

CBSE
Class XII Business Studies
Delhi Board Paper Set 3 – 2014

Time: 3 hrs

Max. Marks: 90

Note:

- Please check that this question paper contains 12 printed pages.
- Code number given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.
- Please check that this question paper contains 30 questions.
- **Please write down the Serial Number of the question before attempting it.**
- 15 minutes time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the students will read the question paper only and will not write any answer on the answer-book during this period.

General Instructions:

- (i) All questions in both the sections are compulsory.
- (ii) Marks for questions are indicated against each question.
- (iii) Questions Nos. **1 – 12** are very short-answer questions carrying **1** mark each. They are required to be answered in one sentence each.
- (iv) Questions Nos. **13 – 18** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50 – 75** words each.
- (v) Questions Nos. **19 – 22** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
- (vi) Question Nos. **23 – 26** are long-answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
- (vii) Question Nos. **27 – 30** are long-answer questions carrying **6** marks each. Answers to them should normally not exceed **200** words each.
- (viii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

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1. What is meant by 'Encoding' as an element of communication? **[1]**
 2. Give an example of 'Employee Recognition Programmes' as a non-financial incentive. **[1]**
 3. 'Recruitment' is one of the specialised activities performed by human resource management. Mention any two other specialised activities of human resource management. **[1]**

4. Why employees become lethargic when the organisation uses internal sources of recruitment? State. [1]
5. State any one advantage of 'Formal Organisation.' [1]
6. Give the meaning of 'Policy' as a type of plan. [1]
7. Give the meaning of 'Authority' as an element of delegation. [1]
8. Define 'Capital Structure'. [1]
9. How does 'Inflation' affect the working capital requirements of a company? State. [1]
10. What is included in the 'Political environment' of business? State [1]
11. What is the objective of 'Method Study' as a technique of scientific management?
12. What is meant by 'Management of people?' [1]
13. 'Financial market plays an important role in the allocation of scarce resources in an economy by performing various functions.' Explain any three functions of financial market.[3]
14. Crackers Ltd., a firecracker-manufacturing company, launched some new products on the eve of Diwali, which attracted many buyers. To meet the increased demand, the company employed children from nearby villages. Although the product was in great demand, appropriate safety warnings for use were not mentioned on the packets that led to many accidents.
 - i. Identify and explain the important product-related decision that was not taken into consideration by the company.
 - ii. Also, identify any two values that were violated by the company. [3]
15. How directing helps in the efficient and effective functioning of the organisation? Explain by giving any three points. [3]
16. Rahim was working in an enterprise on daily wages basis. It was difficult for him to fulfill the basic needs of his family. His daughter fell ill. He had no money for his daughter's treatment. To meet the expenses of her treatment, he participated in a cycle race and won the prize money. The cycle company offered him a permanent pensionable job which he happily accepted.
 - i. By quoting the lines from the above para identify the needs of Rahim that are satisfied by the offer of Cycle Company.

- ii. Also, explain two other needs of Rahim followed by above that are still to be satisfied. [3]
- 17.** State any three responsibilities that a consumer should keep in mind while purchasing, using and consuming goods and services. [3]
- 18.** Explain the following rights of consumers:
- i. Right to Seek redressal and
 - ii. Right to consumer education [3]
- 19.** Explain any four points that highlight the importance of financial planning. [4]
- 20.** How is training of employees beneficial for the organisation? State by giving any four reasons. [4]
- 21.** Why is the understanding of business-environment important for managers? Explain with the help of any four points. [4]
- 22.** XYZ Power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient to cover the costs and the risks. The demand of lanterns was increasing day by day, so the company decided to increase production to generate higher sales. For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to open schools and crèches for the children of its employees.
- i. Identify and explain the objectives of management discussed above.
 - ii. State any two values which the company wanted to communicate to the society. [4]
- 23.** Differentiate between 'capital-market' and 'money-market' on the following basis:
- i. Participants;
 - ii. Instruments'
 - iii. Investment outlay;
 - iv. Duration and
 - v. Liquidity. [5]
- 24.** Principles of Taylor and Fayol are mutually complementary. One believed that, management should not close its ears to constructive suggestions made by the employees, while the other suggested that a good company should have an employee suggestion system, whereby suggestions which result in substantial time or cost reduction should be rewarded.
- Identify and explain the principles of Taylor and Fayol referred in the above para. [5]
- 25.** State any five points of importance of planning. [5]

26. Explain the factors that determine the choice of channels of distribution. **[5]**

27. Explain the following as functions of marketing:

- (i) Gathering and analysing market information
- (ii) Marketing planning
- (iii) Customer support services and
- (iv) Physical distribution

[6]

OR

'Though advertising is one of the most frequently used medium of promotion of goods and services, it attracts lot of objections' Explain any four such objections.

28. Explain the various steps in the process of controlling.

OR

Explain any four points that highlight the importance of controlling. **[6]**

29. With the help of any four points, explain the importance of 'Decentralisation' in an organisation.

OR

Explain the concept of 'Divisional Structure'. Also, explain any four advantages of divisional structure. **[6]**

30. Explain the following as factors affecting the requirements of working capital:

- a. Business cycle
- b. Operating efficiency
- c. Availability of raw material and
- d. Level of competition

OR

Explain the following as factors affecting 'financing decision'.

- a. Cash flow position of the business
- b. Level of fixed operating cost
- c. Control consideration and
- d. State of capital markets

[6]

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Answer 1

Encoding is the process of converting ideas and thoughts of the sender into communication symbols such as pictures and gestures.

Answer 2

Providing a certificate of achievement to employees for their excellent performance is an example of 'Employee Recognition Programmes' as a non-financial incentive. It is a very good motivator to improve the efficiency level of an employee and reach the target.

Answer 3

Selection and training are two other specialised activities performed by human resources management.

Answer 4

Internal sources of recruitment have a tendency to make employees lethargic because employees are sure of time-bound promotions and the spirit of competition among employees may be hampered.

Answer 5

One of the advantages of formal organisation is that it leads to systematic and smooth functioning of an organisation. Because the job responsibilities are well-defined in a formal organisation, there is no chance of duplication of work.

Answer 6

A policy is a general statement which aims to group the efforts of an organisation towards the right direction. It is formed at every level because the managers at every level have to decide the way of managing a situation, and thus, policy acts as a guide to take a decision in an unforeseen situation.

Answer 7

Authority is the power of an individual to command and direct his subordinates to take action within the scope of his position. It flows downward from superior to subordinate.

Answer 8

Capital structure refers to the proportion of debt and equity used for financing business operations. It affects the profitability and financial risk of the business, and hence, companies generally use the concept of financial leverage to set up capital structure.

Answer 9

During the inflationary situation, there will be a rise in the prices of inputs and wages to labourers. This further leads to an increase in funds to meet the required volume of

production and sales. Therefore, the working capital is affected with the inflationary condition.

Answer 10

The political business environment includes all the factors relevant to government affairs such as type of government in power, policy changes and law and order. It has immediate impact on the functioning of business enterprises.

Answer 11

The objective of method study as a technique of scientific management is to find out the best way of completing the job with a view to minimise the production cost and maximise quality and customer satisfaction.

Answer 12

Management of people refers to making their strengths more effective and their weaknesses irrelevant and encouraging them to work towards achieving organisational goals.

Answer 13

A financial market is a market for the creation and exchange of financial assets (such as shares and debentures).

Major functions of a financial market:

- i. **Mobilising savings:** The financial market acts as a channel for mobilising savings to productive use. This is done by providing savers a platform for transferring investment. It provides savers a wide choice in investment. In this way, it ensures that the funds are directed towards the most productive investment.
- ii. **Establishing price:** The financial market facilitates the interaction between those who demand securities (households) and suppliers of securities (business firms). This helps in establishing a competing price for securities.
- iii. **Providing liquidity to assets:** By easing the process of sale and purchase of securities, the financial market provides liquidity to securities. That is, through the financial market, securities can be easily converted to cash.

Answer 14

- i. Labelling refers to providing information about the product in the form of a tag and graphic on the package of the product. It describes the product and specifies its components or other useful information such as the caution to be taken while using it and the procedure of use. Here, the company did not provide proper description on the usage of crackers, which may lead to accidents.
- ii. Values which were violated by the company are (a) Employing children, which is against the child labour law, and (b) Not protecting the safety of consumers.

Answer 15

Directing refers to the process of providing instructions, guidance, counselling and motivation to employees towards achieving the goals and objectives of an organisation.

- i. **Integrates employee efforts:** In the organisation, individual employee effort contributes to organisational performance.
- ii. **Means of motivation:** Guides employees to fully realise their potential and capabilities by motivating and providing effective leadership.
- iii. **Balance in the organisation:** Helps to bring stability and balance in the organisation as it fosters cooperation and communication among people.

Thus, directing helps in the efficient and effective functioning of the organisation.

Answer 16

- i. The cycle company offered Rahim a permanent pensionable job which satisfied his physiological and security needs. These needs are essential for survival. It is clearly mentioned from the statement 'It was difficult for him to fulfil the basic needs of his family'. An individual may desire to find a secure job and stable income to meet daily requirements for survival.
- ii. Two other needs which remain to be satisfied: (a) Belongingness Needs: It refers to the social needs of an individual in terms of affection and acceptance. In other words, it refers to a feeling of belongingness to society. (b) Esteem Needs: It comprises elements such as respect, dignity and recognition in the peer group.

Answer 17

Three responsibilities which a consumer should keep in mind while purchasing, using and consuming goods and services:

- i. **Awareness:** A consumer must be aware with regard to the availability of various goods and services such that he can take wise decisions.
- ii. **Looking for Quality Marks:** Consumers must always purchase goods and services which have the concerned quality certification marks. For instance, they must look for the ISI mark on electrical goods and the AGMARK on agricultural goods.
- iii. **Asking for Cash Memo:** For every purchase of a good or service, a consumer must always ask for a cash memo or bill. The bill is the proof of purchase and can be used for reference purposes.

Answer 18

- i. **Right to Seek Redressal:** It is the right of consumers to seek redressal in case of a grievance and, if required, demand suitable compensation. The Consumer Protection Act provides for compensation in the form of replacement of product, cash compensation and repair/removal of defects.
- ii. **Right to Consumer Education:** It is the right of consumers to have knowledge and be aware of their rights and responsibilities. They must have knowledge with regard to various legal remedies available in case they face any form of exploitation. Various consumer organisations and NGOs actively work in this regard.

Answer 19

Financial planning involves identifying the sources from where the funds can be obtained and ensuring that the required funds are available to the firm as and when needed. In this way, financial planning ensures that the various functions of the organisation are carried out smoothly.

Importance of financial planning:

- i. Identifying the sources from where the funds can be raised and ensuring that the required funds are available to the firm as and when needed. For this, under financial planning, an estimation is made regarding the amount of funds which would be required for various business operations. In addition, an estimation is made regarding the time at which the funds would be needed.
- ii. To ensure that there is proper utilisation of funds in the sense that there is neither surplus nor inadequate funding by the firm. In other words, it ensures that situations of both excess or shortage of funds are avoided. This is because while inadequate funds obstruct operations of the firm, excess funding leads to wasteful expenditure by the firm. Thus, proper financial planning ensures optimal utilisation of funds by the firm.
- iii. Proper financial planning promotes better coordination of production and sales.
- iv. By clearly defining the targets and policies, it helps in evaluating current performances.

Answer 20

Training refers to enhancing the skills and abilities necessary for a specific job. In other words, it attempts at improving the aptitude and knowledge of employees according to the requirements of the specific job.

Training imparts the following benefits to the organisation:

- i. **Less Wastage:** With training, employees learn to work systematically without the need of any hit and trial method. This helps in reducing the wastage of time and money.
- ii. **Higher Profits:** By developing the skills of individuals, it makes them more efficient and productive. With increase in overall productivity, the profits of the organisation rise.
- iii. **Managerial Efficiency:** Training imparts self-confidence among employees to face new challenges. It helps them to better deal with varied situations and problems.
- iv. **Reduced Absenteeism:** Effective training helps in boosting self-confidence and self-reliance of employees, which in turn helps in reducing absenteeism and employee turnover in the organisation.

Answer 21

No organisation can function in isolation. Understanding of the business environment is of vital importance for smooth and successful functioning of an organisation. A business environment refers to the aggregate of external conditions, events and resources which are

outside the control of a business but interact with it and affect its performance. In other words, everything which is outside the purview of an organisation but affects its performance composes the business environment. Some factors have direct influence and some have indirect influence on the business. A continuous evaluation and understanding of the business environment helps a firm to take account of these forces in a better manner, and thereby improve its functioning. Points highlighting the importance of understanding of environment for business enterprises:

- i. **Identification of opportunities and threats:** The business environment is ever evolving. An interaction with the environment and careful analysis will help a business identify positive opportunities. It enables the organisation to grab these opportunities, gain maximum benefit and move ahead of its competitors.
- ii. **Identification of threats:** An identification of the threats can enable the organisation to take appropriate measures such as improving the quality and features of its mobile advertising.
- iii. **Accumulating useful resources:** The environment offers itself as a source of inputs such as raw material, machinery and labour for the running of an organisation. In return, the business supplies the environment with its output. This is possible only if the enterprises have an understanding of what the environment desires and what it can offer. Thus, it is rational for organisations to take up those resources from the environment which can be converted to the desired output.
- iv. **Adjusting to changes:** The business environment is dynamic in nature and is prone to numerous socioeconomic changes. A careful analysis and understanding of the environment helps an enterprise in adapting to these changes and taking timely actions.

Answer 22

Social objectives of management have been discussed here. Social objective means creation of benefits for society or doing something for society. It implies that along with maximisation of profit, businessmen must provide maximum benefits to employees to make them feel satisfied and take steps to improve their standard of living in society.

So, the social objective is mentioned as 'For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to open schools and crèches for the children of its employees.' Social objectives of management which are mentioned in the given situation:

- a. Solar lanterns, the production of environment-friendly products
- b. To facilitate electricity in rural areas
- c. Creating employment opportunities
- d. Setting up of school and crèches for children in rural areas

Two values which the company wanted to communicate to society are (a) Rural development and (b) Providing employment opportunities.

Answer 23

Points highlighting the difference between Capital Market and Money Market:

Basis of Difference	Capital Market	Money Market
Participants	Financial institutions, commercial banks, corporates, foreign investors and public	RBI, commercial banks, financial institutions and financial companies
Instruments	Equity shares, preference shares, bonds and debentures	Short-term debt instruments such as commercial papers, treasury bills and certificates of deposit
Investment Outlay	Low-value securities, i.e. securities of values Rs 10 and Rs 100	High-value securities, i.e. the minimum amount of call loan is Rs 10 crores
Duration	Long-term and medium-term securities having a maturity period of more than a year	Maturity period of maximum one year
Liquidity	Securities are liquid only to the extent that they are tradable on stock exchanges. However, they are comparatively less liquid than money market securities.	Securities are highly liquid as DFHI provides a ready market for them.

Answer 24

Principles of Taylor and Fayol referred to in the given paragraph:

i. **Principles of Taylor: Cooperation, not Individualism**

This principle states cooperation among managers and labourers over individualism. This principle was an elongation to the principle of 'Harmony, not discord'; competition should be replaced by co-operation. The manager should think about labourers and share company gains with them, awarding them with sufficient incentives to work. Also, labourers should contribute the best to the company. There should be an open

communication system which will build up mutual trust and belongingness among them. Work and responsibilities should be equally divided and a sense of cooperation and coordination should be established.

ii. **Principles of Fayol: Initiative**

According to this principle, there must be motivation and an incentive among employees to work. They must be encouraged to come up with new ideas and suggestions. However, it must be ensured that the new initiatives and ideas are in accordance with the generally followed rules and practices in the organisation. In addition, good initiatives can be suitably rewarded by managers.

Answer 25

Factors of planning because of which we can say that it is a very significant action despite the gigantic costs:

- i. **Renders direction:** Planning clearly states the predetermined course of action, guides managers about things to be done, what route to take and how the objectives are to be achieved and provides direction to the actions of different departments of the organisation. Planning also ensures that various departments of the organisation work in a coordinated manner towards the achievement of desired objectives.
- ii. **Subdued risk of uncertainties:** One of the main agendas of planning is to predict or anticipate any future risk or unfortunate events which can cause major damage to a business. Plans are made to overcome such uncertainties. Such uncertainties are met by keeping aside some of the resources. Planning shows how to deal with situations which may arise in the due course of management though it does not fully eliminate the problems.
- iii. **Minimised overlapping:** Departmental and organisational plans are made keeping in mind the requirements of the departments. Thus, managers are well comprehended with the policies and plans of the organisation, resulting in integration of activities. Through minimisation and elimination of useless resources and redundant activities, overlapping of the work is reduced and any wastage of resources which takes place because of repetition is reduced. Proper planning ensures that there is no confusion or misunderstanding and that work proceeds smoothly.
- iv. **Encourages creativity:** Through better procedures, ideas and methods, planning serves as the stepping stone of an organisation's success and can be termed an intellectual process. Planning includes formulating policies and plans which require innovation. It is a crucial activity which demands the best of managers' thinking capabilities and creativity.
- v. **Helps in decision making:** From among the various choices of alternatives, managers are able to make a sound judgment or decision. Thus, following a proper planning process helps managers in taking rational decisions.
- vi. **Essential for controlling:** Planning sets the standards against which performance is evaluated, i.e. a comparison between the planned and the actual output. If

deviated from the said objectives, the corrective measures are implemented at the earliest.

Hence, we can infer that despite the costs involved, planning is a very important function in management and worth the costs incurred.

Answer 26

Factors determining the choice of channels of distribution:

- i. **Product Type:** The choice of channel of distribution depends on the type of product, i.e. perishable or non-perishable, industrial or consumer product. For example, in case of perishable goods, short channels of distribution would be more suitable. Similarly, for consumer products, long channels are used, while for industrial products, short channels are used.
- ii. **Characteristics of the Company:** There are financial strength and the degree of control which the company wishes to command over intermediaries. Shorter channels of distribution require larger funds but offer greater control over intermediaries. Accordingly, a financially strong company or a company which wishes to command greater control over intermediaries would opt for shorter channels of distribution.
- iii. **Competitive Factors:** The channel of distribution opted by a company also depends on the channels opted by its competitors. For instance, a company may opt for a similar channel as used by its competitors.
- iv. **Business Environment Factors:** Economic factors and legal policies are important factors in determining the choice of channel of distribution. For example, if there are complex legal formalities at various steps of distribution, then a company would prefer shorter channels of distribution.
- v. **Market Factors:** There are various market factors such as size of the market, geographical concentration of potential buyers and volume of demand which determine the choice of channels of distribution which the company opts. For instance, if potential buyers are concentrated in only a small geographical area, then shorter channels of distribution would be more suitable.

Answer 27

- i. **Gathering and analysing market information:** Marketer analyses the prevailing trend in the market and identify the best opportunities. Collecting information of the target market segment including size of market and behaviour, culture, needs and wants of customers.
- ii. **Marketing planning:** Creating a market plan to achieve the marketing goals and objectives of the organisation. Market research is conducted to analyse the preferences of the customers to formulate a suitable plan.
- iii. **Customer support services:** Involve handling complaints and feedback of customers. Customer support services are developed such as credit, maintenance, technical services, consumer information etc. These customer services are provided to satisfy customers and to make them a permanent customer for their products.

- iv. **Physical distribution:** Channels of distribution are to be decided through which products would be moved from the place of production to the place of consumption. Choosing an appropriate distribution channel holds more importance because an inappropriate distribution channel may either lead to an increase in the price of the good or decrease in the quality of the product.

OR

There are different views with regard to expenditure on advertising. On one hand, it is considered a social waste as it adds to the cost of production, weakens social values and adds to consumer needs and desires. On the other hand, it is beneficial as it helps in enhancing the sales of the product of the firm.

Points stating that advertising is a waste to the firm:

- i. **Higher Cost:** Expenses on advertisement add to the cost of the product and the firm, and these are then passed on as additional cost to consumers in the form of higher prices.
- ii. However, advertising helps in attracting consumers to the product. Accordingly, the demand for the product increases. To cater to the increased demand, the production increases. An increase in the production, in turn, lowers the per unit cost of production.
- iii. **Creates Confusion:** It is argued that with advertisements of a large number of similar products, the consumer often gets confused. In contrast, those who support advertisements argue that they help in increasing the knowledge of the consumer with regard to the availability of different products in the market. In this way, it increases their choice and helps them in making an informed decision with regard to purchase of the product.
- iv. **Promotes Inferior Goods:** Advertisements induce consumers to purchase the product. Even inferior goods can be advertised, and their demand be induced. However, it is said that quality is only a relative product. Advertisements provide knowledge with regard to all kinds of products. Whether to purchase the product or not is up to consumers themselves.
- v. **Objectionable Advertisements:** Sometimes, advertisements can be objectionable in the sense that they undermine social values. For instance, in certain advertisements, women are shown in an objectionable manner. Sometimes, the language, images and content of the advertisement may not appeal to society at large.

Answer 28

Controlling refers to the process of evaluation and assessment of the work done. Under the process of controlling, standards are set for various tasks and activities. Accordingly, the various tasks and activities are evaluated against the set standards.

Steps involved in the controlling process:

- i. **Setting Standards:** The first step is setting standards against which the actual performance is evaluated. The standards can be in both qualitative terms (such as improved coordination, higher goodwill) and quantitative terms (such as sales targets, production targets). It must be kept in mind that the set standards should facilitate easy comparison.
- ii. **Measuring Actual Performance:** The next step in the controlling process is to measure the performance of various activities. For this, various techniques can be used such as personal observation and performance reports. This measurement should be exact and reliable such that it facilitates easy comparison with the set standards. Moreover, the measurement of performance can be at various stages in the activity or at the completion of the activity.
- iii. **Comparing Performance:** After the actual performance is measured, it is then compared with the pre-defined standards. This helps in assessing whether there are any deviations/deficiencies in performance. Accordingly, it helps in identifying the required corrective actions to be taken.
- iv. **Analysing Deviation:** With the comparison of the actual performance with the set standards, the deviations in performance are identified. For analysing deviations, the following methods can be used:
 - **Critical Point Control:** According to this technique, rather than controlling all the activities in the management, only the key result areas (those that affect the entire organisation) should be focused on.
 - **Management by Exception:** According to this technique, only significant deviations which are above an acceptable range should be controlled. An attempt must not be made to control everything.

Deviations should be identified and their causes must be recognised. Some causes for deviations can be infeasible standards, deficiencies in process and dynamic business environment.
- v. **Corrective Measures:** In case deviations are beyond the acceptable range, it becomes necessary to take corrective action. It must be ensured that the deviations do not occur again.

OR

Controlling refers to making sure that the various activities and tasks in an organisation are carried out according to the predefined goals and objectives.

Points highlighting the importance of planning in an organisation:

- i. **Achieving goals:** Controlling ensures that various activities are carried out correctly according to the plans. It ensures that deviations if any are identified and appropriate corrective action is taken.
- ii. **Reviewing standards:** An effective control system ensures that the standards are set accurately. As the business environment changes, it ensures that the standards are also reviewed so as to adapt to the changes taking place.

- iii. **Enables efficiency in resource utilisation:** An effective control system ensures that there is minimum wastage of resources. In other words, it ensures that the resources are utilised optimally and in the most efficient manner.
- iv. **Better motivation:** With controlling, employees know what is expected from them and how their performance would be evaluated. This clarity motivates employees to perform better.
- v. **Maintain order:** Controlling helps keep a close watch on the activities and behaviour of employees. In this way, it helps in maintaining order and discipline in the organisation.
- vi. **Ensures coordination:** With proper controlling, the efforts of the various departments can be unified towards the common goals and objectives of the organisation. The existence of predefined standards of evaluation ensures coordination in the activities of various departments.

Answer 29

Decentralisation refers to the delegation of authority and power to the lower level in the hierarchy. It is optional in the sense that it is up to the organisation to decide that how much authority and power it wishes to delegate to the lower levels. The following points explain why an organisation would choose to be decentralised:

- i. **Initiative:** Decentralisation provides managers the freedom and authority to take their own decisions. In this way, it gives them opportunities to take initiatives. This helps managers to develop self-confidence.
- ii. **Managerial Competence:** Decentralisation provides personnel the opportunity to gain new experience and develop their skills. This helps in improving their competence. In this way, it helps in the development of future managers who can take greater responsibilities.
- iii. **Control:** With decentralisation, the performance of various departments can be evaluated in a better manner. The contribution of each department towards the overall objectives can be easily analysed.
- iv. **Active Decision Making:** Decentralisation enables decision making at the nearest point of action. This ensures quick decision making.
- v. **Growth:** With decentralisation, the responsibility is passed on to the lower levels in the hierarchy. This motivates them to work to their best, improving their competence and efficiency. Accordingly, overall performance and growth of the organisation are enhanced.
- vi. **Reduced Workload of Top Managers:** With decentralisation, part of the responsibility of top-level managers is passed on to the lower management. Accordingly, the top-level managers can focus on other priority areas, while the lower-level managers handle routine work.

OR

Divisional structure refers to an organisational structure wherein various diversified business activities of an organisation are grouped in different divisions. Each division is headed by a divisional manager who is responsible for the performance of that division. Further, under each division, multiple functions are performed such as production, sales and marketing. In other words, under each division, there is a functional structure.

This can be depicted with the help of an example. Suppose an organisation deals in the manufacturing of four products, namely footwear, garments, jewellery and leather accessories. Accordingly, there are four divisions, each of which reports to the Managing Director. Further, under each division, there are four departments—production, sales, marketing and advertising.

Points highlighting the advantages of the divisional structure of the organisation:

- i. **Managerial Efficiency:** Under divisional structure, each division is headed by a division head. The division head performs multiple functions for the division. In this way, he gets multiple opportunities for new experience and development. It helps in developing his skills and knowledge.
- ii. **Gauging Performance:** Under divisional structure, each division is responsible for its own profit and loss. In this way, the performance of each division of the organisation can be clearly evaluated, and so, necessary actions can be taken.
- iii. **Flexibility and Initiative:** As under divisional structure, each division functions independently. The divisional heads have the authority to take their own decisions. This promotes flexibility and initiative in the organisation.
- iv. **Growth:** Divisional structure enables easy growth and expansion of the organisation. This is because new divisions can be easily added without affecting existing divisions.

Answer 30

- i. **Business cycle:** In various phases of the business cycle, the requirement of working capital is different. For instance, in the phase of boom, both production and sales are higher. Accordingly, the requirement of working capital is also high. As against this, in the phase of depression, the demand is low, and so production and sale are low. Accordingly, there is less requirement of working capital.

Boom period ⇒ **High** working capital

Depression period ⇒ **Low** working capital

- ii. **Operating efficiency:** A highly efficient organisation uses its raw material and other inputs appropriately with minimum wastage, as they can handle its operations even with a low inventory. This indicates that an organisation is with a higher inventory turnover ratio and a higher debtor's turnover ratio which requires lower working capital.

Low operating efficiency ⇒ **High** working capital

High operating efficiency ⇒ **Low** working capital

- iii. **Availability of raw materials:** A firm does not have a huge stock of inventories of raw material if the raw materials are easily available for them. Therefore, the amount of working capital required will be less in this situation. On the other hand, if the raw materials are not easily available or their supply is not smooth, then the company must maintain a huge stock of raw material to ensure uninterrupted operations, thereby requiring a large working capital.

Difficult to obtain raw material \Rightarrow **High** working capital

Easy to obtain raw material \Rightarrow **Low** working capital

- iv. **Level of competition:** The higher the extent of competition in the market, the larger is the amount of stock of goods that the firms must maintain to meet the demand; therefore, the higher is the requirement of working capital.

More competition \Rightarrow **High** working capital

Less competition \Rightarrow **Low** working capital

OR

- i. **Cash flow position of the business:** Debt should be opted by the company only if it has a strong cash flow position. This is because cash would be required to repay the principle along with the interest rate on the debt.
- ii. **Level of fixed operating cost:** Fixed operating cost includes salaries, rent, insurance payouts etc. If a firm has low fixed operational cost, it can opt for debt which involves fixed financing cost in the form of interest obligations, thereby increasing fixed cost.
- iii. **Control consideration:** A firm may prefer borrowed fund securities to meet the fund requirement as the existing shareholders tend to retain complete control of business. On the other hand, a firm may prefer owner's fund securities as they are ready to lose control of the business.

Retention of Control: Debt

Sharing the Control: Equity

- iv. **State of capital market:** During the boom period, it is easy to receive funds through equity. On the other hand, during depression, it becomes difficult to receive funds through equity. Under such circumstances, it is preferable to receive funds through debt.

Bullish Market: Equity preferred

Bearish Market: Debt preferred