4. On what occasions you prefer to drink these drinks?

   _____

5. Which of the fruit drink brands have you tried? Tick (✓) all applicable:

   (a) Maaza ☐ (b) Tropicana ☐

   (c) Frooti ☐ (d) Real ☐

   (e) Slice ☐ (f) Onjus ☐

   (g) Appy fizz ☐ (h) CocaCola ☐

6. After viewing this marketing plan for Relish would you like to try Relish...

   _____