

Business Studies 2019

All India - Set-1

General Instructions:

- (i) This question-paper contains **five** Sections – A, B, C, D and E.
 - (ii) Section – A contains questions **1** to **8** carrying **one** mark each. Answer to these questions may be given in **one** word or a sentence.
 - (iii) Section – B contains questions **9** to **13** carrying **three** marks each, answers to these questions may be in **50** to **75** words.
 - (iv) Section – C contains questions **14** to **19** carrying **four** marks each. Answers to these questions may be in about **120** words.
 - (v) Section – D contains questions **20** to **22** carrying **five** marks each. Answers to these questions may be in about **150** words.
 - (vi) Section – E contains questions **23** to **25** carrying **six** marks each. Answer to these questions may be in about **200** words.
 - (vii) There is no over-all choice in the question paper, however an internal choice has been provided in **3** questions of **one** mark, **2** questions of **three** marks **2** questions of **four** marks, **1** question of **five** marks and **1** question of **six** marks. You have to attempt only **one** of the choices in such questions.
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Question 1

Various input resources are required by management to complete a task effectively and efficiently. Name any two.

SOLUTION:

Money and persons are two input resources that are required by management to complete a task effectively and efficiently.

Question 2

Define 'Organising'.

OR

What is meant by 'Delegation'?

SOLUTION:

Organising refers to the procedure of aligning various activities in an organisation in a certain specific order. It involves designing the roles of the personnel such that the efforts by the employees along with the resources are coordinated towards the accomplishment of the organisational goals.

OR

Delegation refers to the transfer of authority and responsibility by the superior to his or her subordinates.

Question 3

All business firms would like to increase their sales and earn profits to be successful. All managers dream of these. To turn their dreams into reality, managers need to work hard in thinking about the future, in making business predictions and achieving targets.

The above lines describe one of the functions of management. Identify and define this function.

SOLUTION:

'Planning function' of management is defined by the lines given in the question. Planning is the process of setting goals and objectives, formulating alternative courses of action and, finally, deciding an appropriate action from the various available alternatives. All this is done for a specific period of time.

Question 4

Differentiate between 'Democratic' and 'Laissez-fair' style of leadership.

OR

Differentiate between 'Formal Communication' and 'Informal Communication' on the basis of 'Meaning'.

SOLUTION:

Basis	Democratic Style	Laissez-faire Style
Decision-making power	Leader takes decisions in consultation with the subordinates.	Subordinates are provided maximum freedom and are encouraged to take decisions independently

OR

Basis	Formal Communication	Informal Communication
Origin	Arises from formal rules and policies of the organisation	Arises from social interactions among the employees beyond the official boundaries of authority

Question 5

How does 'Cost of Debt' affect the capital structure of an enterprise?

OR

How does 'Cost of Equity' affect the capital structure of an enterprise?

SOLUTION:

Cost of debt: The cost of debt affects the capital structure in the sense that if the firm can borrow at a lower cost then it can increase its debt. That is, more debt can be used if cost of debt is lower and vice-versa.

OR

Cost of equity: The rate of return expected by the shareholders is directly related to the risk associated with their investment. As the financial risk faced by the company increases, the shareholders' expectation of rate of return increases and vice versa. Now, as the company increases the component of debt, the financial risk faced by it also increases. Therefore, the shareholders' expectation of rate of return increases. This relationship suggests that a company cannot increase the component of debt in its capital structure beyond a certain point.

Question 6

'XY Ltd' is registered with an authorised capital of ₹ 10 crore. The paid-up capital of the company is ₹ 6 crore. The company was facing shortage of funds. The management of the company decided to raise funds by issue of 1,00,000 equity shares of ₹ 100 each. The issue was fully subscribed. After this it was realised that the funds raised were in excess of the actual requirement.

Identify and define the concept which was not considered by the company before deciding the amount of funds to be raised.

SOLUTION:

The concept which was not considered by the company before deciding the amount of funds to be raised is 'Financial Planning'.

Question 7

Vivek purchased a bike from Sarnath Automobiles with a written guarantee to repair or replace, if necessary, within six months or 5,000 kms of distance travelled whichever is earlier. After covering the distance of 400 kms in two months, the gears of the bike started giving problems. Vivek took the bike to the dealer who refused to listen to his complaint. He was confused about what he should do.

Suggest the rights that Vivek may exercise in the above case.

SOLUTION:

The right that Vivek may exercise when his the dealer of his bike refused to listen to his complaint is:

- a) Right to be Heard
- b) Right to Seek Redressal

Question 8

'Nayan Medicare Equipment Ltd.' manufactures equipment for surgeons having a unique laser technique. The equipment can be used by the surgeons only after proper training. Even their maintenance requires guidance of specialised engineers. Because of this, the equipment is used in a limited number of hospitals. The company wants to increase the sale of the equipment.

Suggest the promotion tool to be used by the company giving reason in support of your answer.

SOLUTION:

Personal selling can be a promotional tool as the technology is unique in nature and can be used only by professionals. Therefore, to create awareness about the product among hospitals and doctors, personal selling can be used.

Question 9

Explain any three limitations of 'Planning' function of management.

OR

Explain any three points of importance of 'Planning'.

SOLUTION:

The limitations of the 'Planning' function of management are:

1. Rigidity: Once a plan is formulated, the manager may not be able to change it. This rigidity creates hurdles when unforeseen changes come about.
2. Lack of flexibility to deal with a dynamic environment: Planning cannot help foresee the changes in the business environment and fails in times of changes and uncertainties.
3. Reduced creativity: Plans are made by only the top management, and the lower levels of management are not allowed to deviate from the pre-defined course. Thus, in the process, lower level managers tend to lose their creativity.

OR

The importance of the 'Planning' function of management are:

1. Renders direction: Planning clearly states the goals and objectives to be achieved, and guides the managers about what tasks are to be done and how they are to be done.
2. Subdued risk: Planning helps foresee the future. Various plans are formulated keeping in consideration the expected future events. Thus, planning reduces the uncertainty of unforeseen events.
3. Minimised overlapping: As the managers are familiar with the policies and plans, they coordinate the activities together to achieve the set objectives. This helps in reducing the overlapping of work.

Question 10

Explain 'critical point control' and management by exception'.

OR

Explain 'setting performance standards' and measurement of actual performance' as steps of 'controlling process'

SOLUTION:

Under the principle of critical point control, an organisation cannot keep a check on all the activities of the management. Thus, this technique of controlling aims at focussing on only the key result areas (KRAs) that affect the entire organisation. For example, rise in input cost would be more important than rise in stationary cost. On the other hand, management by exception is based on the belief that 'an attempt to control everything results in controlling nothing'. According to this, only the essential and significant deviations that are beyond the acceptable limit should be controlled. For example, if there is a 6 per cent rise in labour cost whereas the permissible limit is just 3 per cent, then, this should be immediately brought into the notice of the management and a 2 percent rise in the cost can be ignored.

OR

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

Setting Standards: Setting up of standards involves developing the benchmarks against which the actual performance is to be measured. The standards can be set in qualitative as well as quantitative terms. Qualitative benchmarks can be in the form of improving coordination in work, higher goodwill or increased motivation level of employees, etc. For example, to improve the motivation level among employees, standard can be set in terms of number of initiatives taken. Quantitative benchmarks can be in the form of sales targets, units to be produced or time to be spent on a particular action, etc. For example, in a shirt factory completing 10 pieces a day is a quantitative target. The standards that are set should be such that they facilitate easy comparison.

Measuring Actual Performance: Once the standards are set, the next step is to measure the actual performance of the activities. This may be done through various techniques such as personal observation, checking the sample, performance reports, etc. The checking should be done in an exact and reliable manner so that correct measurement is taken for comparison. Measurement can be done after the completion of an activity as well as while it is in progress. For example, while assembling small parts of a bigger machine, the parts can be checked before assembling. This would ensure the continuous monitoring of the small parts as well as the final machine.

Question 11

Shiv has recently joined an industrial unit manufacturing low cost LED bulb. He has five workers working under him. He gives them instructions to ensure optimum utilization of resources and achievement of work targets. He provides good on-the-job training to the workers to build an efficient team. He also analyses the work performed by them and gives feedback.

The work performed by Shiv may be described as an important element of directing. Name the element and state two other functions which may be performed by Shiv in addition to those highlighted above.

SOLUTION:

The element of directing which is discussed above in the question is supervision. It is the process of guiding and instructing the subordinates towards the achievement of desired goals and objectives of the organisation. A supervisor is a person who lies immediately above the worker in the organisational hierarchy and directly oversees the activities of the subordinates.

The other functions which may be performed by Shiv in addition to giving instructions and feedback are:

1. He **acts as a link** between the managers and the workers. It is through the supervisor that the management communicates the ideas and policies to the workers and the workers communicate their problems and grievances to the management.
2. He is in direct contact with the employees and thereby guides and supports them. In this way, he helps in ***maintaining harmony and unity*** among the employees.

Question 12

'Financial markets are classified on the basis of the maturity of financial instruments traded in them.' Name the market in which the instruments with more than one year maturity are traded. Also state any two features of this market.

SOLUTION:

In a Capital Market, the instruments with more than one-year maturity are traded. A capital market refers to the market that deals in the trading of medium and long-term securities. The instruments traded in the capital market comprise equity and preference shares, debentures, bonds, etc.

The features of the capital market are as follows:

1. The capital market acts as a platform that links the savers and investors. It directs the savings of the households to their most productive use. In this way, it adds to the growth prospects of an economy.
2. It works strictly according to the guidelines and policies issued by the government.

Question 13

Gopal, Mohan and Shyam are three friends having their separate small manufacturing units in an industrial estate. They are hard-working and honest and undertake their respective production activities following the good practices of business. They use good quality raw materials and adopt standardised process. They fix the prices of their products with a reasonable profit margin. But all of them are worried about the malpractices like manufacturing sub-standard, duplicate, and defective goods by the fellow manufacturers. Therefore, they decided to form an organisation with a constitution of its own which is free from government interference. This organisation would encourage consumers to strongly protest and take action against unscrupulous, exploitative and unfair trade practices of sellers.

State three other functions which may be performed by the organisation in addition to those mentioned above.

SOLUTION:

The other functions performed by the this organisations are:

1. Publish Journals: They regularly publish journals and periodicals to spread knowledge and awareness about various consumer problems, legal remedies available and other such matters.
2. Consumer Education: NGOs and consumer organisations conduct various training programmes and workshops to educate the consumers about their rights and responsibilities.
3. Legal Assistance: They also provide legal assistance to the consumers and help them in seeking suitable redressal.
4. Assistance in Filing Complaints: These organisations not only assist consumers in filing complaints in appropriate forums, but also file complaints on consumers' behalf.

Question 14

Define 'Management'. Explain how management is a multidimensional activity.

OR

Give the meaning of 'Business Environment'. Explain any three features of Business Environment.

SOLUTION:

Management is a process of designing and maintaining an environment in which individual working together in groups , efficiently accomplish selected aim.

Management is a broad concept. Also management includes dimensions such as management of work, management of people, management of operation. Manager of any organisation needs to manage people working in the organisation, work or task being performed in organisation and also he /she needs to manage the operation of the organisation so, it is considered as multidimensional.

OR

Meaning of Business Environment: Business environment refers to all the external forces—including economic, social, political, technological and legal—that affect the

performance of a business organisation.

These forces can affect the performance of the organisation either in a positive or in a negative manner. For example, a change in consumer's tastes and preferences in favour of a firm's product increases the demand for its product. On the other hand, political instability can have an adverse impact on its performance. External forces are outside the purview or control of an organisation but affect its performance.

Features/Characteristics of Business Environment:

1. **Aggregate of external forces:** A business environment is the aggregate of all the external forces such as individuals, consumers, government and legal matters that affect the performance of an organisation either positively or negatively.
2. **Interrelated:** The different forces of a business environment are interrelated with one another. For example, increase in income of the consumers is equivalent to decrease in demand for consumer durables.
3. **Ever-changing:** A business environment is dynamic. For example, the consumer's tastes and preferences, technology, political conditions, etc., change continuously.
4. **Uncertain:** The dynamism in the forces of a business environment implies that they are highly uncertain and cannot be predicted easily.

Question 15

One of the questions that needs to be answered in the organizing function is 'At what level are decisions made'? Decision making authority in an organization can be pushed down to the lower levels or it may lie with the top management. However it is not an 'either or' concept.

When an organization grows in size or complexity, there is a tendency towards sharing decision making authority with the lower levels. This is because in large organizations, employees who are closely involved with certain operations tend to have more knowledge about them than the top management.

An important concept of organizing function is discussed above. Identify the concept and state any three points of its importance.

SOLUTION:

Decentralization is discussed above in the question 'Decision making authority in an organization can be pushed down to the lower levels or it may lie with the top management'. It refers to the dispersal of the decision-making power among the middle-level and lower level managers. The extent of decentralisation varies from one organisation to another.

The importance of decentralisation is discussed as follows:

1. **Initiative:** Decentralisation gives some freedom to the lower level managers and imparts them a higher degree of autonomy to take initiatives. In the process, the lower level managers learn to face new challenges and find solutions for problems themselves.

2. **Managerial competence:** Delegation of authority to lower level managers provides them with the opportunity to gain experience and thereby develop the skills and

knowledge to face new challenges. This improves their competence and level of maturity, which in turn helps them to get ready for higher positions.

3. Control: Decentralisation assists in analysing and evaluating the performances of each department separately. The extent of achievement of each department and its contribution to the overall objectives of the organisation can be easily evaluated in a decentralised system.

Question 16

State any four points of importance of staffing function of management.

OR

State any four benefits of training to employees.

SOLUTION:

Staffing is an important function of management as it takes care of the manpower requirement of any organisation. In today's environment with rapid changes taking place in technology, size of the organisations, etc. finding the right people for the job becomes critical. In such a scenario, proper staffing process plays an important role in the organisations.

Following are the highlighted benefits of staffing in the current world scenario.

1. **Finding Competent Personnel:** Staffing helps in finding and choosing the right personnel required for a job.
2. **Improves Efficiency:** By ensuring that right people are placed for right jobs, the overall efficiency and performance increases.
3. **Growth of the Organisation:** It ensures survival and growth of the organisation by appointing efficient and competent employees for various jobs.
4. **Optimum Utilisation of Human Resources:** Through proper manpower planning, staffing prevents over-utilisation or under-utilisation of manpower. In addition, it avoids interruption in working efficiency by suggesting, in advance if there is any unfilled job.
5. **Job Satisfaction:** Compensation and fair rewards given to the employees provide them self-confidence and job-satisfaction. It encourages them to work diligently and give their best to the organisation.

OR

Training is an important aspect of any organisation. It aims at building the skills and abilities of the individuals to perform a job. Training is an essential part of the job which attempts at improving the aptitude and knowledge of a person as per the job requirement. With the ever changing business environment, the complexity of the jobs has increased. Thereby, training has become all the more essential.

The following are the highlighted benefits of training to the employee and the organisation.

Benefits to the Employee:

1. Better Career Opportunities: Training enhances the skill and knowledge of the employees and thereby, helps in improving their career prospects.

2. Earn More: By helping the individual to learn more it assist them to earn more. Training enhances the individuals understanding and knowledge. Thereby, it improves their efficiency and performance. As a result, it gives them a chance to earn more.

3. Less Accident Prone: Training attempts to make the employees more adept and efficient in handling the machines. Jobs that require the employees to work with complex machines and in more accident-prone areas need to emphasise strongly on training and development, as it helps them in taking precautionary actions. Thus, it makes the employee less prone to accidents.

4. Self-Confidence: Development and training direct the individuals to work more efficiently that in turn builds up required morale within the individuals. It increases their self-confidence and self-reliance thereby, contributing to higher job-satisfaction.

Question 17

Ganesh was concerned about the sedentary lifestyle people are leading nowadays. Their dependency on outside food is also increasing because corporate work culture demands working till late night at offices. So, he decided to start a restaurant, 'Healthy Eating Point' to provide healthy food options to customers. After completing planning and organising functions, he identified the various job positions that are required to be filled i.e. a General Manager, an Accountant, two Chefs, two boys for serving the food in the restaurant and three boys for home delivery of food. He decided that his father, Karan, would be the General Manager of the restaurant. He would be paid ₹ 50,000 per month for his services. His father requested him to appoint his friend's son, Prem, as an accountant who is well qualified for this post. Ganesh agreed to this proposal. Earlier, Prem had a business of providing unskilled workers to different organisations from remote areas of the country. Prem took permission from Ganesh to continue with the old business. Ganesh happily agreed and asked him to provide five boys for serving and delivering the food. For the appointment of the two Chefs, Ganesh approached a renowned Hotel Management Institute and was satisfied with the Chefs provided by the institute.

(a) Quoting the lines from the above paragraph, explain the two sources of recruitment being used by Ganesh for filling up the various job positions.

(b) Also, give the meaning of the function of management discussed in the above case.

SOLUTION:

a) The two sources of recruitment being used by Ganesh for filling up the various job positions are:

(i) Recommendations of employees - 'His father requested him to appoint his friend's son, Prem, as an accountant who is well qualified for this post. Ganesh agreed to this proposal'.

(ii) Campus Recruitment - 'For the appointment of the two Chefs, Ganesh approached a renowned Hotel Management Institute and was satisfied with the Chefs provided by the institute'.

b) Staffing function of the management is discussed above in the question. It is the

process of filling job vacancies and retaining the employees recruited. The primary objective of staffing in an organisation is to fulfil its human resource requirements.

Question 18

Nayar is working as a P.G.T Commerce in a CBSE affiliated school of Kerala. One day he was teaching about capital market in the class. He informed the class that during 1980's the capital market in India witnessed a tremendous growth because of increasing participation of the public. This ever increasing investors' population and market capitalisation led to a variety of malpractices on the part of the companies, brokers, merchant bankers, investment consultants and others involved in the securities market. These malpractices and unfair trading practices eroded investors' confidence and multiplied investors' grievances. The Government of India and the stock exchanges were helpless in redressing the investors' problems because of lack of proper penalty provisions in the existing legislation. In view of this the Government of India decided to set up a regulatory body.

- (a) Name the regulatory body which the Government of India decided to set up.
- (b) Also state any three objectives of the regulatory body identified in part (a) above.

SOLUTION:

(a) The regulatory body which the Government of India decided to set up is SEBI (Securities and Exchange Board of India)

(b) The objectives of the SEBI are as follows:

i) Regulation- The primary objective of SEBI is to regulate the functioning of the stock exchange. It aims at providing a place where the issuers can raise funds in an easy and confident manner.

ii) Protection- Another objective is to educate the investors by providing them valuable information regarding various securities and companies.

iii) Prevention- It aims at combating various malpractices in trading of securities such as insider trading, violation of rules and regulations and non-adherence to Companies Act.

Question 19

Jay is working as the Chief Executive Officer of a soft drinks company. The company is doing its business in collaboration with a soft drinks company of France. Jay's friend, Swami, a teacher of Business Studies in a reputed college was discussing the 'Marketing' chapter with his students. He wanted clarity from Jay about the factors which affect the marketing decisions. Jay explained that there were a large number of factors affecting marketing decisions which may be divided into two categories : (i) controllable factors, and (ii) non-controllable factors.

Jay further explained that controllable factors become marketing tools that can be constantly shaped and reshaped by marketing managers, to achieve marketing

success.

Identify and explain the set of marketing tools that can be constantly shaped and reshaped by marketing managers.

SOLUTION:

The marketing tools that can be constantly shaped and reshaped by the managers are as follows:

1. Product: A product refers to any good or service that offers value and satisfies needs of a customer. For example, a car, toothpaste, soap, services of teacher, etc. are products. In marketing, a product relates not just to the physical product but it also includes the satisfaction of various needs and utilities of the customer. For example, consumption of a product benefits a consumer in the form of satisfaction of consumers' functional needs, social needs and psychological needs. Such benefits also form a part of product. In addition a product also includes the after sale services such as taking feedback, redressing consumer complaints, etc. Regarding the product important decisions relate to designing, quality, features, labelling, branding and packaging.

2. Price: Price refers to the money paid by the customers to obtain a product. Price of a product affects its demand. As the price of a product increases, its demand falls and vice versa. The marketers must analyse properly the various factors that determine the price and decide a suitable price for the product. For example, the target customers, pricing policy followed by the competitors, objectives of the firm, etc. must be considered while deciding a price. The price set should be such that the customers find it at par with the value of the product. Suitable discounts and incentive schemes must also be decided.

3. Place: Besides the product decisions and pricing decisions, a firm must also take decisions regarding the availability of the product to the target customers. A firm must appropriately decide the dealers or intermediaries for the distribution of the goods. Other important decisions comprise of managing the inventory, warehousing, storage and transportation of the goods.

4. Promotion: Promotion comprises of those activities that communicate customers regarding the availability of a product, its features, qualities, etc. so as to influence the customers to purchase the product. Organisations undertake various promotional activities such as advertising, sales techniques, personal selling, etc. An organisation must carefully decide the medium of promotion and carefully take the related functions. For example, the organisation must decide which of the sales techniques such as discounts, free gifts, sale, etc. should be used.

Question 20

'Scientific Management means knowing exactly what you want men to do and seeing that they do it in the best and the cheapest way.' Taylor developed various techniques for application of Scientific Management principles and was able to achieve a three-fold

increase in productivity in Bethlehem Steel Company, where he worked. One of the techniques helps to determine the number of workers to be employed; frame suitable incentive schemes and determine labour costs. Another technique recognises those workers who are able to accomplish/exceed the fair day's work and is based on the premise that efficiency is the result of the joint efforts of the managers and the workers. Quoting the lines from the above paragraph, identify and explain the two techniques of Scientific Management.

SOLUTION:

The two scientific techniques of management discussed above are:

a) *Differential piece wage system:* Under this technique, wages are decided according to a set standard. The workers who perform better than the set standards get higher wages than the workers who perform below the standards. Taylor introduced this system to differentiate the efficient workers from the inefficient ones and reward them accordingly.

Line: 'technique recognises those workers who are able to accomplish/exceed the fair day's work and is based on the premise that efficiency is the result of the joint efforts of the managers and the workers'.

b) *Time study:* Time study emphasises setting a standard time limit for completing a particular job. The time taken for completing the job is measured for setting the standard time limit. This helps decide the number of workers to be employed for a particular task, determine their wages, etc.

Line: One of the techniques helps to determine the number of workers to be employed; frame suitable incentive schemes and determine labour costs.

Question 21

Matta Auto Ltd. is manufacturing different types of commercial vehicles. Their sales were rupees two hundred crores in the previous year. The company decided to increase sales by 20% during the current year. It conducted internal as well as external audits for the same. Through internal audit, they analysed the strengths and weaknesses of the business across all departments. External audit focused on the opportunities and the threats in the constantly changing business environment. Thus, a comprehensive plan was prepared taking into consideration the business environment and the necessary resources were allocated to achieve the target. The company directed its offices throughout the country to follow the plan. The company's commitment to develop effective plans to achieve a consistent increase in sales has ensured its continual growth over the past one decade.

Identify and explain the two types of plans discussed above.

SOLUTION:

The two types of plans discussed above are :

a) Objectives - An objective is a goal that management desires to achieve. By stating the objective, the management broadly defines what is to be done. The objective of Matta Auto Ltd. is to increase its sales by 20% during the current year.

b) Strategy - A strategy is a comprehensive plan that includes determining the long-term objectives, adopting the required course of action and allocating the necessary resources.

Matta Auto Ltd. prepared a comprehensive plan by taking into consideration the business environment and the necessary resources which were allocated to achieve the target.

Question 22

Explain any five points of importance of 'directing' function of management.

OR

Explain any five non-financial incentives.

SOLUTION:

The importance of directing as a function of management are as follows:

1. Directing initiates action. It encourages employees to work towards the achievement of organisational goals.
2. Directing improves efficiency of employees by providing them motivation and leadership. It helps subordinates to work to the best of their abilities and contribute their efforts towards the achievement of organisational goals.
3. Directing ensures coordination by creating mutual understanding and teamwork among the members of an organisation.
4. Directing helps to provide growth and stability to an organisation.
5. Directing facilitates changes. It helps organisation to cope up with the changes in the business environment by effective leadership and communication.

OR

Non-financial incentives refer to those incentives that focus on non-monetary needs of the employees such as the social and psychological needs.

The following are some of the non-financial incentives used in the organisations.

1. **Position:** Rise in status in terms of power, authority, responsibility provides a psychological boost to the employees. For example, a promotion may satisfy the esteem and self actualisation needs of an individual.
2. **Organisational Characteristics:** Certain characteristics such as employee freedom, recognition of performance, incentives and rewards play an important role in influencing the behaviour of the employees. For example, if the employees get due recognition for their performance, it encourages them to work more efficiently.
3. **Work Enrichment:** Often, a challenging work endowed with greater responsibility and requiring higher knowledge and skill enhances the interest of the employee. It provides the employee prospects for personal growth. Thus, it proves to be a good

source of motivation for him.

4. **Career Opportunities:** If the organisation is endowed with appropriate growth and career opportunities for its employees, it strives then to perform better and thereby, climb the professional ladder.

5. **Job Security:** An employee should have a certain extent of security regarding his association with the organisation. Constant fear of losing the job hampers their efficiency. However, a complete security can also result in loss of interest in work.

6. **Involvement:** If an organisation allows the participation of the employees in the policy and decision making matters, then it instils a feeling of belongingness in them and motivates them to work towards the organisational goals.

Question 23

Explain any four characteristics of coordination.

OR

Explain any four points highlighting the nature principles of management.

SOLUTION:

Coordination is said to be the essence of management. It unites the functioning and efforts of various employees for the achievement of the common goals and objectives of an organisation. It forms the link between the various functions of management. The following are the characteristics that highlight the nuances/features of coordination .

i. **Group activity:** Coordination is said to be a group activity as it integrates the efforts of various individuals for the achievement of common objectives. In other words, it unifies the collective efforts of the employees for the achievement of set targets or goals.

ii. **Binding force:** The main purpose of coordination is to unify the actions of individuals. It acts as a force that binds the various functions of management. It ensures that the people of an organisation work together towards the accomplishment of the organisational goals.

iii. **Continuous process:** Coordination is a continuous process. It creates a channel between the functions of management. Coordination starts right from planning, and continues till controlling. It ensures that work is being performed according to the planned targets.

iv. **All-pervasive function:** Coordination is a pervasive function. That is, it is performed at all the levels of management. It is practised by the managers of all departments at every level in order to ensure unity of action.

OR

The nature of 'principles of management' are as follows:

i. Universally applicable: Management principles can be applied anywhere and everywhere by all types of organisations irrespective of their size, nature and region. However, the degree of their applicability would definitely be governed by such factors as the nature of business, scale of operations etc.

ii. Guidelines: Management principles act as guidelines and are considered to be the general premises for decision making. However, they do not provide straitjacket solutions to problems as real life business situations are cumbersome and dynamic, they call for specialised actions.

iii. Formed by experimentation: Management principles have been developed over years of research and experimentation and are technical. They pertain to different working situations and can be modified by the manager as per the situations and the requirements.

iv. Flexible: Management principles are not rigid. They are flexible enough to be used and molded by the manager as per the need of the hour. This makes application of management principles in diverse business situations.

Question 24

Chintamani is the Production Manager of 'Global India Ltd.' manufacturing and exporting steel. During the year 2017 – 18, the company could not meet its production targets. The Chief Executive Officer of the company constituted a committee of experts to find out the reasons and give its recommendation so that the production target could be met in the future. The company analysed the production related records and found out that there were problems due to communication. 'Global India Ltd.' had rigid rules and would insist on communication through prescribed channels, which led to delays. The company also had a number of managerial levels causing further delay and distorted communication.

Moreover, the Production Manager, Chintamani, was using a tone that quite often offended the sentiments of the workers. Also, Chintamani and the workers did not believe in each other and so could not understand each other's messages in the original sense.

(a) Identify and give the meaning of the types of communication barriers discussed above.

(b) Quoting lines from the above, state two communication barriers under each of the types identified in part (a) because of which 'Global India Ltd.' could not meet its production targets.

(c) State any two recommendations that might have been given by the committee to improve communication effectiveness.

SOLUTION:

(a) The two types of communication barriers that are being discussed in the question are:

1. Organisation barriers: These are those barriers in the communication that are related to the structure, hierarchical relationships, rules and policies of the organisation.

2. Psychological barriers: Sometimes psychological factor such as frustration, anger, fright or distrust may also obstruct effective communication. These are called

psychological barriers.

(b) 1. Organisation barriers:

- i. **Rules and regulations-** 'Global India Ltd.' had rigid rules and would insist on communication through prescribed channels, which led to delays.
- ii. **Complexity in organisation structure-** The company also had a number of managerial levels causing further delay and distorted communication.

2. Psychological barriers:

- i. **Distrust-** Chintamani and the workers did not believe in each other and so could not understand each other's messages in the original sense
- ii. **Lack of attention:** Chintamani, was using a tone that quite often offended the sentiments of the workers

(c) Two recommendations are:

- 1. The language, tone and content of the information should be appropriately chosen so that it is easily understood and does not harm anybody's sentiments.
- 2. The sender of the information should also be a patient listener. He should be open to communication from the other end (receiver) as well.

Question 25

'Monisha Consumer Goods' is a leading consumer goods chain with a network of 46 stores primarily across Mumbai, Delhi and Pune. It was started by Monisha Gupta in 1987. It has a large market share in Mumbai, Delhi and Pune. Looking for an opportunity to expand, it has decided to open a new branch in Kerala. It has to decide on what new resources it will invest in so that it is able to earn the highest possible return for its investors. Once the company believes that it will be able to generate higher revenues and profits, it also has to decide on how this project will get funded. The finance manager, Atul was told to have an optimal capital structure by striking a balance between various sources of getting the project funded so as to increase shareholders' wealth. Atul, after assessing the cash flow position of the company, evaluated the cost of different sources of finance and compared the risk associated with each source as well as the cost of raising funds.

- (a) State the two financial decisions discussed in the above situation.
- (b) Explain any two factors affecting each of the decisions that still have to be considered by the finance manager.

SOLUTION:

- a. The two financial decisions being discussed are:
 - 1. **Investment decision-** 'what new resources it will invest in so that it is able to earn the highest possible return for its investors'
 - 2. **Financing decision-** 'have an optimal capital structure by striking a balance between various sources of getting the project funded so as to increase shareholders' wealth'
- b. Two factors affecting the investment decision that still have to be considered by the finance manager are:

1. Degree of risk: Every investment project involves a certain degree of risk. The risks associated with investment in a project must be calculated properly before taking the investment decision. In this regard, those investment proposals that involve a moderate degree of risk are preferred.

2. Criteria of investment: Various other criteria such as availability of raw materials, availability of inputs and technology used also affect the investment decision. Various alternatives for investment must be weighed properly on various grounds and accordingly, an appropriate decision must be taken.

Two factors affecting the financing decision that still have to be considered by the finance manager are:

1. Operational cost: A company having high fixed operational cost such as rent of the building and salaries must opt for owner's fund. This is because high fixed operational cost is generally associated with risk of default on payment of interest. On the other hand, a company with low operational costs may opt for borrowed funds.

2. Considerations of control: Issuing more of equity dilutes the control of management over the operations of the company. On the other hand, debt has no such considerations. So, companies that are apprehensive of the dilution of control opt for more of debt and less of equity.