

## CHAPTER – I

### NATURE AND SIGNIFICANCE OF MANAGEMENT

#### Linking of Class XI syllabus:

1. In sole proprietorship business, the owner him-self manages his business.
2. In Partnership business all partners or any one partner on behalf of other partners can manage the business.
3. In HUF 'Karta' manages the business.
4. But in a Joint Stock Company, it is managed by professionally qualified managers. So in this context, the need for management arises.

#### CONCEPT MAPPING

**Concept:** Management is the process of planning, organising, staffing, directing and controlling the resources efficiently and effectively for achieving the organisational goals.

**Characteristics:** (a) goal oriented process, (b) pervasive, (c) multidimensional (d) group activity, (e) continuous process, (vi) dynamic function,

(vii) intangible force

**Objectives** : (a) organisational (b) social, and (c) personal objectives

**Importance:** (a) achieves group goals (b) increases efficiency (c) creates dynamic organization (d) helps achieve personal goals (e) development of society

**Management as Art:** Theoretical knowledge, personal application, based on practice, creativity

**Management as a Science** : (a) Systematic body of knowledge (b) principles based on application, (c) universal validity

**Management as a Profession:** (a) well defined body of knowledge (b). restricted entry (c) professional association (d) ethical code of conduct Management fulfills some but not all of these requirements

**Levels of management:** (a) Top Level management (b) Middle Level management (c) Supervisory or operational or lower level management

**Functions of Management:** Planning, organising, staffing, directing and controlling

**Coordination** : The process of achieving unity of action among interdependent activities and departments of an organisation. It is the essence of management as it is required in all managerial functions.

### KEY CONCEPTS IN NUTSHELL

#### 1. MEANING/CONCEPT OF MANAGEMENT:

Management is the process of getting things done with the aim of achieving goals effectively and efficiently.

- **Process:** refers to the primary function like planning, organising, staffing, directing and controlling performed by the management to get things done.
- **Effectiveness:** means completing the right task to achieve the deputed goal within the time frame.
- **Efficiency:** means completion of task using minimum resources

#### 2. DEFINITION OF MANAGEMENT:



“Management is the process of working with and through others to effectively achieve the organisational objectives by efficiently using limited resources in the changing environment.”

Kreitner

### 3. Functions of management:



1. **Planning** - Setting objectives and targets and formulating an action plan of what is to be done, how to be done and when to do it
2. **Organising** - Assignment of duties, task, establishment of authority and responsibility relationships, allocating the resources required to perform the planned task.
3. **Staffing** - Finding and placing the right person at the right job at the right time.
4. **Directing** - Leading, influencing, motivating the staff chosen to perform the assigned task efficiently and effectively.
5. **Controlling** - Ensuring/Monitoring the activities in an organisation are performed as per the plan.

4. **Nature of Management:** As an art, As a science and As a profession.

### 5. MANAGEMENT OBJECTIVES- Organisational Objectives:

**Survival:-** Ensure that the organisation survives and exists in the future. **Profitability:-** Earning adequate profit in order to survive and grow **Growth:-** Growth indicates how well it exploits the potential opportunities.

#### Social Objectives:

- Producing quality products at reasonable rates,
- generating employment opportunities,
- Community progress and development by providing schools and crèches to employees In fact most of the firms have taken upon themselves the concept of social responsibility as one of the basic element of business

objectives .

- Environmental friendly method of production.

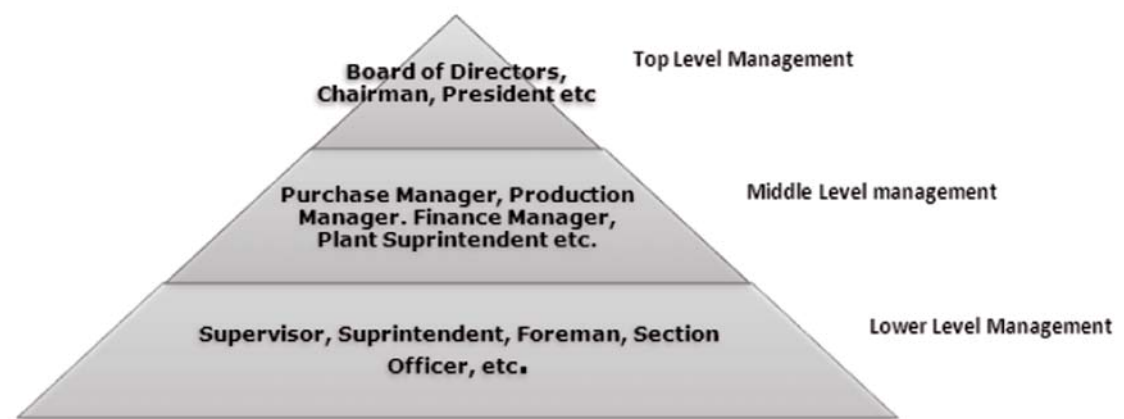
### **Personal Objectives:**

- Meeting the Financial needs like competitive salaries and perks
- Social and safety needs of the employee like peer recognition, self respect and respect for colleagues
- Higher level needs like implementation and monitoring of policies for personal growth and survival
- Reconcile personal goals with organisational objectives for harmony in the organisation.

## **6. IMPORTANCE OF MANAGEMENT**

- Aids in achievement of individual and organisational goals
- Increases efficiency
- Enhances optimum utilisation of resources
- Creates a dynamic organisation
- Promotes development of society

## **7. LEVELS OF MANAGEMENT**



### **Top level: - Designations and Functions**

- Comprises of CEO, Board of Directors, MD, GM, VP

- Conceptualising of organisational goal, policy and strategy formulation
- Organising , Controlling and Monitoring activities and resources
- Controlling the work performance
- Approving Budgets

#### **Middle Level:- - Designations and Functions**

- Comprises of Departmental, Sub-Departmental and Divisional heads.
- Execution of plans, policies framed by the top level management
- Preparing organisational set up & appointing employees
- Issuing instructions and motivating employees
- Ensuring interdepartmental cooperation

#### **Lower Level:- - Designations and Functions**

- Forwarding suggestions and feedback to the top level
- Comprise of Supervisors, Foremen and inspectors
- Maintain Morale, safety and discipline amongst the work force
- Oversee the work of the workers
- Assist the management in selection, training, placement & promotion of workers

#### **8. NATURE OF MANAGEMENT As an art:**

- Existence of theoretical knowledge.
- Developed through Practical and creative process.
- Personalised application and skill

#### **As a Profession:**

- Well defined body of knowledge.
- Existence of code of conduct
- Professional association (AIMA)
- Restricted entry
- Fees as remuneration for their services

#### **As a Science:**

- Arranged, organised systematic body of knowledge
- Universal validity
- Principles arrived at after experimentation



## 9. COORDINATION Meaning.

It is the synchronisation of various activities and efforts in an organisation providing the required amount of quality, timing and sequence; thus ensuring the achievement of the planned goal with minimum content.

## 10. FEATURES OF COORDINATION:

- **Integrates Group Effort:** It is an orderly arrangement of group effort and not individual effort
- **Ensures unity of action:** It is a binding force between departments and ensures that all efforts are focussed towards achieving the organisational goal
- **It is a Continuous Process** never ending process as its needs are felt at all levels and steps in the organisations. It begins at the planning stage and continues till controlling
- **It remains the function and responsibility of every manager:** the top level coordinates the overall plan, middle level coordinates the efforts of the different sections and subsections and lower level management coordinates the activities of the workers
- **A Deliberate function:** It does not occur spontaneously nor is it achieved by force it is a deliberate action taken.
- **All pervasive function** it is needed in all departments and at all levels. Lack of coordination can lead to overlapping of activities.

## 11. NEED FOR COORDINATION:

The reasons that bring out the importance or the necessity for coordination are

- Growth in the Size of the organisation results in the increase in varied quality of manpower too with varied individual aspirations. Coordination seeks to match the individual goal with the organisational goal.
- Functional Differentiation arising out of departmentalisation and division brings forth a motive for achievement of individual objectives, in isolation from other objectives leading to departmental clashes. Coordination seeks to iron out these variations.
- Specialisation can give rise to feeling of superiority and prioritising of their zone of activities. Coordination seeks to sequence and integrate all the specialists of activities into a wholesome effort.



## 12. IMPORTANCE OF COORDINATION

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

## 13. COORDINATION IS THE ESSENCE OF MANAGEMENT.

Coordination is the management function of correlating and integrating the diverse goals and activities in the organisational process. It is the essence of management because:

It is needed at all Management functions

**Planning** - Coordination between the master plan and departmental plan.

**Organising** - Required between authority, responsibility and accountability.

**Staffing** - Achieve balance between job requirement and qualities of personnel

**Directing** - Required between supervision, motivation and leadership.

**Controlling** - Ensures actual result conform to expected results.

Needed at all levels of Management-

**Top level** - needs coordination to integrate activities of the organisation for accomplishing the organisational goal

**Middle level** - Coordination of the efforts of different sections and sub-sections

**Lower level** - Coordination in the activities of workers to ensure work progresses as per plans.

### VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

1. "Planning, Organizing, Staffing, Directing and controlling" is the sequence of functions in a process. Name it.

Ans. Management

2. Name that intangible force which creates productive relationships among resources of an organisation.

Ans. Management

**3. What is the main objective of any organisation?**

Ans. Main objective of any organisation is optimum utilisation of resources

**4. Production manager tries to produce goods with minimum costs. Name the concept which is being focused by management?**

Ans. Efficiency

**5. What do you mean by effectiveness?**

Ans. It means completing the task or achieving the goals within stipulated time period.

**6. "Management is a group activity". Give reasons for statement.**

Ans. An organisation is a collection of diverse individuals with needs and purposes but they work towards fulfilling the common organisational goals.

**7. In order to be successful, an organization must change its according to the needs of the environment. Which characteristic of management is highlighted in the statement?**

Ans. Management is a dynamic function.

**8. Give one designation each of top and middle level management?**

Ans. Top - CEO, Middle - Divisional Manager

**9. Your Grand Father has retired as the director of a manufacturing company. At what level of management was he working.**

Ans. Top management.

**10. Why is management called inexact science?**

Ans. Management relates to human behaviour, whose cause and effect is not certain, that's why it is called and inexact science.

### **SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)**

**1. Explain the meaning of management. What do you mean by managers?**

Ans. Management is a process of getting things done with the aim of achieving desired common goals effectively and efficiently persons engaged in performing the functions of the management are known as managers. In other words, those managing the organisational resources for releasing its goals are known as managers.

**2. 'Management is a process' Explain?**





Ans. Management includes various steps such as planning, organising, staffing, directing and controlling. This process begins with those at the top of the organization and continues in varying degrees at almost every level of the organisation. These inter-related steps help to achieve organisational goals in effective manner. That is why management is known as process of employing and organising resources to accomplish predetermined objectives.

**3. 'Management is multi-dimensional'. Explain?**

Ans. Management is a complex activity and involves following three main dimensions -

**i) Management of works**

In each and every organisation, certain type of work is to be performed. In school, overall development of a child is to be done; in hospitals, patients are treated etc. Management converts these works into goals and devises the means to achieve them.

**ii) Management of People.**

Management is concerned with "getting things done through people", which is a very difficult task. All the employees have different personalities, needs backgrounds and methods of work. Thus, it becomes management's job to make them work as a group by giving common direction to their efforts.

**iii) Management of operations.**

In order to survive, each organisation has to provide certain goods or services. This involves production process thus, management of operations is inter linked with both the above dimensions viz., management of work and the management of people.

**4. What are the personal objectives of the management?**

Ans. Personal objectives refer to the objectives which are related to the employees of an organisation. They are as follows:

- i) Financial needs like competitive salaries, incentives and other monetary benefits.
- ii) Social needs like recognition in the organisation.
- iii) Higher level need which includes personal growth and development.

**5. Enumerate the importance of management.**

Ans. Following points are the importance of management.

- i) Management helps in achieving group goals.

- ii) Management increase efficiency
- iii) Management creates a dynamic organisation.
- iv) Management helps in achieving personal objectives.
- v) Management helps in development of society.

**6. What do you mean by level of management?**

Ans. Levels of management means the hierarchy of organisation representing the relationships among managers and subordinates on the basis of their relative authority, status and responsibility. There are three levels in the hierarchy of an organisation viz. (i) Top management (ii) Middle management and (iii) Supervisory or operational management.

**7. Define co-ordination. Enumerate the features of co-ordination?**

Ans. Coordination is an orderly arrangement of group efforts to maintain harmony among individuals' efforts towards the accomplishment of common goals of an organisation.

**Features of co-ordination**

- i) It integrates group efforts.
- ii) It unifies the action.
- iii) It is a continuous process.
- iv) It is an all pervasive function
- v) It is the responsibility of all managers.
- vi) It is a deliberate function.

**LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)**

**1. Explain any five features of management?**

Ans. Following are the features of management:

**(i) Management is a group activity**

Management consists of a number of persons who work as a group. Their efforts are directed towards the common goals. Members initiate, communicate, coordinate and join their hands for the achievement of organisational objectives.

**(ii) Management is a goal-oriented process**

Management aims at common goals through a process of series of continuous functions viz planning, organizing, directing, staffing and controlling. These composite functions of management are separately performed by all managers all the time simultaneously to realize organizational goals

**(iii) Management is all pervasive**

Whether it is a commercial organisation or non commercial organisation, big or small all require management to handle their operations effectively and efficiently.

**(iv) Management is a continuous process**

Management is a continuous process consisting of a series of functions viz., planning, organising, directing and controlling. All the managers perform these functions regularly.

**(v) Management is a dynamic function**

The environment in which a business exists keeps on changing. Thus in order to be successful, management must change its goals, plans and politics according to the needs of its environment.

**2. Explain the organisational objectives of management.**

Ans. The organisational objectives of management refer to the main objectives required to fulfill the economic goals of the business organisation. The main objective of management is to utilize the human and material resources in such a manner that it should give maximum advantage to the organization. Every management group strives to accomplish these objectives for its organisation. These objectives of every organisation are survival, profit and growth.

**(a) Survival:** The basic objective of every business is to survive for a longer period in the market. The management must ensure survival of the organisation by earning enough revenue to cover its costs.

**(b) Profit:** Only survival is not sufficient for business. Profit earning is essential for meeting the expenses and for the successful operation of the bus' Thus management must ensure earning of sufficient profit.

**(c) Growth:** The next important objective of the management is to ensure future growth and development of the business.

**3. Explain the 'social objectives' of management.**

Ans. Each organisation is a part of society and thus it has certain social obligations to fulfill.

Some of them are as follows:

- (i) To supply quality goods and services
- (ii) Providing basic amenities to the employees like schools and creches for their children, medical facilities etc.
- (iii) To generate employment opportunities especially for the backward

- classes.
- (iv) To provide environment friendly methods of production.
  - (v) To provide financial support to society by donating for noble causes.
  - (vi) To organize educational, health and vocational training programmes.
  - (vii) To participate in social service projects of Government and Non – Governmental Organisations (NGOs).

**4. Do you mean by 'Personal Objectives' of management? Enumerate personal objectives of management.**

Ans. Personal Objectives refer to the objectives which are related to the individual needs of the employees of an organisation. All organisations are made up of people with different values, experiences and objectives. People join an organisation to satisfy their different needs. These are as follows:

- i) Financial needs like competitive salaries, incentives and other monetary benefits.
- ii) Social needs like recognition in the organisation.
- iii) Higher level need which includes personal growth and development.

**5. Explain five functions of top-management.**

Ans. Top management performs the following functions.

**i) Develops long-term objectives:** Top-level managers develop the long - term objectives like expansion of business, manpower planning etc.

**ii) Framing of policies:** They lay down guidelines for departmental head i.e., policies relating to production, marketing, personnel, finance public relation etc.

**iii) Organizing :** Top management organizes the business into various sections and departments to achieve the desired organisational objectives.

**iv) Key appointments:** Top-level authorities appoint the departmental heads and some other key persons to develop the organisational structure for profitable growth of the enterprises.

**v) Controlling:** Top-level managers periodically review the work of executives at different levels to ensure that their performance is as per predetermined plans.

**QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

**1. Give any one social objective of management. - 1**

Ans. Either one of the following:

**Mark**

- i) Desired quality of products at reasonable price.
- ii) Using environment friendly methods of production

iii) Generation of employment opportunities.

**2. Name any two designations given to first line managers. - 1 Mark**

Ans. Foremen and supervisors.

**3. Which force binds all other functions of management? - 1 Mark**

Ans. Coordination

**4. What do you mean by Management Hierarchy? - 1 Mark**

Ans. The chain of authority - responsibility relationships from top to bottom is called as management hierarchy.

**5. How is management all pervasive? - 3 or 4 Mark**

Ans. Activities involved in management are applicable to every type of organisation whether economic, social or economic, social or political. For example, a cricket team needs to be managed as much as a club or a hospital. The activities of managers in India are similar to their activities in say U.K. or USA. Thus it can be said that management is all pervasive.

**6. 'Management provides judgement and vision'. Explain? - 3 or 4 Mark**

Ans. Management keeps adjusting to the complex and ever-changing external environment. It helps in decision making. As it visualizes the future and the right course of action for same, sound decisions become possible. Thus, its foresight provides judgment and vision.

**7. Why is management considered as a discipline? - 3 or 4 Mark**

Ans. Discipline refers to a subject, the study of which can be organized and taught. Management is considered as a discipline because it is being continuously researched and studied. Also, it emphasis on knowledge, diversification, theory and practice, just like any other discipline.

**8. Mr. Kunal is working as the Finance Manager of XYZ Ltd. At what level of management is he working? State any two functions being performed by him? - 3 or 4 Mark**

Ans. He is working as a middle level manager.

His functions are as follows.

i) Deciding various sources from which required funds can be raised.

ii) Negotiating with banks, brokers, under-writers etc. for raising finance.

**9. 'Coordination is a continuous activity'. Explain? - 3 or 4 Mark**

Ans. Coordination is a continuous activity carried out by all managers at all times.



It starts at the planning stage and continues with the other functions of management. It is a never-ending process. It integrates all the activities and ensures the orderly arrangement of individual and group efforts to ensure unity of action in the realization of common objectives.

**10. What is mean by Co-ordination? Explain how does coordination 'integrates group efforts' and 'ensures unity of action'. (cbse 2012)**

Ans: Meaning of Coordination and Explanation of relevant features.

**11. Identify the nature of management when it is practiced as personal application of existing knowledge to achieve desired results. (cbse 2012)**

Ans: Management as an art.

## CHAPTER - 2

### PRINCIPLES OF MANAGEMENT

#### CONCEPT MAPPING

**Concept** : Principles of management are general guidelines which can be used under certain situations.

**Nature** : (a) universal applicability (b) formed by practice (c) flexible (d) mainly behavioural (e) cause and effect relationships (f) general guidelines contingent

**Importance:** (a) useful insights into reality (b) optimum utilisation of resources (c) scientific decisions (d) meeting changing environment (e) management training and research (f) fulfilling social responsibility

**Principles of Scientific Management** : (a) science not rule of thumb (b) harmony



not discord (c) cooperation not individualism (d) maximum not restricted output (e) development of each person to greatest efficiency.

**Techniques of Scientific Management:** (a) functional foremanship (b) differential piece rate system (c) work study - time study, motion study, fatigue study, method study (d) standardisation and simplification of work.

**Fayol's Principles :** (a) division of work (b) authority and responsibility (c) discipline (d) unity of command (e) unity of direction (f) subordination of individual interest to common interest (g) remuneration (h) centralisation and decentralisation (i) scalar chain (j) order (k) equity (l) stability of tenure (m) initiative (n) esprit de corps

**Taylor vs. Fayol** : Their contributions are complementary in nature despite several differences.

## KEY CONCEPTS IN A NUTSHELL:

1. **MEANING:-** The principles are broad statement of fundamental truth which provide guide lines for management decision and action. These guidelines are derived through experimentation and observation
2. **NATURE OF PRINCIPLES OF MANAGEMENT**
  1. **Universal application** - can be applied to all kind of organisations, irrespective of their size and nature.
  2. **General guidelines** - the formulated guidelines to action which need to be adjusted and used as per the demands of the situation.
  3. **Formed by practice and experimentation** - derived through experimentation and Observation.
  4. **Flexible** - principles are not rigid like science but are modified according to the business environment needs.
  5. **Behavioural** - the principles aim to influence the unpredictable, complex and dynamic human behaviour.
  6. **Cause and effect relation** - they aid in predicting the outcome of management actions.
  7. **Contingent** - the management principles are dependent upon the prevailing Conditions/situations at that particular time hence amended accordingly.

### 3. SIGNIFICANCE/ IMPORTANCE OF MANAGEMENT PRINCIPLES

- i. **Provides managers with useful insights into reality** - through improved knowledge, ability, understanding and improved guidance to the managers.
- ii. **Optimum utilisation of resources** - and effective administration through coordinated use of physical, financial and human resources.
- iii. **Scientific decision** - they tend to be more realistic, thoughtful, justifiable and free from personal bias.
- iv. **Meet the changing environmental requirements** - by providing effective and dynamic leadership in implementing changes.
- v. **Fulfils social responsibility** - guides the manager in fulfilling the social responsibility.
- vi. **Management training, education and research** - the principles help in increasing knowledge which is used as the basis for management training and research.

### 4. FAYOL'S PRINCIPLES OF MANAGEMENT

1. **Division of labour** - work could be divided into small specialised task and performed by a trained specialist
2. **Authority and responsibility** - there must be a right balance between authority (right to give orders) and responsibility (obligation to perform the assigned task).
3. **Discipline** - obedience to organisation rules and employment agreement.
4. **Unity of command** - receive orders from one boss.
5. **Unity of Direction** - all the units of the organisation should aim and move towards achieving the organisational goal.
6. **Subordination of individual interest to general interest** - the organisation interest to be prioritised over individual interest.
7. **Remuneration** - pay should be fair and satisfying to both employee and the organisation.
8. **Centralisation and decentralisation** - there should be a proper balance between centralisation (concentration of decision making powers with top management) and decentralisation (dispersal of decision making power among more than one person).
9. **Scalar chain** - orders or communication should pass from top to bottom and follow the official line of command.
10. **Orders** - A place for everything/ everyone and every one in its place





11. **Equality** - kindness, empathy and justice in the behaviour of manager towards workers.
12. **Tenure stability** - frequent displacement of employee from their position should be avoided. They should be given sufficient time to show their results
13. **Initiative** - Employees to be encouraged to develop and carry out their improvement plans
14. **Espirit de corps** - need for team work, spirit and harmony.

## 5. SCIENTIFIC MANAGEMENT:

**Meaning:** Conduct of business activities according to standardised tools, methods and trained personal so as to have increased output through effective and optimum utilisation of resources. Hence it stresses that there is always one best way of doing things.

### Principles of Scientific Management

#### 1. Science not rule of thumb -

There should be scientific study and analysis of each element of job rather than adopting old rule of the thumb approach on a hit and miss method. Encourage "thinking before doing".

#### 2. Harmony not discord -

There should be complete harmony and proper understanding between management and workers in achieving the organisation goals.

#### 3. Cooperation not individualism -

Taylor emphasised on the importance of cooperative group effort between the management and workers in achieving the organisation's goals and not individualism.

#### 4. Development of workers to their greatest efficiency and prosperity:

The management should scientifically select the workers; assign job as per their physical, mental and intellectual capability and potential; and train them as per the job requirement.

### Techniques of scientific

management a) Functional

foremanship



- Supervision is to be divided into several specialized functions and each function to be entrusted to a special foreman.
- Each worker will have to take orders from eight foremen in the related process of function of production.
- Stress on separating planning function from executive function.

#### **b) Standardisation and simplification of work**

- Process of setting standards for every business activity to maximise output.
- Simplification is eliminating unnecessary varieties, sizes and grades of product manufactured in the organisation.

#### **c) Method study**

- Finding one best way of doing a job.
- Critical analysis is made for plant layout, product design, material handling and work processes using techniques like process charts, operations research etc.

#### **d) Motion study**

- Making a thorough analysis of various motions being performed by a worker while doing a particular task.
- Identifying and determining the ideal productive movement.
- Eliminate the unproductive movements and equipments.

#### **e) Time study**

- It is the technique used to determine the standard time taken by the workman with reasonable skill and ability to perform a particular task.
- Here the job is divided into series of elements and the time required to complete each element idealistically is recorded using a stop watch.

#### **f) Fatigue Study**

- Determines the amount and frequency of rest intervals required in completing a task.

#### **g) Differential Piece wage system**

- Evolve a system wherein the efficient and inefficient workers are paid at different rates, as financial incentives act as motivators.
- First a standard task is established with the aid of time and motion study, then two rates are established. Higher when standard outputs is produced and lower when the standard is not met



## TAYLOR V/S FAYOL

Basis	Henry Fayol	F.W Taylor
1. Basis of	Personal Experience	Observations and
2. Focus	Improvement in the overall administration	Concentrates on improving the productivity
3. Applicability	Universally applicable	Applicable only to specialised situations
4. Perspective	Top level management	Lower level - shop floor level
5. Personality	Scientist and known as father of scientific management	Practitioner and known as the father of General management
6. Human element	More importance attached to increasing the production than to the human element	More importance given to human element; e.g. principle of equity, stability of tenure
7. Emphasis	Greater emphasis on tools and standardisation of work i.e. General Theory of Administration	Emphasis on principles and theory of general administration i.e. Scientific Management
8. Unity of Command	Staunch proponent that orders should be received from one boss.	Did not feel that it is important as under functional foremanship a worker received orders from eight specialists.

### VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

1. **How are management principles derived?**

Ans. Management principles are derived through observation and analysis of events.

2. **Give anyone difference between Principle and Technique.**

Ans. Principles are guidelines to take decision whereas techniques are methods to take action.



**3. What is meant by 'Universality of management principles'?**

**Or**

**Why is it said that management principles are universal?**

Ans. This it means that they are applicable to all kinds of organizations.

**4. The principles of management aren't rigid and can be modified when the situation demands. Which nature of principles is being discussed here?**

Ans. Flexibility.

**5. Define scientific management.**

Ans. Application of a scientific approach to managerial decision making.

**6. List any two principle of 'Scientific Management' formulated by Taylor for managing an organization scientifically.**

Ans. (i) Science, not Rule of Thumb. (ii) Harmony, not Discord.

**7. Factory owners or managers relied on personal judgment in attending to the problems they confronted in the course of managing their work. Which principle of Taylor is it referring to ?**

Ans. 'Rule of thumb'

**8. What do you mean by Mental Revolution?**

Ans. Mental Revolution means revolutionary change in the attitude of both workers and managers from competition to cooperation.

**9. Principle of cooperation, not individualism, is an extension of which principle given by Fayol?**

Ans. Principle of Harmony, not discord.

**10. What is the aim of Method study?**

Ans. Aim is to find one best method of doing the job.

**11. What is the aim of doing motion study?**

Ans. The aim of this study is to eliminate unnecessary movements so as to ensure timely completion of work.

**12. What is the purpose of time study?**

Ans. To estimate/ determine a fair day's work.

**13. Name the techniques of Taylor which is the strongest motivator for a worker to reach standard performance.**

Ans. Differential Piece Wage system.

**14. The directors of XYZ limited, an organisation manufacturing computers,**



want to double the sales and have given the responsibility to the sales manager. The sales manager has no authority either to increase sales expense or appoint new salesmen. Hence, he could not achieve this target. Identify the principle violated in this situation.

Ans. Principle of Authority and Responsibility.

15. A company manufacturing motorcycles and cars should have separate divisions for both, headed by separate divisional managers, separate plans and resources. Identify the principle with the help of this example.

Ans. Unity of Direction.

### SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)

1. What do you mean by management principles?

Ans. Principles are statements of fundamental truths about some phenomena and serve as a guide for thoughts and actions. They establish cause and effect relationship.

Management Principles are the fundamental statements of truth that provide guidelines to the managers for decision making and actions. These enable the managers to manage the enterprises in "3E way" viz 'economically', 'effectively' and 'efficiently'. These act as guide for managers and sharpen their skills and competence.

For example, principle of division of labour increases the efficiency of workers which ultimately leads to economy and effectiveness in the organization.

1. How are management principles derived?

Or

"Management principles are evolutionary." Explain.

Or

"Derivation of management principles may be said to be a matter of science." Explain.

Ans. Management principles are not made in heavens; they have emerged gradually, through an evolutionary process of combining deep observations and experimental studies.

(i) **Observation method**

Under this method, practical events are observed and analyzed by managerial researchers to derive management principles.

For example, it was observed that by dividing the work into different units, efficiency of employees improved. As a result, it led to formulation of principle of 'division of labour'.



## **(ii) Experimental method**

Under this method, experiments are conducted so that management principles can be derived and their validity can be tested. For example, two units, one unit involving one superior and one subordinate and other unit involving two superiors and one subordinate, were taken. It was found that unit having one superior and one subordinate performed better. As a result, it led to formation of principle of "unity of command."

From the above it can be concluded that observations and experiments result in the formulation of management principles which therefore are evolutionary. Hence, derivation of management principles can be said to be a matter of Science. It is worth mentioning here that even though derivation of management principles is a matter of science, their application remains a matter of art. The success of managers depends upon how skillfully they put these principles into practice.

### **3. Give three points reflecting the nature of management principles.**

Ans. Management principles are

(any three):

- (i) Universal in application.
- (ii) General guidelines.
- (iii) Flexible and can be applied differently under different conditions.
- (iv) Formed by practice and experimentation.
- (v) Establish cause and effect relationships.

### **4. "Principles of management achieve results economically." Explain?**

Ans. Management principles help in setting realistic objectives for the business because the objectives are set with the participation of employees. Hence, the employees work to their full potential and their commitment level increases because objectives of organisation become their own objectives.

For example, the principle of maximum output rather than restricted one ensures more output. More output lowers cost per unit and hence profit per unit increases.

### **5. Define scientific management and name any three of its principles.**

Ans. According to Taylor, "Scientific management means knowing exactly what you want your men to do and seeing that they do it in the best and cheapest way".

Three principles of scientific management are

as follows: (i) Science, not rule of thumb

(ii) Harmony, not discord.

(iii) Cooperation, not individualism.

**6. Explain the objectives of standardization.**

Ans. Standardisation is done for the following reasons:

(i) To ensure that a given product range has fixed types, sizes, characteristics etc.

(ii) To bring about interchangeability, for manufactured parts, output, developments etc. among various branches.

(iii) To set uniform standards of performance for men, machines etc.

**7. Which technique of Taylor suggests that each worker should be supervised by specialists? Give the designations of any four specialists suggested by him.**

Ans. The technique of functional foremanship suggests that each worker should be supervised by specialists. These specialists' designations are follow.

(i) Instruction Card Clerk

(ii) Route Clerk

(iii) Time and Cost Clerk

(iv) Disciplinarian

**8. 'Discipline is double-edged tool' Comment.**

Ans. Discipline is a double-edged tool. It is expected to strike a balance between enforcing the discipline on one hand and motivating employees on the other. Personnel entrusted with enforcing it are expected to be competent and capable of achieving this balance. Employees must honor the commitment made by them and management must meet its promises to increase wages declaration of bonus etc. To achieve proper discipline, skilled superiors at all levels, clear and fair agreements and judicious application of penalties etc. are required.

**9. Explain the principle of unity of direction.**

Ans. This principle suggests that in an organization there should be one head and one plan for a group of activities having the same objective. This helps in bringing unity of action and coordination in an organization. If a company is manufacturing two different products then it should have two separate

divisions or departments for both the products. Each division or department should have their separate in-charge, plans and execution resources etc.

10. An organization follows the principles of management. What are the adverse effects of each of the following principles of management on the organization?

(i) Unity of Command

(ii)

Or  
der

(iii) Stability of tenure of personnel

Ans. Adverse effects of said principles are:

(i) **Unity of Command:** If this principle is followed, work gets delayed which results in wastage of time and cost.

(ii) **Order:** It creates boredom among the employees due to rigidity provided by this principle.

(iii) **Stability of personnel:** If employees are not rotated on different jobs frequently, they can specialize only in a small part of the whole process of production and thus can never become versatile.

11. Explain how principles of management  
2012)

(cbse

i) Help the managers in taking scientific decisions

ii) Provide the managers with useful insights into real world situations

Ans. Explanation of relevant sub-headings from significance of principles of management.

### LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)

1. Explain the nature of management principles.

Ans. Nature of management principles can be described as follows:

(i) **Universal Applicability:** The principles of management are applicable to all types of organisations irrespective of their size and nature.

(ii) **General Guidelines:** They are only guidelines for action and don't provide direct or readymade solution for a managerial problem.

(iii) **Formed by practice and experimentation:** The principles of management have been developed through experimentation as well as experience and wisdom of managers.





**(iv) Flexible:** They are flexible i.e. they can be modified by the managers according to a given situation.

**(v) Mainly behavioural:** They are mainly behavioural in nature since they are devised to influence human behaviour.

**(vi) Cause and effect relationship:** The principles of management establish relationship between cause and effect. They guide us as to what would be the effect if a particular principle were to be applied in a given situation.

**(vii) Contingent:** The use of principles of management is contingent or dependent upon the prevailing conditions.

2) **Explain the importance of management principles.**

Ans. The importance of management principles can be understood by considering the following points:

**(i) Provide useful insight to manage:** Principles of management help in increasing managerial efficiency by adding to their knowledge and ability to understand the various situations more objectively.

**(ii) Optimum Utilization of Resources and effective administration:** Management principles help in organizing various activities in such a way that results in elimination of unwanted activities and consequent wastage. Management principles help in managing organizations effectively.

For example, Unity of Command helps to avoid confusion and conflicts Unity of Direction ensures unity of actions to facilitate coordination

**(iii) Scientific decisions:** They help the managers in taking the decisions based on the objective assessment of a situation. Thus decisions taken are logical and free from any bias and prejudice

**(iv) Meeting changing environment requirements:** Though the principles are only guidelines for action yet they can be modified according to the need of changing situations. Thus principles of management help in meeting changing requirements of the environment.

**(v) Fulfilling social responsibilities:** Principles of management have been devised in such a way that they help in fulfilling social responsibilities.

**(vi) Management training, education and research:** Principles of management are the fulcrum of management theory so that they are used as a basis for management training, education and research.

3. **Taylor's principles of scientific management and Fayol's principles of management are mutually complementary." Do you agree with this view? Give any four reasons in support of your answer.**

Ans. Yes, Taylor's principles of scientific management and Fayol's principles of management are mutually complementary because of the following reasons:

Basis	Taylor	Fayol
1. Personality	Taylor was a scientist	Fayol was a practitioner
2. Perspective	Taylor's principles & techniques are based on bottom upward approach	Fayol's principles are based on top downward approach
3. Scope and Applicability	Taylor's principles & techniques are relevant mainly with respect to production activities	Fayol's principles have wider relevance in all functional areas
4. Focus	Taylor's principles & techniques are focused on workers' efficiency and production.	Fayol's principles are focused on improving overall management efficiency.
5. Modifications	Taylor's techniques are more specific in nature and should be applied without any modification and only in specific conditions	Fayol's principles are more general in nature & can be applied in most of the organizations with some modifications.
6. Expression	Taylor expressed his thoughts and views under the theory of scientific management	Fayol expressed his ideas as the general theory of management



### QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS

1. 'Principles of Management are different from those used in pure science'. Write any one difference. - 1 Mark

Ans.	Basis of Difference	Principle of Management	Principles of Science
	1. Nature	They are flexible	They are rigid.

2. Which principle does functional foremanship violate? - 1 Mark

Ans. Unity of command

3. Give any one effect of principle of division of work? - 1Mark

Ans. Specialization, speed, accuracy.

4. 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? - 1 Mark

Ans. Unity of Command.

5. "Workers should be encouraged to develop and carry out their plans for development." Identify the principle of management formulated by Fayol. - 1 Mark

Ans. Principle of Initiative

6. State any three reasons as to why proper understanding of management principles is necessary. - 3 or 4 Mark

Ans. Proper understanding of management principles is necessary because of the following reasons (any three):

- (a) They provide managers with useful insight into reality.
- (b) They help in optimal utilization of resources and effective administration.
- (c) They help in meeting environment requirements.
- (d) They are used as basis for management training, education and research.

7. How do management principles ensure optimum utilization of resources and effective administration? - 3 or 4 Mark

Ans. In every organization, resources such as men, machine, material and money play a vital role. Management principles are designed in such a way that maximum benefits from these resources can be achieved with minimum resource wastage. Along with this, the principles of

management also help in establishing effective administration by limiting the boundary of managerial discretion that their decisions may be free from personal biases.

For example, while deciding the annual budget for different departments, a manager is required to follow the principle of contribution to organisational objectives and not personal preferences.

**8. Explain briefly the technique of fatigue study? - 3 or 4 marks**

Ans. Fatigue study determines the amount and frequency of rest intervals in completing a task. Workers cannot work at a stretch. After putting in work for a certain periods of time, they feel tired which affects their performance. If they are allowed rest intervals, they will regain their stamina and will resume their work with greater efficiency.

**9. Give positive effects of the principle of 'discipline'. - 3 or 4 marks.**

Ans. Positive effects of the principle of 'discipline' are as under:

- i) Improves efficiency of the employees.
- ii) Systematic work in the organisation.
- iii) Ensuring that penalties are imposed judicially.

**10. Explain the Principle of centralization and decentralization. -3or 4 marks.**

Ans. Centralization means concentration of authority in the hands of few people at the top, whereas decentralization means appropriate distribution of power at every level of management. According to Fayol, company must be properly balanced i.e. it should neither be completely centralized nor decentralized. There must be some element of both depending upon the profile of the organization. The panchayat system in our country is a very good example of decentralization at the national level.

**11. Ms. Ritu and Mr. Mohit are Data Entry Operators in a company having same educational qualifications.**

**Ritu is getting Rs. 5,000 per month and Mohit Rs. 6,000 per month as salary for the same working hours.**

**Which principle of management is violated in the case? Name and explain the principle.**

Ans. The principle of 'equity' is violated in this case. According to this principle, employees should be given kind, fair and just treatment and there should not be any discrimination based on caste, creed, colour, sex etc. Apparently, Ritu

is getting less in view of bring a female which is against this principle.

12. Explain the technique 'Functional Foremanship'. - 5 or 6 Marks

Ans. Functional foremanship is the extension of the principle of specialization. This technique emphasises on the separation of planning from execution. To facilitate it, Taylor suggested setting up of "planning in charge" and "production in charge".

### FUNCTIONAL FOREMANSHIP

**Planning Incharge:** The main function of "planning in charge" is to plan all aspects of a job to be performed. It consists of four positions:

(i) **Route clerk:** He determines the sequence to perform various mechanical and manual operations.

(ii) **Instruction card clerk:** He issues instructions to the workers to be followed by them.

(iii) **Time and cost clerk:** He is concerned with the framing of time schedule on the basis of determined route. Also, he keeps the record of the cost of operations.

(iv) **Disciplinarian:** He is concerned with the coordination in each job from planning to successful execution. He enforces rules and regulations and maintains discipline.

**Production Incharge:** It consists of following four specialists who are concerned with the execution of plans.

(i) **Speed Boss:** He checks whether work is progressing as per schedule. He ensures timely and accurate completion of jobs.

(ii) **Gang Boss:** He arranges machines, materials, tools, and equipments properly so that workers can proceed with their work.

(iii) **Repair Boss:** He ensures that all machines, tools, equipments are in perfect working order.

**Inspector:** He ensures that the work is done as per the standards of quality set by planning department.

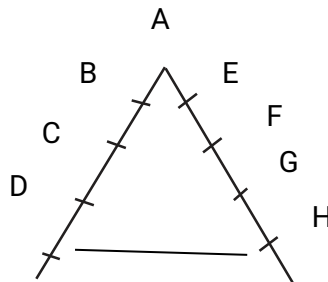
13. Name and explain that principle of Fayol which suggests that communication from top to bottom should follow the official lines of command. - 5 or 6 Marks

Or



### Explain the 'Principle of Scalar Chain' with an example.

Ans. In an organization, the formal lines of authority, from highest to lowest level of all superiors and subordinates, are known as scalar chain. The principle of scalar chain suggests that there should be a clear line of authority from top to bottom, linking superiors and subordinates at all levels. The scalar chain serves as a chain of command as well as communication. In normal circumstances, the formal communication is required to be made by following this chain.



### Scalar Chain and Gang Plank

**Example:** The above figure shows the scalar chain linking managers at lower levels with the top management. If D has to communicate with G, The message should ordinarily move up through C and B to A, and then down from A to E, F and G.

Above mentioned chain has following disadvantages:

- (i) It causes delay in reaching communication to the required level.
- (iii) Creates the possibility of distortion of information flow as various levels are involved.  
To avoid delays and to remove hurdles in the exchange of information, concept of Gang Plank has been suggested by Fayol, shown by the dotted line joining D and G.

**CHAPTER - 3**  
**BUSINESS ENVIRONMENT**  
**CONCEPT MAPPING**

- Meaning** : The totality of all individuals, institutions and other forces that are outside a business enterprise but that may affect its functioning and performance.
- Nature** : (a) totality of external forces (b) specific and general forces (c) Inter-relatedness (d) dynamic (e) uncertainty (f) complexity (g) Relativity
- Importance** : (a) first mover advantage (b) early warning signal (c) tapping useful resources (d) coping with rapid change (e) planning and policy formulation (f) improving performance
- Dimensions** : (a) economic (b) social (c) technological (d) political (e) legal
- Liberalisation** : Liberating industry from licensing and other regulations.
- Privatisation** : transferring ownership and management of public enterprises to private sector
- Globalisation** : integrating different economies into a world economy by removing barriers to free flow of goods, services, capital, labour, etc. from one country to another.
- Impact of Policy Changes:** (a) increasing competition (b) more demanding customers (c) rapidly changing technology (d) necessity for change (e) need to develop human resources (f) market orientation (g) loss of budgetary support to public sector.

**KEY CONCEPTS IN NUTSHELL**

**1. MEANING:**

It is the sum total of all individuals or institutions comprising of consumers, competitors, suppliers government, courts, media and also the forces like economic, social, political, legal and technological that are outside the ambit and control of business enterprise but that which can affect its performance.

**2. FEATURES OF BUSINESS ENVIRONMENT:**

- i. **Constitutes totally of external forces** - it comprises of the sum total of

all forces that are external to the business firm which it must deal with.

- ii. **Specific and general forces** - the forces present outside can be divided into two parts Specific- these forces affect the firms of an industry separately  
e.g. Customers, suppliers, competitive firms etc.  
General - these forces affect all the firms of an industry equally e.g. Social, political.
- iii. **Inter-related** - the different factors are co-related  
e.g. Change in the import- export policy is a political change that gives rise to economic change as well
- iv. **Uncertainty** - business environment are susceptible to rapid changes, no one can predict with certainty the changes in the factors.  
e.g. change in technology and fashion.
- v. **Dynamic** - business environment keeps on changing.
- vi. **Complex** - it is difficult to know the extent of impact of the changes that the factors can bring in.
- vii. **Relative** - business environment is a relative concept as it differs from country to country, region to region.

### 3. IMPORTANCE OF BUSINESS ENVIRONMENT:

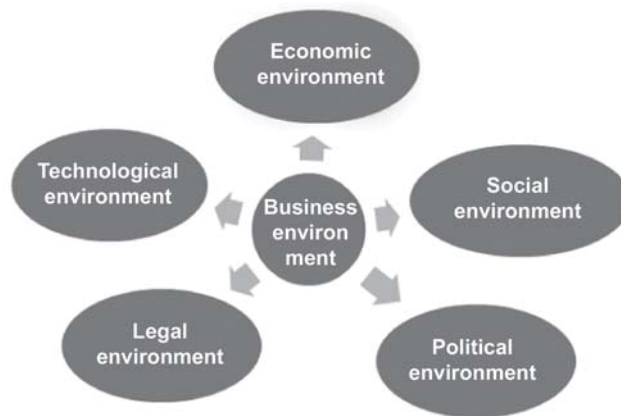
- i. **Identify the opportunities and getting the first mover advantage** - by being aware of the changes in business environment, enterprises can identify opportunity and strategize ways to capitalise on them.
- ii. **Identify threats and early warning signals** - environment scanning helps in detecting possible threats in future.
- iii. **Basis for planning and policy for formulation** - identification of threats and opportunity serves as basis for deciding the future course of action.
- iv. **Tapping useful resources** - the resources are required to carry on a successful business enterprise. These have to be procured from the business environment.
- v. **Helps in coping with rapid changes** - turbulent markets, less brand loyalty, divisions and sub-divisions (fragmentation) of markets, more demanding customers, rapid changes in technology and intense global competition combined with complex business environment calls for a flexible planning to cope with the changes.
- vi. **Improvement in organisation performance** - continuous and constant monitoring and adapting suitable business practices result in improved business performance.





#### 4. DIMENSIONS OF BUSINESS ENVIRONMENT:

The various dimensions of business environment in terms of general environment are:



##### **Economic Environment :**

Refers to all those forces that have economic impact on the business activity

Components of economic environment are GDP, Inflation rate, Interest rate, Rupee value, Stock exchange index, Tax rate

**Political Environment:** includes political conditions such as political leadership, political stability, practices of the ruling party and the nature of the government in power and their level of interference

Components of political environment are Constitution of the country, Political ideology of the ruling party, nature and extent of government interference, international relations.

**Legal Environment:** refers to the framework of laws and various legislations within which the business activities take place

Components of Legal Environment are Government legislations, court judgements, Decisions of various commissions.

**Social Environment:** represents the customs and traditions, values, culture, social trends, beliefs, norms and ethics of a society in which business enterprises operate.

Components of Social Environment are customs traditions, social expectations, lifestyles, values, literacy level

**Technological Environment:** refers to the influence of the changes in the technology on the business environment.

**Components of Technological Environment:** new methods and techniques of business operations, Scientific improvements and innovations,

As a part of economic reforms the Government of India announced New Industrial Policy in July 1991 which emphasised on three major elements which were:

- **Liberalisation** - from the clutches of licensing policy. Therefore, removal of entry and growth restrictions on the private sector enterprises.
- **Globalisation** - encouragement of foreign private participation in industrial development. This step mainly intended at integrating the national economy with the world economy through the removal of barriers on international trade and capital movements.
- **Privatisation** - drastic reduction in the role of public sector. Further it aimed at transfer of ownership ,management and control of the public sector enterprise to the private sector.

The new industrial policy aimed at creating a more competent environment in the economy so as to strengthen the process of industrialisation. Its features are as follows

- Delicensing of all projects except six industries
- Decreased role of public sector to merely 4 industries
- Disinvestment: selling of a part or whole of the shares of the public sector undertaking
- Liberalisation of Foreign capital
- Setting up of Foreign Investment board (FIPB)
- Liberal policy for technical collaborations

## 7. IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY:

- Increase in competition
- Demanding customers
- Technical change and increased investment in R and D
- Necessity of change
- Development of human resource
- Market orientation
- Loss of budgetary support to the public sector.



**VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)**

**1. What is Business Environment?**

Ans. Forces affecting the performance of an organisation but outside its control are called as Business Environment.

**2. How have customers benefited by increased competition after liberalisation and globalisation?**

Ans. While purchasing they get a better quality and wider choice of goods and services.

**3. How can the firms cope up with changing technological environment?**

Ans. They have to develop new ways.

**4. What do you mean by Globalisation?**

Ans. When the various economies of the world integrate, it is known as Globalisation.

**5. Which policy of Indian Government has moved India towards globalisation?**

Ans. The Industrial Policy of 1991.

**6. What do you mean by disinvestment?**

Ans. When the private sector takes over public sector, it is called disinvestment.

**7. Give one measure taken by Indian Government to introduce liberalisation.**

Ans. Abolishing licensing requirements.

**8. What do you mean by first mover advantage?**

Ans. Early identification of opportunities.

**9. What are Values?**

Ans. Concepts held by a society in high esteem are values.

**10. Which of the sector was given importance after independence?**

Ans. Public sector.

**11. What was the responsibility given to private sector after independence?**

Ans. Developing consumer goods industry was the responsibility given to private sector.



**12. What do you mean by Liberalisation?**

Ans. It means reduction in government controls and restrictions

**13. Which two factors are included in Technological Environment?**

Ans. Scientific Improvement and Innovations.

**14. What is meant by opportunities?**

Ans. It refers to the positive external trends that help an enterprise to improve its performance.

**15. What do you mean by Innovation?**

Ans. Producing goods and services by new methods is called as Innovation.

**16. Name the economic reforms introduced to free Indian business from unnecessary controls and restrictions.**

Ans. Liberalisation.

#### **SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)**

**1. Define Business Environment. State two important concerns of business environment.**

Ans. The sum total of all external factors which are outside the control of business enterprises is termed as Business Environment. Factors may be social, political, economic etc.

**2. Explain the specific and general forces of business environment ?**

Ans. Business environment comprises of both specific and general forces. Specific forces refer to those forces that are having direct effect on the day to day working of the business viz. customers, competitors, investors etc. General forces refer to social, political, legal and other forces which are having an indirect effect on the operations of a business.

**3. Enumerate the benefits of understanding business environment.**

Ans. The benefits of understanding business environment are:

- (i) Enabling the identification of opportunities and getting the first mover advantage.
- (ii) Helping in the identification of threats and early
- (iii) Tapping useful resources.

- (iv) Coping with the rapid changes.
- (v) Assisting in planning and policy.
- (vi) Improvement in performance.

**4. What are the main dimensions of business environment ? What does environment consist of?**

Ans. The main dimensions of business environment are

(i) Economic, (ii) Social, (iii) Technological, (iv) Political, (v) Legal Economic environment consists of the factors having economic dimensions such as fiscal policy, monetary policy, industrial policy etc.

**5. Explain the role of political environment in shaping the business.?**

Ans. Business functions within the framework of political environment. Generally, government's policies change with the change of guard in power. Business is required to understand and follow such changes and also respect the orders that judiciary gives from time to time.

For example, after globalization, Government of India allowed many companies to enter the Indian market for giving boost to the different industries like food processing industry etc. That paved the way for entry of multinationals in India on a large scale.

**6. Explain the concept of technological environment.**

Ans. It includes new approaches, new procedures, and new equipments to transform inputs into outputs. It facilitates an organization's efficiency and effectiveness so that it can try to remain at par with the best in the world. Technological changes provide opportunities for some enterprises and become threats for some others.

For example, digital watches killed the business prospects of traditional watches; TV has adversely affected radio & cinema industry; mobile phones have taken over the market from landline phones.

**7. What do you understand by legal environment? Give two examples which protect consumers' interests.**

Ans. Legal environment consists of rules and regulations, framed by the Parliament, under which business must operate. To exist and grow, business is required to follow all the rules and regulations that constitute this environment.

Two examples protecting consumers' interests:

- (i) Advertisement of alcoholic beverages is prohibited.
- (ii) Packets of cigarettes should mention the statutory warning 'Cigarette

smoking is Injurious to health'.

**8. List the various changes initiated by the Government of India since 1991.**

Ans. Various changes initiated by the Government of India since 1991 are as follows:

- (i) New industrial policy
- (ii) New trade policy
- (iii) Fiscal reforms
- (iv) Monetary policy
- (v) Capital market reforms
- (vi) Phasing out of Subsidies and Price controls

**9. List some important factors that influence the working of a business enterprises?**

Ans. Following are the important factors that influence the working of a business enterprise:- (i) Changes in economic policies. (ii) Political uncertainty in the country. (iii) Increase in the rate of competition. (iv) Changes in fashion.

**LONG ANSWER TYPE QUESTIONS ( 5 OR 6 MARKS)**

**1. What do you mean by business environment? Explain the key components of business environment.**

Ans. Business environment is the sum total of all external factors that influence the functioning of a business enterprise.

The components of general environment are:

**(i) Economic environment:**

Economic environment consists of factors having economic dimensions such as fiscal policy, monetary policy, industrial policy etc.

**Impact:** Banking sector reforms have led to attractive deposit avenues and easier credit policy. Likewise reforms in leasing & financial institutions are also catalyzing company's economic growth.

**(ii) Social environment:** It discriminates characteristics of the society in which an enterprise exists. It consists of literary rates, educational levels, customs and demographic distribution etc.

**Impact :** Equal pay for equal work for both male and female workers, reservation of jobs for minorities etc.

**(iii) Political environment**

It consists of the political forces responsible for the management of public affairs and their influence on business.

**Impact** : Government allowed Pepsi to enter Indian market again for giving boost to the food processing industry.

**(iv) Technological environment**

It comprises of the various processes, techniques, approaches etc. by which an organization transforms inputs into output.

**Impact** : Digital watches have pushed out traditional watches.

**(v) Legal Environment** : It characterises various governmental rules, regulations and legislations etc. that all members of business community must follow.

**Impact** : Removal of control on foreign exchange and liberalization of foreign direct investments.

**2. What do you understand by economic environment? List the main aspects of economic environment.**

Ans. Economic environment consists of factors likes inflation rates, interest rates, consumer's incomes, economic policies, market conditions etc. which affect the performance of a business firm.

Following are the main aspects of economic environment:

- (i) The role of public and private sector in the existing structure of the economy.
- (ii) The rate of increase in GNP and per capita income both at current and constant prices.
- (iii) Quantum of exports and imports of different products.
- (iv) Increase in transportation and communication facilities.
- (v) Trends in agricultural and industrial productions.
- (vi) Amount of savings and investments.

**3. Social environment of business is important for a business enterprise". Explain ?**

Ans. A business is a part of the society in which it operates. The buying and consumption habits of the people, their languages, customs, preferences, tastes etc. are the factors that influence the business. Businessmen should be alert enough to visualize the factors that directly or indirectly affect their organization. Cooperation between business and society will see business boom and will help growth of professional managers. The failure of any business organization in adapting to changes in the social environment will lead to dissatisfaction amongst its customers and rejection of its products. This shift of demand can even endanger the very survival of a business.

For example, equal pay for male and female workers, demand for reservation in jobs for minorities and women etc.

**4. Enumerate negative impacts of liberalization and globalisation.**

Ans. The negative impacts of liberalization and globalization are as follows;

- (i) Threats from Multinational Companies (MNCs).
- (ii) Corporate vulnerability.
- (iii) Increased competition.
- (iv) Fast changing technology.
- (vi) High obsolescence of material resources.
- (vii) High labour turnover.
- (vii) Threat to indigenous culture and values.

**5. Enumerate any ten Positive impacts of liberalization and globalization.**

Ans. The positive impacts of liberalization and globalization are as follow:

- (i) Opportunities for new entrepreneurs.
- (ii) Latest technology becoming available.
- (iii) Opening up of foreign markets.
- (iv) Easy imports of capital goods.
- (v) Direct investment by Indian companies abroad.
- (vi) Changed attitude of labor unions,
- (viii) Easy inflow of foreign capital.
- (ix) Freedom to expand and diversify.
- (x) Restructuring of industries.
- (x) Widening of product choices for consumers.

**6. Explain any five negative impacts of liberalization and globalization.**

Ans. Following are the negative effects of liberalization and globalization.

**(i) Threats from multinational companies (MNCs)**

With the arrival of multinationals it is becoming difficult for small and medium business units to even survive. The massive entry and consolidation to multinationals in the Indian markets is a challenge that has already forced some business enterprises to take the exit route.

**(ii) Destabilization of protected environment**

With easier entry of multi-national companies, Indian business environment is fast losing its protective shield. The new entrepreneurial freedom is creating problems for the existing players. Even manufacturers of



Maruti car could not retain their market share and had to remodel their products and announce heavily price reductions from time to time.

**(iii) Decline in public sector**

Public sector is losing markets and their capacity utilization has declined, hampering thereby pace of country's technological and economic growth.

**(iv) Sellers' market turned into buyers' market**

With the entry of foreign goods and services, shortage of goods, which is boon for the sellers, has now turned into surplus. Resultantly, sales/margin to many sellers have come down substantially. Buyers are now free to buy any product of their choice at a price they can afford.

**(v) Fall in the value of rupee**

Indian rupee has been devaluing against DOLLAR, EURO and many other foreign currencies. This phenomenon has forced even some established exporters to encash their stake partly/fully.

**QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

1. **Why is business environment uncertain?** - 1  
Ans. Future happenings are very difficult to
2. **What is meant by Market Orientation?** - 1 Mark  
Ans. The firms produce goods after analysing the market needs.
3. **How can environment awareness help managers?** - 1  
Ans. Various threats are identified in time.
4. **How can political stability be beneficial to the economy?** - 1 Mark  
Ans. Confidence among the business people is built up to invest and take up new ventures.
5. **What was the immediate cause of economic reforms in 1991?** - 1 Mark  
Ans: High Government deficit.
6. **What is meant by threats?-** 1 Mark  
Ans. It refers to those environmental trends which hinder the performance of an enterprise
7. **Give one of the most important objectives of Indian development programmes at the time of independence.-** 1 Mark  
Ans. Rapid Economic Growth

**8. 'Environment provides both constraints and opportunities.' Comment.**

Ans. Business environment provides both constraints and opportunities. Some of the constraints are economic conditions, customs, government regulations, availability of natural resources etc. In spite of many initiatives, FDI is not picking up in India due to political and bureaucratic hurdles.

On the other hand, environment also offers various opportunities which include changing needs of customers, technological advances etc. For example, the growing demand for A.C. has attracted many new players, domestic (Godrej, Kirloskar) as well as multinationals (LG Electronics) to this industry.

**3 or 4**

**Marks**

**9. Business environment or Environmental Scanning helps in the identification of threats and early warning signals." Explain?-3or4 Marks**

Ans. Environmental scanning helps an enterprise to recognize qualitative information in advance, which can be used to prepare it for facing likely challenges. For example, if any new multinational company is entering the Indian market, the manager of an Indian firm dealing with same product, as that of the multinational company, should take it as a warning signal. He should take measures like improving the quality of his product, heavy advertisement etc. to face the challenge.

**10. What is meant by liberalization? List the impact of changes in government policy On business and industry. - 3 or 4 Marks**

Ans. Indian economy has gradually become more liberal and global since 1991. Liberalization refers to the removal of various outdated rules, regulations etc. and providing more helpful norms for the business to grow, particularly in the fields of exports and imports.

Some of the impacts of changes in government policy on business and industry are as under:

- (i) Increasing competition.
- (ii) More demanding Customers
- (iii) Rapidly changing technological environment
- (iv) Necessity for change.
- (v) Need for developing human resource.
  
- (vi) Market orientation.



(vii) Loss of budgetary support to the public sector.

**11. Explain the meaning of the term Privatisation? List any two reforms made under Privatisation. - 3 or 4 Marks**

Ans. Privatisation refers to reducing the role of public sector and increasing the role of private sector for rapid development of the nation.

**Two reforms made under Privatisation:**

(i) Loss making or sick public sector enterprises were either closed or handed over to Board of Industrial and Financial Reconstruction.

(ii) Disinvestment of public sector enterprises.

**12. Enumerate the various ways in which managers respond to changes in business environment. - 3 or 4 Marks**

Ans. Following are the ways in which managers respond to changes in business environment:

(i) Strategic alliances, mergers and acquisitions of businesses.

(ii) Diversification.

(iii) Collaboration with multinationals.

(iv) Brand building.

(v) Restructuring of business activities.

(vi) Capital restructures.

(vii) Customer focus.

(viii) Latest technology.

(ix) Compensation levels and incentive schemes.

**13. Mention four examples of acquisitions and mergers. - 3 or 4 Marks**

Ans. Four examples of mergers and acquisitions are:

(i) SRF buy Ceat's Rayon Tyre Cord.

(ii) Parle's take-over by Coke.

(iii) Godrej has bought over Goodnight.

(iv) Hutch by Vodafone.



14. Explain the changes initiated by the Government of India since 1991.

- 5 or 6 Marks

Ans. Following changes have been observed since 1991:

**(i) New Industrial Policy:**

- Government has begun disinvesting in public sector undertakings.
- There are new schemes to attract Foreign Direct Investment (FDI).
- There is prompt clearance of foreign investment proposals.
- Tax concessions are given to units in Special Economic Zones (SEZs).
- There is broadband facility in telecom sector.
- Abolition of industrial registration schemes.

**(ii) New Trade Policy:**

- There is liberalization of import policy.
- Deemed exporters are entitled to special import licenses.
- There are greater concessions to Export Oriented Units (EOU) and units in Export Promotion Zones (EPZ).
- Credit is now less expensive and many imports are duty free.
- Simplification of procedures related to export promotion.
- Removal of export quotas & reduction in import duties.

**(iii) Fiscal Reforms**

- Measures have been taken to bring down fiscal deficit.
- Tax reforms have been initiated to increase revenue and tax compliance.
- Reduction in direct and indirect taxes.
- Decrease in subsidies.

**(iv) Monetary Reforms**

- Phased reduction of statutory liquidity ratio (SLR).
- Private sector banks allowed to set up new branches.
- Banks have now been allowed to access capital market for raising capital.
- Permission for disinvestment (up to 49% of total equity).

**(v) Capital Market Reforms**

- Ceiling on rate of interest on debentures and bonds abolished. FII's can



access capital markets.

- Private sector can set up mutual funds.
- Bonus issues have been made more liberal.
- Security and Exchange Board of India (SEBI) has been made a statutory body

**15. 'Explain 'fiscal reforms' and 'monetary reforms' as per economic change initiated by Government of India since 1991. - 5 or 6 Marks**

Ans. **(i) Fiscal Reforms**

- Measures have been taken to bring down fiscal deficit.
- Tax reforms have been initiated to increase revenue and tax compliance
- Reduction in direct and indirect taxes.
- Decrease in subsidies.

**(ii) Monetary Reforms**

- Phased reduction of statutory liquidity ratio (SLR).
- Private sector banks allowed to set up new branches.
- Banks have now been allowed to access capital market for raising capital.
- Permission for disinvestment (up to 49% of total equity).

**16. Explain any five ways in which managers have responded to changes in business environment. - 5 or 6 Marks**

Ans. Following are the ways in which managers have responded to changes in businessmen environment:

**i) Strategic alliance, mergers and consolidation of businesses**

To achieve the objectives of market dominance, market entry, product ranges etc., the Indian business enterprises are also indulging in mergers, acquisitions, amalgamations and takeovers. Initiative for same has naturally come from managers of such enterprises.

**ii) Diversification spree:** Managers are leading diversification of their companies into various fields.

For example, Reliance is now also in the business of communications, retail chains etc. Likewise, they are bold enough to diversify into other nations too if need be.



iii) **Consolidation of multinationals:** Many multinational companies have entered India through new joint ventures. For example, General Motors' entry through a joint venture with Hindustan Motors.

iv) **Brand Building:** Companies are becoming more aggressive towards brand building. Their managers are spending huge amounts on same. Focus is on securing prime positions for their brands, through creative media-mix, in the minds of consumers.

v) **Labour :** Managers are changing their behaviour towards labour. Labour is also benefitted through higher wages and other facilities like training to upgrade their skills and job enrichment.

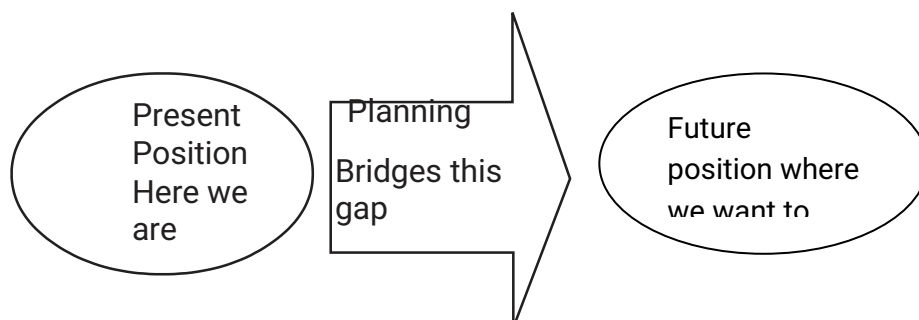
## CHAPTER - 4 PLANNING

### CONCEPT MAPPING

- Concept : Deciding in advance what to do and how to do it. It involves setting objectives and developing an appropriate course of action to achieve these objectives.
- Importance : (a) provides direction (b) reduces risks of uncertainty (c) reduces overlapping and wasteful activities (d) promotes innovation (e) facilitates decision making (f) provides standards for controlling
- Limitations : (a) rigidity (b) reduces creativity (c) huge costs (d) time consuming (e) does not guarantee success (f) may not work in dynamic environment
- Process : (a) setting objectives (b) developing premises (c) identifying alternatives (d) evaluating alternatives (e) selecting an alternative (f) implement the plan (g) follow up action
- Types : (a) objectives (b) strategy (c) policy (d) procedure (e) method (f) rule (g) programme (h) budget

### KEY CONCEPTS IN NUTSHELL

**Meaning-** It is the process of setting objectives and targets for a given time period and formulating an action plan to achieve them effectively and efficiently. It concerns itself with both ends and means that is what is to be done and how it is to be done.



## Definition -

“Planning seeks to bridge the gap between where we are and where we want to go. Planning is a trap to capture the future.

## Importance of planning.

- i) **Provides direction-** By stating in advance the future course of action of what is to be done and how it is to be done. By stating in advance it facilitates unity of direction.
- ii) **Reduces the risk of uncertainty-** By predicting future events and preparing the organization to anticipate the future and face unexpected events.
- iii) **Facilitates decision making-** planning helps the manager to look into the future and make a sound judgment or choice from among the various alternatives.
- iv) **Reduces overlapping and wasteful activities-**Through elimination and minimization of useless and redundant activities facilitating clarity.
- v) **Promotes innovative ideas-** Through better new methods, ideas and procedures to reach the objectives and goals of the enterprise. It induces the management to predict the changes in the environment and accordingly plan the strategies for the same .
- vi. **Establishes standard for controlling-** “control is blind without planning”. It helps provide standard against which the actual performance are compared and evaluated to estimate the deviations.

## Limitations of planning:

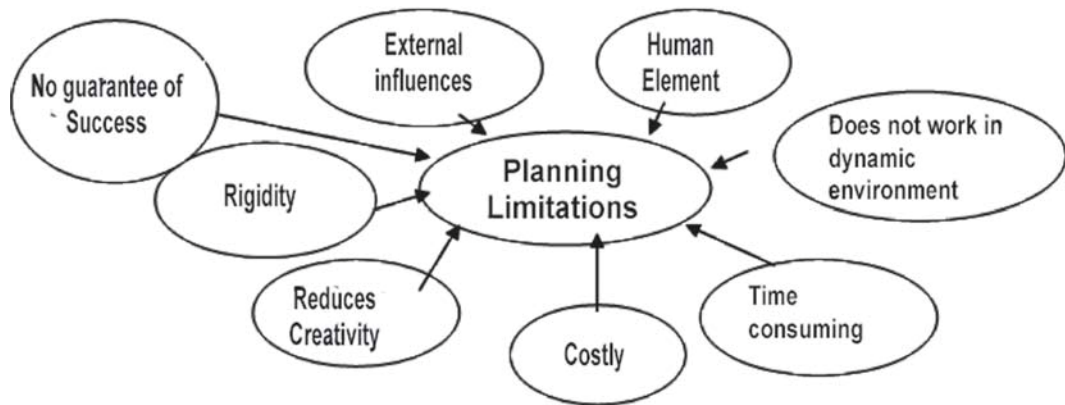
- i. **Planning does not work in a dynamic environment** - Planning also has to work amidst the influence of external environment which can render even the most effective plan inoperative.
- ii. **Planning is a time consuming process** as it requires collection of information, its analysis and interpretation. It becomes a difficult exercise in times of unexpected emergencies.
- iii. **It involves huge cost in its formulation.** As a lot of money needs to be expended in the collection, analysis and interpretation of data
- iv. **It creates rigidity in the mode of functioning.** As the employees are required to function as per the dictates of the predetermined policy.
- v. **It does not guarantee success,** as a wrong or a misconceived plan or a well drawn plan when not implemented can lead to failure.
- vi. **It reduces creativity as the middle level managers** and the other decision makers have to only follow and are not allowed to deviate from the plans.
- vii. **The human element can give way to errors or mistakes** through wrong





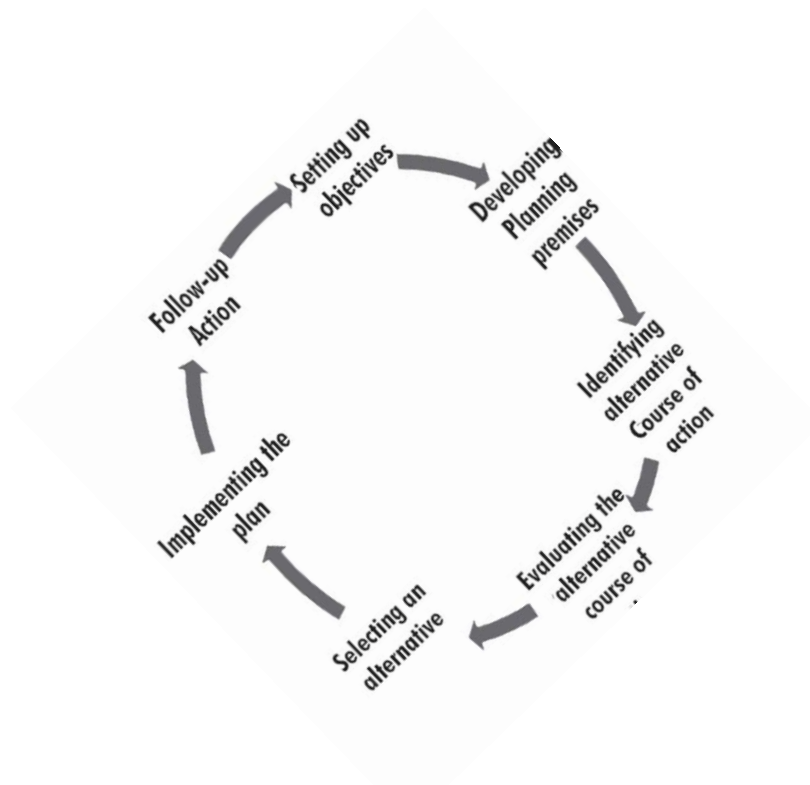
assumptions.

viii. It is prone to external influences which can reduce its impact like natural calamity, technology changes, policy changes, competition.



### Steps in planning process

- i. **Setting up objectives:** The process begins with identifying and setting up of objectives.  
It determines where to reach. The organizational objectives arrived at should be measurable, understandable, clear and attainable.
- ii. **Developing planning premises** - Premises involve making assumptions relating to future conditions. It provides relevant facts and information relating to future conditions. Hence sound estimates or forecast need to be made.
- iii. **Identifying alternative course of action** : The planner now arrives at the various alternatives for performance of a task and evaluate the probable consequence of each option.
- iv. **Evaluating the alternative course** - The positive and negative impact of each option in light of cost, risk and benefits is worked out.
- v. **Selecting the best alternative** - This is actually the stage of decision making where the most suitable course of action is selected .The selected alternative is obviously the one which is most feasible, profitable and has least negative impact.
- vi. **Implementing the plan** : The plan is transformed into action by activating the other managerial function involving organizing various resources and securing cooperation and participation of other members of the organization.
- vii. **Follow up plan** : This final culminating step involves reviewing the existing plan for its relevance and effectiveness.



**Types of plans:**

**(A)** Standing or Repeatedly used Plans: As their name indicates that these plans are formulated once and they are repeatedly used. These plans continuously guide the managers. That is why it is said that a standing plan is a standing guide to recurring problems. These plans include :

1. Objectives
2. Strategies
3. Policies
4. Procedures
5. Methods and
6. Rules

**(B)** Single –use or Special or Adhoc Plans: These plans are connected with some special problem. These plans end the moment the problems are solved. After having been used once there is no importance of these plans and in future, whenever they are needed they are re-created. These plans include

1. Budget and
2. Programme.

**Differences between Standing and Single-use Plans**

Basis	Standing Plans	Single-use Plans
1. Period	These plans are formulated for a long period	These plans are for a short period and are repeatedly formulated in case of need.
2. Object	These plans are formulated to	These plans are designed to run

	bring uniformity in decisions	successfully some particular activities
3.Types	They are of six types i. Objectives ii. Strategies iii. Policies iv. Procedures v. Methods and vi. Rules	They are of two types i. Budgets and ii. Programmes
4.Scope	They guide the managers in particular matters like price policy and sales policy	These plans guide in matters of daily routine.
5. Basis	They are based on the main objectives of the organisation	They are based on the standing plans of the organisation.

- 1) **Objectives** - Are the ends which the management seeks to achieve by its operation.
  - Represent the end point of management.
  - Set by top management.
  - Defines the future state of affairs.
  - Guides the overall business planning.
  - Can be expressed in specific terms. They can be measured .
- 2) **Strategy** - Provides broad shape of organization's business, refers to the future decisions defining the organization's directions and scope in the long run.
  - It involves a comprehensive plan which covers the determination of long term objectives, adoption of a particular course of action and allocation of resources.
- 3) **Policies** - are general statements which guide thinking in decision making.
  - They are based on objectives.
  - They guide managerial action and decisions.
  - They exist at all levels and departments of the organization.
- 4) **Procedures** - Are a chronological sequence of routine steps on how to carry an activity.

They detail the exact manner in which the work is to be performed.

  - It is meant for the insiders to follow.
  - Policies and procedures are interlinked.
- 5) **Rules** - Are specific statements that inform what is to be done.
  - Reflects managerial decision.
  - Simplest plan.
  - They are to be enforced rigidly.
- 6) **Methods** - Are standardized ways or manners in which a task has to be performed considering the objectives.
  - Selection of a proper method saves time, money and effort.

- 7) **Programmes** - Detailed statements which are combination of goals, policies, procedures, rules tasks, human and physical resources required and the budget to implement any course of action.. All these plans together form a programme.
- 8) **Budget** - Is a statement of expected results expressed in numerical terms for a definite period of time in the future.
- It quantifies future facts and figures.
  - Serves as a standard for measuring actual performance.
  - It is prepared for various groups of activities.

### VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

1. **What is planning?**

Ans. Planning is deciding in advance as to what needs to be done in future.

2. **Which function of management bridges the gap between where we are and where we want to go to?**

Ans. Planning.

3. **Name the primary function of management.**

Ans. Planning.

4. **One of the functions of Management is considered as base' for all other functions. Name that function.**

Ans. Planning

5. **What all qualities are required for doing planning?**

Ans. Intelligence, Imagination, Foresight, Sound Judgment.

6. **Name the feature of planning which says planning is a forward looking function?**

Ans. Planning is futuristic.

7. **How does planning create rigidity?**

Ans. Planning creates rigidity by putting adverse effect on initiative taken by the managers.

8. **What is the basis for creating future course of action?**

Ans. Forecasts.

9. **Give one limitation of planning function.**

Ans. Planning does not guarantee success.

10. **Which is the most crucial step in planning process?**

Ans. Setting objectives.

11. **Define 'Objective'?**

Ans. Objectives are desired future position that the management would like to reach.

**12. Define 'Strategy'.**

Ans. A strategy refers to future decision action, defining the organisation's direction and scope in the long run.

**13. Define 'Policy'.**

Ans. Policy is a general statement which guides decision making in a given set of situations

**14. Define 'Rules'.**

Ans. Rules are specific guidelines for behavior and action.

**15. Give anyone example of 'budget'.**

Ans. Cash budget.

**SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARK)**

**1. What do you mean by planning?**

Ans. Planning is deciding in advance about work to be done in future. It is that function of management which lays down the objectives and various actions to be taken for the achievement of those objectives.

According to Koontz and O'Donnel "Planning is an intellectual process, the conscious determination of courses of action, the basing of decision on purpose, facts and considered estimated".

**2. What do you mean by a plan?**

Ans. A plan is a formulation of certain steps and actions which are essential for achieving certain specific results. Plans can be classified on the basis of what they focus to achieve and the methods adopted viz. objectives, strategy, policy etc.

For example, if the planned output for a week is 1,000 units and actual output is 580 units only, the planners have to critically review their plans and modify: them, if need be, so as to achieve the planned output.

**3. Enumerate six points of importance of planning.**

Ans. Importance of planning is as under:

- (i) It provides direction for action.
- (ii) It reduces the risk of uncertainty
- (iii) It facilitates decision making.
- (iv) It establishes standards for controlling.
- (v) It promotes innovative ideas.
- (vi) It reduces overlapping and wasteful activities.

**5. How is planning a pervasive function of management?**

Ans. Planning is not the function of top management or any particular department only.



It is required at all the levels of management and in all departments of an organisation. However the scope and nature of planning is different at different levels and in different departments. For example the top management lays down the plans for the organisation as a whole. Middle level management has to make plans for each department and the plans regarding the daily operations of an organisation are laid down by operational management.

**6. How is planning forward looking?**

**OR**

**Planning is futuristic' explain?**

Ans. Planning is always for the future and never for the past. It involves peeping in to future, analyzing and preparing plans accordingly. Thus, planning is futuristic as it helps in meeting likely future events effectively and efficiently to best advantage of the organisation.

For example, on the basis of sales forecasts, annual plans for production and sales are drawn.

**7. Planning involves decision making". Explain.**

Ans. Planning is essentially a process of making choice from among various alternatives. There will be no need for planning, if there is only one course of action, because there will be no choice. Hence need for planning depends on the availability of alternatives. A manager, after examining and evaluating the various alternatives, chooses the most appropriate one.

**8. 'Planning reduces creativity'. How?**

Ans. Usually in an organisation, planning function is performed by the top management and the rest of the members are required to implement these plans. As a result, middle management and other members are neither allowed to deviate from plans nor are they granted authority to act on their own. Hence most of the initiative and creativity in them gets reduced.

**9. 'Planning does not guarantee success'. Comment.**

Ans. An organisation is successful only when the plans are effectively drawn and implemented.

A plan must be converted into action otherwise it becomes meaningless. Generally, it is seen that managers are in the habit of depending on previously tried and tested successful plans. But this practice sometimes does not work and may actually lead to failure instead of success.

**10. Enumerate the steps involved in the planning process.**

Ans. Steps of planning are as follows:

- (i) Setting up of objectives
- (ii) Developing premises.
- (iii) Identifying alternative courses of action.
- (iv) Evaluating alternative courses



- (v) Selecting an alternative.
- (vi) Implementation of plan.
- (vii) Follow up

**11. What do you mean by objectives?**

Ans. Objective can be defined as a position where the management wants to reach in the future. These are the ends which an organisation wants to achieve through its operations. They are measurable in quantitative terms.

For example, one objective of an organisation may be to increase sales by 20% and return on investment by 10% in the forthcoming year.

**12. Explain the meaning of policies.**

Ans. A policy can be defined as a general statement that provides guidelines for constructive thinking. They act as a guide to managerial actions and decisions in implementing the strategy. A well defined policy helps in solving the complex problems easily.

For example, an organisation may have a credit policy, pricing policy etc. on the basis of which objectives are decided and decisions are made.

**13. What is meant by procedures?**

Ans. Procedures are routine steps framed to carry out activities. These are plans that determine the order of any work performance. Procedures are generally meant for insiders and define the chronological sequence of doing any work for attaining predetermined objectives.

**14. What do you mean by methods?**

Ans. Methods are standard ways of doing planned jobs for attaining the objectives. They are more detailed than procedures. Methods are helpful in simplification, standardization and systematization of work. For doing different jobs, different methods can be adopted.

For example, for imparting training to employees at different levels, different methods of training can be used viz for higher level lectures or seminars and for supervisory level on the job training can be used.

**15. What do you mean by rules?**

Ans. Rules can be defined as statements that tell us what is to be done and what is not to be done. Deviations from rules are not permitted unless a policy decision is taken. They enforce rigidity and there is fine or penalty if they are not followed.

For example, prohibition on sale of tobacco within certain radius of an educational institution is a rule to be followed by all.

**16. What do you mean by programmes?**

Ans. Programmes are a solid combination of goals, policies, procedures, rules, tasks, assignments, steps to be taken, resources to be employed and other



elements necessary to carry out a given course of action. Programmes interlink the objectives, policies and procedures. They work out even the minutest detail within broad policy framework of the organisation.

**17. What is meant by budget?**

Ans. Budget is a plan in numerical terms which quantifies desired facts and figures. It is a statement of expected results expressed in quantitative terms. For example, a sales budget helps in forecasting the sales of a particular product in different areas during a particular month. Similarly, a budget may be prepared to show the number of workers required in factory at the time of packing the products.

**LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)**

**1. Defining 'organizational objectives' is the first step in the process of planning. Explain, in brief, the other steps of this process.**

Or

**Explain the steps involved in the process of planning.**

Ans. It has been rightly said that defining organizational objectives is the first step in the process of planning. Other steps in the process of planning are as follows:

**(i) Establish planning premises**

This step involves the establishment of planning premises in which plans are, expected to operate. Planning premises are assumptions relating to future conditions and events which are likely to have an effect on achievement of goals

**(ii) Identifying alternative courses of action**

Under this step, various possible alternatives for reaching objectives should be identified by managers.

**(iii) Evaluating Alternative Courses**

This step involves deep evaluation of various alternative courses of action in light of the various objectives to be achieved. The positive and negative aspect of each alternative is evaluated.

**(iv) Selecting an alternative**

This step involves the selection of the most optimum and realistic plan with least negative results.

**(v) Implement the plan**

Under this step the best selected plan is put in to action.

**(vi) Follow up**

Under this step, it is monitored whether the plans are being implemented and whether the activities are being performed according to the schedule.

**2. Differentiate between procedures and rules.**

Ans.



### **DIFFERENCE BETWEEN PROCEDURES AND RULES**

<b>Basis</b>	<b>Procedures</b>	<b>Rules</b>
1. Meaning	Procedure is a guide for action in a given situation.	Rule is a code of conduct governing or restricting flexibility or
2. Nature	Procedures are specified in chronological order.	Rules do not place activities in chronological order
3. Purpose	The purpose of procedure is to facilitate and simplify the operation and eliminate duplication.	The purpose of rule is to maintain discipline in an
4. Scope	The scope of procedures is wide because it has its own rules and regulations.	A rule has no procedure.

### **QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

**1. How does planning reduce the risk of uncertainty? - 1 Mark**

Ans. Planning reduces the risk of uncertainty by visualizing/assessing future events and providing remedies/ courses of action for such kinds of events to the extent possible.

**2. A company wants to increase sales; the alternatives may be reducing prices hanging packaging, improving packaging, etc. Which step of planning process relates with the above example? - 1 Mark**

Ans. Identifying alternative courses of action.

**3. Write anyone difference between policies and procedures. - 1 Mark**

Ans. Procedures consist of series of steps whereas policies are guidelines for decision making.

**4. A company needs a detailed plan for its new project? 'Construction of a Shopping Mall'. What type of plan is it? - 1 Mark**

Ans. Programme

**5. Give anyone difference between Policy and Rule. - 1 Mark**

Ans. Policy is flexible whereas rule is rigid.

**6. "These are general statements that guide thinking and channelise energise towards a particular direction and help in solving routine problems". Identify the type of plan. - 1M**

Ans. Policy

**7. 'Planning promotes innovative ideas'. Explain? - 3 or 4 Marks**

Ans. Planning considered to be the most, challenging function of the management as it

guides all Future actions and facilitates growth and prosperity of the business organisation. Planning encourages managers to think creatively generate innovative ideas; improve methods for Work execution etc. Dealing with uncertainties of future, planning is the most challenging function, which provides basis for growth and Prosperity of the business enterprise

**8. 'Planning focuses on achieving objectives'. Explain. - 3 or 4 Marks**

Ans. Planning is a goal oriented process which helps in defining objectives, and preparation of necessary action plans to achieve goals. Thus, planning is focused on clarifying what is to be done and how is that to be done. The planning holds no purpose if it does not focus on achievement of preset organizational or corporate objectives.

**9. 'Planning is the basic function on of management'. Comment. - 3or4 Marks**

Ans. Every management starts with planning. All other functions like organizing, staffing, directing and controlling are based on planning. It precedes the execution of all other managerial functions and allows mangers to organized, staff, direct and control the activities in a better way so as to achieve organizational goals. All the activities are created in such a way that plans are easily carried out. This is also referred to as primacy of planning.

**10. Why is planning considered as a mental exercise? - 3 or 4 Marks**

Ans. Planning is an intellectual activity requiring application of the mind, imagination and sound judgment. It is a thinking function rather than a doing function as it determines the actions to be taken. Moreover, planning requires logical and systematic thinking based on the analysis of facts and figures.

**11. Give an example each of any three limitations of planning which are beyond the control of an organization. - 3 or 4 Marks**

Ans. Limitations of planning on which the organization does not have a significant control are as follows:

S.No.	Limitations	Examples
1.	Planning may not work in dynamic environment.	Frequent changes in the political or economic environment may upset in the financial plans.
2	Planning leads to rigidity	Following a pre-decided plan when circumstances have
3.	Planning involves huge costs	Incidental expenses such as expenses on boardroom meetings and discussions with professional experts involve huge cost.

12. How can (i) Political climate and (ii) Policies of competitors obstruct planning?  
-3or4 Marks

Ans. (i) **Obstruction in planning due to political climate**

When the government regulates the business practices or introduces new trade policies, the plans of business enterprises may get upset. Also political instability affects business plans.

For example, change in the taxation policy.

(ii) **Obstruction in planning due to policies of competitors**

The policies of competitors may lead to change in business policies.

For example, discounting policies of the competitors may lead to change in pricing policy of a business enterprise.

13. What do you mean by planning premises? - 3 or 4 Marks

Ans. Planning premises are assumptions relating to future conditions and events which are likely to have an effect on achievement of goals. These are the bases upon which the entire structure of planning is built. Every plan is drawn with certain assumptions. To make planning effective, it is necessary that the premises should be based on accurate forecasts, existing plans or any past information about policies etc.

For example, demand for a product, cost of raw materials, interest rates, state of technology, intensity of competition, government policies etc.

14. 'Though planning is an important tool of management, yet it is not a remedy for all types of problems', Do you agree with this statement? Give any five reasons in support of your answer. - 5 or 6 Marks

Or

Explain the limitations of planning.

Or

Why do plans fail in spite of the best efforts of management?

Ans. Limitations of Planning:

(i) **Planning creates rigidity**

In an organisation, a well defined plan is drawn to achieve some specified goals within a specified period of time. These plans lay down the future course of action and it is not possible for the managers to change them. Hence, it is not in the organisational interest to follow a particular plan when circumstances have changed.

(ii) **Planning does not work in a dynamic environment**

The various forces of business environment like social, economic, political, technological and legal keep on changing and the organisations have to adapt themselves to these changes. Thus, it becomes very difficult to forecast

when there is change in government policies, natural calamity, political instability in the country etc.

**(iii) Planning reduces creativity**

Usually in an organisation planning function is performed by the top management and the rest of the members are required to implement these plans. As a result, middle management and other members are neither allowed to deviate from plans nor granted authority to act on their own. Hence most of the initiative and creativity in them gets reduced.

**iv) Planning involves huge cost**

Huge cost is involved in the formation of plans. This cost is in terms of money and time. For example, a lot of time is involved in scientific calculations to certain facts and figures and to check the accuracy of facts while formulating a plan. Likewise, a lot of money is spent on boardroom meetings, discussions with experts and preliminary investigations to find out the effectiveness of the plans. Moreover sometimes the cost incurred in formulating plans is higher than the benefits received from these plans.

**v) Planning is a time consuming process**

Sometimes top level management consumes a lot of time in formulating the plans as a result of which very less time is left with them to implement these plans.

**vi) Planning does not guarantee success**

An organisation is successful only when the plans are effectively drawn and implemented. Managers are in the habit of depending on previously tried and tested successful plans, but this practice sometimes does not work and may lead to failure instead of success.

**15. Distinguish between Policies and Rules.**

**- 5 or 6 Marks**

Ans.

**DIFFERENCE BETWEEN PROCEDURES AND RULES**

<b>Basis</b>	<b>Procedures</b>	<b>Rules</b>
1. Meaning flexibility or	A policy is a guide for thinking.	A rule is a specific statement, which restricts the discretion
2. Nature	Policy lays down the broad areas of action in an organisation.	Rule lays down any specific sequence of actions in an organisation
3. Objective	Policy is framed to achieve objectives of the organisation.	Rules are used to maintain discipline and command in any organisation.



4. Manager's Discretion	Policy provides some scope for the manager's discretion in his course of action	Rules provide no scope for manager's discretion and they are binding for all.
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## CHAPTER -5

### ORGANISING

#### Concept Mapping:-

1. Concept and importance.
2. Organizing Process.
3. Structure of organization – functional and divisional
4. Formal and informal organization.
5. Delegation: concept, elements and importance.
6. Decentralization: concept and importance.

#### KEY CONCEPT IN NUTSHELL

Organizing is the process of defining and grouping, activities and establishing authority relationships among them.

Process: the process of organizing consists of the following steps:

- (a). Identification and division of work
- (b). Departmentalization
- (c). Assignment of Duties
- (d). Establishing reporting relationships.

**Importance:** Organising is considered important because it leads to division of work, clarity in reporting relationships, optimum utilization of resources, growth, better administration and greater creativity.

**Organisational structure** is the framework within which managerial and operating tasks are performed. It can be functional or divisional.

**Span of management** is the number of subordinates under a superior.

**Functional structure** groups activities on the basis of functions. The advantages of such a structure are specialization, better control, managerial efficiency and ease in training employees. The disadvantages are functional empires, conflict of interest, inflexibility and restriction in managerial development.

**Divisional structure** groups activities on the basis of Product. The advantages are integration, product specialization greater accountability, flexibility, better coordination and more initiative .The disadvantages are departmental conflicts, costly process, ignoring of organizational interests, and increase in requirements of general managers.

**Formal organization** is designed by the management to achieve organizational goals. Its advantages are fixation of responsibility, clarity of roles, unity of command and effective

accomplishment of goals. Its disadvantages are procedural delays, inadequate recognition of creativity, limited in scope.

**Informal organization** arises out of interaction among people at work. Its advantages are speed, fulfillment of social needs, fills inadequacies of formal structure. Its disadvantages are disruptive force, resistance to change and priority to group interests.

**Delegation** is the transfer of authority from superior to subordinate. It has three elements: Authority, Responsibility and Accountability. Importance of delegation is that it helps in effective management, employee development, motivation, growth and coordination.

**Decentralization** is delegation of authority throughout the organization. Importance of decentralization is that it helps in development of managerial talent, quick decision making burden on top management, development of initiative, growth and better control.

### KEY CONCEPTS QUESTIONS WITH ANSWERS

**1).Name the organization which is deliberately created? 1M**

A: Formal Organisation

**2).Enumerate the steps in the process of organizing? 3M**

A:     1) Identification and division of work     2) Grouping Jobs and Departmentalisation  
           3) Assignment of duties                             4) Establishing authority relationship

**3).Organizing helps in optimum utilization of resources. Which type of resources does it refer? 1M**

A: All material, financial and human resources.

**4).Give any one importance of organizing? 1M**

A: Development of personnel.

**5).Divisional structure is more suitable for the firms having several products and each product has distinct features. Do you agree? 1M**

A: Yes, I do agree.

**6).Distinguish between functional structure and divisional structure. 4M**

Basis	Functional Structure	Divisional Structure.
Formation	It is based on functions	It is based on product lines
Specialisation	Functional Specialisation	Product Specialisation
Responsibility	Difficult to fix on a departments	Easy to fix responsibility
Cost	Economical	Costly

Co ordination	Difficult for multi product company	Easy, because all functions related to a particular product are integrated in one department.
Managerial Development	Difficult, as each functional manager has to report to the top management	Easier, autonomy as well as the chance to perform multiple functions helps in managerial development.

**7).What are the advantages and disadvantages of divisional structure? 5/6 M**

**A): Advantages:**

- 1).All activities associated with one product. It can be easily integrated.
- 2).Decision making is faster.
- 3).Performance can be easily assessed remedial action can be taken
- 4). It facilitates expansion and growth as new divisions can be added.

**Disadvantages:**

- 1).This gives rise to duplication of effort among its divisions.
- 2).Manages in each department focus on their own product without thinking the rest of the organization.
- 3).There may not be full utilization of different equipments
- 4).Conflict may arise among different division.

**8) Name the type of organization in which: 1M**

- a. Friendly relationship exists among the members.
- b. Official relationship exists among the members.

A: a) Informal Organisation b) Formal Organisation.

**9).Distinguish between formal and informal organizations on the basis of 5/6M**

**a) Formation b. Purpose c. structure d. Behavior of members e. stability and f. adherence to rules.**

.Ans:

Basis	Functional Structure	Divisional Structure.
Formation	Deliberately Planned	Emerges Spontaneously among people
Purpose	To achieve organizational goals	To satisfy social and cultural needs
Structure	Well defined structure	Does not have a clear-cut



		structure
Behavior of members	Standards of behavior	Mutual consent among members
Stability	It is stable	Neither stable nor predictable.
Adherence to rules	Violation of rules may lead to penalties	No such punishment.

10). Which term denotes “The number of subordinates that can be effectively managed by a superior? 1M

Ans: -Span of control.

11) What are the elements of delegation of authority? 1M

Ans: Responsibility, Authority, Accountability.

12) Distinguish between authority and responsibility on the basis of: 3M

a. Direction of flow                      b. Delegation                                      c. Origin

Basis	Authority	Responsibility
Direction of flow	Authority flows downwards	Responsibility flows upwards
Delegation	Authority can be delegated	Responsibility is absolute and cannot be delegated.
Origin	Arises from law	Arises from authority.

13) “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 his view points? Justify your answer by giving arguments. 4M

A: No I do not agree with managers view point.

The reasons are as follows:

- i) Principle of delegation by results expected.
- ii) Principle of parity of authority and responsibility
- iii) Principle of absolute responsibility.
- iv) Authority level principle

14) Scope of decentralization of authority is wider than delegation. Why? 1M

A: Decentralization implies extension of delegation to the lowest level of management.

15) Distinguish between ‘delegation’ and ‘decentralisation’ of authority on the basis of  
i) purpose    ii) parties involved and    iii) withdrawal of authority.

Ans:

<b>Basis</b>	<b>Delegation</b>	<b>Decentralisation</b>
Purpose	It means getting things done through subordinates	To prepare the organization for handling major expansion of its activities
Parties involved	It is confined with manager and his immediate subordinate	It indicates relationship between top management and various other departments
Withdrawal of authority	The delegated authority can be withdrawn by the delegator	Withdrawal of authority is difficult

### QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS

1. Name of the function of management which co-ordinates the physical, financial and human resources and establishes productive relations among them for achievement of specific goals. 1M

A: Organising

2. Name and explain the two steps in the process of organizing which come after 'Identification and division of work' and 'Departmentalization'. 3M

A: Identification and division of work: Dividing the total work into jobs is necessary because the entire work cannot be done by individual (ii) Departmentalization: In this step combine or group similar jobs into larger units called departments.

3. Organising leads to a systematic allocation of jobs amongst the workforce. Which importance of organizing is stated here? 1 M

A: Benefits of specialisation .

4. Organising clarifies lines of communication and specifies who is to report to whom. Mention the importance of organizing indicated here. 1 M

A: Clarity in working relationships.

5. Aman Ltd. Is manufacturing toys and has production, sales, Purchase and Finance Departments. Which type of organization structure would you suggest to them? State any three advantages of this organization structure.

**3M**

A: I would suggest functional structure for Aman Limited.

Advantages of this structure:



- i. Supervision is facilitated.
- ii. Coordination within the department is easier.

**6. Hindustan Ltd. , is manufacturing computers, soaps and textiles. Which type of organizational structure would suit the requirements of such organization? State any three advantages of this organization structure. 4 M**

A: Divisional structure would suit the requirements of Hindustan limited.

Advantages:

- i. All activities associated with one product can be easily integrated.
- ii. Decision making is faster and effective.
- iii. Performance of individual product can be easily assessed.

**7. It is a network of personal and social relations not established or required by the formal organization but arising spontaneously as people associate with one another. Name this organization and give its three advantages. 4M**

A: Informal organization:

**Advantages:**

- 1. It brings feeling of belongingness.
- 2. Informal organization satisfies social and cultural needs.
- 3. It provides useful channel of communication.

**8. It merely means the granting of authority to subordinates to operate within prescribed limits. Mention the concept referred here. 1M**

A: Delegation of Authority

**9. Delegation provides a ready workforce to take up leading positions in new ventures. Which importance of delegation is stated here?**

A: Facilitation of growth 1M

**10. "Authority can be delegated but accountability cannot." Explain the statement.3M**

A: According to the principle of absolute responsibility, authority can be delegated but responsibility cannot be delegated by a manager. The manager remains responsible to his own superior for the task which he may assign to his subordinates. Every superior is responsible for the acts of this subordinates to whom he delegates authority for any work.

**11. The Marketing Manager of an organization has been asked to achieve a target sales of 100 generators per day. He delegates the task to 10 sales managers working under him. Two of them could not achieve their respective targets. Is the marketing manager responsible? Briefly explain the relevant principle in support of your answer. 4 M**

A: Yes, Marketing manager is responsible for the non-achievement of the target sales to his superior.

The principle related to this statement is absolute responsibility. It states that authority can be delegated but responsibility cannot be delegated by manager. The manager remains responsible and accountable to his own superior for the task which he may have assigned to his subordinate.

**12. It refers to the systematic delegation of authority from top management to the lower level managers. Mention it. 1M**

A: Decentralization of authority.

**13. If we delegate the authority we multiply it by two, If we decentralize it, we multiply it by money. 3M**

A: Scope of delegation of authority is limited. It is clear that if we delegate the authority we multiply it by 2 that is delegator and his subordinate to whom authority is delegated.

Scope of decentralization of authority is wider than delegation. It involves many people from top level to bottom lower level of authority.

## **CHAPTER -6**

### **STAFFING**

**6 Marks**

#### **CONCEPT MAPPING:**

1. Concept and importance of staffing.
2. Staffing as a part of Human Resource Management.
3. Staffing process:
  - a. Recruitment – sources
  - b. Selection – process
4. Training and development – concept and importance.
5. Methods of training – on the job and off the job – induction training, vestibule training, apprenticeship training and internship training.

#### **KEY CONCEPT IN NUTSHELL**

#### **MEANING OF STAFFING:**

Staffing has been described as the managerial function of filling and keeping filled, the positions in an organization structure. Staffing is identifying the requirement of workforce followed by recruitment, selection, placement, promotion, appraisal and development of personnel, to fill the roles designed into the organization structure.

#### **NEED AND IMPORTANCE OF STAFFING:**

In any organization, there is a need for people to perform work. The staffing function of management fulfills this requirement and finds the right people for the right job. The staffing function has assumed greater importance these days because of rapid advancement of technology, increasing size of organization and complicated behavior of human beings. The ability of an organization to achieve its goals depends upon the quality of its human resources.

#### **Staffing as a part of human resource management:**

Staffing is a function which all managers need to perform. It is a separate and specialized



function and there are many aspects of human relations to be considered.

It is the responsibility of all managers to directly deal and select people to work for the organization. When the manager performs the staffing function his role is slightly limited. In small organizations managers may perform all duties related to employees salaries, welfare and working conditions.

But as organizations grow and number of persons employed increases, a separate department called the human resource department is formed which has specialists in the field to manage people. Human resource management includes many specialized activities and duties which the human resource personnel must perform.

### **RECRUITMENT:**

Recruitment refers to the process of finding possible candidates for a job or function. It has been defined as 'the process of searching for prospective employees and stimulating them to apply for jobs in an organisation.'

### **Process of Recruitment :**

The various activities involved with the process of recruitment includes

- (a) identification of the different sources of labour supply,
- (b) assessment of their validity,
- (c) choosing the most suitable source or sources, and
- (d) inviting applications from the prospective candidates, for the vacancies

### **SOURCES OF RECRUITMENT:**

- 1) Internal Sources
- 2) External Sources

### **INTERNAL SOURCES:**

**Transfers:** It involves shifting of an employee from one job to another, one department to another or from one shift to another, without a substantive change in the responsibilities and status of the employee

**Promotions:** Promotion leads to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay. Promotion is a vertical shifting of employees

### **MERITS OF INTERNAL SOURCES:**

Employees are motivated to improve their performance

Simplifies the process of selection and placement

Transfer is a tool of training the employees to prepare them for higher jobs.

Shifting workforce from the surplus departments to those where there is shortage of staff

Cheaper as compared to getting candidates from external sources.

### Limitations of Internal Sources:

When vacancies are filled through internal promotions, the scope for induction of fresh talent is reduced.

Employees may become lethargic if they are sure of time bound promotions

Enterprise cannot use internal sources of recruitment.

Spirit of competition among the employees may be hampered.

Frequent transfers of employees may often reduce the productivity of the organisation

### External Sources:

**Direct Recruitment:** The direct recruitment, a notice is placed on the notice board of the enterprise specifying the details of the jobs available. Job seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot recruitment.

**Casual Callers:** organisations keep a database of unsolicited applicants in their offices. Such job-seekers can be a valuable source of manpower. A list of such job-seekers can be prepared and can be screened to fill the vacancies as they arise.

**Advertisement:** The advantage of advertising vacancies is that more information about the organisation and job can be given in the advertisement. Advertisement gives the management a wider range of candidates from which to choose. disadvantage is that it may bring in a flood of response, and many times, from quite unsuitable candidates.

**Employment Exchange:** Employment exchanges run by the Government are regarded as a good source of recruitment for unskilled and skilled operative jobs. Disadvantage of it is that it may be upto date and many of the candidates referred by them may not be found suitable.

### **Placement Agencies and Management Consultants:**

These provide a nationwide service. These agencies compile bio-data of a large number of candidates and recommend suitable names to their clients. Such agencies charge fee for their services and they are useful.

**Campus Recruitment:** organisations maintain a close liaison with the universities, vocational schools and management institutes to recruit qualified personnel for various jobs.

**Recommendations of Employees:** Applicants introduced by present employees, or their friends and relatives may prove to be a good source of recruitment. Such applicants are likely to be good employees because their background is sufficiently known

**Labour Contractors:** Workers are recruited through labour contractors who are themselves employees of the organisation. The disadvantages of this system are that if the contractor himself decides to leave the organisation, all the workers employed through him will follow suit.

**Advertising on Television:** generally advertised through television and newspaper. The detailed requirements of the job and the qualities required to do it are publicised along with the profile of the organisation where vacancy exists.

**Web Publishing:** There are certain websites specifically designed and dedicated for the purpose of providing information about both job seekers and job opening.

#### **Merits of External Source:**

Qualified Personnel

Wider Choice

Fresh Talent

Competitive Spirit

#### **Limitations of External Sources:**

Dissatisfaction among existing staff

Lengthy process

Costly process

#### **Selection:**

Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job. Towards this purpose, the candidates are required to take a series of employment tests and interviews.

#### **Process of Selection:**

**Preliminary Screening:** Preliminary screening helps the manager eliminate unqualified or unfit job seekers based on the information supplied in the application forms.

**Selection Tests:** An employment test is a mechanism (either a paper and pencil test or an exercise) that attempts to measure certain characteristics of individuals. These characteristics range from aptitudes, such as manual dexterity, to



intelligence to personalities.

## **Important Tests Used for Selection of Employees**

Intelligence Tests

Aptitude Test

Personality Tests

Trade Test

Interest Test

**Employment Interview:** The role of the interviewer is to seek information and that of the interviewee is to provide the same. Though, in present times, the interviewee also seeks information from interviewer.

**Reference and Background Checks:** Many employers request names, addresses, and telephone numbers of references for the purpose of verifying information and, gaining additional information on an applicant.

**Selection Decision:** The final decision has to be made from among the candidates who pass the tests, interviews and reference checks.

**Medical Examination:** After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test. fit candidates are give the job.

**Job Offer:** job offer is made through a letter of appointment/confirm his acceptance. Such a letter generally contains a date by which the appointee must report on duty.

Basic information that should be included in a written contract of employment will vary according to the level of the job, but the following checklists sets out the typical headings: Job Title, Duties, Responsibilities, Date when continuous employment starts and the basis for calculating service, rates of pay, allowances, hours of work, leave rules, sickness, grievance procedure, disciplinary procedure, work rules, termination of employment.

### **Training And Development:**

Training and Development is an attempt to improve the current or future employee performance by increasing an employee's ability to perform through learning, usually by changing the employee's attitude or increasing his or her skills and knowledge.

### **Importance of Training and Development :**

The rapid changes taking place during the last quarter century in our highly sophisticated and complex society have created increased pressures for



organisations to readapt the products and services produced, the manner in which products and services are produced and offered, the types of jobs required and the types of skills necessary to complete these jobs.

### **Benefits to the organisation:**

wastage of efforts and money is minimised.

leading to higher profits.

increases employee morale and reduces absenteeism and employee turnover.

It helps in obtaining effective response to fast changing environment.

### **Benefits to the Employee:**

Improved skills and knowledge

Increased performance and help in earning more money.

Training makes the employee more efficient.

Training increases the satisfaction and morale of employees.

### **Training, Development and Education:**

**Training:** is any process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased. It is a process of learning new skills and application of knowledge. It attempts to improve their performance on the current job or prepare them for any intended job.

**Education:** is the process of increasing the knowledge and understanding of employees. It is the understanding and interpretation of knowledge. It does not provide definite answers, but rather develops a logical and rational mind that can determine relationships among pertinent variables and thereby understand a phenomenon

**Development:** refers to the learning opportunities designed to help employees grow. It covers not only those activities which improve job performance but also those which bring about growth of the personality, help individuals in the progress towards maturity and actualization of their potential capacities so that they become not only good employees but better men and women

## KEY CONCEPTS QUESTIONS WITH ANSWERS

1) "Staffing makes for higher performance by putting right person on the right job". Is this statement true or false?

1M

A) True

2) "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.

3M

A) No, I don't agree with this statement. There is a great need of man power planning due to the following reasons. :

1. Organisation needs man power planning: To meet the demands of changing job requirements due to change of technology.
2. Man power requires forecasting: Provides a basis of recruitment, transfer and training employees.

3) Human resource management is a part of staffing. Do you agree? 1 M

A) No.

4) "The present day human resource management is a broader concept." Explain 4 M

A) The present day human resource management includes the following activities:

- a. Helps the organization to achieve its goals
- b. Employees the skills and knowledge of employees efficiently and effectively.
- C. Enhance job satisfaction.
- d. Maintain high morale and good human relations within the organization.

5) why is induction is not required in the internal source of recruitment. 1M

A) Because employees are already well familiar with the organization.

6) State the meaning of placement as a staffing function. 1M

A) Placement: Once the job offer has been accepted by the selected candidate he placed on this new job. Proper placement of an employee reduces absenteeism

Placement therefore refers to placing the right person on the right job.

7) Describe briefly the steps involved in the process of staffing.

5/6M

A) Man power Planning: The organization estimate the total man power requirement by considering all the departments of the organization.

Recruitment: The second step after man power planning is recruitment and selection. Recruitment aims at attracting job applicants preposition in the organization.

Selection: Selection consists of making choice among applicants.

Placement and Orientation: It refers to placing the right person on the right job.

Induction: it is concerned with the process of introduction of a new employee to the organization.

Training and development: It is more accurately considered as a process of skill formation and behavioral change.

Performance appraisal

Promotion and career planning

Compensation

**8) Name two websites which are commonly visited both by the prospective employees and the organizations searching for suitable people. 1M**

A) [www.naukari.com](http://www.naukari.com); [www.jobstreet.com](http://www.jobstreet.com)

**9) 'Internal sources of recruitment are better than external sources of recruitment.' Do you agree with this statement? Give any two reasons in support of your answer. 3M**

A) Yes, I agree with this statement.

Advantages: 1. It will assist in developing high moral of employees.

2. The candidates already working in the organization can be evaluated more economically as the expenditure is relatively less.

**10) Name the concept which relates to the following:**

a) Searching of prospective candidates.

b) Streamlining the attributes of a person required for doing a job.

A) a. Recruitment b. Selection.

**11) List the different types of tests used in selection process.**

A) i. Intelligence test ii. Aptitude test iii. Personality test. Iv. Trade test

v. Interest test

**12) What is meant by 'Selection'? Explain any five steps involved in the process of**

**selection of employees.**

**6M**

A) Selection is the process of carefully screening the candidates who offer themselves for appointment so as to choose the most appropriate person for the job.

Steps : 1. The preliminary screening : A brief screening interview is conducted as the first step in the selection process.

2. Selection test: Each candidate appears for employment test.

3. Employment Interview: Interview is a phase of testing on the basis of face to face interaction between the interviewer and the applicant.

4. Reference and background checking: Gather more information about the candidates from indirect personal sources.

5. Selection decision: After candidates process the tests and interview final decision for selection is made after considering the view of concerned manager.

6. Medical Test: The selection process is not complete without the medical test.

7. Job offer: Letter of appointment mentioning the date by which a candidate has to report on duty is handed over to the appointee.

8. Contract of employment: It includes various details such as pay, allowances, work rules etc.

**13) Training and Development are one and the same thing. Do you agree?**

A) No they are different

**14) Distinguish between training and development.**

**4M**

A)

Training	Development
It is used to add skills abilities of the workers	Development involves improving the capacities and capability of the managerial personnel.
The term training is generally used to impart specific skills among operative workers	It is associated with the over all growth of the executives.
it is to enable the employee to do the job better	It is to enable the overall growth of the employee



It is a job oriented process

It is a carrier oriented process.

15) State the benefits of employee's training. 4M

**A) Benefits to the organization**

a) Economic operations: Trained personal will make economic and efficient use of resources.

b) Increases productivity; It improves the quality and quantity of the production

**Benefits to the employees:**

a) Acquisition of new skills: A trained employee acquires new skills.

b) Higher Earnings: Trained employees can perform better and there by earn more.

**16) What do you meant by 'on the job training'? Explain any three methods of 'off the job' training. 5/6M**

A) On the job training: Learning by doing by the subordinates under the supervision of superiors at the actual work place.

B) Methods: i. Apprenticeship Programme: It is designed for higher levels of skills.

It ensures on the job training and is explained with classroom instruction in a particular subject.

ii. Coaching: At lower levels the coaching may simply consist of trainee observing his supervisor so as to develop the basic skills necessary for operating machine.

iii. Internship training: Technical institutes and business organizations jointly impart training to their members.

iv. Job rotation: It is a method of training which serves the purpose of employees' development through provision of diversified training.

**QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS**

**1. It is described as the managerial function of filling and keeping filled the positions in the organization structure. Which function of management is referred here? 1M**

A: Staffing

**2. It is recruitment, selection, development, utilization, compensation and motivation of human resources of the organization. Give the name of the concept mentioned here. 1M**

1M

A: Human Resource Management.

**3. It implies introducing the selected employee to other employees and familiarizing him with the rules and policies of the organization. Name it. 1M**

A: Orientation.

**4. What is the next step after selection? 1M**

A: Placement and Orientation.

**5. It seeks to attract suitable applicants to apply for available jobs. Give the term. 1M**

A: Recruitment.

**6. These are run by the Government as a source of recruitment for unskilled and skilled operative jobs. What is being referred here? 1M**

A: Employment exchanges.

**7. Which type of personnel is recruited by management consultancy firms?**

A: Management consultancy firms help the organization to recruit technical, professional and managerial personnel.

**8. Hamish is working as a supervisor in a company. Due to his hard work he is promoted to the post of Production Manager. Now the post of supervisor is vacant and no one can be transferred or promoted to this post. Name the source of recruitment the company will use to fill up this post. State any three advantages of using this source of recruitment. 4M**

A: The Company will use external source of recruitment.

Advantages: i. Fresh talent      ii. Wider choice      iii. Qualified personnel

**9. It is the process of identifying and choosing the best person out of a number of prospective candidates for a job. Name it. 1 M**

A: Selection.

**10. Name the test which is used as a measure of individual's potential for learning new skills.**

A: Aptitude test. 1 M

**11. Which step in the process of selection helps the manager eliminate unqualified or unfit job seekers based on the information supplied in the application forms? 1M**

A: Preliminary Screening

**12. What is formal, in-depth conversation conducted to evaluate the applicant's suitability for job called. 1M**

A: Employment interview.

**13. Why is selection considered as negative process? 1M**

A: Because it is a process in which a person is selected and the others are rejected.

**14. It is a test used for selection of employees to measure individual's potential for learning new skills. Mention its name and explain two other tests also. 1 M**

A: Aptitude.

Other Tests: a) Personality Test: These tests are used judge the psychological makeup of a person.

b) Interest Test: These tests identify individual likes and dislikes in relation to work.

**15. It is the process of increasing the knowledge and skills of an employee for doing a particular job. Which process is referred to here? 1M**

A: Training

**16. Which of type of training is a joint programme of training in which educational institutions and business firms cooperate? 1M**

A: Internship training

**17. Trainee is put under the guidance of a master worker to acquire a higher level of skill, for example to become plumber, electrician, etc. Which method of training is referred here? 1M**

A: Apprenticeship programme

### Questions based on Values:

1. While selecting employees, an organization is not giving any priority to disabled candidates, weaker sections in the society and even women. Identify the values missing in the company's selection process and also suggest a remedy.

Ans. i. Social objectives are not followed.

ii. Gender biased.

iii. Inclusive employment policy is violated

iv. Company's selection policy is not good.

Company should give equal opportunity to all the prospective candidates.



# CHAPTER -7

## DIRECTING

### CONCEPT MAPPING:

- Concept and importance
- Elements of Directing
  - Supervision-concept, functions of a supervisor.
  - Motivation-concept, Maslow's hierarchy of need: 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.

**Key Concepts in Nutshell**



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- **Meaning of Directing:** It refers to instructing, guiding, communicating and inspiring people in the organisation .
- **Importance of Directing:** (1). It initiates action. (2).It integrates employees' efforts.  
(3)It is the means of motivation. (4)It facilitates implementing changes.  
(5)It creates balance in the organization.
- **Elements of Directing:** (1)Supervision (2)Communication (3)Leadership  
(4)Motivation
- **Concept of Supervision:** Supervision refers to monitoring the progress of work of one's subordinates and guiding them properly.
- **Functions of a Supervisor:**(1)Facilitates control (2)Optimum utilization of resources(3)Maintenance of discipline (4)Feedback (5)Improves communication  
(6)Improves motivation
- **Motivation- Motivation** process of stimulating people to accomplish desired goals. It depends up on satisfying the needs of people.
- **Maslow's Hierarchy of Needs:** - According to Maslow, man does every work to satisfy his need. A man has various needs and their order can be determined. The needs of a human being serve as a motivation for him. On the basis of priority human needs can be divided into five parts (i) Physiological needs, (ii) Safety needs, (iii).Affiliation or social needs, (iv) Esteem needs and (v) Self-actualization needs.
- **Financial or Monetary Incentives:** Financial incentives are those incentives which are evaluated in terms of money. These are helpful to satisfy Physiological and Safety Needs. It includes the following (i) Pay and allowances, (ii) Productivity-linked wage Incentives, (iii) Bonus, (iv) Profit sharing, (v) Co-partnership (iv) Suggestions, (vi) Retirement benefits, (vii) Perquisites.
- **Non-financial or Non-monetary Incentives:** Non-financial incentives are not directly related with money. These incentives help in the satisfaction of top hierarchy needs like social, esteem and self-actualization. It includes the following (i).Status (ii) Organizational climate (iii) Career advancement opportunity (iv) Job enrichment (v) Employee recognition programmes (vi) Job security (vii) Employee participation (viii)

Employee empowerment.

- **Meaning of Leadership** : It refers to influence others in a manner to do what the leaders wants them to do.

## **Leadership Styles:**

### **I. Autocratic Leadership Style:-**

(a).Meaning: It refers to that leadership style in which the leader tends to run the show all by him-self.

(b).Characteristics: (i) Centralized Authority, (ii) Single –man Decision, (iii) Wrong Belief Regarding Employee, (iv) Only Downward Communications.

(c). Advantages: (i) Quick and Clear Decisions, (ii) Satisfactory Work, (iii) Necessary for Less Educated Employees.

(d).Disadvantages: (i) Lack of Motivation, (ii) Agitation by Employees, (iii) Possibility of Partiality.

### **II. Democratic Leadership Style :-**

(a). Meaning: It refers to that leadership style in which the leader consult with his sub ordinates before making any final decisions.

(b).Characteristics: -(i)Cooperative Relations,(ii)Belief in Employees, (iii) Open Communication.

(c ).Advantages : (i) High Morale, (ii)Creations of More Efficiency and Productivity, (iii) Availability of Sufficient Time for Constructive Work.

(d).Disadvantages: (i) Requirement of Educated Subordinates, (ii) Delay in Decisions, (iii)Lack of Responsibility in Managers.

### **III. Laissez-faire or Free-rein Leadership Style: -**

(a). Meaning : It refers to that leadership style in which the leader gives his sub ordinates complete freedom to make decisions.

(b)Characteristics (i)Full faith in subordinates, (ii) Independent Decision-making system,(iii) Decentralisation of Authority (iv)Self-Directed Supervisory and Controlled.

(c). Advantages.(i)Development of Self-confidence in Sub ordinates, (ii) High-level Motivation,(iii)Helpful in Development and Extension of the Enterprise.

(d). Disadvantages.(i).Difficulty in Cooperation, (ii)Lack of Importance of Managerial Post, (iii) Suitable only for Highly Educated Employees.



**Communication**: Communication refers to process of exchange of ideas between or among persons and creates understanding. Communication process involves the elements of source, encoding, channel, receiver, decoding and feedback.

**Formal Communications** refers to all official communications in the form of orders, memos, appeal, notes , circular, agenda, minutes etc.

**Informal Communications** are usually in the form of rumours, whispers etc. They are unofficial, spontaneous, unrecorded, spread very fast and usually distorted.

**Barriers** may exist for effective communications. Some of these barriers include-semantic barriers, organizational barriers, language barriers, transmission barriers, psychological barriers and personal barriers.

**Manager** should take appropriate measures to overcome these barriers and promote effective communication in the organization such as

**Improving communication effectiveness:**

- i. Clarify the ideas before communication
- ii. Communicate according to the needs of receiver.
- iii. Consult others before communicating
- iv. Be aware of language
- v. Convey things of help and value to listeners
- vi. Ensure proper feedback
- vii. Communicate for present as well as future
- viii. Follow up communications and
- ix. Be a good listener.

### **KEY CONCEPT QUESTIONS WITH ANSWERS**

**Q1) What is meant by Directing? Explain the importance of directing? 6M**

Ans: Directing is telling people what to do and seeing that they do it to the best of their ability. It includes making assignment, explaining procedures, seeing their mistakes are corrected, providing on the job instructions and issuing orders.

**Importance of Directing: -**

1. It initiates action
- 2 It integrates employees' efforts
3. It is the means of motivation
4. It facilitates implementing changes.
5. It creates balance in the organization

**Q2) Mention the elements of directing? 1M**

Ans: 1) supervision 2) motivation 3) leadership 4) communication

**Q3) Explain how directing is a pervasive function of management 1M**

Ans: Directing is a pervasive function as every manager from top executive to superior

performs it.

**Q4). 'Directing is the least important function of management.' Do you agree with this statement? Give any two reasons in support of your answer. 4 M**

A: No, I don't agree with this statement.

Importance of direction: Direction may be regarded as the heart of the management process.

It is explained under the following parts:

- a).Initiates action: All organizational activities are initiated through direction.
- b).Integrates employees' efforts: At all levels of management the subordinates under the managers.

Managers integrate the work of subordinates.

- c).Means of motivation : Directing helps in motivating employees towards organizational goals

**Q5). "The post of supervisor should be abolished in the hierarchy of managers". Do you agree? Give any three reasons in support of your answer. 6M**

A).No, I don't agree, because a supervisor performs the following functions to achieve organization goals.

Functions of the supervisor:

- a).Planning the work. The supervisor has to determine work schedule for every job.
- b).Issuing orders: Supervisor issues orders to the workers for achieving coordination in his work.
- c).Providing guidance and leadership: The supervisor leads the workers of his department.
- d).Explains the policies and programmes of the organization to his subordinates and provide guidance
- e).Make necessary arrangement for supply of materials and ensure they are efficiently utilized.
- f). Deviations from the target if any are to be rectified at the earliest.
- g). To help the personnel departments in recruitment and selection of workers.

**Q6).What is meant by 'Esteem needs' and 'Self-actualization needs' in relation to motivation of the employees? 4M**

A: i. Esteem Needs: these needs are needs for self esteem and need for other esteem .For Example: Self-respect, self-confidence etc.

ii. Self-actualization Needs: This is the needs to be what one is capable of becoming and

includes needs for optimal development.

**Q7).It is through motivation that managers can inspire their subordinates to give their best to the organisation'. In the light of this statement, explain, in brief, the importance of motivation.**

**5/6M**

A: Importance of motivation:

- i. Motivation sets in motion the action of people: Motivation builds the will to work among employees and puts them into action.
- ii. Motivation includes the efficiency of work performance: Performance of employees dependence not only on individual abilities but also on his willingness.
- iii. Motivation ensures achievement of organizational goals: If employees are not motivated, no purpose can be served by planning organizing and staffing.
- iv. Motivation creates friendly relationships: Motivation creates friendly and supportive relationships between employer and employees.
- V .Motivation leads to stability in the employees: Motivation helps in reducing absenteeism and turnover.
- vi. Motivation helps to change negative / indifferent attitudes of an employee

**Q8).“All managers are leaders, but all leaders are not managers.” Do you agree with this statement? Give any three reasons in support of your answer. 3/4 M**

A: Yes, I agree with this statement.

Difference between leadership and management :

<b>Basis</b>	<b>Leadership</b>	<b>Management</b>
Origin	Leadership originates out of individual influence	Management originates out of official power and rights.
Formal Rights	A leader has no formal rights	A manager has certain formal rights
Follower & subordinates	A leader has followers	A manager has subordinates

**Q9) Explain the various leadership styles?**

**6M**

Ans):Autocratic leadership style: This style is also known as leader centered style. The leader keeps all the authority and employees have to perform the work exactly as per his order. He does not decentralizes his authority. The responsibility of the success or the failure of the management remains with the manager.

Democratic leadership: This style is also known as group centered leadership style. Managerial decisions are not taken by the manager in consultation with employees. This leadership style is based on decentralization. Managers respect the suggestions made by his sub ordinates.

Laissez-faire leadership style: this style as leadership is also known as free brain leadership or individual centered style. The manger takes little interest in managerial functions and the sub ordinates are left on their own. Manager explain over all objectives; help sub- ordinates in determining their own objectives. They provide resources. They also advise the employees.

**Q10) Mention the characteristics of autocratic leadership style. 3M**

Ans).1.Centralized authority 2.Single man decisions 3.Wrong belief regarding employees 4.Only downward communication.

**Q11). Explain three advantages and three disadvantages of autocratic leadership style.**

Ans).Advantages: 1.quick and clear decisions 2.Satisfactory work 3.Necessary for less educated employees

Disadvantages: 1.lack of motivation 2.Agitation by employees 3.Possibilities of partiality.

**6M**

**Q12). Explain three advantages and three disadvantages of democratic leadership. 6M**

- 1) Ans: Advantages:1.Democratic leadership style advantages,2.Morale,3.Creation of more efficiency and productivbity,4.Availability of sufficient time for constructive work
- 2) Disadvantages:1.Requirement of educated sub ordinates 2.Delay in decisions 3.Lack of responsibility and managers

**Q13). Mention features of democratic leadership style? 3M**

Ans: 1) co operative relations 2).Relief in employees 3).Open communication

**Q14). Mention the characteristics of laissez-faire leadership style 3M**

Ans: Full faith in sub- ordinates 1).Independent decision making system 2).Decentralization of authority



3).Self directed

**Q15). Mention three advantages and three disadvantages of laissez-faire 6M**

Ans: -1.Development of self confidence in sub ordinates, 2.High level motivation, 3.Help in development of extension and enterprise

Disadvantages: 1.Difficulty in co operation, 2.Lack of importance of managerial post, 3.Suitable only for highly educated employees

**Q16). "Managerial functions cannot be carried out without an efficient system of communication." Do you agree? Give any three reasons in support of your answer.4M**

A: Yes, I agree with this statement.

Communication is important because of the following reasons.

- i. Communication facilitates planning in a number of ways
- ii. Communication helps management in arriving at vital decisions
- iii .Communication is necessary in creating unity of action of action

**Q17). Mention one barrier to effective communication. 1M**

A: Poor listening skills of people.

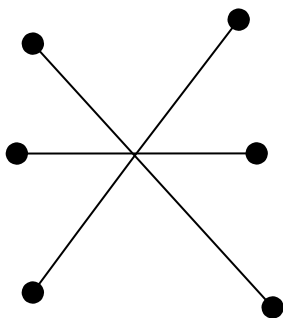
**Q18). Give any one measure to improve communication. 1M**

A: Communicate according to the needs of receiver.

**Q19). What do you mean by grapevine? Explain two types of grapevine along with diagram.**

A: Grapevine: The network or pathway of informal communication is known as grade point communication.

Two types of grapevine communication



Gossip



Single Strand

**Q20). Explain any three measures to overcome the barriers to improve communications effectiveness.**



- Ana: 1. Clarify the areas before communication: Before communicating to employees a manager should make an analysis of the subject matter.
2. Consult others before communication: A manager should encourage participation of subordinates which will ensure their support and cooperation.
3. Communicate according to the needs of receiver: The manager should make adjustments according to the needs of the receiver.

### QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS

**1). It is concerned with instructing, guiding and inspiring people in the organization to achieve its objectives. Name it. 1 M**

A: Directing

**2) Every manager from top executive to superior performs the function of directing. Which characteristic of directing is referred here? 1M**

A) Directing takes place every level of management.

**3) It means overseeing the subordinates at work. Which element of directing is referred to? 1M**

A: Supervision.

**4) Supervisor acts as a link between workers and management. How? 1M**

A: Supervisor conveys management ideas to the workers on one hand and workers problems to the management on the other.

**5) It refers to the way in which urges, drives, desires, aspirations, strivings or needs direct control and explain the behavior of human beings. Which element of directing is indicated here? 1M**

A: Motivation.

**6) Motivation can be either positive or negative. Give two examples of negative motivation. 1M**

A) a) Stopping increments                      b) Treating

**7). Which need in the hierarchy theory of motivation refers to affection, acceptance and friendship? 1M**

A: Belonging needs

**8) It is an incentive offered over and above the wages/salary to the employees.**

**Name the type of financial incentive referred here. 1M**

A) Bonus

**9) Name the incentive which refers to 'give more autonomy and powers to**

**subordinates' and how are people affected by this incentives? 1M**

A) Employee Empowerment : Due to this incentive people start feeling that their jobs are important and they contribute positively to use their skills and talent in the job performance.

**10) It is defined as a process of influencing other people to work willingly for group objectives. Mention this element of directing. 1 M**

A) Leadership

**11) It is process by which people create and share information with one another in order to reach common understanding. Which element of directing is referred here?**

**1M**

A) Communication.

**12) Which element in communication process relates to the process of converting encoded symbols of the sender? 1M**

A) Decoding

**13) In which kind of communication network, a subordinate is allowed to communicate with his immediate superior as well as his superior's superior? 1M**

A) Inverted V.

**14) Amit and Mikki are working in the same organization but different departments. One day at lunch time Mikki informed Amit that due to computerization many people are going to be retrenched soon from the organization. 4M**

A) It is an example of informal communication.

**Limitations of informal communication:**

Messages tend to be distorted.

It often carries rumors.

It is unsystematic.

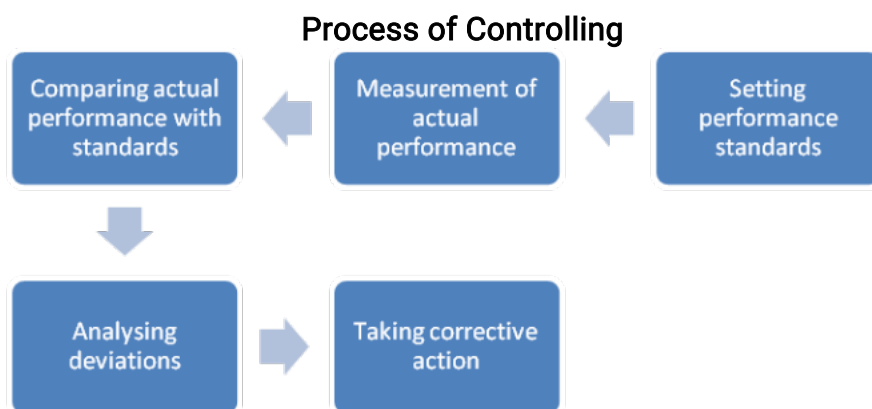
**15) There are some barriers in communication which are concerned with the state of mind of both the sender and the receiver. State any three such barriers. 3/ 4 M**

A) It refers to physiological barriers: i. premature evaluation ii. Loss by transmission and poor retention. iii .Lack of attention.

CHAPTER – 8  
CONTROLLING

CONCEPT MAPPING:

**CONTROLLING 6 MARKS**



**Key Concepts in nutshell:**

**1. Meaning of controlling:** Comparing actual performance with standards and finding deviations if any and taking corrective action.

**Actual Performance = Standards = No deviation**

### Features/Nature of Controlling:

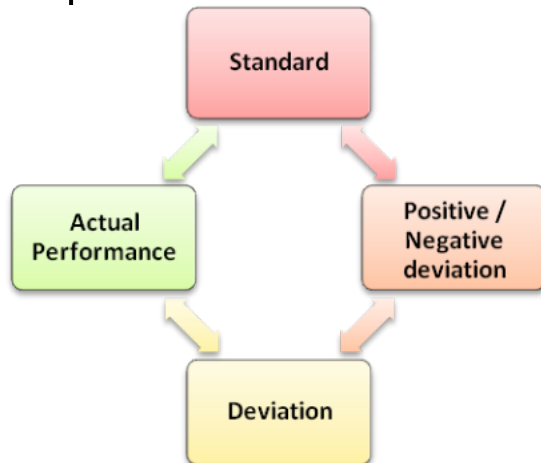
- Controlling is pervasive
- Controlling is a primary function
- Controlling is a continuous process
- Controlling is a goal oriented function.

### **2. Process of Controlling:**

**1. Setting performance standards:** Standards are the Criteria against which actual performance would be measured. Standards serve as bench marks. They can be set in both quantitative as well as qualitative.

**2. Measurement of actual performance:** Performance should be measured in an objective and reliable manner.

**3. Comparing actual performance with standards:**



**4. Analyzing deviations:** Major deviation or minor deviation and analyzing the causes of deviation.

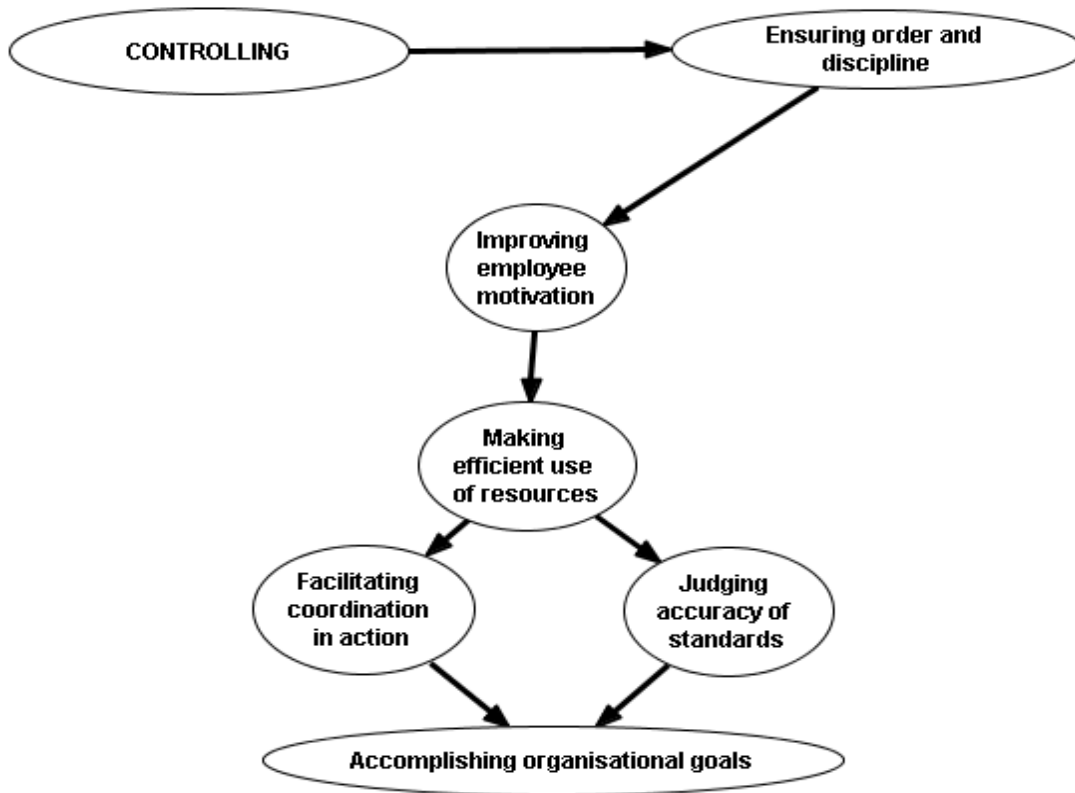
**a) Critical point control:** Focus only on Key Result Areas (KRAs).

**b) Management by Exception:** Concentrate only on major deviations only.

**5. Taking corrective action:** When deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

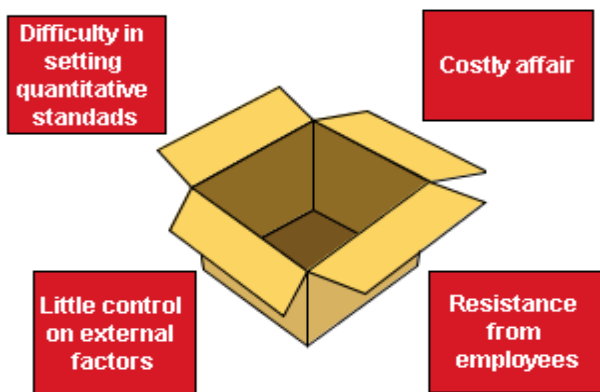
Conclusion: In case the deviation cannot be corrected through managerial action, the standards may have to be revised.

### **IMPORTANCE OF CONTROLLING**



Controlling ensures order and discipline by fixing standards in advance which leads to improved employee motivation, it also facilitates efficient use of resources, judging the accuracy of standards, facilitates coordination in action which will result into accomplishment of organizational goals.

**LIMITATIONS OF CONTROLLING:**



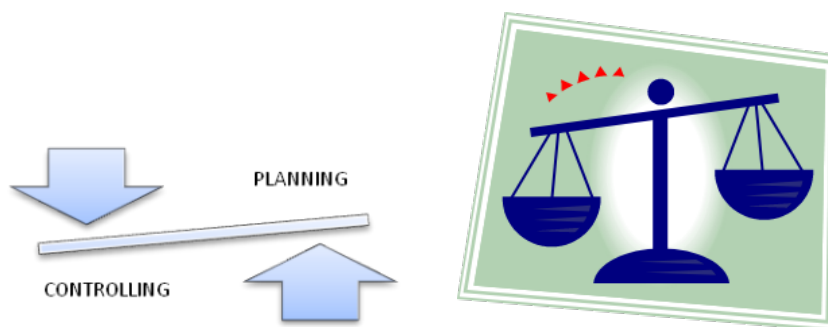
**1. Difficulty in setting quantitative standards:** It is difficult to set standards for all types of activities this makes measurement of performance and their comparison with standards a difficult task.

**2. Little control on external factors:** Business environment is ever changing. The firm has no control on external factors such as government policies, technological changes, competition etc.

**3. Resistance from employees:** Employees oppose controlling measures taken by any organisation.

**4. Costly affair:** It is a costly affair as it involves a lot of expenditure, time and effort. Especially small organizations cannot afford.

### RELATIONSHIP BETWEEN PLANNING AND CONTROLLING:



- Planning and controlling are inseparable twins of management. Planning initiates the process of management and controlling completes the process. Plans are the basis of control and without control the best laid plans may go astray.
- Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning.
- Planning is prescriptive and controlling is evaluative
- It is often said that planning is looking ahead while controlling is looking back. However, the statement is only partially correct. Plans are prepared for future and involve looking ahead. On the contrary, controlling is like a postmortem of past activities to find out deviations from the standards. In that sense controlling is a backward looking function. However, it should be understood that planning is guided by past experiences and the corrective action initiated by control function.

**Questions (with some hints wherever necessary)**

**Important questions are shown with \* mark and the Most important questions are shown**



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**\*1. Give the meaning of Controlling.**

**1M**

**2. Define Controlling.**

**1M**

Ans: It is a process of taking steps to bring actual results and desired results closer together.

**3.. Which function of management ensures that actual activities confirm to planned activities?**

**1M**

Ans: Controlling

**4.. Name the function of management which reviews the operations in a business unit.**

**1M**

Ans: Controlling

**5.. Why it is said that planning is meaningless without controlling?**

**1M**

Ans. In the absence of controlling, actual performance will not be measured and compared. So, how far plans are implemented cannot be known.

**6.. Why it is said that controlling is blind without planning?**

**1M**

Ans. Without laid standards actual performance cannot be compared.

**\*\*7. Explain the limitations of Controlling.**

**3M**

**\*\*8. Planning is looking ahead whereas controlling is looking back. Discuss.**

**3M**

**9. Explain how controlling helps in 'achieving better co-ordination' and 'better planning'.**

**3M**

Hint: Refer Importance of Controlling.

**10. Controlling is a pervasive function. Explain**

**3M**

Ans: It is a pervasive function, it is required every level and in any type of organisation.

**11. Does control help in 'judging the accuracy of standards' and 'improving motivation of the employees'? Explain**

**3M**



Hint: Refer importance of Controlling

**\*\*12. Explain the difference between Planning and Controlling. 3M**

Hint: Refer Relationship between Planning and Controlling

**13. 'Planning and Controlling are mutually interrelated and interdependent activities' How? 3M**

Hint: Relationship

**14. "Controlling is forward looking" Explain 3M**

**15.. Controlling is looking back. Explain 3M**

**\*16. "If you try to controlling everything you may end up by controlling nothing" Discuss 3M**

Hint: Management by exception.

**\*17. "Controlling is not a panacea for every problem in the organisation" Discuss 3M**

Hint: Limitations of controlling.

**\*18.. What is Critical Point Control? 3M**

Ans: It is neither economical nor easy to keep a check on each and every activity in an organisation. Controlling should focus on key result areas (KRAs) only which are critical to the success of the organisation.

**19. "Planning is the first function and control is the last function of managerial process " Discuss 3M**

**20. Control moves from downward to upward whereas planning moves from top to bottom. Discuss 3M**

**21.. Controlling is a continuous activity in an organisation. 3M**

**\*22.. What are the factors to be kept in mind while setting standards? 3M**

Ans:

- i) Standards should be in measurable terms
- ii) Standards should be flexible to change
- iii) They may be in qualitative or quantitative

iv) They should be stated in clear terms without any ambiguity

**\*\*23. "Measurement of a company's performance may involve calculation of certain ratios like gross profit ratio, net profit ratio, return on investment ratio etc." Identify the function of management involved in the given statement and explain the relevant step. 3M**

Hint: Controlling, Step: Measurement of actual performance.

**24. How does controlling help in 'achieving objectives' and 'improving employee morale'? 3M**

Hint: Refer importance of Controlling

**25. Controlling is an indispensable function of management. Do you agree? Give four reasons in support of your answer. 5M**

Hint: Importance of Controlling

**26. If planning is done carefully and accordingly other functions of management are going in the right direction, then there is need of the controlling function of management. Do you agree with the statement? Give reasons in support of your answer. 5M**

Hint: Importance of Controlling

**\*\*27. "There is close and reciprocal relationship between Planning and Controlling" Explain this statement through an example. 5M**

**28. There are two managers of a company Rahul and Rohit. Rahul is saying that 'Planning is looking ahead whereas controlling is looking back'. On the other hand, according to Rohit planning is looking back whereas as controlling is looking ahead. Who is correct and why? 5M**

Hint: Both are correct.

**29. Control is considered important for many reasons. Explain any five such reasons. 5M**

**\*\*30. "A production in charge was given a standard toy train. He was asked to produce similar other toy trains. What control process would he have followed? 5M**

Hint: Process of Controlling.

**\*\*31. "An ideal control technique is one that checks every bit of performance" Comment. 5M**

Hint: Management by exception.

**\*\*32. Suggest the corrective actions to be taken for the following causes of deviation.**

- i) Defective material
  - ii) Defective machinery
  - iii) Obsolete machinery
  - iv) Defective Process
  - v) Defective physical conditions of work
- 5M**

Ans:

- i) Change the quality specification for the material used.
- ii) Repair the existing machine or replace the machine if it cannot be repaired.
- iii) Undertake technological up gradation of machinery
- iv) Modify the existing process
- v) Improve the physical conditions of work

**\*\*33. Explain the process of controlling. 6M**

**\*\*34. Explain the importance of controlling. 5M**

**\*\*35. Explain the relationship between Planning and Controlling. 5M**

**36. Explain briefly the various steps involved in the process of controlling. 6M**

**37. "Comparing the actual performance with laid standard, finding out deviations and taking corrective action is an important process of a function of management" Name and explain the process of that function. 6M**

Hint: Process of Controlling

**\*\*38. "Control does not require any process" Comment 6M**

Hint: This statement is wrong. Controlling has a process which contains five steps in a given serial order.

**39. "Controlling is a systematic process involving a series of steps" Explain 6M**

**\*40. Explain the importance of managerial function which provides direction to work effort in conformity with the plans.   
6M**

Hint: Importance of Controlling

**\*\*41. "In the absence of a managerial function, planning goes unchecked" Name the**



**function and explain its importance.**

**6M**

Ans.

(i) **Accomplishing organizational goals:** The controlling function measures progress towards the organizational goals and brings to light the deviations, if any, and indicates corrective action.

(ii) **Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate and objective.

(iii) **Making efficient use of resources:** By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms.

(iv) **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus, motivates them and helps them to give better performance.

(v) **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organisation. It helps to minimize dishonest behaviour on the part of the employees by keeping a close check on their activities.

(vi) **Facilitating coordination in action:** Controlling provides direction to all activities and efforts for achieving organizational goals.

**\*\*43. Planning without controlling is blind and vice-versa. Discuss.**

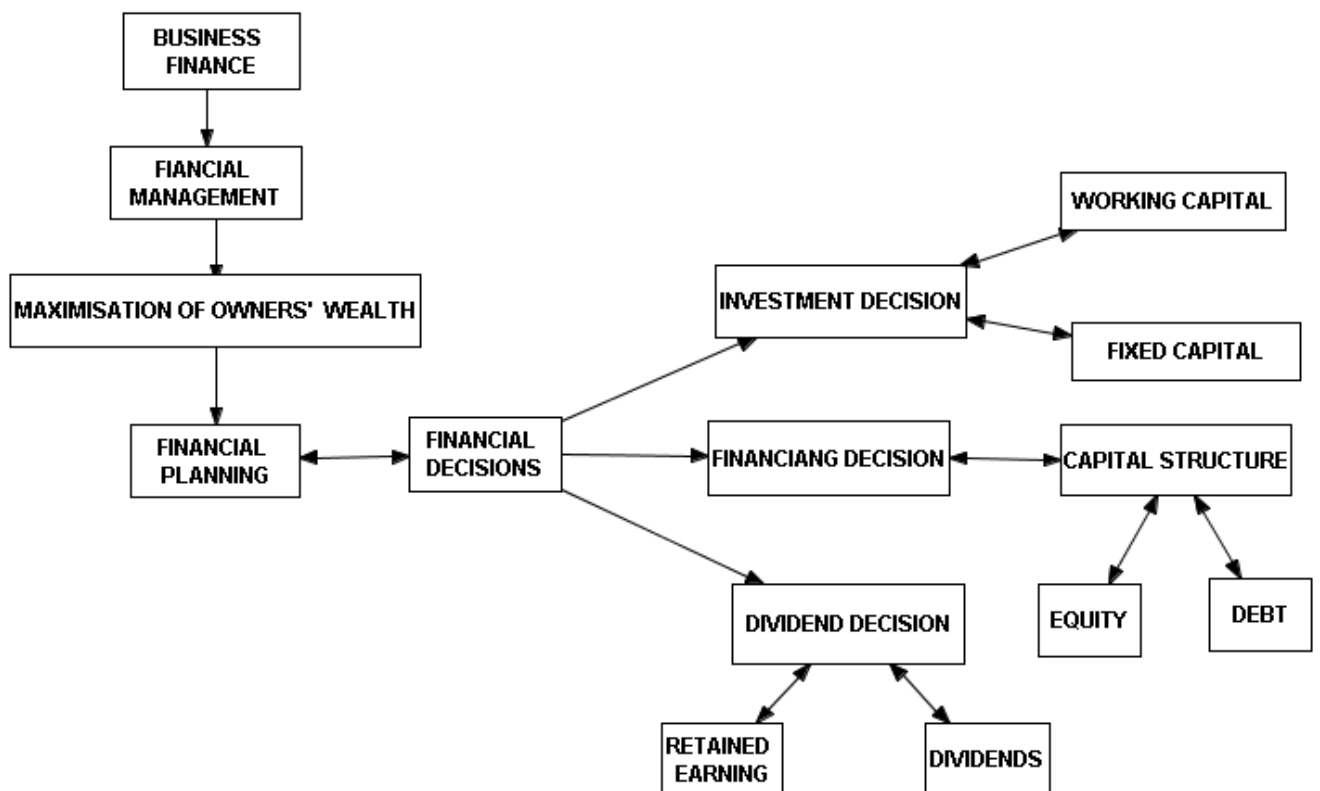
**5M**

Ans. Planning and controlling are inseparable twins of management. A system of control presupposes the existence of certain standards. These standards of performance which serve as the basis of controlling are provided by planning. Once a plan becomes operational, controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans. Planning without controlling is meaningless. Similarly, controlling is blind without planning. If the standards are not set in advance, managers have nothing to control. When there is no plan, there is no basis of controlling. Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning. Without planning there is no predetermined understanding of the desired performance.

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## FINANCIAL MANAGEMENT 12 MARKS

### CONCEPT MAPPING:



### Key Concepts in nutshell:

**Meaning of Business Finance:** Money required for carrying out business activities is called business finance.

**Financial Management:** It is concerned with optimal procurement as well as usage of finance.

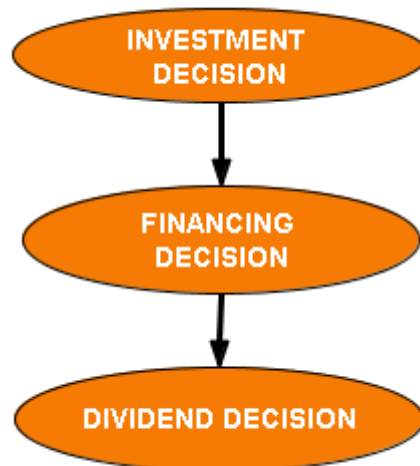
**Role of Financial Management:** It cannot be over-emphasized, since it has a direct bearing on the financial health of a business. The financial statements such as Profit and Loss

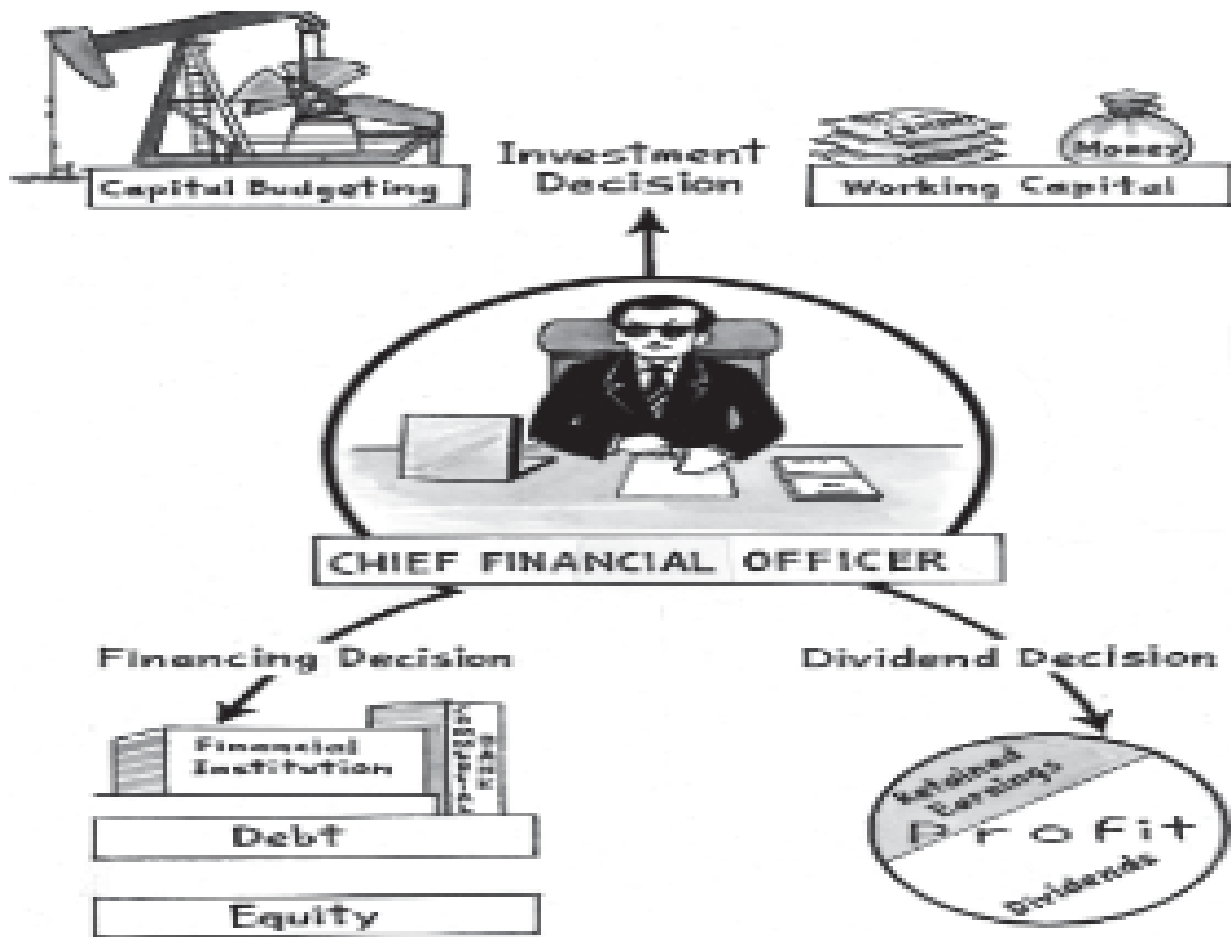
A/C and B/S reflect a firm's financial position and its financial health.

- i) The size as well as the composition of fixed assets of the business
- ii) The quantum of current assets as well as its break-up into cash, inventories and receivables.
- iii) The amount of long-term and short-term financing to be used.
- iv) Break- up of long-term financing into debt, equity etc.
- v) All items in the profit and loss account e.g., interest, expenses, depreciation etc.

**Objectives of Financial Management:** Maximisation of owners' wealth is sole objective of financial management. It means maximization of the market value of equity shares. Market price of equity share increases if the benefits from a decision exceed the cost involved.

### FINANCIAL DECISIONS





**Investment Decision:** It relates to how the firm's funds are invested in different assets . Investment decision can be long-term or short-term. A long-term investment decision is also called a Capital Budgeting decision.

**Factors affecting Capital Budgeting Decision/Investment Decision:**

1. **Cash flows of the project:** If anticipated cash flows are more than the cost involved then such projects are considered.
2. **The rate of return:** The investment proposal which ensures highest rate of return is finally selected.
3. **The investment criteria involved:** Through capital budgeting techniques, investment proposals are selected.

**Financing Decision:** - It refers to the quantum of finance to be raised from various sources of long-term of finance. It involves identification of various available sources. The main sources of funds for a firm are shareholders funds and borrowed funds. Shareholders funds refer to equity capital and retained earnings. Borrowed funds refer to finance raised as debentures or other forms of debt.

### **Factors Affecting Financing Decision:-**

- a) Cost:** The cost of raising funds through different sources is different. A prudent financial manager would normally opt for a source which is the cheapest.
- (b) Risk:** The risk associated with different sources is different.
- (c) Floatation Costs:** Higher the floatation cost, less attractive the source.
- (d) Cash Flow Position of the Business:** A stronger cash flow position may make debt financing more viable than funding through equity.
- (e) Level of Fixed Operating Costs:** If a business has high level of fixed operating costs (e.g., building rent, Insurance premium, Salaries etc.), It must opt for lower fixed financing costs. Hence, lower debt financing is better. Similarly, if fixed operating cost is less, more
- f) Control Considerations:** Issues of more equity may lead to dilution of management's control over the business. Debt financing has no such implication. Companies afraid of a takeover bid may consequently prefer debt to equity.
- g) State of Capital Markets:** Health of the capital market may also affect the choice of source of fund. During the period when stock market is rising, more people are ready to invest in equity. However, depressed capital market may make issue of equity shares difficult for any company.

**DIVIDEND DECISION:-**The decision involved here is how much of the profit earned by company (after paying tax) is to be distributed to the shareholders and how much of it should be retained in the business for meeting the investment requirements.

### **FACTORS AFFECTING DIVIDEND DECISION:-**

- a) Earnings:** Dividends are paid out of current and past earning. Therefore, earnings is a major determinant of the decision about dividend.
- (b) Stability of Earnings:** Other things remaining the same, a company having stable earning is in a position to declare higher dividends. As against this, a company having unstable earnings is likely to pay smaller dividend.
- c) Stability of Dividends:** It has been found that the companies generally follow a policy of stabilising dividend per share.
- (d) Growth Opportunities:** Companies having good growth opportunities retain more money out of their earnings so as to finance the required investment.
- (e) Cash Flow Position:** Dividends involve an outflow of cash. A company may be



profitable but short on cash. Availability of enough cash in the company is necessary for declaration of dividend by it.

**(f) Shareholder Preference:** While declaring dividends, managements usually keep in mind the preferences of the shareholders in this regard.

**(g) Taxation Policy:** The choice between payment of dividends and retaining the earnings is, to some extent, affected by difference in the tax treatment of dividends and capital gains.

**(h) Stock Market Reaction:** Investors, in general, view an increase in dividend as a good news and stock prices react positively to it. Similarly, a decrease in dividend may have a negative impact on the share prices in the stock market.

**(i) Access to Capital Market:** Large and reputed companies generally have easy access to the capital market and therefore may depend less on retained earnings to finance their growth. These companies tend to pay higher dividends than the smaller companies which have relatively low access to the market.

**(j) Legal Constraints:** Certain provisions of the Company's Act place restrictions on payouts as dividend. Such provisions must be adhered to while declaring the dividends.

**(k) Contractual Constraints:** While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future.

## FINANCIAL PLANNING

Financial Planning is essentially preparation of financial blueprint of an organisations's future operations. The objective of financial planning is to ensure that enough funds are available at right time.

### OBJECTIVES

**(a) To ensure availability of funds whenever these are required:** This include a proper estimation of the funds required for different purposes such as for the purchase of long-term assets or to meet day- to- day expenses of business etc.

**(b) To see that the firm does not raise resources unnecessarily:** Excess funding is almost as bad as inadequate funding.

## IMPORTANCE OFFINANCIAL PLANNING

(i) It tries to forecast what may happen in future under different business situations. By doing so, it helps the firms to face the eventual situation in a better way. In other words, it makes the firm better prepared to face the future.

(ii) It helps in avoiding business shocks and surprises and helps the company in preparing for the future.

(iii) If helps in co-ordinating various business functions e.g., sales and production functions, by providing clear policies and procedures.

(iv) Detailed plans of action prepared under financial planning reduce waste, duplication of efforts, and gaps in planning.

(v) It tries to link the present with the future.

(vi) It provides a link between investment and financing decisions on a continuous basis.

(vii) By spelling out detailed objectives for various business segments, it makes the evaluation of actual performance easier.

**CAPITAL STRUCTURE:** Capital structure refers to the mix between owners and borrowed funds.

### FACTORS AFFECTING THE CHOICE OF CAPITAL STRUCTURE

**1. Cash Flow Position:** Size of projected cash flows must be considered before issuing debt.

**2. Interest Coverage Ratio (ICR):** The interest coverage ratio refers to the number of times earnings before interest and taxes of a company covers the interest obligation.

**3. Debt Service Coverage Ratio(DSCR):** Debt Service Coverage Ratio takes care of the deficiencies referred to in the Interest Coverage Ratio (ICR).

**4. Return on Investment (RoI):** If the RoI of the company is higher, it can choose to use trading on equity to increase its EPS, i.e., its ability to use debt is greater.

**5. Cost of debt:** A firm's ability to borrow at a lower rate increases its capacity to employ higher debt. Thus, more debt can be used if debt can be raised at a lower rate.

**6. Tax Rate:** Since interest is a deductible expense, cost of debt is affected by the tax rate.

**7. Cost of Equity:** Stock owners expect a rate of return from the equity which is commensurate with the risk they are assuming. When a company increases debt, the financial risk faced by the equity holders, increases.

**8. Floatation Costs:** Process of raising resources also involves some cost. Public issue of shares and debentures requires considerable expenditure. Getting a loan from a financial institution may not cost so much.

**9. Risk Consideration:** As discussed earlier, use of debt increases the financial risk of a business.

**10. Flexibility:** If a firm uses its debt potential to the full, it loses flexibility to issue further debt.

**11. Control:** Debt normally does not cause a dilution of control.



**12. Regulatory Framework:** Every company operates within a regulatory framework provided by the law e.g., public issue of shares and debentures has to be made under SEBI guidelines.

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

**14. Capital Structure of other companies:** A useful guideline in the capital structure planning is the debt-equity ratios of other companies in the same industry. There are usually some industry norms which may help.

### MANAGEMENT OF FIXED CAPITAL

Fixed capital refers to investment in long-term assets. Management of fixed capital involves around allocation of firm's capital to different projects or assets with long-term implications for the business. These decisions are called investment decisions or capital budgeting decisions and affect the growth, profitability and risk of the business in the long run. These long-term assets last for more than one year.

### IMPORTANCE OF CAPITAL BUDGETING DECISIONS

**(i) Long-term growth and effects:** These decisions have bearing on the long-term growth. The funds invested in long-term assets are likely to yield returns in the future.

**(ii) Large amount of funds involved:** These decisions result in a substantial portion of capital funds being blocked in long-term projects

**(iii) Risk involved:** Fixed capital involves investment of huge amounts. It affects the returns of the firm as a whole in the long-term. Therefore, investment decisions involving fixed capital influence the overall business risk complexion of the firm.

**(iv) Irreversible decisions :** These decisions once taken, are not reversible without incurring heavy losses.

### FACTORS AFFECTING THE REQUIREMENT OF FIXED CAPITAL

**1. Nature of Business:** The type of business has a bearing upon the fixed capital requirements. For example, a trading concern needs lower investment in fixed assets compared with a manufacturing organisation.

**2. Scale of Operations:** A larger organisation operating at a higher scale needs bigger plant, more space etc. and therefore, requires higher investment in fixed assets when compared with the small organisation.



**3. Choice of Technique:** Some organisations are capital intensive whereas others are labour intensive. A capital-intensive organisation requires higher investment in plant and machinery as it relies less on manual labour.

**4. Technology Up gradation:** In certain industries, assets become obsolete sooner. Consequently, their replacements become due faster. Higher investment in fixed assets may, therefore, be required in such cases.

**5. Growth Prospects:** Higher growth of an organisation generally requires higher investment in fixed assets.

**6. Diversification:** A firm may choose to diversify its operations for various reasons, With diversification, fixed capital requirements increases.

**7. Financing Alternatives:** A developed financial market may provide leasing facilities as an alternative to outright purchase. Availability of leasing facilities, thus, may reduce the funds required to be invested in fixed assets, thereby reducing the fixed capital requirements. Such a strategy is specially suitable in high risk lines of business.

**8. Level of Collaboration:** At times, certain business organisations share each other's facilities. For example, a bank may use another's ATM or some of them may jointly establish a particular facility. Such collaboration reduces the level of investment in fixed assets for each one of the participating organisations.

### WORKING CAPITAL REQUIREMENTS

Net working capital may be defined as the excess of current assets over current liabilities.

### FACTORS AFFECTING WORKING CAPITAL REQUIREMENTS

**1. Nature of Business:** Trading Organisations – Less working capital

Manufacturing Organisations – more working capital

**2. Scale of Operations:** Large scale organizations – more working capital

Small scale organizations – less working capital

**3. Business Cycle:** Boom period - more working capita

Depression period - less working capital

**4. Seasonal factors:** Peak season – more working capital

Lean season – less working capital

**5. Production cycle:** Longer production cycle – more working capital

Shorter production cycle – less working capital



**6. Credit allowed:** Conservative/strict credit policy – less working capital

Liberal credit policy – more working capital

**7. Credit availed:** If credit is available easily from suppliers - less working capital

If credit is not available easily from suppliers – more working capital

**8. Operating efficiency:** If current assets are managed efficiently – less working capital

If current assets are not managed efficiently – more working capital

**9. Availability of Raw Material:** Easy and timely availability of raw material – less working capital

Difficulty and lengthy time period are involved in getting raw materials – more working capital

**10. Growth Prospects:** If there is possibility of growth potential - more working capital

If there is no possibility of growth – less working capital

**11. Level of Competition:** If there is stiff and cut-throat competition – more working capital

Less competition and monopoly like situation – less working capital

**12. Inflation :** During inflation – more working capital

During recession – less working capital

### FINANCIAL LEVERAGE/CAPITAL GEARING/ TRADING ON EQUITY

It is an assumption that by using fixed charge bearing securities in the capital structure of a company, return to the equity shareholders can be increased. But this is possible only when the rate of return of the company is higher than the rate interest which a company pays on its debt capital.

For example a company has Rs.10 crores capital. Option 1 the company uses only equity capital Option 2 the company uses 50% equity and 50% debt capital in its capital structure. Rate of interest on debt is 15%. Rate of Income-tax is 30% . Profit before interest and tax is Rs.2 crores.

Particulars	Option 1	Option 2
Profit before interest and taxes (PBIT)	2,00,00,000	2,00,00,000



Less: Interest on debt	-----	15,00,000
Profit after tax	2,00,00,000	1,85,00,000
Less: Income – tax @30%	60,00,000	55,50,000
Profit after tax and interest	1,40,00,000	1,29,50,000
No. of equity shares ( FV Rs.10 each)	20,00,000	10,00,000
Return to shareholders(EPS)	Rs. 7	Rs.12.95

### Questions (with some hints wherever necessary)

Important questions are shown with \* mark and the Most important questions are shown with \*\* mark

**\*1. Name the cheapest source of finance to a company.**

1M

Ans. Debt capital

**2. Name the decision to acquire a new and modern plant to upgrade an old one.**

1M

Ans. Investment decision

**\*\*3. What is meant by Capital Structure?**

1M

**\*\*4. Enumerate three important decisions taken in financial management.**

1M

**5. What is the link between operating cycle and working capital?**

1M

**\*\*6. Canara Bank wants to open a new branch of his bank? What is this decision called?**

1M

Ans. Investment decision

**\*7. What is the cost of raising funds called?**

1M

Ans. Floatation cost

**8. Why investors want dividend?**

1M

**9. Define business finance.**

1M

**10. How the EPS is computed?**

1M

Ans. Earnings available for equity shareholders/No. of equity shares

**11. How the Interest Coverage Ratio is computed?**



1M

Ans. EBIT/Interest

**12. How the Return on Investment is computed?**

1M

Ans. EBIT/Capital Employed X 100

**\*13. Which is the most costly capital for a company?**

1M

Ans. Equity share capital

**14. Name the concept which increases the return on equity shares with a change in the capital structure of a company.**

1M

Ans. Trading on Equity

**\*\*15. State why the working capital needs for a 'Service-industry' are different from that of a Manufacturing industry.**

1M

Ans. Service industries need less working capital because they do not require any inventory. They do not have any manufacturing process.

**\*\*16. Name any two essential ingredients of sound working capital management.**

1M

Ans. Inventory, debtors

**\*\*17. 'Cost of debt' is lower than the 'cost of equity share capital' Give reasons why even then a company cannot work only with the debt.**

1M

Ans. A company cannot exist without equity share capital

**\*18. What is meant by Gross working capital?**

1M

Ans. Total investment on current assets (Current liabilities should not be deducted)

**19. Name that portion of current assets which is financed by fixed liabilities.**

1M

Ans. Net working capital

**20. Why is working capital needed? Give any one reason.**

1M

Ans. It is required to meet day to day expenses.

**21. Discuss two objectives of financial planning.**

3M

**22. What is financial risk? Why does it arise?**



3M

23. Define current assets and give four examples.

3M

24. Financial management is based on three broad financial decisions. What are these?

3M

\*\*25. What is the main objective of financial management?

3M

26. Discuss about working capital affecting both liquidity as well as profitability of a business.

3M

Hint: The working capital should neither be more or less than required. Both these situations are harmful. It is considered as a necessary evil.

27. How does cost of capital affect the capital structure of a company?

3M

\*28. "Sound Financial Management is the key to the prosperity of business: Explain

3M

Hint: Role of financial management

\*29. Explain the factors affecting the investing decision of a company.

3M

30. State the two important objectives of financial planning.

3M

Hint: i) To ensure timely availability of finance ii) To ensure proper balance of finance.

31. Explain the meaning of Fixed Capital. Explain any two factors that determine the fixed capital of a company.

3M

32. What is the role of 'Leasing' in determining the requirement of fixed capital?

3M

33. 'Fixed capital decisions involve more risk' How?

3M

34. How 'scale of operations' affect the requirement of fixed capital?

3M

35. Length of production cycle affects the working capital requirements of an organisation. Explain

3M

36. How are 'Growth Prospects' related with the requirement of working capital?

3M

37. How does 'Risk consideration' affect the capital structure decision?

3M



**38. How 'Capital Structure of other companies' affects the capital structure decision?**  
3M

**39. What do you mean by Financial Leverage?**  
3M

Hint: Trading on equity

**40. Explain the 'Earnings Before Interest and Taxes' - EBIT**  
3M

**41. "Share Capital is better than debt capital" In the favour of this statement explain one factor which affects the capital structure.**  
3M

Hint: Cash flow position or other relevant point which favours equity capital

**42. When debt capital is cheaper than the equity capital, why don't companies go for debt capital alone?**  
3M

Hint: A public company cannot be incorporated without equity share capital

**43. How the control of existing shareholders affects? How this situation can be avoided? 3M**

Hint: This situation can be avoided by raising debt capital rather than equity capital

**44. "Tax benefit is available only in case of payment of interest and not on the payment of preference dividend "Why**  
3M

Hint: Interest on debt only tax deductible expense but not preference dividend.

**45. 'Capital structure decision is essentially optimization of risk-return relationship'**  
Comment  
4M

**46. A Capital budgeting decision is capable of changing the financial fortune of a business. Do you agree? Why or Why not?**  
4M

**47. What is the importance of capital budgeting decisions?**  
4M

**\*\*48. To avoid the problems of shortage and surplus of funds what is required in financial management? Name the concept and explain its any three points of importance.**  
4M

Hint: Financial Planning.

**49. Explain briefly any four points of the role of financial management.**  
4M

**50. To tackle the uncertainty in respect of availability and timings of funds what is required? Name the concept involved and explain its three points of importance.**

4M

Hint: Financial planning

**\*\*51. Name the process which helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise. Explain its three points of importance.**

4M

Hint: Financial Planning

**52. Explain by giving any four reasons, why capital budgeting decisions are important.**

4M

**53. What is the meaning of Financial Planning? Why is it important? Give any two reasons.**

4M

**\*\*54. Explain the factors affecting the dividend decision.**

5M

**\*\*55. Explain the term 'Trading on Equity'. Why, When and How it can be used by a business organisation?**

5M

**56. "A sound financial plan is the key to success of sound financial management of the company" Discuss**

5M

Hint: Importance of Financial Planning.

**\*57. How can the return on equity be increased by using debt in the capital structure? Illustrate with a suitable example.**

5M

Hint: Trading on equity.

**58. "Financial planning does not serve any useful purpose" Comment**

5M

Hint: No, Explain the importance

**\*\*59. A businessman who wants to start a manufacturing concern approaches you to suggest him whether the following manufacturing concerns would require large or small working capital:**

**i) Bread ii) Sugar iii) Furniture manufacturing against specific order iv) Coolers v) Motor Car**

5M

Hint: i) Bread – less ii) Sugar – More iii) Furniture manufacturing against specific order – less iv) Coolers – More v) Motor Car - More.

**60. What is meant by financial management? Explain any three decisions involved in it.**

5M

**\*\*61. Explain the meaning of fixed capital. Briefly explain any four factors that determine the fixed capital of a company.**

**5M**

**62. Explain any five factors which affect the dividend policy of a company.**

**5M**

**63. "Financial Planning does not serve any useful purpose" Comment**

**5M**

**64. How are shareholders likely to gain with a loan component in the capital employed?**

**Briefly explain**

**5M**

Hint: Trading on equity

**\*\*65. "Determining the overall cost of capital and the financial risk of the enterprise depends upon various factors." Explain any five such factors.**

**5M**

Hint: Factors affecting capital structure

**\*\*66. You are a Finance Manager of a newly established company. The Directors have asked you to determine the amount of Fixed Capital requirement for the company. Explain any four factors that you will consider while determining the fixed capital requirement for the company.**

**6M**

**\*\*67. What is working capital? How is it calculated? Discuss five important determinants of working capital requirements.**

**6M**

**\*\*68. Explain any six factors which affect the capital structure of a company.**

**6M**

**\*\*69. What is fixed capital management? Explain any five factors determining the amount of fixed capital.**

**6M**

**70. What is meant by financial management? Explain its role.**

**6M**

**\*\*71. Explain any six factors affecting the financing decision of a company.**

**6M**

**72. Explain any six factors affecting the dividend decision of a company.**

**6M**

**73. What do you mean by financial planning? Discuss the importance of financial planning in financial management.**

**6M**

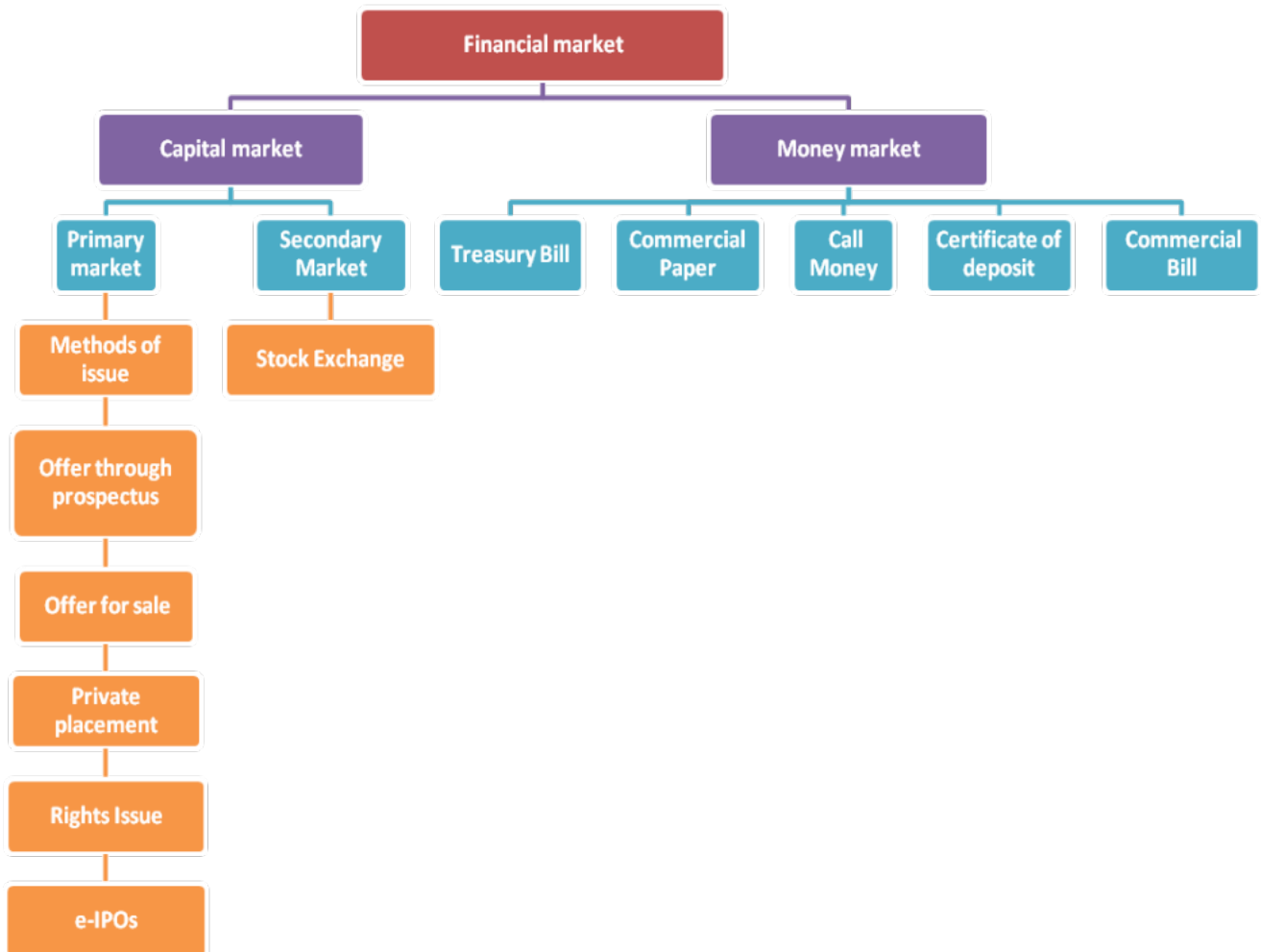
**74. The Board of Directors has asked you to design the capital structure of the company. Explain any six factors that you would consider while doing so.**

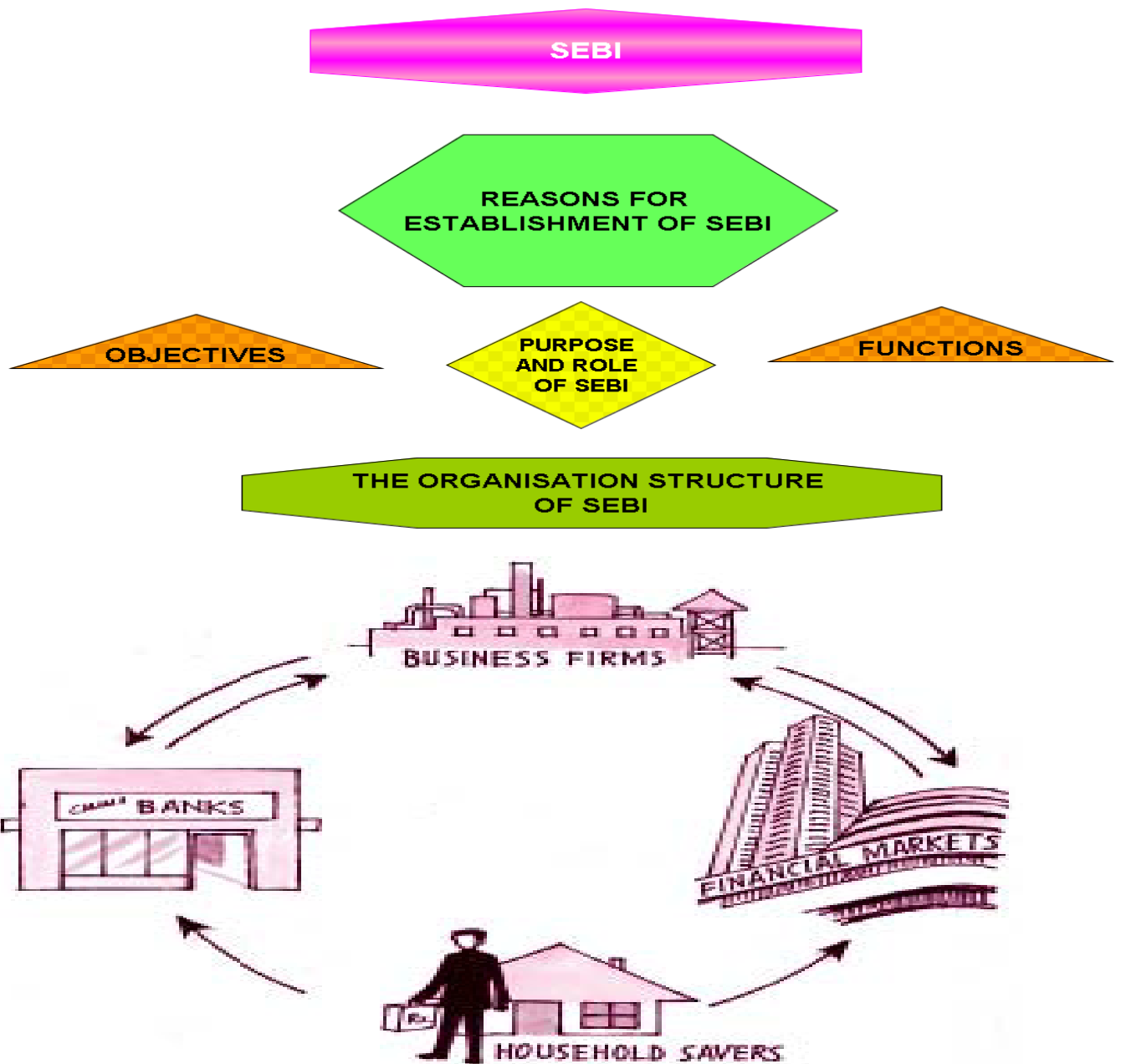
**6M**

75. "Determination of capital structure of a company is influenced by a number of factors" Explain any four such factors  
6M

## CHAPTER 10 FINANCIAL MARKETS 8Marks

CONCEPT MAPPING:





**Key Concepts in nutshell:**

**CONCEPT OF FINANCIAL MARKET:**

It refers to the market which creates and exchanges financial assets.

**FUNCTIONS OF FINANCIAL MARKET**

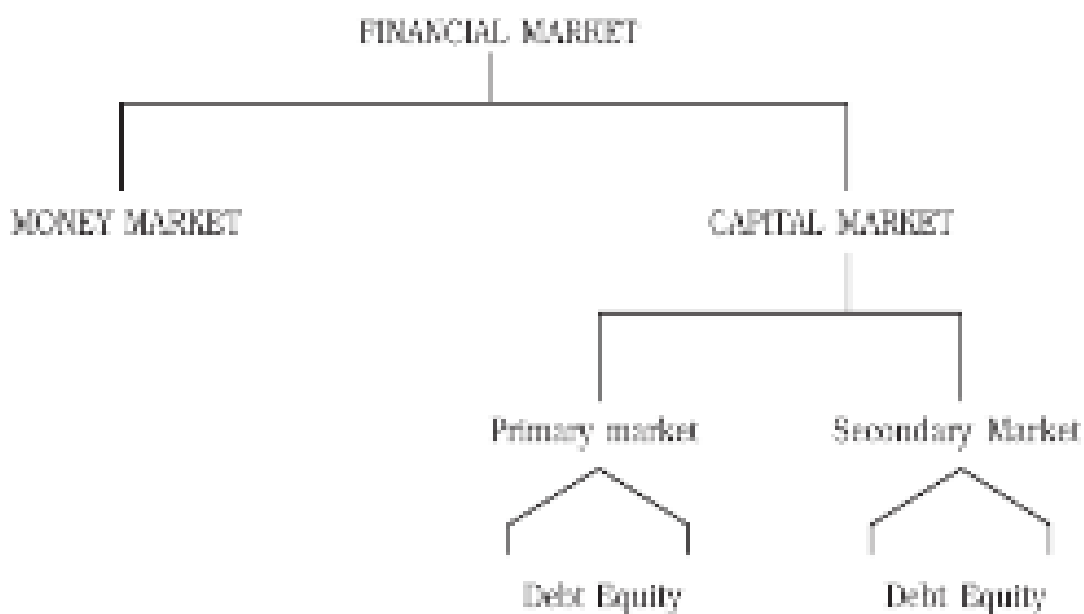
1. **Mobilization of savings and channeling them into the most productive uses:** A financial market facilitates the transfer of savings from savers to investors (industries)

**2. Facilitates price discovery:** In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.

**3. Provide liquidity to financial assets:** Financial markets facilitate easy purchase and sale of financial assets. In doing so they provide liquidity to financial assets, so that they can be easily converted into cash whenever required.

**4. Reduce the cost of transactions:** Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money.

### Classification of Financial Markets

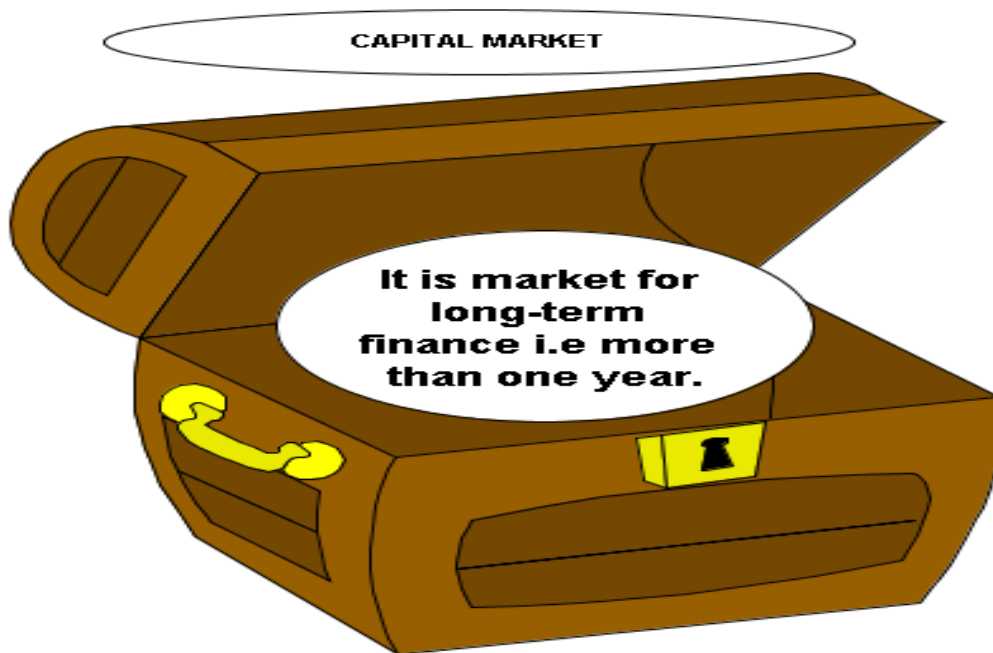




#### Instruments:

- 1. Treasury Bill (T-bills):** It is basically an instrument of short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds.
- 2. 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 rates of interest than market rates. It usually has a maturity period of 15 days to one year.
- 3. Call Money:** It is a short-term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. It is a method by which banks borrow from each other to be able to maintain the cash reserve ratio.
- 4. Certificate of Deposit (CD):** It is a unsecured, negotiable short-term instruments in bearer form, issued by commercial banks and development financial institutions. It can be issued to individuals, corporations and companies.
- 5. Commercial Bill (Trade Bill):** It is a short-term , negotiable, self-liquidating instrument which is used to finance the credit sales of firms. The bill can be discounted with a bank if the seller (drawer) needs funds before the bill maturity.





**TYPES OF CAPITAL MARKET:**

**Primary Market:** It is also known as the new issues market. It deals with new securities being issued for the first time. A company can raise capital through the primary market in the form of equity shares, preference shares, debentures, loans and deposits.

**Secondary Market:** It is also known as stock market or stock exchange or second-hand market. It is a market for the purchase and sale of existing securities.

**Difference between Primary Market and Secondary Market**

Primary Market	Secondary Market
1. It is the market for new securities. 2. Securities are exchanged between company and the investors. 3. It promotes capital formation directly. 4. Only buying of securities takes place. Securities cannot be sold here. 5. There is no fixed geographical location. 6. Prices are determined and decided by the management of the	1. It is the market for existing securities. 2. Securities are exchanged between investors. 3. It promotes capital formation indirectly. 4. Both buying and selling of securities can take place in the stock exchange / stock market. 5. There is a specified location. 6. Prices are determined by demand and supply for the security in the



<p>company. 7. Securities are issued to investors for the first time.</p>	<p>stock exchange. 7. Securities may be bought and sold many times but not the first time.</p>
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### Methods of Floatation:

Following are the methods of raising capital from the primary market :

- **1. Public issue through prospectus:** under this method the company wanting to raise capital issues a prospectus to inform and attract the investing public. It invites prospective investors to apply for the securities.
- **2. Offer for sale:** under this method the sale of securities takes place in two steps. In the first step the company sells the entire lot of shares to the intermediary firms of stock brokers at an agreed price .In the second step, the intermediary resells these shares to investors at a higher price.
- **3. Private placement:** In private placement the entire lot of new securities is purchased by an intermediary at a fixed price and sold not to the public but to selected clients at a higher price.
- **4 .Rights issue (for existing companies:** This is the offer of new shares (additional shares) by an existing company to the existing shareholders. The shareholder may either accept the offer for himself or assign to another. A rights issue to the existing shareholders is a mandatory requirement.
- **5. e-IPOs:** A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an Initial Public Offer (IPO). The issuer company should also appoint a registrar to the issue having electronic connectivity with the exchange.

### STOCK EXCHANGE



- Meaning and definition of Stock exchange: The stock exchange is a market in which existing securities are bought and sold.
- The securities contract (regulation) act, 1956 defines “a stock exchange as an association, organization, 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

- 1. Providing Liquidity and Marketability to Existing Securities:** It gives investors the chance to disinvest and re-invest. This provides both liquidity and easy marketability to already existing securities in the market.
- 2. Pricing of Securities:** Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined.
- 3. Safety of Transactions:** The membership of a stock exchange is well regulated and its dealings are well defined according to the existing legal frame work. This ensures that the investing public gets a safe and fair deal on the market.
- 4. Contributes to Economic Growth:** A stock exchange is a market in which existing securities are re-sold or traded. Through this process of disinvestment and re-investment savings get channelized into their most productive investment avenues. This leads to capital formation and economic growth.
- 5. Spreading of Equity Cult:** The exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.
- 6. Providing Scope for Speculation:** The stock exchange provides sufficient scope within in the provisions of law for speculative activity in a restricted and controlled manner.



## **TRADING PROCEDURE:-**

The procedure for purchase and sale of securities in a stock exchange involves the following steps:

### **1. Selection of broker**

The first step is to select a broker who will buy/sell securities on behalf of the investor. This is necessary because trading of securities can only be done through SEBI registered brokers who are the members of a stock exchange. Brokers may be individual, partnership firms or corporate books. The broker charges brokerage / commission for his services.

### **2. Opening demat account**

The next step is to open a demat account. Demat (Dematerialised) account refers to an account which an Indian citizen must open with the depository participant (banks, stock, brokers) to trade in listed securities in electronic form.

The securities are held in the electronic form by a depository. At present, there are two depositories in India **NSDL** (National Securities Depository Ltd.) and **CDSL** (Central Depository Services Ltd.)

Depository interacts with the investors through depository participants. Your Depository Participant will maintain your securities account balances and intimate to you the status of your holding from time to time.

### **3. Placing the order**

The next step is to place the order with the broker. The order can be communicated to the broker either personally or through telephone, cell phone, e-mail etc.

The instructions should specify the securities to be bought or sold and the price range within which the order is to be executed. Only the securities of listed companies can be traded on the stock exchange.

### **4. Executing the order**

According to the instructions of the investor, the broker buys or sells securities.

The broker then issues a contract note. A copy of the contract note is sent to the client. The contract note contains the name and the price of the securities, names of the parties, brokerage charged. It is signed by the broker.

### **5. Settlement**

This is the last stage in the trading of securities done by the brokers on behalf of their clients. The mode of settlement depends upon the nature of the contract.

Equity spot market follows a T+2 rolling settlement. This means that any trade taking place on Monday gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm. Indian Standard Time, Monday to Friday.

Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk.

### **DEPOSITORY SERVICES :-**

It refers to that service through which the transfer of ownership in shares takes place by means of book entry without the physical movement of shares.

### **PARTICIPANTS OF DEPOSITORY SERVICES:**

- i. **DEPOSITORY:-**A Depository is an institution which holds the shares of an investor in electronic form. At present , there are two depository institutions in India :
  1. NSDL – National Securities Depository Limited.
  2. CDSL – Central Depository Services Limited.
- ii. **DEPOSITORY PARTICIPANT: A** Depository Participant (DP) is an agent of the depository. He functions as a mediator between the issuing company and the investors through the depository.. He opens the accounts and maintains the securities account balance of the investors and conveys them the status of their holding from time to time.. As per SEBI guidelines, banks, stock brokers etc can become depository participants.
- iii. **INVESTOR:** He is a person who wants to deal in shares and whose name is recorded with a Depository.
- iv. **ISSUING COMPANY:** It is that organization which issues the securities. The issuing company sends a list of the shareholders to the depositories.

### **D'MAT/Demat ACCOUNT:**

Dematerialization (popularly known as D'Mat) is the process of converting a share certificate from its physical form to electronic form and credit the same number of holdings to the D'Mat A/c which the investor opens with a depository participant.

D'Mat Account refers to that account which is opened by the investors with depository participant to facilitate trading in shares.

### **BENEFITS OF DEPOSITORY SERVICES and D'MAT ACCOUNT:**

- i) Exemption of stamp duty for dealing in shares in the electronic form.
- ii) Elimination of problems associated with transfer of shares in physical form.
- iii) Increased liquidity through speedy settlement.
- iv) Reduction in paper work.
- v) Attracts foreign investors and promoting foreign investments





- **SEBI'S CHAIRMAN MR. U. K. SINHA**

- It was set up in 1988 to regulate the functions of the securities markets with a view to promoting their orderly and healthy development, to provide adequate protection to investors and thus to create an environment to facilitate mobilization of adequate resources through the securities market.
- 1st May, 1992 SEBI was granted legal status. It is a body corporate having a separate legal existence and perpetual succession

#### **OBJECTIVES OF SEBI**

- 1. To regulate stock exchanges and the securities industry to promote their orderly functioning.
- 2. To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
- 3. To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
- 4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

#### **FUNCTIONS OF SEBI**

##### **Protective Functions:**

- (i) SEBI prohibits fraudulent and unfair trade practices in the securities market such as
  - (a) Price Rigging – Making manipulations with the sole objective of inflating or depressing



the market price of securities.

(b) Misleading statements: SEBI prohibits misleading statements which are likely to induce the sale or purchase of securities.

(ii) SEBI Prohibits insider trading. An insider is a person connected with the company who is reasonably expected to have access to price sensitive information in respect of securities of a company which is not available to public at large. Directors, promoters etc., are considered as insiders when they make use of privileged information to make individual profits by buying or selling of the securities of the company is called insider trading.

(iii) SEBI undertakes steps to educate investors through seminars, camps, T.V, News papers etc.,

(iv) SEBI promotes fair practices and code of conduct in securities market such as

a) Companies cannot roll over the debenture holders, funds unilaterally and cannot change terms - 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 at lower prices than market price.

(v) SEBI issues timely guidelines clarifications to investors during stock market up's and downs.

#### **Development Function:**

i. SEBI promotes training of intermediaries of the securities market such as brokers, sub – brokers etc.,

ii. SEBI has permitted internet trading in a limited way through registered stock brokers.

iii. In order to reduce the cost of issue, SEBI has made under – writing optional.

iv. SEBI has accepted the system of using the stock exchanges to market IPO's

v. All intermediaries including collecting banks here to register with SEBI

vi. Registration of foreign Institutional investors (FIIs) allowed for the development and growth of Indian markets.

vii. PSU bonds brought under SEBI's purview

viii. Private mutual funds are allowed for the benefit of small investors.

ix. Debenture trustees to be registered by SEBI etc.

### **Regulatory Functions:**

- i. SEBI registers and regulates the working of mutual funds.
- ii. SEBI regulates takeover of companies
- iii. SEBI conducts inquires and audit of the stock exchange.
- iv. SEBI registers and regulates the working of stock – brokers, Sub – Brokers, Brokers to an issue, and Registrars to an issue, share transfer agents and such other intermediaries in the stock market.
- v. SEBI regulates the business in stock exchanges and securities market.
- vi. SEBI has notified rules and regulations and a code of conduct to regulate the intermediaries in the securities market such as underwriters, merchants, brokers etc.,
- vii. Levying fee or other charges for carrying out the purposes of the Act.

### **Questions (with some hints wherever necessary)**

**Important questions are shown with \* mark and the Most important questions are shown with \*\* mark**

**\*1. What is a Treasury Bill?**

**1M**

**\*2. What is financial market?**

**1M**

**3. Define Capital Market.**

**1M**

**4. What is meant by Commercial Paper?**

**1M**

**5. List out the instrument of capital market.**

**1M**

**6. Define stock exchange.**

**1M**

**7. What is call money?**

**1M**

**8. What is primary market?**

**1M**

**9. What do you mean by Secondary Market?**

**1M**





10. Define money market.

1 M

11. What is D' Mat Account?

1 M

12. Name the form of shares in which they are stored under Depository system?

1 M

Hint : Electronic Form

13. Write the name of any one Indian Depository System .

1 M

14. What is meant by 'Rights issue of shares'?

3M

15. Differentiate between CP and CD

3M

16. "Stock market imparts liquidity to investment" – Comment

3M

17. What are the components of financial markets?

3M

18. What is the difference between CD and FD?

3M

19. What are T-bills?

3M

20. Explain the segments of Capital market.

3M

Hint: Primary Market and Secondary Market

21. What is pre-emptive right/rights issue?

3M

22. "Money market instruments are more liquid than capital market instrument"

Comment

3M

23. What are developmental functions of SEBI?

3M

24. What are protective functions of SEBI?

3M

25. Name any six regional stock exchanges.

3M

26. Nature of capital market can be well explained with the help of its features. State any three such features of capital market.

3M

\*27. What are the objectives of SEBI?

3M

28 . Explain the scope of capital market.

4M

Hint :i) Uses of funds ii) Suppliers of funds iii) Capital market instruments iv) Financial intermediaries.

\*\*28.. Distinguish between primary market and secondary market.

4M

\*\*29 what are the functions of financial markets?

4M

30. What is meant by Primary Market? Briefly explain the concept of 'Rights issue for existing companies'.

4M

31. Define stock exchange. Explain any two features of stock exchange.

4M

\*32. Distinguish between Capital Market and Money Market on the basis of i) Expected Return ii) Safety iii) Instruments iv) Liquidity 4M

33. What is meant by 'Primary Market'? Explain any two methods of floating new issued in the Primary Market. 4M

34. "To promote orderly and healthy growth of securities market and protection of investors, Securities and Exchange Board of India was set up" With reference to this statement explain the objective of Securities and Exchange Board of India.

4M

35. What is meant by 'Financial Market' Explain any two functions of Financial Market?

4M

\*\*36. Distinguish between Capital Market and Money Market.

5M

\*\*37. What are the functions of stock exchange?

5M

**\*\*38. Explain the various money market instruments.**

**5M**

**39.. Explain the procedure of trading on a stock exchange.**

**5M**

**Hint: i) Selection of broker ii) Placing the order iii) Executing the order iv) Settlement**

**\*40. "SEBI is the regulatory authority of the securities market". Do you agree? Give any four reasons in support of your answer.**

**5M**

**Hint: Regulatory Functions of SEBI**

**41. "Primary market helps for capital formation where as secondary market provides liquidity". Discuss**

**5M**

**\*42. "SEBI is the watch dog of the securities market" Comment**

**5M**

**Hint: Yes, Regulatory Functions of SEBI**

**\*43. "In today's commercial world, the stock exchange performs many vital functions" Do you agree? Give any four reasons in support of your answer.**

**5M**

**\*44. State any five methods of floating new issues in the primary market.**

**5M**

**45. "Financial market plays an important role in the allocation of scarce resources in an economy by performing many important functions" Explain any four such functions.**

**5M**

**Hint: Functions of Financial Market**

**\*46. Explain the Functions of SEBI.**

**6M**

**\*47. What is IPO? Explain various method of making it.**

**6M**

**48. Explain the Organisational Structure of SEBI and objectives of its committees.**

**6M**

**49. Name the mechanism through which transactions are completed in the depository service .**

**1 M**

**Hint: Book entry**

**50. What is depository Service? Explain the participants of this services.**



6M

51. What do you understand by D' Mat Account? Explain the benefits of it.

6M

### THE ORGANISATIONAL STRUCTURE OF SEBI

i) SEBI is working as a corporate sector

ii) Its activities are divided into five departments. Each department is headed by an executive director.

iii) The head office of SEBI is at Mumbai and it has branch offices at Kolkata, Chennai and Delhi

iv) SEBI has formed two advisory committees to deal with primary and secondary markets.

v) These committees consist of market players, investors associations and eminent persons.

**Objectives of the two Committees are:**

i) To advise SEBI to regulate intermediaries

ii) To advise on issues related to development of primary market in India.

iii) To advise SEBI on disclosure requirements of companies

iv) To advise for changes in the legal framework for simplification and transparency in the primary market.

v) To advise the board on matters relating to regulation and development of secondary market in India.



**CHAPTER – 11**  
**MARKETING MANAGEMENT**  
**14 Marks**

**LINKING CLASS XI SYLLABUS:**

**Business → Trade → Aids to trade → Marketing/Advertising.**

**CONCEPT MAPPING:**

1. Market, Consumer, Seller / Marketer – meaning
2. Marketing – Meaning, Features
3. Marketing Management Philosophies
4. Marketing Functions
5. Marketing Mix – product, price, place and promotion
6. Advertising – meaning, features, merits and limitations..
7. Objections to advertising
8. Sales promotion– meaning and variety of Tools / methods used.
9. Personal selling –Concept and qualities of a good salesman



## 10. Public Relations – concept and role.

### KEY CONCEPTS IN NUTSHELL

**MARKET** :It refers to a place where the buyers and sellers meet each other for sale and purchase of the commodity.

**CUSTOMER** :Customers refers to the people or organization that seek satisfaction of their needs and wants.

**SELLER OR MARKETEEER** :The sellers or marketers offer a variety of entities to customers.

**MARKETING** :Marketing makes goods and services more useful to the society by creating place, time and possession utilities.

#### **FEATURES OF MARKETING :**

- a. Needs and wants
- b. Creating a market offering
- c. Customer value
- d. Exchange mechanism

#### **-DIFFERENCE BETWEEN SELLING CONCEPT AND MARKETING CONCEPT :**

Points	Selling Concept	Marketing Concept
Starting point	Factors	Market
Main Focus	Attracting consumers	Consumer satisfaction
Means	Advertising, personal selling and sales promotion	Various marketing activities
Ends	Profit through maximum sales	Profit through consumer satisfaction

**MARKETING MANAGEMENT:** It deals with planning, organizing and controlling the activities related to the marketing of goods and services to satisfy the consumer's wants.

#### **NATURE :**

1. It is goal diverted
2. It determines the appropriate marketing mix if the firm.
3. It is a functional area of management
4. It is a specialized job
5. It is the marketing concept in action

**OBJECTIVES :**

- a. Creation of demand
- b. Market share
- c. Goodwill
- d. Profitable sales volume through customer satisfaction
- e. To determine marketing mix that will satisfy the needs of the customers
- f. To generate adequate profits for the growth of the business

## **MARKETING FUNCTIONS:**

1. Marketing research
2. Marketing planning
3. Product planning development
4. Buying and assembling
5. Packaging and labeling
6. Branding
7. Customer support services
8. Storage and warehousing
9. Transportation
10. Promotion and selling
11. Standardisation and grading
12. Pricing
13. Fixing
14. Risk taking

## **MARKETING MIX, ELEMENTS :**

1. Product Mix



2. Price Mix
3. Place Mix
4. Promotion Mix

**MEANING OF MARKETING MIX:**

It refers to the combination of four basic elements, product, price, promotion and the place known as the four P's of marketing.

**PRODUCT:** Total number of products and items that a particular seller offers to the market is called market mix.

- a. Branding
- b. Trade mark
- c. Packaging
- d. Labelling

**PRICE MIX:** It is the worth of a product or service in monetary terms :

Factors considered before fixing price are

- a) Company objectives
- b) Cost
- c) Competition
- d) Customer demand

**PLACE MIX :** It refers to a set of decisions that need to be taken in order to make the

product available to the consumers for purchase and consumption.

Channels of distribution.

Physical distribution

Cost and service trade off in Logistics

**PROMOTION MIX:** It is concerned with activities that are undertaken to communicate with both customers and participate in the channel of distribution such that sales goals are realized.

#### **ACTIVITIES INVOLVED IN PHYSICAL DISTRIBUTION OF GOODS**

- a. Transportation
- b. Inventory
- c. Warehousing
- d. Order processing

#### **FACTORS TO BE KEPT IN MIND BEFORE PRICING**

- a. Cost of production
- b. Demand for product
- c. Price if competitive firms
- d. Purchasing power if customers
- e. Government regulations
- f. Objective

#### **CHARACTERISTICS OF GOOD BRAND NAME :**

- 1. Simple and short

2. Easily pronounceable
3. Suggestive
4. Distinctive

#### **VARIOUS LEVELS OF CHANNELS OF DISTRIBUTION**

1. Direct channel / Zero level channel
2. Indirect channels
  - a. One level channel – Manufacturer to Retailer
  - b. Two level channel – Manufacturer to Wholesaler to Retailer
  - c. Three level channel – Manufacturer to Agent – Wholesaler – Retailer - Consumer

#### **FUNCTIONS OF PACKAGING:**

- a) Protection
- b) Identification
- c) Convenience

#### **FUNCTIONS OF LABELLING:**

- a) Identification
- b) Classification
- c) Promotion

#### **ADVANTAGES OF BRANDING:**

- a) Brand name helps in advertising in easier way
- b) Brand name establishes the permanent identify of the product.
- c) Brand name promotes repurchasing.
- d) Competition becomes easier with the help of brand loyalty.

**ADVERTISING:** It is defined as any paid form of non-personal presentation or promotion of ideas, goods or services by an identified sponsor.

- Merits:**
- 1) Mass reach
  - 2) Enhancing customer satisfaction
  - 3) Expressiveness
  - 4) Economical

- Limitations:**
- 1) Less forceful
  - 2) Lack of feed back
  - 3) Inflexibility
  - 4) Low effectiveness

- Features:**
- a) Paid form
  - b) Impersonal presentation
  - c) Speedy and mars communication
  - d) Identified sponsor

## **OBJECTIONS TO ADVERTISEMENT**

- a) Adds to Costs: Advertising costs are passed on to the consumers in the form of high prices.
- b) Some Advertisements are in bad taste.

- c) Undermines social values.
- d) Confuses the buyers.
- e) Encourages the sale of inferior goods.

**PERSONAL SELLING:** It involves face-to-face interaction between the seller and the prospective buyer.

- Features:**
- 1) Personal interaction
  - 2) Two way communication
  - 3) Better response
  - 4) Relationship

**QUALITIES OF A GOOD SALES MAN:**

- i) Physical Qualities – personality , stamina, health,tolerance
- ii) Mental Qualities – mental alertness, sharp memory, initiative, imagination and self confidence.
- iii) Social Qualities – Socialbilty, tact, sound character, sweet nature.
- iv) Vocational qualities – Knowledge of product ,knowledge of competitive products, training and aptitude.

**Sales promotion:** It refers to short term use of incentives or other promotion activities that seek to stimulate interest.

- a) Rebates
- b) Refunds
- c) Discounts

- d) Quantity deals
- e) Contents
- f) Packaged premium
- g) Container premium
- h) Premium Gifts
- i) Sampling
- j) Free in mail premiums

### PUBLIC RELATIONS

**Meaning:** Public relations are the deliberate, planned and sustained effort to establish and maintain understanding between an organization and its public.

#### **ROLE OF PUBLIC RELATIONS:**

- i) More credible.
- ii) Economical Medium
- iii) Image building.
- iv) Boosts the sales of the organization.

#### **VARIOUS PUBLIC RELATION TOOLS TO SHAPE THE PUBLIC IMAGE IF THE ORGANISATION**

- a) News
- b) Speeches
- c) Events
- d) Written Materials
- e) Public service activities

**QUESTIONS (WITH SOME HINTS WHEREVER NECESSARY)**

- 1. Define market in modern marketing sense. 1M
- 2. Give an example of services which can be marketed. 1M

Hint: Market Offer

- 3. Define marketing management in present context. 1M
- 4. "They don't sell what they can make, but they make what they can sell".  
Name the marketing philosophy to which this statement is related. 1M
- 5. Which concept of marketing suggests that the organization should earn profit through consumer satisfaction and social welfare? 1M
- 6. Give one function of marketing.  
1M
- 7. Give few examples of direct channel (zero level) 1M

8. What do you mean by product?

1M

9. Mention one advantage of branding to consumers.

1M

10. What is meant by trade mark?

1M

11. Give one function of package.

1M

12. State the features of advertising( any one)

1M

13. Mention one objection to advertising. 1M

Hint: Undermines social values.

14. Define sales promotion.

1M

15. Explain the various method of sales promotion.

3/4M

16. What is meant by product concept of marketing?

3/4M

17. Explain the features of marketing.

3/4M

18. 'Product is a bundle of utilities' Do you agree? Comment

3/4M

Hint: It includes physical objects, services, ideas, place, experiences, properties, events, information's, persons which can be offered to the potential buyers for their use.

19. Outline the objectives of marketing management.

3/4M



20. Enlist the advantages of packaging of products.

3/4M

21. Explain the term personal selling and explain the qualities of a good salesman..

5/6M

22. 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. 5/6M

Hints: Any five differences.

23. Expenditure on advertising is a social waste. Do you agree? Discuss. 5/6M

Hint: Partially true, write objections to advertising

24. Explain the importance of advertising for manufacturers, consumers and the society.

5/6M

25. Explain the factors determining choice of channels of distribution of any product.

5/6M

26. Discuss the various elements of marketing –mix.

5/6M

27. Briefly explain the functions of marketing.

5/6M

28.

What do you mean by marketing management? Explain its objectives. 5/6M

29. How personal selling is important to businessmen, customers and the society.

5/6M

30. What are the merits and limitations of sales promotion?

5/6M

31. What is Public Relations? Explain its role.

6

M

**QUESTIONS BASED ON VALUES:**

While marketing certain brand of cool-drinks, a MNC is following dual standards in Europe and Asian Countries. Identify the values missing.

Ans.

i. All customers should be treated equally.

ii. Customers' health should be given top priority rather than earining profits.

iii. Human values are missing .

## CHAPTER - 12

### CONSUMER PROTECTION      6 Marks

**Class XI Syllabus Linkage:**

Manufacturer → Wholesaler → Retailer → **Consumer** → Protection

**CONCEPT MAPPING:**

- Concept and Importance of consumer protection
- Consumer Protection Act 1986
  - Meaning of consumer and consumer protection.
  - Rights and Responsibilities of consumers.
  - Who can file a complaint and against whom?
  - Redressal machinery.



► Remedies available

- Consumer awareness - Role of consumer organization and NGO's

### **KEY CONCEPTS IN NUTSHELL**

**Meaning:** Consumer protection refers to protecting the consumer against anti-consumer trade practices by the producers or sellers.

#### **IMPORTANCE OF CONSUMER PROTECTION:**

1. Business is a means of human welfare
2. Growth with social justice
3. Single vs Multiple objectives
4. Stake holders of society / moral justification.
5. Power centre / social responsibility
6. Self interest
7. Ethical obligations
8. Public support
9. Consumer is the purpose of the business long-term interest of business

#### **CONSUMER RIGHTS:**

1. -Right to safety
2. Right to be informed

3. Right to choose
4. Right to be heard
5. Right to seek Redressal
6. Right to Consumer Education

### **CONSUMER PROTECTION ACT 1986:**

- a) Under this Act, remedies available to consumers are as follows :
1. Removal of Defects
  2. Replacement of Goods
  3. Refund of Price
  4. Award of compensation
  5. Removal of Deficiency in service
  6. Discontinuation of unfair / Restrictive Trade practice

### **CONSUMER RESPONSIBILITIES**

1. Consumer must exercise his rights: They must be aware of their rights while buying.
2. Consumers should buy only standard goods like ISI/AGMARK goods only.
3. Filing complaint for the redressal of genuine grievances.
4. Consumer must be quality conscious / should not compromise on quality.
5. Consumers should learn the risks associated with products and services.

6. Do not forget to get receipt and Guarantee / Warranty Card.
7. Consumers should read labels carefully.
8. Consumers should be honest in their dealings. They should buy only legal goods.
9. Consumers should respect environment. Avoid waste, littering and contributing to pollution.
10. Consumers should form consumer societies.

### **Ways and Means of Consumer protection**

- a) **Self regulation by business:** Every firm insists to have a strong consumer base which means that more and still move people should buy their products. This is possible only when the consumers are fully satisfied with the products of the firm.
- b) **Business Associations:** Business associations prepare a code of conduct for businessmen.
- c) **Consumer Awareness :** Consumer should protect himself
- d) **Consumer organizations:** these organizations can force business firms to avoid malpractices and exploitation of consumers.

- e) **Government:** Interests of the consumers are protected by the government by enacting various legislations. Consumer protection Act 1986 is an important legislation by the government to provide protection to the affected consumer.

**Various remedies available to the consumers for redressing their grievances under the consumer protection Act 1986.**

- a) **District forum:** According to consumer protection Act state government can set up one or more district forum in each district.
  - 1) District forum hears disputes involving a sum upto Rs. 20 Lacs.
  - 2) It can file appeal against it with the state commission within 30 days.
- b) **State commission:**
- c)
  - 1) State commission redresses grievances involving a sum exceeds Rs. 20 lacs and upto Rs. 1 crore.
  - 2) It can file an appeal before the national commission within 30 days.
- d) **National commission :**
- e)
  - 1) It is appointed by the Central Government
  - 2) It has the jurisdiction to hear complaints involving a sum exceeding Rs. 1 crore.



3) It can file an appeal with the Supreme Court within 30 days

### **ROLE of Consumer Organisations and Non-Government Organisations (NGO's)**

1. Education Consumers
2. Collecting data on different products and Testing them
3. Filing suit on behalf of consumers
4. Helping Educational institutions
5. Promoting network of consumer association.
6. Extending support to Government

**NGOs** : Non-Government Organisations are those organizations which aim at promoting the welfare of the people with non-profit concept. They are taking up various aspects of consumer exploitation.

- a) Consumer co-coordinating councils
- b) Role of the press
- c) Role of Universities / Schools

#### **Legal protection to consumers:**

- a) The Consumer Protection Act 1986
- b) The Contract Act 1982
- c) The Sale of Goods Act 1930
- d) The Essential Commodities Act 1955

- e) The Agricultural produce (Grading and Marketing) Act 1937
- f) The Prevention of Food Adulteration Act 1954
- g) The Standards of Weights and Measures Act 1976
- h) The Trade Marks Act 1999
- i) The Competition Act 2002
- j) The Bureau of Indian Standards Act 1986.

**Questions (with hints wherever necessary)**

1. Mention the act which provides protection to consumers. 1M
2. The scope of consumer protection act is very wide. How? 1M
3. Mention one reason behind importance of consumer protection from consumer point of view.  
1M
4. What does consumer protection act 1986 aims at? 1M
5. Consumers might be exploited by unscrupulous, exploitative and unfair trade practices. Give few examples of such practices adopted by sellers. 1M
6. Who is a consumer under consumer protection act? 3M
7. Explain three aspects of consumer protection. 3M
8. Give any three points showing the importance of consumer protection from consumers' point of view.

3 M

9. Give the meaning of Right to Safety.

3M

10. What are the responsibilities of consumers?

3M

11. Explain the rights of consumers.

5M

12. What are the remedies available to consumers under the consumer protection act, 1986?

5M

13. Explain briefly any five ways and means of consumer protection followed in India.

5M

14. Explain in brief any five responsibilities of consumers to safeguard their interests.

5M

## VALUE BASED QUESTION

1. Ananya is a pure vegetarian. She went to a snacks bar and asked for “Veg. French Fries”. Later on, she found that it had some non-vegetarian content. Neither the advertisement, nor packing of the product showed that it may have non-vegetarian content. Identify the values missing here in this context.

Ans. The manufacturer is not honest. So the value missing here is “Honesty”.

The right to information is violated.

2. A pharmaceutical company is marketing its medicines in India which were banned in some other countries due to their side effects. The company did not mention this information anywhere. Identify the values missing.

- Ans.
- i) Right to information is violated
  - ii) Consumer protection is ignored.
  - iii) The company is not following uniform practices in all the countries.
  - iv) India should have stringent laws to punish such companies.

**ALL THE BEST OF LUCK**