



INDIAN SCHOOL MUSCAT
DEPARTMENT OF COMMERCE & HUMANITIES
CLASS :12
BUSINESS STUDIES (054)

ALL WORKSHEET ANSWERS 2017-18

Name of the student ...

Roll No...

Section...

WORKSHEET:1 CHAPTER 1 :NATURE AND SIGNIFICANCE OF MANAGEMENT

- 1 **Rama (P) Ltd. uses environment- friendly techniques of production. 1**
Name the objective of the Company strives to attain?
Ans: Social Objectives of Management
- 2 **Arrow Ltd.'s target is to produce 20,000 shirts / month at cost of ₹ 150 per shirt. The 1**
Production Manager could achieve this target at a cost of ₹ 170/ shirt.
Do you think the Production Manager is “efficient”? Give reason in support of your answer.
Ans: No, the Production Manager is not “efficient” because he had achieved the target but not in cost effective manner.
- 3 **Your Grand Father has retired as the Director of a manufacturing Company. 1**
At which Level of Management was he working? Different type of Functions are performed at this level. Sate any one Function?
Ans: (i) Top Level Management (ii) Determining Objectives.
- 4 **Mr. Kumar, who is an M.B.A, has been appointed at the Post of General Manager in 3**
ABC Ltd Company. Just after his appointment he took a decision to set up a Chemical Plant near a residential colony. (The chosen location to set up the plant was favourable for many reasons to the Company). After some time, another important decision to the amount of charity been given annually to educational institutions and religious institutions was withdrawn giving the justification that it was an unnecessary burden on the Company. More emphasis was given to the share of the Company in the market and in search of modern procedures. Apart from this, a long time labor dispute was resolved by taking a balanced decision.
(i) Tell whether Mr. Kumar is at fault?
(ii) If yes, the fault is in which context?
(iii) How can the mistake be amended?
Ans:
(i)Yes. Mr. Kumar is at fault. He is avoiding the Social objectives of the management. There is a need of rethinking on two issues.
(ii) Establishing a Chemical Plant near a residential colony and,
(iii) Giving Charity
- 5 **Ms. Bharti passed her M.B.B.S examination in the first division in 2011. Later on, the 1**
year 2014 she passed her M.S examination as an eye surgeon. She was awarded a gold medal in this examination. After completing her studies, she joined a big hospital as an eye surgeon. She is performing ten operations successfully every day.

Now tell, what aspect of Ms. Bharti's above experience is science and what aspect is art.

Ans: As we know that to get information about a subject is science and putting that information to practice is an art, so in the present case, it can be said that the study of M.B.B.S and M.S. is science and working as an eye- surgeon is an art.

6 **Your Friend is working as a “worker” in a company. At what level of Organization is he “working”? What is the name of place / area where he is working?** 3

Ans: He is working at the non-managerial level of Organization. He can't be the part of any managerial level as he is not a Manager. The Manager is a person who has subordinates and there is no subordinate of him. Hence, he is known as non-managerial member. Platform Area is name of the place where he is working.

7 **You have three brothers. They are working in three different MNC's as General Manager, Supervisor and Deputy Personnel Manager.** 4

What functions of Management do you think they are performing in their Companies? Are they performing the same functions of Management? If yes, how?

Ans: All the three brothers of mine are working on three different levels of Management, Such as Top, Middle and Lower level Management. They are performing the same functions of management such as, Planning, Organizing, Staffing, Directing and Controlling. It means all the functions of Management are performed at all the three levels of Management. But there is only a difference of degree. For Example, Planning is considered as the most important function at the top while at the lower level directing is all important.

8 **Mr. Raman is working as “Plant Superintendent” in A.B.C Ltd Company. Name the Managerial Level at which he is working? State any four functions he will perform as “Plant Superintendent” in this company?**

Ans: He is working at Middle Level Management. His functions are as follows;

i) Interpreting Policies: At this Level, policies framed by Top level managers are interpreted. Like the Marketing Manager introduces his salesman to the sales policy of the company that at no cost credit sales will be made.

ii) Preparing Organizational Set-up: Every Middle Level manager prepares outline of his respective department in accordance with the objectives of the Organization.

iii) Appointing Employees: Every departmental Manager appoints employees to fulfill the activities of his department.

iv) Issuing Instructions: Departmental Managers direct their subordinates about what to do and how they have to do. Needful resources are made available to subordinates so that they can do the assigned jobs intermittently.

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

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

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

a. Identify and explain the objectives of management discussed above.

b. State any two values which the company wanted to communicate to the society.

Ans. a. The objectives of management referred to are:

i Organisational Objectives: It refers to the utilization of human and material resources considering the interest of all share holders.

ii Social Objectives: It refers to the consideration of the interest of the society during managerial activities.

b. Values

- i Providing employment opportunities
- ii Development of backward regions.

- 10 **XYZ Power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient day by day, so the company decided to increase production to generate higher sales. For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to open schools and crèches for the children of its employees.** 3
- a. **Identify and explain the objective of management discussed above.**
 - b. **State any two values which the company wanted to communicate to the society.**

Ans.

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 - i. Organisational Objectives: It refers to the utilization of human and material resources considering the interest of all share holders.
 - ii. Social Objectives: It refers to the consideration of the interest of the society during managerial activities.

b.Values

- i Providing employment opportunities
- ii Development of backward regions.

WORK SHEET:2 CHAPTER 2: PRINCIPLES OF MANAGEMENT

- 1 **Telco Ltd. manufactures files & folders form old clothes to discourage the use of plastic files and folders. For this, they employed people from nearby villagers very less job opportunities are available. An employee, Harish designed a plan for cost reduction but it was not welcomed by the production manager. Another employee gave some suggestions for improvements in design, but it was also not appreciated by the production manager.** 1

(a) The principle of management that is violated the above paragraph.

(b) Identify any two values that the company wants to communicate to the society.

Ans. (a) Initiative

(b) Concern for environment, Providing job opportunities

- 2 **Enumerate the techniques of scientific management.** 6

Ans. Techniques of Scientific Management (any two) Functional Foremanship: The technique is to improve the performance of supervisor in the factory set up. Taylor suggested functional foremanship through eight persons. Functional Foremanship is an extension of principle of division of work and specialization at the shop floor.

Motion Study - It refers to the study of movements like lifting, putting objects, sitting & changing positions etc. Which are undertaken while doing a typical job. Unnecessary movements are eliminated so that it takes less time to complete the job efficiently.

Standardization and simplification of work- The process of setting standards for every business activity. These standards are bench marks which must be adhered during production process. The standards were set for every business activity standardisation of process, raw material, time, product etc. Simplification aims at eliminating superfluous varieties, sizes

and dimension.

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

Time study it determines the standard time taken to perform a well defined job, the objective of time study is to determine the number of workers to be employed

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

Differential piece wage system. According to this there are different rate of wage payment, higher rate for the efficient members who performed above standard and lower rate for those who perform below standards.

- 3 **Pawan is working as a Production manager in CFL Ltd. which produces CFL bulbs. There is no class- conflict between the management and workers. The working conditions are very good. The company is earning huge profits. As a policy, the management shares the profits earned with the workers because they believe in the prosperity of the employees.** 1

(a) State the principle of management described in the above paragraph.

(b) Identify any two values which the company wants to communicate to society.

Ans. (a) Harmony not Discord (explain)

(b) Prosperity, Sharing

- 4 **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 were 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.** 5

(i) Identify and explain the objectives of management discussed above.

(ii) State any two values which the company wanted to communicate to the society.

Ans.

(i) (a) social objectives: Objectives which are desired to be achieved for the benefit of the society is known as social objectives. As a part of society, every organisation whether it is business or non-business, has a social obligation to fulfill. This refers to consistently creating economic value for various constituents of the society. For example, using environmental friendly methods of production, giving employment opportunities to the disadvantaged sections of society and providing basic amenities like schools and crèches to employees.

(b) Organizational objectives : Growth- a business needs to add to its prospects in the long run, for this it is important for the business to grow. Growth of a business can be measured in terms of sales volume, increase in the number of employees, the number of products or the increase in capital investment, etc.

(ii) (a) Employment opportunities

(b) Educational enlightenment

- 5 **Voltech India Ltd., is manufacturing LED bulbs to save electricity. However, it is running under heavy loses. To revive from the loses, the management shifts the units to a backward area where the labor is available at a low cost. The management also ask the workers to work overtime without any additional payment and promises to increase the wages of the workers after achieving its mission. Within a short period, the company starts earning profits because both management and workers honor the commitments.** 1

(a) State the principle of management described in the above paragraph.

(b) Identify any two values that the company wants to communicate to the society.

Ans. (a) Discipline

(b) Trust, Sustainable development

6 **'Aapka Vidyalaya' believes in holistic development of students and encourages team building through a mix of curricular, co-curricular and sports. A committee of ten prefects was constituted to plan different aspects of the function. They all decided to use recycled paper for decoration. There was a spirit of unity and harmony and all members supported each other. With mutual trust and belongingness the programme was systematically planned and executed. Kartik, one of the prefects realised that unknowingly the group had applied one of the principles of management while planning and executing the programme. He was so inspired by the success of the function that he asked his father to apply the same principle in his business. His father replied that he was already using this principle.** 5

(a) Identify the principle of management applied for the success of the programme.

(b) State any two features of management highlighted in the above para.

(c) Identify any two values which 'Aapka Vidyalaya' communicated to the society.

Ans.(a) Espirit De Corps.

(b) Two features of management highlighted in the above para are:

(i) Management is all pervasive:- Management is present everywhere. Activities of management are common to all the organisation whether, Social or Political. Managers of India, USA or Germany use the same technique of management but the way of using the technique can be different.

(ii) Management is a group activity:- An organisation consist of many people. Each individual has different needs. Their purpose for joining the organisation is also different. But all the persons works towards a common goal thus, management is a team work or group activity.

(c) Two Values identified are:

(i) Commitment.

(ii) Concern for Environment.

7 **ABC Ltd., is engaged in producing electricity from domestic garbage. There is almost equal division of work and responsibilities between workers and the management. The management even takes worker's confidence before taking important decisions. All the workers are satisfied by the good behaviors of the management.** 1

(a) State the management of principle described in the above paragraph.

(b) Identify any two values which the company wants to communicate to society.

Ans. (a) Cooperation not individualism

(b) Participation, sustainable development

8 **State any four features of 'Principles of Management'.** 4

Ans. Four features of principles of management

(a) They have universal applicability in all type of organizations.

(b) They are formed by practice and experimentation

(c) They are flexible and can be modified by the manager when the situation demands.

(d) They are aimed at influencing human behaviour.

9 **The principles of Taylor & Fayol are mutually complementary. One believed that the management should not close its ears constructive suggestions made by the employees while the other suggested that a good company should have an employee suggestion system whereby suggestion's which result in substantial time or cost reduction should be rewarded.** 3

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

Ans. Initiative, cooperation and not individualism.

10 **Explain the following techniques of scientific management.** 6

(i) **Differential piece wage system; and**

(ii) **Motion study.**

Ans. Differential piece wage system: It is a technique which differentiates between efficient and less efficient workers. It rewards the efficient workers and motivates the less efficient ones to improve their efficiency. In this system, there are two piece rates - one for those workers who produce the standard output or more, and the other for those who produce less than the standard output. The difference in the wage is enough for the inefficient worker to be motivated to perform better.

Example: Standard output (per worker per day): 100 units Wage rate I : ₹ 4 per unit (for output less than 100 units)

Wage rate II : ₹ 5 per unit (for output greater than or equal to 100 units) Worker A Worker B
Actual Output 90 units 120 units Total Wages $90 \times 4 = 360$ $120 \times 5 = 600$ Difference in units: 30 Difference in wages: ₹ 240 This difference will work as a strong motivator for inefficient worker to improve himself.

Motion Study: It refers to study of movements like lifting, putting objects, sitting, changing positions, etc. which are undertaken while doing a typical job.

Videography, can also be used to identify different motions - productive, incidental and unproductive. The objective of motion study is to eliminate the unproductive or unnecessary motions/ movements so that it takes less time to complete the job efficiently

11. Principles of Taylor and Fayol are mutually complementary. One believed that the management should share the gains with the workers, while the other suggested that employees compensation should depend on the earning capacity of the company and should give them a reasonable standard of living.

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

Ans. Principles of Taylor and Fayol are mutually complementary. Taylor through his principle 'Harmony, not discord, said the management should share the gain, if any, with the workers. Taylor recognised that the conflict between workers and management helped none. He emphasised that there should be complete harmony between the management and workers. Both should realise that each one is important. To achieve this state, Taylor called for complete mental revolution on the part of both management and workers.

Similar to this, Fayol, through the principle 'Remuneration of Employees', said the overall pay and compensation should be fair to both employees and the organisation. The employees should be paid fair wages, which should give them at least a reasonable standard of living. At the same time it should be within the paying capacity of the company. The remuneration should be just and equitable. This will ensure congenial atmosphere in the organisation which will lead to smooth working in the organisation. (3+3)

WORKSHEET 3: CHAPTER3: BUSINESS ENVIRONMENT

2. The financial reforms of Government of India as to “Make in India” have motivated many multinational firms to start producing their goods in India. These reforms have also helped young entrepreneurs to raise funds from financial markets and get technological support through collaborations. Domestic producers have also started working on efficiency and improvement in Quality as they foresee threats from foreign goods being made available in India.

Quoting lines from above, identify and explain any two importance of understanding environment in the business.

Ans. Tapping used resources “Raise funds form financial markets and get technological support through collaborations”. A business enterprises gets useful resources or inputs like finance, machines, raw materials and other inputs from its environment which includes financiers, government, consumers and the market. The analysis of business environment helps in determining the requirements of the environment, which enables it to arrange useful resources at the right time.

Identify threats and early warning signals “They foresee threats from foreign goods being made available in India”:

Threats And warning signals refers to external environment trends and changes that may restrict a firm’s performance. Understanding environment helps an organization to identify threats to its business interests and acts as early warning signals which enable them to make suitable changes in the organization.

Q. 16 In recent times the Govt. has increased the prices of diesel and LPG. Which value is being overlooked here?

Ans. i) Fall in Standard of living

ii) Increase in Domestic Expenditure

iii) Increase in the cost of agricultural products

Q. 18 After the change in Government Policies, foreign companies like coca-cola has prohibited to work in India. These steps of the government have boosted which values?

Ans. i) Encouragement to country made products

ii) Development of market for domestic products

iii) Development of National Values

WORKSHEET 4: CHAPTER 4: PLANNING

- 1 **Define Planning.** 1
Planning is deciding in advance what to do and how to do. Planning, involves setting objectives and developing appropriate courses of action to achieve these objectives.
- 2 **Explain how ‘planning facilitates decision making’.** 3
Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.
- 3 **‘Planning provides direction’. Do you agree? Explain.** 4
By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organization has to do and what they must do to achieve those goals. Departments and individuals in the organization are able to work in coordination. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its desired goals.
- 4 **How does planning reduce the risk of uncertainties?** 3
Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance the tasks to be performed, planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.
- 5 **Does planning promote innovative ideas?** 3
Since planning is the first function of management, new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.
- 6 **Is planning a prerequisite for controlling? Explain.** 4
Planning involves setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organizing, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals. If there is any deviation it can be corrected. Therefore, we can say that planning is a prerequisite for controlling. If there were no goals and standards, then finding deviations which are a part of controlling would not be possible. The nature of corrective action required depends upon the extent of deviations from the standard. Therefore, planning provides the basis of control.
- 7 **Explain the importance of planning for both small scale and big scale industries.** 5
The major benefits of planning are given below:
- (i) **Planning provides directions:** By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organisation has to do and what they must do to achieve those goals. Departments and individuals in the organisation are able to work in coordination. If there was no planning, employees would be working in different directions and the organisation would not be able to achieve its desired goals.
 - (ii) **Planning reduces the risks of uncertainty:** Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance the tasks to be performed, planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.
 - (iii) **Planning reduces overlapping and wasteful activities:** Planning serves as the

basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. Useless and redundant activities are minimised or eliminated. It is easier to detect inefficiencies and take corrective measures to deal with them.

- (iv) Planning promotes innovative ideas: Since planning is the first function of management, new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.
- (v) Planning facilitates decision making: Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.
- (vi) Planning establishes standards for controlling: Planning involves setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organising, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals. If there is any deviation it can be corrected.

Therefore, we can say that planning is a prerequisite for controlling. If there were no goals and standards, then finding deviations which are a part of controlling would not be possible. The nature of corrective action required depends upon the extent of deviations from the standard. Therefore, planning provides the basis of control.

12 Explain the limitations of planning.

4

The major limitations of planning are given below:

- (i) Planning leads to rigidity: In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time frame. These plans then decide the future course of action and managers may not be in a position to change it. This kind of rigidity in plans may create difficulty. Managers need to be given some flexibility to be able to cope with the changed circumstances. Following a pre-decided plan, when circumstances have changed, may not turn out to be in the organisations interest.
- (ii) Planning may not work in a dynamic environment: The business environment is dynamic, nothing is constant. The environment consists of a number of dimensions, economic, political, physical, legal and social dimensions. The organisation has to constantly adapt itself to changes. It becomes difficult to accurately assess future trends in the environment if economic policies are modified or political conditions in the country are not stable or there is a natural calamity. Competition in the market can also upset financial plans, sales targets may have to be revised and, accordingly, cash budgets also need to be modified since they are based on sales figures. Planning cannot foresee everything and thus, there may be obstacles to effective planning.
- (iii) Planning reduces creativity: Planning is an activity which is done by the top management. Usually the rest of the members just implement these plans. As a consequence, middle managers Judgment and other decision makers are neither allowed to deviate from plans nor are they permitted to act on their own. Thus, much of the initiative or creativity inherent in them also gets lost or reduced. Most of the time, employees do not even attempt to formulate plans. They only carry out orders. Thus, planning in a way reduces creativity since people tend to think along the same lines as others. There is nothing new or innovative.

- (iv) Planning involves huge costs: When plans are drawn up huge costs are involved in their formulation. These may be in terms of time and money for example, checking accuracy of facts may involve lot of time. Detailed plans require scientific calculations to ascertain facts and figures. The costs incurred sometimes may not justify the benefits derived from the plans. There are a number of incidental costs as well, like expenses on boardroom meetings, discussions with professional experts and preliminary investigations to find out the viability of the plan.
- (v) Planning is a time-consuming process: Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.
- (vi) Planning does not guarantee success: The success of an enterprise is possible only when plans are properly drawn up and implemented. Any plan needs to be translated into action or it becomes meaningless. Managers have a tendency to rely on previously tried and tested successful plans. It is not always true that just because a plan has worked before it will work again. Besides, there are so many other unknown factors to be considered. This kind of complacency and false sense of security may actually lead to failure instead of success.

However, despite its limitations, planning is not a useless exercise. It is a tool to be used with caution. It provides a base for analysing future courses of action. But, it is not a solution to all problems.

- 13 **Explain how ‘Planning is a mental exercise’.** 5
 Planning requires application of the mind involving foresight, intelligent imagination and sound judgement. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. However, planning requires logical and systematic thinking rather than guess work or wishful thinking. In other words, thinking for planning must be orderly and based on the analysis of facts and forecasts.
- 14 **Does planning focus on achieving objectives?** 3
 Yes, Organizations are set up with a general purpose in view. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Thus, planning is purposeful. Planning has no meaning unless it contributes to the achievement of predetermined organizational goals.
- 15 **Why is planning a primary function of management?** 3
 Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is also referred to as the primacy of planning. The various functions of management are interrelated and equally important. However, planning provides the basis of all other functions.
- 16 **Why is planning an all pervasive function of management?** 3
 Planning is required at all levels of management as well as in all departments of the organisation. It is not an exclusive function of top management or of any particular department. But the scope of planning differs at different levels and among different departments. For example, the top management undertakes planning for the organisation as a whole. Middle management does the departmental planning. At the lowest level, day-to-day operational planning is done by supervisors.
- 17 **Explain the features of planning.** 4
 The planning function of the management has certain special features. These features throw light on its nature and scope.
- (i) Planning focuses on achieving objectives: Organisations are set up with a general purpose in view. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Thus, planning is purposeful. Planning has no meaning unless it contributes to the achievement of predetermined organisational goals.
 - (ii) Planning is a primary function of management: Planning lays down the

base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is also referred to as the primacy of planning. The various functions of management are interrelated and equally important. However, planning provides the basis of all other functions.

- (iii) Planning is pervasive: Planning is required at all levels of management as well as in all departments of the organisation. It is not an exclusive function of top management nor of any particular department. But the scope of planning differs at different levels and among different departments. For example, the top management undertakes planning for the organisation as a whole. Middle management does the departmental planning. At the lowest level, day-to-day operational planning is done by supervisors.
- (iv) Planning is continuous: Plans are prepared for a specific period of time, may be for a month, a quarter, or a year. At the end of that period there is need for a new plan to be drawn on the basis of new requirements and future conditions. Hence, planning is a continuous process. Continuity of planning is related with the planning cycle. It means that a plan is framed, it is implemented, and is followed by another plan, and so on.
- (v) Planning is futuristic: Planning essentially involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively to the best advantage of an organisation. It implies peeping into the future, analysing it and predicting it. Planning is, therefore, regarded as a forward looking function based on forecasting. Through forecasting, future events and conditions are anticipated and plans are drawn accordingly. Thus, for example, sales forecasting is the basis on which a business firm prepares its annual plan for production and sales.
- (vi) Planning involves decision making: Planning essentially involves choice from among various alternatives and activities. If there is only one possible goal or a possible course of action, there is no need for planning because there is no choice. The need for planning arises only when alternatives are available. In actual practice, planning presupposes the existence of alternatives. Planning, thus, involves thorough examination and evaluation of each alternative and choosing the most appropriate one.
- (vii) Planning is a mental exercise: Planning requires application of the mind involving foresight, intelligent imagination and sound judgment. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. However, planning requires logical and systematic thinking rather than guess work or wishful thinking. In other words, thinking for planning must be orderly and based on the analysis of facts and forecasts.

18 Explain planning and give any five characteristics of planning. 6

Planning is deciding in advance what to do and how to do. Planning, involves setting objectives and developing appropriate courses of action to achieve these objectives.

(Please refer the features of planning)

19 Explain the steps in the process of planning. 6

Since planning is an activity there are certain logical steps for every manager to follow.

- (i) Setting Objectives: The first and foremost step is setting objectives. Every organisation must have certain objectives. Objectives may be set for the entire organisation and each department or unit within the organisation. Objectives or goals specify what the organisation wants to achieve. It could mean an increase in sales by 20% which could be objective of the entire organisation. How all departments would contribute to the organisational goals is the plan that is to be drawn up. Objectives should be stated clearly for all departments, units and employees. They give direction to all departments. Departments/ units then need to set their own objectives within

the broad framework of the organisation's philosophy. Objectives have to percolate down to each unit and employees at all levels. At the same time, managers must contribute ideas and participate in the objective setting process. They must also understand how their actions contribute to achieving objectives. If the end result is clear it becomes easier to work towards the goal.

- (ii) **Developing Premises:** Planning is concerned with the future which is uncertain and every planner is using conjecture about what might happen in future. Therefore, the manager is required to make certain assumptions about the future. These assumptions are called premises. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts, existing plans or any past information about policies. The premises or assumptions must be the same for all and there should be total agreement on them. All managers involved in planning should be familiar with and using the same assumptions. For example, forecasting is important in developing premises as it is a technique of gathering information. Forecasts can be made about the demand for a particular product, policy change, interest rates, prices of capital goods, tax rates etc. Accurate forecasts, therefore become essential for successful plans.
- (iii) **Identifying alternative courses of action:** Once objectives are set, assumptions are made. Then the next step would be to act upon them. There may be many ways to act and achieve objectives. All the alternative courses of action should be identified. The course of action which may be taken could be either routine or innovative. An innovative course may be adopted by involving more people and sharing their ideas. If the project is important, then more alternatives should be generated and thoroughly discussed amongst the members of the organisation.
- (iv) **Evaluating alternative courses:** The next step is to weigh the pros and cons of each alternative. Each course will have many variables which have to be weighed against each other. The positive and negative aspects of each proposal need to be evaluated in the light of the objective to be achieved. In financial plans, for example, the risk-return trade-off is very common. The more risky the investment, the higher the returns it is likely to give. To evaluate such proposals detailed calculations of earnings, earnings per share, interest, taxes, dividends are made and decisions taken. Accurate forecasts in conditions of certainty/uncertainty then become vital assumptions for these proposals. Alternatives are evaluated in the light of their feasibility and consequences.
- (v) **Selecting an alternative:** This is the real point of decision making. The best plan has to be adopted and implemented. The ideal plan, of course, would be the most feasible, profitable and with least negative consequences. Most plans may not always be subjected to a mathematical analysis. In such cases, subjectivity and the manager's experience, judgment and at times, intuition play an important part in selecting the most viable alternative. Sometimes, a combination of plans may be selected instead of one best course. The manager will have to apply permutations and combinations and select the best possible course of action.

20 Explain 'Objective' and 'Policy' as types of plan with an example.

4

Objectives

The first step in planning is setting objectives. Objectives, therefore, can be said to be the desired future position that the management would like to reach. Objectives are very basic to the organisation and they are defined as ends which the management seeks to achieve by its operations. Therefore, an objective simply stated is what you would like to achieve, i.e., the end result of activities. For example, an organisation may have an

objective of increasing sales by 10% or earning a reasonable rate of return on investment, earn a 20% profit from business. They represent the end point of planning. All other managerial activities are also directed towards achieving these objectives. They are usually set by top management of the organisation and focus on broad, general issues. They define the future state of affairs which the organisation strives to realise. They serve as a guide for overall business planning. Different departments or units in the organisation may have their own objectives. Objectives need to be expressed in specific terms i.e., they should be measurable in quantitative terms, in the form of a written statement of desired results to be achieved within a given time period.

policy

Policies are general statements that guide thinking or channelise energies towards a particular direction. Policies provide a basis for interpreting strategy which is usually stated in general terms. They are guides to managerial action and decisions in the implementation of strategy. For example, the company may have a recruitment policy, pricing policy within which objectives are set and decisions are made. If there is an established policy, it becomes easier to resolve problems or issues. As such, a policy is the general response to a particular problem or situation.

There are policies for all levels and departments in the organisation ranging from major company policies to minor policies. Major company policies are for all to know i.e., customers, clients, competitors etc., whereas minor policies are applicable to insiders and contain minute details of information vital to the employees of an organisation. But there has to be some basis for divulging information to others. Policies define the broad parameters within which a manager may function. The manager may use his/her discretion to interpret and apply a policy. For example, the decisions taken under a Purchase Policy would be in the nature of manufacturing or buying decisions. Should a company make or buy its requirements of packages, transport services, printing of stationery, water and power supply and other items? How should vendors be selected for procuring supplies? How many suppliers should a company make purchases from? What is the criteria for choosing suppliers. All these answers would be addressed by the Purchase Policy.

21 **Explain with an example 'Procedure' and 'Programme' as types of plan.**

6

Procedures are routine steps on how to carry out activities. They detail the exact manner in which any work is to be performed. They are specified in a chronological order. For example, there may be a procedure for requisitioning supplies before production. Procedures are specified steps to be followed in particular circumstances. They are generally meant for insiders to follow. The sequence of steps or actions to be taken are generally to enforce a policy and to attain pre-determined objectives. Policies and procedures are interlinked with each other. Procedures are steps to be carried out within a broad policy framework.

Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. Programmes will include the entire gamut of activities as well as the organisation's policy and how it will contribute to the overall business plan. The minutest details are worked out i.e., procedures, rules, budgets, within the broad policy framework.

22 **Explain 'Method' and 'Rule' as types of plan with an example.**

4

Method

Methods provide the prescribed ways or manner in which a task has to be performed considering the objective. It deals with a task comprising one step of a procedure and specifies how this step is to be performed. The Methods may vary from task to task. Selection of proper method saves time, money and effort and increases efficiency. For imparting training to employees at various level from top management to supervisory, different methods can be adopted. For example for higher level management orientation programmes, lectures and seminars can be organised whereas at the supervisory level,

on the job training methods and work-oriented methods are appropriate.

Rule

Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion.

It reflects a managerial decision that a certain action must or must not be taken. They are usually the simplest type of plans because there is no compromise or change unless a policy decision is taken.

23 **What are planning premises?**

3

Developing Premise is concerned with the future which is uncertain and every planner is using conjecture about what might happen in future. Therefore, the manager is required to make certain assumptions about the future. These assumptions are called premises. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts, existing plans or any past information about policies. The premises or assumptions must be the same for all and there should be total agreement on them. All managers involved in planning should be familiar with and using the same assumptions.

For example, forecasting is important in developing premises as it is a technique of gathering information. Forecasts can be made about the demand for a particular product, policy change, interest rates, prices of capital goods, tax rates etc. Accurate forecasts, therefore become essential for successful plans.

24 **What is a Budget?**

1

A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures. For example, a sales budget may forecast the sales of different products in each area for a particular month. A budget may also be prepared to show the number of workers required in the factory at peak production times. Since budget represents all items in numbers, it becomes easier to compare actual figures with expected figures and take corrective action subsequently.

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WORK SHEET 5: CHAPTER 5 : ORGANISING

- 2 **A company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing and sales department in Faridabad. The company manufactures the consumer products. Which type of organisational structure should it adopt to achieve its target?** 1
- Ans. Functional Structure
As the company is performing separate functions in different areas, it should adopt the functional structure to achieve its target.
- 4 **A manager enhances the production target from 500 units to 700 units per month but the authority to draw material were not given by him. The production manager could not achieve the revised production target. Who is responsible and which principle was violated?** 1
- Ans. Here, the manger is responsible for work not being completed. The principle of parity of authority and responsibility is violated here.
- 6 **The production manager asked the foreman to achieve a target production of 200 units per day, but he doesn't give him the authority to requisition tools and materials from the store department. Can the production manager blame the foreman if he is not able to achieve the desired target? Give reasons.** 3
- Ans. No. the production manager cannot blame the foreman because the principle of parity of authority and responsibility is violated here.
This principle states that authority and responsibilities must be equitable. They should go hand in hand otherwise there would be misuse of authority without responsibility and there would be no compliance of tasks without authority.
Here, the foreman has not been given authority to requisition tools but has only been given responsibility.
- 11 **Mrs. Suman is the Managing Director of a textile company. The Organizational structure of the Company is divided into four different Departments. Each department tries to achieve its own departmental objective due to which she faces difficulties in effecting coordination among different departments.** 4
- Identify and explain the type of formal Organization structure followed by the Organization.**
- Ans. Functional Organisation structure: Grouping of jobs of similar nature under functional and organising these major functions as separate departments creates a functional structure. All departments report to a coordinating head. For example, in a manufacturing concern division of work into key functions will include production, purchase, marketing, accounts and personnel. These departments may be further divided into sections. Thus, a functional structure is an organisational design that groups similar or related jobs together.
- 14 **Neha runs a factory wherein she manufactures shoes. The business has been doing well and she intends to expand by diversifying into leather bags as well as western formal wear thereby making her company a complete provider of corporate wear. This will enable her to market her business unit as the one stop for working women. Which type of structure would you recommend for her expanded organisation and why?** 5

Ans. Neha should decide for divisional structure because:

- (a) Such a structure will enable her to diversify the unit into varied product lines.
- (b) It will help her to know the profit margins from each product line. As a result, she can plan and select products for future diversification.
- (c) It will facilitate further expansion without disturbing the existing units.
- (d) It will ensure steady growth of each product line.

- 16 **A company, which manufactures a popular brand of toys, has been enjoying good market reputation. It has a functional organisational structure with separate departments for Production, Marketing, Finance, Human Resources and Research and Development. Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging. Questions Prepare a report regarding organisation structure giving concrete reasons with regard to benefits the company will derive from the steps it should take.**

5

Ans Divisional structure.

Report:

Ashok Kumar,

Delhi. Wednesday 22-January, 14.

The organisation enjoys good market reputation. The company is encashing its brand name and reputation. Its venturing into manufacture of a new range of electronic toys. This organisation has got multiple divisions, it should appoint divisional heads for each division. This will ensure product specialization. Adapting such structure will ensure flexibility and easy fixation of responsibility. The change of structure will also help the business enterprise to make these divisional heads accountable.

So in a nutshell this new structure will ensure growth and expansion for the organisation.

- 17 **A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown in size. Its business was very good till 1991. But after that, new liberalised environment has seen entry of many MNC's in the sector. With the result the market share of X limited has declined. The company had followed a very centralised business model with Directors and divisional heads making even minor decisions. Before 1991 this business model had served the company very well as consumers had no choice. But now the company is under pressure to reform.**

6

Questions:

- (i) What organisation structure changes should the company bring about in order to retain its market share?**
- (ii) How will the changes suggested by you help the firm?**
- (iii) Keep in mind that the sector in which the company is FMCG.**

Ans.

- (i) The company should shift from centralised to decentralized structure. It should ensure quick decision-making, motivate the subordinates and ensure effective communication.
- (ii) Even in fast moving consumer goods industry there is need for decentralisation. By using decentralisation, a company gets following benefits.
 - (a) Develops initiative among subordinates: Decentralisation helps to promote self reliance and confidence amongst subordinates. A Decentralisation policy helps to identify those executives who have the necessary potential to become dynamic leaders.
 - (b) Develops managerial talent for the future: Formal training place and

important part in equipping subordinates with skills that help them rise in the organisation but equally important is the experience gained by handling assignments independently. Decentralisation gives them a chance to prove their abilities and creates a reservoir of qualified manpower who can be considered to fill up more challenging positions through promotions.

(c) Quick decision making: The management hierarchy can be looked upon as a chain of communication. In centralised organisation, every decision is taken by the top management, the flow of information is slow as it has to traverse many levels. In a decentralized organisation, however, since decisions are taken at levels which are nearest to the points of action and there is no requirements for approval from many levels, the process is much faster.

(d) Relief to top management: Decentralisation is required to reduce the burden of top executives when it increases due to increase in size and complexity of the organisation.

18 **A company manufacturing sewing machines set up in 1945 by the British promoters follows formal organisation culture in totality. It is facing lot of problems in delays in decision- making. As the result it is not able to adapt to changing business environment. The work force is also not motivated since they cannot vent their grievances except through formal channels, which involve red tape. Employee turnover is high. Its market share is also declining due to changed circumstances and business environment.**

6

Questions

1. **You are to advise the company with regard to change it should bring about in its organisation structure to overcome the problems faced by it.**
2. **Give reasons in terms of benefits it will derive from the changes suggested by you.**
3. **In which sectors can the company diversify keeping in mind the declining market for the product the company is manufacturing?**

Ans.

1. To overcome the problem faced, the company should encourage informal organisation.
2. The benefits it will derive are:
 - a. Faster communication and quick feed back
 - b. Fulfillment of social needs
 - c. Fulfillment of organisational objectives. (explain)
3. The company can diversify into interlocking machines, automatic buttoning units, embroidery machines etc.

WORKSHEET 6 CHAPTER 6 :STAFFING

- 2 **Mr. Raghav Nathani, CEO of ‘GEMCO Ltd.’ has got placed a notice reading : “Smoking is prohibited” against the main wall of each hall of his factory. Every employee obeys this instruction. Human Resource Manager of the company has to appoint a few sales officer. During the course of interview an applicant was asked this question: “Notice against the wall is a part of the basic function of the management. Identify it.” Answer was, “It is a policy.” Selection process has reached the stage of medical examination.** 1
- (a)Is the answer of the applicant correct?**
(b)What is the next step of selection process after “medical examination”?
- Ans : (a)This answer is wrong. The correct answer is ‘Rule’.
(b)Job Offer.
- 3 Briefly enumerate the important sources of recruitment. 3
- 4 A “management expert” was invited by a company. He gave a lecture in the meeting of employees. Main points of the lecture were, “Employees should make all out efforts to increase their market value. To achieve this objective they should increase their capacity and efficiency. They should also make such endeavor as to get job satisfaction. Not only that it is equally essential that they should concentrate on minimizing the accidents”. 1
- Management expert is hinting at a function of the management which is beneficial both for the enterprise and the employees. Identify it.
Ans : Training
- 6 **Business of “Prince Global Reach Ltd.” is spread across many countries. Company received the following information about human resource from two of these countries. In the first country, business of the company is far less than expected. That is why the number of employees there is much more than necessary. But the company has also learnt that the state of slow-down in business will stay for a short period only. In the second country, in some departments of the company number of employees is more than required whereas in some other departments the same posts are lying vacant. Advise the H.R. Manager of the company as to what method of recruitment he should follow in both the countries and why?** 3
- Ans : It will be appropriate for H.R. Manager to take the following decision in the said countries :
- Decision for the first country : Here Lay-off method of recruitment will be appropriate. Lay-off means temporary separation of the employee from the employer. Mostly it is due to lack of work. However, there is clear understanding between the employer and employee that he will be re-employed as and when there is enough of work. Thus, by recalling the laid-off employee, vacant post can be filled up.
- Decision for the second company : Transfer method of recruitment will be suitable for this country. It means transfer of an employee from one department or one branch, to the other department or branch on the same spot. This method is usually followed when some employees are surplus in one department and insufficient in another department.
- 8 **Mr. Ajay Garg is an H.R. Manager of ‘Bharat Shoes Udyog’. He undertook a study with the sole purpose of minimizing the cost of production and raising the quality of the products of his company. The findings of the study were put into practice immediately. The company succeeded in its purpose. It witnessed rapid rise in demand of its products. It had its effect on the number of employees. The company felt the need of 30 more employees. In order to meet this need Mr. Garg** 3

initiated staffing process. So far, he has completed the first two steps of this process and is now at the final point of the third step.

(a) Identify the study undertaken to improve production.

(b) Identify and describe the final point of the third step of staffing process.

Ans : (a) Method Study

(b) The third step of staffing is 'Selection'.

Final point of selection is 'Contract of Employment'.

Contract of Employment : After the acceptance of job offer by a selected candidate, he becomes an employee of the organization. In this step, the appointee signs various documents. Main document among them is the attestation form. In this document detailed description of the employee is provided which he himself attests. It can be used in the time of need in future.

- 10 **Managing Director of 'Rathi India Ltd.' convened a meeting of employees working at all managerial levels. Two main issues were discussed in the meeting. First, how the employees should perform all those activities more efficiently which are being carried out currently. Second, how to enable the employees to take upon itself big responsibilities in future. Through the medium of the meeting, the company was seeking the possibilities of its extension. When the managing director felt satisfied that the employees were taking interest in both the issues, then he convened a meeting of board of directors to give final shape to the decision regarding extension of the company.**

4

(i) Identify different managerial levels.

(ii) Identify and explain those concepts of management which relate to both the issues discussed in the meeting.

Ans : (i) Managerial Levels

- Top Level Management
- Middle Level Management
- Low Level Management

(ii) Concept relating to the first issue :

Training : It refers to a process designed to maintain and improve current job performance.

Concept relating to second issue

Development : It refers to a process designed to develop skills necessary for future work.

- 12 **Business of 'Shardha Auto Pvt. Ltd.' is confined only to one state. Now it intends to extend the same to two other states. Mr. Jatin Jain, the managing director of the company, is busy in making a plan to this effect. First of all, he contacted Mrs. Rukmani Devi Rana, the H.R. Manager of the company. Both were of the opinion that they would require 75 more employees to extend their business to two new states. On looking at the record of the existing employees, it transpired that 8 employees were going to retire very shortly. Besides, two employees were proceeding on long-term study leave abroad for two years. Thus, company would now require 85 employees in all. Mrs. Rana recommended to Mr. Jatin that out of the total vacant posts, 15 be reserved for women. Mr. Jain gladly accepted the proposal. Now, H.R. Manager was to decide as to what arrangement to be made for the appointment of needed persons. She hit upon a plan. According to this plan some employees would be recruited with the help of existing employees, for some other internet would be approached and for the remaining potential employees placement agencies operating in the market would be contacted.**

4

(a) Describe what function of management has been referred to in the above paragraph?

(b) What sources of recruitment are being used by H.R. Manager? Explain

briefly.

Ans. (a) Staffing

(b)(i) Recommendation :

(ii) Interview/Websites :

(iii) Private Placement Agencies :

(Explain the above points)

- 14 **‘Johnson Brothers Ltd.’ manufactures bearings used in different machines. Mr. Roshan Sodhi, Director of the company, has decided to install an imported plant making best quality bearing at low cost. The plant was installed. When production started with the help of a new plant, he realized that he did not succeed in his objective. On scrutiny, it transpired that the employees had not understood properly the mechanism of new plant. Mr. Sodhi decided to remove this shortcoming of the employees. Consequently, soon this weakness of the employees was removed. But Mr. Sodhi was not yet satisfied with the performance of the employees. He once again resorted to scrutinize the matter. This time, he found that while operating the machines, the tools required by the employees were not found at their proper place. Due to this reason there had also occurred unnecessary wear and tear of machines. He also noticed many employees wandering hither and thither aimlessly instead of working at their proper place. In the meanwhile, he also received a complaint that an employee had been thrown out of service because of little deficiency in his performance and was not given any hearing to defend himself, whereas many other employees with similar nature of performance were still working in the company.**

(a) Identify and make us understand the measure adopted by Mr. Sodhi to improve the skill of the employees.

(b) Which principle of management is being violated by the company? Give the meaning of this principle.

(c) What values are being ignored by the company?

Ans : (a) Mr. Sodhi improved the skill of the employees by imparting training to them. “Training refers to a process designed to maintain and improve current job performance.”

(b) In this case, ‘Principle of order’, proper person should be placed at proper work and proper thing should be kept at proper place. In every enterprise there should be two separate orders e.g. material order in case of Physical Resources and social order in case of Human Resources. Keeping physical resources in order means : “A proper place for everything and everything is in the right place.” Similarly, keeping human resources in order means : “A place for everyone and everyone is in this appointed place”.

(c) Value that has been ignored.

- Impartiality
- Proper use of Resources

- 15 **Application Type**

1. The workers of a factory are unable to work on new machines and always demand for help of supervisor. The Supervisor is overburdened with their frequent calls. Suggest the remedy.

2. The workers of a factory remain idle because of lack of knowledge of hi-tech machines. Frequent visit of engineer is made which causes high overhead charges. How can this problem be removed.

3. The quality of Production is not as per standards. On investigation it was observed that most of the workers were not fully aware of the proper operation of the machinery. What could be the way to improve the accuracy?

4. An organisation provides security services. It requires such candidates who

are reliable and don't leak out the secrets of their clients. What step should be incorporated in selection process?

5. A company is manufacturing paper plates and bowls. It produces 100000 plates and bowls each day. Due to local festival, it got an urgent order of extra 50,000 plates bowls. Advise how the company will fulfill its order and which method of recruitment would you suggest.

Ans.

1. In the given situation, there is a need for job training and the most suitable method is coaching
2. In the given situation, the workers need training to work on hi-tech machines
3. In the given situation, there is a need for training of workers
The most suitable method is Apprenticeship program
4. In the given situation, organisation must conduct personality test
5. In the given situation, organisation needs to recruit workers to meet the temporary increase in demand.
Workers are recruited through labor contractors.

- 16 **“Shiv Shakti Ltd.” keeps constant vigil over business environment and studies it. During the course of this study, he noticed a considerable fall in bank interest rate. On the basis of this information, CEO of the company, Mr. Rajan Aggarwal anticipated rapid rise in demand for his products. Consequently, company decided to produce more than the normal production. Company also decided to take special care of the health and safety of the people and to keep the profits at low level while fixing the price of the products.** 6

To achieve its objective of increase in production, company will need 50 additional workers. Similarly, company will also require some more managerial staff. Regarding appointment of the employees, it is the desire of the company to recruit such like young men as are fully familiar with the new and modern ideas. No matter they may have less experience. Mr. Ram Oberoi, H.R. Manager of the company, arranged the requisite staff. It was brought to the notice of Mr. Oberoi that some of the machine operators needed training. He set up a training centre for this purpose. In this training centre, a trainer imparted them one month training. Thus by adopting these measures, company achieved its objective of large scale production.

(a) Quoting the lines identify the component of business environment.

(b) Quoting the lines identify the 'objective of management'.

(c) Company will get different kinds of persons from which sources of recruitment?

(d) Which training method is being used by the company?

Ans : (a) "During the course of studyfall in bank interest rate."

- Economic environment

(b) "Company also decided to keep the profit at low level while fixing the price."

- Social objective

(c)(i) Daily Wage Basis: Direct Recruitment

(ii) Managerial staff : Management Consultant

(iii) Young men with new and modern ideas : Campus Recruitment.

(d) Vestibule Training

- 17 **“Mohindra Rice Land Limited” is known as the king of rice trade. The company has large market share. Company's internal environment is exceedingly pleasant. Chief Executive Officer of the company has delegated most of the decision making authorities to departmental managers. For instance, all departmental** 6

managers have the authority to appoint any employee getting a salary up to Rs. 50,000 per month. They need not obtain prior permission from the CEO for this purpose. It is the practice of the company to entrust to one person the responsibility of performing identical activities. It increases the efficiency of the organization.

Since everything is positive in the company, all persons are keen to seek employment there. Some of the employees are conversing with one another as to how they got appointment in the company.

Deepak Miglani told that he applied for the job after reading an advertisement in the newspaper. He was called for interview. He was selected on this basis.

Deepak Sharma told that he was introduced by the existing finance manager.

Deepak Pathak told that he had neither seen any advertisement in the newspaper nor was he introduced to the company by any person, rather he was directly appointed on the basis of interview conducted in the university where he was about to finish his M.A. Economics (Hons.) course.

Answer the following questions on the basis of the above paragraph.

(a) Which factor of the organizing function of the management has been referred to here?

(b) Which principle of management has been highlighted here? Clarify the same.

(c) Which factor of staffing function of the management has been referred here?

(d) Describe the above mentioned three methods concerning the sources of recruitment as identified in point (c).

Ans : (a) Decentralisation

(b) Principle of Unity of Direction.

According to this principle all activities having similar objective should be completed under the supervision of one person and there should be one plan of action for such type of activities.

(c) Recruitment

(d) Deepak Miglani : Advertising Media

Deepak Sharma : Recommendation

Deepak Pathak : Campus Recruitment.

18 Mr. Vikas Goel is an H.R. Manager of “Sanduja Furniture Pvt. Ltd.” At the beginning of the new year he anticipated that the company will need new 30 additional persons to fill up different vacancies. He gave an advertisement in the newspaper inviting applications for filling up different posts. As many as 120 applications were received. The same were scrutinized. Out of these, conditions of 15 applicants were not acceptable to the company. Letters of regret, giving reasons, were sent to them. Remaining candidates were called for preliminary interviews. The candidates called were asked to fill up blank applications form. Thereafter, they were given four tests.

6

The objective of the first test was to find out how much interest the applicant does take in his work.

The objective of the second test was to find out ‘specialisation’ of the applicant in any particular area.

Third test aimed at making sure whether the applicant was capable of learning through training or not.

The purpose of the fourth test was to find out how much capability a person has to mix-up with other persons, and whether he can influence other persons and get influenced by them.

(a) Quoting the lines, identify the first two steps of staffing.

(b) Identify different tests given to the applicants by Mr. Goel.

Ans : (i) “At the beginning of the new year different vacancies.”

- Estimating Manpower Requirement.

(ii) "He gave an advertisement 120 applications were received."

- Recruitment.

(b) Mr. Goel gave tests in the following order.

(i) Interest Test

(ii) Special Trade Efficiency Test

(iii) Aptitude Test

(iv) Personality Test

CHAPTER 7: DIRECTING

- 2 One of the employees of 'Hindustan Agricultural Implements Limited' receives an order from the Departmental Manager and passes it on to the Non-managerial members. Because the actual work in the organization is done by the Non-managerial members, therefore, even a little carelessness in delivering the message can lead to a heavy loss. This employee performs the role of the Human Relations Specialists also.

Identify the designation of the employee described above.

Ans.

Supervisor.

1

- 4 Kritika is posted at Lower Level Management at 'Libra Cosmetics Pvt. Ltd.' The daily sale of the company is about Rs. 50 lakhs only. The company has given her the responsibility that the production work of the company should continue uninterrupted. The Managing Director has asked her to focus her attention especially on the speed and quality of production. She is doing her job efficiently. Her reputation is that of a successful leader. She takes every decision after discussing it with all the concerned persons. Her subordinates are very happy with her.

Identify the leadership style adopted by Kritika.

Ans. Democratic Leadership style.

1

- 6 The Managing Director of 'Narula Tyre Pvt. Ltd.' held a meeting of the Departmental Managers. It was attended by all the five Departmental Managers. In the meeting the Managing Director said that besides doing their current work efficiently, they had also to make it capable of shouldering more responsibility in future. For realization of this objective, he invited the suggestions of all of them. He said that on the basis of suggestions of all of them the decision to do so would be taken. The Managing Director prepared a plan on the basis of suggestions received. Out of the five managers three of them carried out the plan, but two of them did not care for it.

(a) Identify the factor of staffing described in the paragraph above.

(b) Two of the managers did not carry out the plan. On the basis of this fact, can we take it that the communication process has been incomplete? Explain.

(c) What leadership style is referred to here?

Ans.

a) Employee Development

b) No, it cannot be taken that the communication process has been incomplete. Because for the completion of communication process, only to understand the message is necessary, not acting upon it.

c) Democratic Leadership style.

3

- 8 'Anvi Pvt. Ltd.' has divided its business into four Departments ; namely, Marketing, Finance, Production and Personnel. The Finance Manager has to arrange finance for the following year. With this aim, he asks the Marketing Manager of how much worth he would be able to sell goods in the following year. The reason for asking such a question was to make an estimate of purchase and production. Similarly, he asked the Personnel Manager to prepare an estimate of the expected number of the employees and remuneration to be paid to them. The Financial Manager shared all this information received with Mr. Rawat, the senior Finance Manager. Thus, both of them jointly prepared the cash budget.

(a) What type of Organisational Structure is being adopted by the company?

(b) What type of formal communication would you call the conversation which took place between the heads of different departments?

(c) What type of formal communication is the conversation which took place between the two officials of the Finance Department?

Ans.

- (a) Functional organisational structure
- (b) Horizontal communication
- (c) Vertical communication. (explain)

3

- 10 Usually you see that on the occasion of Diwali people buy a large number of gifts. 'Ambe Electronics Ltd.' wants to take advantage of this habit of people. It decided to prepare a big range of attractive gifts. All the employees of the company cooperated fully to implement this decision. One day some of the employees were chatting together in the canteen. One of them, Mr. Ravindra had a secret, enjoyable information about one of the colleagues. He was telling them all as he stood amidst them. All of them were enjoying themselves the information he shared with them. Identify this factor of business environment.

Ans. Social Environment.

1

- 13 Mr. Ekant Miglani, after completing his studies of B.B.A. is working in the Production Department of 'Jai Chemicals Ltd.'. There are fifty persons working at different posts in his department. He tries hard to keep a watch over the Routine Activities of all the employees. He observed one of the employees, Bhola Ram and few others working on machines. They were running the machines in a wrong manner. The machines were very sophisticated. Mr. Miglani at once explained the right method of working on them. He wanted to solve this problem of the employees for good. He called a meeting of his subordinates. He took this decision that the company will have to organize training of the employees immediately. They also decided that all the employees will drop a suggestion each in the suggestion box daily, so that the different activities of the department may be improved speedily. It was announced that the employees giving valuable suggestions shall be rewarded. On the basis of the above paragraph answer the following questions.

- (a) Which function of management is being discharged by Mr. Miglani by keeping a watch over the Routine Activities?
- (b) Which method of training of the employees will be suitable to be adopted here? Explain.
- (c) Which style of leadership is being followed by Mr. Miglani?
- (d) Which method of motivation will be decided to be adopted in the meeting of employees?

Ans.

- (a) Supervision
- (b) Here the vestibule training method will be suitable to be adopted. Under this training method a separate training centre is set up. IN this centre factory like atmosphere or circumstances are created and employees are trained to work on sophisticated machines.
- (c) Democratic Leadership style
- (d) Employee Recognition Program.

4

- 15 The Chief Executive Officer- CEO of 'Bharat Textile Limited', Mr. Om Sahukar had gone to attend the marriage of one of his friend's daughter. There, he happened to meet an old friend of his, Mr. Ram Tripathi, who was posted as Marketing Manager in another Textile Company. Both of them began chatting. While doing so, they came to a stage when they started sharing the secret information of their respective companies. Mr. Tripathi told Mr. Sahukar that some of the big customers of the latter's company were getting associated with the former's company. All of them were unhappy with the treatment given to them by the latter's company. Mr. Sahukar made a note of this fact. No sooner did he reach his office than he called his P.A. and asked him to arrange an urgent meeting of all the big customers of the company. Mr. Sahukar explained to his P.A. the detailed message to be sent to the

customers. The P.A. prepared a brief form of the message and e-mailed it to all the big customers. Very soon, the acknowledgements of the message from the customers and the information of their attendance of the meeting started reaching the company office.

(a) Between which people the Formal and Informal Communication is taking place in the above paragraph?

(b) Identify the different stages of communication process along with some clues.

(c) Which value has been destroyed here?

Ans.

- a) Formal communication: between the CEO and customers.
Informal communication: Between Mr. Sahukar and Mr. Ram Tripathi
- b) The different stages of communication process:
 - i) Sender (CEO)
 - ii) Message (information about the meeting)
 - iii) Encoding: preparing a brief form of the message by the P.A.
 - iv) Medium: E-mail
 - v) Decoding: reading the message by the customers
 - vi) Receiver: Customers
 - vii) Feed back: the acknowledgement of the message sent by customers.

17 **Whenever a business organization is set up, the decision taken first of all is, 'What is to be done, how is it to be done, when is it to be done, and who will do it?' After this the division of work is done and the different departments are set up. At the second stage, the Organisational Chart is ready. From this the information obtained is how many positions will be there at a particular level. Soon after this, the posts are filled up with people. All the employees get installed on their respective posts. But the movement in the organization is yet to come. Just as until the referee blows the whistle, the race does not start, in the same way in order to make an organization start its movement, a special activity is performed by the Manager. No sooner than this activity is completed, there begins the movement in the organization. All the employees posted at different positions in the organization start doing their respective work.**

(a) Quoting lines from the above paragraph, identify the functions of management.

(b) Name the function which brings movement in the organization.

(a) Functions of Management:

- i) Planning: "the decision taken first of all is, 'What is to be done, how is it to be done, when is it to be done, and who will do it?'"
- ii) Organising: "After this the division of work is done and the different departments are set up. At the second stage, the Organisational Chart is ready."
- Staffing: "Soon after this, the posts are filled up with people."

(b) Directing.

4

CHAPTER 8 WORKSHEET 8:CONTROLLING

- 2 Management of a company decided to introduce Biometric system of attendance to check its employees from coming late to the office and leaving the office earlier than the fixed time. Which values are affected in this case? 1

Ans.

1. Violating attendance rules
2. Responsibility
3. Honesty
4. Integrity
5. Loyalty
6. Respect for the firm and its resources.

- 3 Employees of Beta Ltd. were able to achieve the quantitative standards. However, they failed to achieve the qualitative standards. Both quantitative and qualitative standards were set according to correct yardsticks. What is the effect of the standard ignored by the workmen? 1

Ans. It will result in-

1. Production of standard goods
2. Exploitation of consumers
3. Bad effect on health of workers
4. Disturbing industrial peace.

- 4 Saurashtra is a company involved in the export of indigenous food products like chutneys and pickles. It has tied up with the small farmers in various states for sourcing of fruits and vegetables. In this way it helps the small farmers to sell their produce at reasonable rates. The company follows a practice where only significant deviations from a budget or plan are brought to the attention of management. The degree of deviations allowed in different categories in the budget are well defined in advance, along with the appropriate levels of management who will respond to the deviations in question. For e.g., a deviation of Rs. 20,000 or more in purchase costs will be reported to the concerned department manager. 1

In context of the above case:

- (a) Identify the principle of management control adopted by the company. State the belief underlying this principle.
- (b) List any two values that the company wants to communicate to the society.

Ans. (a) Management by exception. It is based on the belief that 'if you try to control everything, you may end up controlling nothing.'

(b) Values:

Rural development

Sense of responsibility.

- 5 'Ekta Motors' had set an objective of selling 1200 cars per year. Mrs. Chawla is the Managing Director of this organisation. With a view to achieve this objective, she worked hard to formulate plans. But at the end of the year it came to light that hardly 870 cars could be sold. She compared the expected and actual results and began to seek the causes of this deviation. She arrived at the conclusion that the goodwill of the organisation had suffered because of the negligence of the Service Division. She then took a firm decision to improve the performance level of the service division at all costs. 3

- (a) Identify the function of management mentioned above.
- (b) State its importance.

Ans.

- a) Controlling.

- b) Importance: (i) Accomplishing organisational goals, (ii) Judging accuracy of standards: (iii) Making efficient use of resource (iii) Making efficient use of resource (v) Ensuring order and discipline (vi) Facilitating coordination in action.

6 An employee of a company reached his office one hour late. The supervisor scolded him right and left without ascertaining the reason of his coming late. Do you justify the behavior of the supervisor? What values he should have kept in mind while dealing with the employees? 3

- a) Ans. The behavior of the official is not at all justified. He should have an opportunity to the employee to explain. He (employee) might have a genuine problem for coming late.
 b) He should not ignore dignity of labor.
 c) He should show respect to elderly employees
 d) In case the reason for coming late was some family problem, the supervisor should sympathize with the worker. For e.g.: the employee had to take his ailing wife to a hospital for treatment.

8 Shruti has established a small scale factory after completing a course in textile designing. She has tied up with the big home furnishing retail outlets in the city for supplying to them good quality designer home furnishing products like bed covers, cushions etc. She believes that controlling without planning is blind. So, every time she gets an order, she sets the standards in terms of the number of personnel required, the estimated requirements in man-hours per product, the requirements of direct materials for the projected production and the amount of normal overhead expenses required at the projected work-load. She also keeps a close watch on the activities so as to ensure that they conform to plans. Whenever the order size is too large, she hires extra workers by placing a notice on the notice-board of the factory specifying the details of the jobs available. 3

In context of the above case:

- (a) Identify the function of management being performed by Shruti.
 (b) Do you think Shruti is right in her thinking that, “controlling without planning is blind.” Explain by bringing out the relationship between planning and controlling.
 (c) Name the source of recruitment adopted by Shruti. Also, mention its type.

Ans. (a) The function of management – controlling and staffing.

(b) Yes, Shruti is right in thinking that “controlling without planning is blind.” Planning provides the basis of controlling by setting the standards in advance. In the absence of these standards, managers will not know what all activities have to be controlled.

(c) External source of recruitment.

10 A Critical Point Control (CPC) approach is followed by McDonald in the cooking and handling process so that any food safety threat can be prevented, eliminated, or reduced to an acceptable level. Hence, continuous monitoring of activities are undertaken to ensure that the process is right at each critical point control. The main principle followed for cooking at McDonald is “less amount many time” Which can ensure the high quality and high fresh level of the food. For instance, if four hamburgers have to be made, a worker cannot cook all the four hamburgers at one time. The time figured out for making one hamburger is one hundred and forty- five seconds. Moreover, nearly all foods in the McDonald have the specific holding time, the holding time for hamburgers is ten minutes and for French fries is seven minutes. If it is not sold within that time it is thrown away. Also, the temperature of the milk sent by the 6

supplier must be under 4 degree centigrade, otherwise, it will be returned.

In the context of the above case:

- (a) Name the steps involved in the controlling process which is being discussed in the above line.
- (b) What do you understand by “critical point control”? Explain.
- (c) How does the controlling function of management help in accomplishing organisational goals and ensure efficient use of resources?

Ans. (a) Analysing deviation and taking corrective action are being discussed in the above line.

(b) Since it may neither be economical nor easy to monitor each and every activity in the organisation, every organisation identifies and states its specific key result areas (KRAs) or critical points which require tight control are likely to have a significant effect on the working of the business. Any deviations on these points are attended to urgently by the management.

(c) Importance of controlling:

Accomplishing organisational goals

Making efficient use of resources. (Explain)

16 Application Type

Following are some behaviors that you and others might engage in on the job.

For each item, choose the behaviour that management must keep a check to ensure an efficient control system.

1. Biased performance appraisals
2. Using company's supplies for personal use
3. Asking a person to violate company's rules
4. Calling office to take a day off when one is sick
5. Overlooking boss's error to prove loyalty
6. Claiming credit for someone else's work
7. Reporting a violation on noticing it
8. Falsifying quality reports
9. Taking longer than necessary to do the job
10. Setting standards in consultation with workers You are also required to suggest the management how the undesirable behaviour can be controlled.

(1 mark each)

Ans. 1. Performance appraisal should be objective and not biased. An independent committee can be set up to avoid partial assessment of employees

2. Security arrangements at entry and exit gates of the organization

3. Strict penal actions should be taken against anyone who break the rule

4. Permission should be taken from the senior official and sick person should get a medical certificate after getting well.

5. Secret ballot system can be used for appraisal of the boss at regular intervals.

6. Any such wrong claim should be subject to penal actions.

7. The violation should be made known to the immediate superior.

8. Should make use of 'critical point control' for appraisal of quality reports.

9. Time and motion study should be conducted to fix the standards for doing a job

10. Scientific techniques should be used while fixing the standards in consultation with workers.

CHAPTER 9 WORKSHEET 9 FINANCIAL MANAGEMENT

Q.1 What is meant by “Financial Risk”?

Ans. It refers to the risk of not able to cover fixed financial costs by a business.

Q.2 Name any two Current Assets?

Ans:(i) Bills Receivables (ii) Debtors

Q.3 What is meant by Gross Working Capital?

Ans: It refers to the aggregate of current assets

Q.4 In a Company profits are heavy and in future less scope of expansion exists. Company has decided to pay a very less dividends Here, which value and whose interest have been affected?

Ans: Not getting fair returns by investors in shares/shareholder’s interest have been affected.

Q.5 Define “Capital Structure”?

Ans: It refers to the proportion of a long-term sources of Funds

Q.6 What is meant by “Financial Planning”?

Ans: It refers to the of preparation of Financial Blue Print of an Organization’s future operations.

Q.7 A wholesaler of Onion comes to know that due to less production the prices of Onion will increase heavily. He stored the Onion and during rising prices earns heavy pro fit by selling the stored Onion. From earned profits, he provides some money for social activities also. In this situation, which values are violated and followed .

Ans: (i) Promoting hoarding and black marketing of goods. (ii) By participating the social works he still fulfills his social objectives.

Q.8 What is meant by Investment decision?

Ans: It refers to the selection of assets in which funds will be invested by the business.

Q.9 Explain the objectives of “Financial Planning”?

Ans: following are the objectives of the Financial Planning.

(i)To Ensure Timely Availability of Finance: The First objective of the Financial planning is to make finance available in time. Under it, the long-term and short-term financial needs are anticipated and then sources of availability of finance are located.

(ii)Helps in avoiding Business Shocks &Surprises:It is always secured that the balance of cash should neither be in excess nor short. The balance in both situations are harmful.

In short it can be said that the objective of the financial planning is to make finance available in appropriate quantity and make it available well in time.

Q.10 What is meant by a Financial Management? State any two Financial Decisions taken by a Financial Manager?

Ans: Financial Management refers to that part of management which is concerned with the efficient planning and controlling of financial affairs of an enterprise.

Financial Functions:

Following are the main decisions which are involved in financial managements:

(i)Investment Decisions: It refers to the selection of assets in which the funds will be invested by the business. In other words, these decisions are concerned with the effective utilization of funds in one activity or other.

(ii)Financing Decisions: It refers to the determination as to how the total funds required by the business will be obtained from various long-term sources.

Q.11 How “Capital Structure of Other Companies’ affects the Capital Structure decisions?

Ans: Capital structure is influenced by the industry to which a company is related. All Companies related to a given industry produce almost similar products, their cost of production are similar, they depend on identical technology, they have similar profitability, hence the pattern of their capital structure is also almost similar. Because of this fact, there are different debt-equity ratios prevalent in different industries. Hence at the time of raising funds a company must take into consideration that the debt-equity ratio prevalent in the concerned industry .

Q.12 You are the Financial Manager of a newly established Company. The Director have asked you to determine the amount of Working Capital requirement for the Company. Explain any factors that you will consider while determining the Working Capital Requirement of the Company.

Ans: (i) Scale of Operations: There is a direct link between the Working Capital and the scale of operations. In other words, more working capital is required in case of big organizations while less working capital in needed in case of small organizations.

(ii) Business Cycle: The need for the working capital is affected by various stages of the Business cycle. During the booming period, the demand of a product increases and sales also increase. Therefore, more working capital is needed. On the contrary, during the period of depression, the demand declines and it affects both the production and sale of goods. Therefore, in such a situation, less working capital is required.

(iii) Production Cycle: By production Cycle is meant by the time involved in converting raw material into finished product. Longer this period, more will be the time for which the capital remains blocked in raw material and semi-manufactured products. Thus, more working capital will be needed. On the contrary, where period of production cycle is little, less working capital will be needed.

(iv) Credit allowed: Those enterprises which sell goods on cash payment basis need little working capital but those who provide credit facilities to the customers need more working capital

Q.13 Pranav is engaged in “transport Business”, Identify the working capital requirement of Pranav stating the reason in support of your answer. Pranav also wants to expand and

diversify his Transport Business. Explain any two sectors that will affect his fixed capital requirements.

Ans: The working capital requirement would be less as he is engaged in “Service Industry”. A service firm required a less working capital because it sells more on cash basis and do not have to maintain inventory. Working Capital requirement would be for payment of salary, fuel charges, maintenance of vehicles, etc.

Factors which will affect his fixed capital requirement are:

(i) Scale of Operations: A larger Organization operating at a higher scale needs bigger plant, more space etc., and therefore, requires higher investment in fixed assets when compared with the small organizations.

(ii) Diversification:

(a) A firm may choose to diversify its operations for various reasons.

(b) With diversification, fixed capital requirements increase E.g., a textile Company is diversifying and starting a cement manufacturing plant, Obviously, its investment in fixed capital will increase.

Q.14 Explain the following:

ICR, DSCR and ROI.

Ans. 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. This may be calculated as follows:

$ICR = EBIT / \text{Interest}$. The higher the ratio, lower is the risk of company failing to meet its interest payment obligations.

Debt Service Coverage Ratio (DSCR): Debt Service Coverage Ratio takes care of the deficiencies referred to in the Interest Coverage Ratio (ICR). It is calculated as follows: A higher DSCR indicates better ability to meet cash commitments and consequently, the company’s potential to increase debt component in its capital structure.

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.

Q. 15 Explain factors affecting the dividend decision.

Ans. (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. The increase in dividends is generally made when there is confidence that their earning potential has gone up and not just the earnings of the current year.

(d) Growth Opportunities: Companies having good growth opportunities retain more money out of their earnings so as to finance the required investment. The dividend in growth companies is, therefore, smaller, than that in the non-growth companies.

(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. If the shareholders in general desire that at least a certain amount is paid as dividend, the companies are likely to declare the same.

(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. If tax on dividend is higher it would be better to pay less by way of dividends. As compared to this, higher dividends may be declared if tax rates are relatively lower.

(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. Thus, the possible impact of dividend policy on the equity share price is one of the important factors considered by the management while taking a decision about it.

(i) Access to Capital Market: Large and reputed companies generally have easy access to the capital market and therefore may depend less on retained earning 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. The companies are required to ensure that the dividends does not violate the terms of the loan agreement in this regard.

5 or 6 Marks Question.

Q.16 A business man who wants to start a manufacturing concern approaches you to suggest him whether the following manufacturing concerns would require large or small or large working capital?

(i) Bread (ii) Sugar (iii) Coolers (iv) Furniture manufacturing against specific Orders

(v) Motorcars

Give your viewpoint with reasons in each of the above cases.

Ans: (i) Bread: It needs less working capital as product is generally sold cash.

(ii) Sugar: It will require large working capital because of long operating cycle

(iii) Coolers: It is a seasonal product. So, it requires more working capital during peak seasons.

(iv) Furniture Manufactured against Orders: it requires less working capital as no inventory has to be maintained.

(v) Motor cars: It will require large working capital due to long operating cycle.

Q. 17 'S' Limited is manufacturing steel at its plant in India. It is enjoying a buoyant demand for its products as economic growth is about 7%-8% and the demand for steel is growing. It is planning to set up a new steel plant to cash on the increased demand it is facing. It is estimated that it will require about Rs. 5000 crores to set up and about Rs 500 crores of working capital to start the new plant.

Questions

- 1. What is the role and objectives of financial management for this company?**
- 2. What is the importance of having a financial plan for this company? Give an imaginary plan to support your answer.**
- 3. What are the factors, which will affect capital structure of this company?**
- 4. Keeping in mind that it is a highly capital intensive sector what factors will affect the fixed and working capital. Give reasons with regard to both in support of your answer.**

Ans. Role and Objectives of financial management

- The primary aim of financial management is to maximise shareholder's wealth which is referred to as 'Wealth Maximisation Concept'.
Company funds belong to the shareholders and the manner in which they are invested and the return earned by them determines their market value of price. Market price of equity shares increase if the benefits from a decision exceed the cost involved
- Reducing the cost of funds procured.
- Keeping the risk under control and achieving effective deployment of such funds.

(ii) Importance of Financial Planning

- It tries to forecast what may happen in future
- It helps in avoiding business shocks and surprise and helps the company
- It helps in coordinating various business functions

(iii) Factors affecting capital structure

- Cash Flow position
- Risk
- Flootation cost

(iv) Factors affecting Fixed Capital

- Nature of business
- Scale of operation
- Choice of technique

(v) Factors affecting Working Capital

- Scale of operation
- Business cycle
- Seasonal factors

Q. 18 Explain the term ‘Trading on Equity’. Why, when and how it can be used by a business organisation? Give an example.

Trading on Equity refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest.

Eg: Now consider the following case of Company Y. All details are the same except that the company is earning a profit before interest and taxes of Rs. 2 lakhs.

Refer page No. 251 (Text Book) Example 1

Continued:

Company Y Ltd.

	Situation I	Situation II	Situation III
EBIT	2,00,000	2,00,000	2,00,000
Interest	NIL	1,00,000	2,00,000
EBT	2,00,000	1,00,000	NIL
Tax	60,000	30,000	NIL
EAT	1,40,000	70,000	NIL
No. of shares of Rs.10	3,00,000	2,00,000	1,00,000
EPS	0.47	0.35	NIL

In this example, the EPS of the company is falling with increased use of debt. It is because the Company’s rate of return on investment (RoI) is less than the cost of debt. The RoI for

company Y is $2\text{Lakh}/30\text{Lakh} \times 100$ i.e., 6.67% whereas the interest rate on debt is 10%. In such cases, use of debt reduces the EPS. This is a situation of unfavorable financial leverage. Trading on Equity is clearly unadvisable in such a situation.

Even in case of Company X, reckless use of Trading on Equity is not recommended. An increase in debt may enhance the EPS but as pointed out earlier, it also raises the financial risk. Ideally, a company must choose that risk-return combination which maximises shareholders wealth. The debt-equity mix that achieves it, is the optimum capital structure.

Q.19 Sakshi Ltd. is a company manufacturing electronic goods. It has a share capital of Rs 120 lakhs. The earnings per share in the previous years was Rs 0.5. For diversification the company requires additional capital of Rs 80 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of Rs 16 lakhs on capital employed. It paid tax of 40%.

a. State whether the shareholders gained or loss in respect of earning per share on diversification. Show your calculations clearly.

b. Also state any three factors that favour the issue of debentures by the company as part of its capital structure.

Answer

a. Let the face value of the equity share be Rs 10 each.

Profit Before Interest and Tax	Rs.	16,00,000
(-) Interest on Debentures		<u>8,00,000</u>
Profit after Interest Before Tax		8,00,000
(-) Tax 40%		<u>3,20,000</u>
Profit After Tax		4,80,000
No. of share holders		12,00,000
EPS		0.4

Let the face value of the equity share be Rs 10 each.

Profit before Interest & Tax Rs 16,00,000 Interest on 10% debentures Rs 8,00,000

Profit before Tax Profit before Interest and Tax Interest Profit before Tax 16,00,000 8,00,000 Rs 8,00,000 Tax @ 40% $8,00,0 \times 40$ 00 Rs 3,20,000 100 Profit available to shareholders 8,00,000 3,20,000 Rs 4,80,000 Profit after Tax 4,80,000 Earning Per Share(EPS) 0.4 Number of Equity Share 12,00,000 Thus, shareholders have incurred loss after the issue of debentures as Earning Per Share (EPS) has fallen from Rs 0.5 to Rs 0.4. b. Three factors which favour the issue of debentures by the company as part of its capital structure: i. Good Cash Flow Position: If the company has a good cash flow position, then issuing debentures is more favourable as compared to the issue of shares. ii. High Tax Rate: It is beneficial for the company to issue debentures if the tax rate is higher. This is because the interest paid by the company to its debenture holders is tax deductible. iii. Control: If the company does not want to dilute the control of management, then issuing debentures is the best for the company.

b. Three factors which favour the issue of debentures by the company as part of its capital structure:

i. Good Cash Flow Position: If the company has a good cash flow position, then issuing debentures is more favourable as compared to the issue of shares.

ii. High Tax Rate: It is beneficial for the company to issue debentures if the tax rate is higher. This is because the interest paid by the company to its debenture holders is tax deductible.

iii. Control: If the company does not want to dilute the control of management, then issuing debentures is the best for the company.

Q. 20 Explain the meaning of Fixed Capital. Briefly explain any four factors that determine the fixed capital of a Company?

Ans: (i) Fixed Capital refers to investment in long- term assets.

(ii) Management of Fixed capital involves allocation of firm's capital to different long term assets

(iii) These decisions are called investment decisions or capital budgeting decisions. These decisions affecting the growth, profitability and the risk of the business in the long run.

Factors affecting the requirement of Fixed capital

(i) Nature of Business

(a) The type of business has a bearing upon the fixed capital requirements.

(b) For Example, a trading concern needs lower investment in fixed assets compared with a manufacturing organization: since it does not require to purchase plant and, machinery etc.

(ii) Scale of Operations: A larger Organization operating at a higher scale needs bigger plant, more space etc., and therefore, requires higher investment in fixed assets when compared with the small organization.

(iii) Choice of Technique:

- (a) Some Organizations' are Capital, intensive, whereas others are labor-intensive
- (b) A capital-intensive organization requires higher investment in plant and machinery as it relies less on manual labor. The requirement of fixed capital for such organization would be higher.
- (c) Labor-intensive organizations, on the other hand, require less investment in fixed assets. Hence, their fixed capital requirement is lower.

(iv) Technology up gradations:

- (a) Certain industries, assets become obsolete sooner.
- (b) Consequently, their replacements become due faster. Higher investment in fixed assets may, therefore, be required in such cases.
- (c) For example, computers become obsoletes faster and are replaced much sooner than say, furniture. Thus, such organizations which use assets which are prone to obsolescence require higher fixed higher fixed capital to purchase such assets.

(v) Growth Prospects:

- (a) Higher growth of an Organization generally requires higher investment in fixed assets
- (b) Even when such growth is expected, a business may choose to create higher capacity in order to meet the anticipated higher demand quicker
- (c) This entails higher investment in fixed assets and consequently higher fixed capital.

CHAPTER 10 WORKSHEET 10 :FINANCIAL MARKETS

Q. 2. A public Ltd. Co. achieved the minimum subscriptions by (private placement). Whose interest has been ignored here?

Ans. Ignoring the interests of Mass Investor/Small Investors.

Q. 3. What do you mean by price rigging?

Ans. Price rigging means making manipulations with the sole objective of inflating or depressing the market price of securities. Such practices are prohibited by the law because they can defraud or cheat investors.

4. Explain the term ‘insider trading’.

Ans. An insider is any person connected with the company who is reasonably expected to have access to price sensitive information (in respect of securities of company), which is not available to the public at large. Directors, promoters etc. are the insiders. When they use privileged information that they have to access by virtue of their being insiders to make individual profits, it is referred to as insider trading.

Q. 5. Reshu’s father has gifted her shares of a large cement company, with which he had been working. The securities were in physical form. She already has a bank account and does not possess any other forms of securities. She wished to sell the shares and approached a registered broker for the purpose. Mention one mandatory detail which she will have to provide with the broker.

Ans. Permanent Account Number (PAN)

Q. 7. Saqib Ltd. is a large credit worthy company operating in the Kashmir Valley. It is an export oriented unit, dealing in exclusive embroidered shawls. The floods in the Valley have created many problems for the company. Many craftsmen and workers have been dislocated and raw material has been destroyed. The firm is therefore, unable to get an uninterrupted supply of raw material, and the duration of the production cycle has also increased. To add to the problems of the organisation, the suppliers of raw material who were earlier selling on credit are asking the company, for advance payment or cash payment on delivery. The company is facing a liquidity crisis. The CEO of the company feels that taking a bank loan is the only option with the company to meet its short term shortage of cash.

As a finance manager of the company name and explain the alternative to bank borrowing that the company can use to resolve the crisis.

Ans. Commercial Paper: It is a short term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. It is issued by large and creditworthy companies to raise short term funds at lower rate of interest than market rates. The issuance of commercial paper is an alternative to bank borrowing for large companies that are generally considered to be financially strong.

Q. 10. “A financial market is for the creation and exchange of financial assets.” Explain the functions.

Ans. Functions of Financial Market.

(i) Mobilisation of savings and channeling them into the most productive uses

- (ii) Facilitating price recovery.
- (iii) Providing liquidity to financial assets.
- (iv) Reducing the cost of transaction

Q. 12. All commercial banks have to maintain a minimum cash balance which is known as Cash Reserve Ratio. Amount of fund available with commercial banks to be given as loans increases or decreases whenever RBI changes the CRR. In order to maintain the CRR, all banks borrow from each other on which interest rate is also paid by the respective banks.

(a) Which money market investment is discussed above?

(b) Give the term for interest rate on money borrowed by the banks from each other. Does it remain fixed?

(c) If interest rate given above rises, then what will happen to other sources of finance such as commercial paper and certificate of deposit? Is there any relation between them?

Ans. (a) Call Money

(b) The interest rate on money borrowed by the banks from each other is known as call rate. It is highly volatile rate as it varies from day-to-day or sometimes even from hour-to-hour.

(c) Yes, there is inverse relation between them. If there is a rise in call money rates, other source of finance such as commercial paper and certificate of deposit becomes cheaper.

Q. 13. What does ‘dematerialization of securities’ refer to?

Ans. The process of holding securities in an electronic form is known as ‘dematerialization of securities’ .

Q. 16. K.G. Software Ltd. is a reputed name in the market for the last ten years. Now, it wants to set up new projects for expansion and modernization of existing projects. For this purpose, it is opting for two different methods of floating new issues.

Firstly, securities are sold to issuing houses or stock brokers at an agreed price which they resell to the investing public.

Secondly, one share is offered against five shares (which share holders already posses) to the existing share holders. This is a privilege given to them.

- (a) In which type of capital market the above issue of securities is covered?**
- (b) Give the name of methods used for issue of securities by K.G. Software Ltd.**
- (c) Mention the essential function of the market indicated here.**
- (d) Who are the investors in this market?**
- (e) List two more methods of issuing securities in this market.**

Ans. (a) Primary Market

(b) The first method is Offer for Sale and the other one is Right Issue.

(c) To facilitate the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing one through the issue of securities for the first time.

(d) Banks, Financial Institutions, Insurance Companies, mutual funds and individuals.

(e) Private Placement and e-IPOs.

‘Ganesh Steel Ltd.’ is a large and credit-worthy company manufacturing steel for the Indian market. It now wants to cater to the Asian market and decided to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost the company decides to tap the money-market. (a) Name and explain the money-market instrument the company can use for the above purpose. (b) What is the duration for which the company can get funds through this instrument? (c) State any other purpose for which this instrument can be used. [4]

Ans.(a) Commercial paper (Bridge Financing):- Commercial paper is a short term unsecured promissory note. It is negotiable and can easily be transferable by endorsement. Only large companies who have high creditworthiness in the markets can issue Commercial paper. It usually has a maturity period of 15 days to 1 year. (b) Less than one year. (c) Commercial papers is an alternative to bank borrowing and is used to provide short term funds for seasonal and working capital needs.

Q. 20. Explain ‘money market’.

Ans. The money market is a market for short term funds which deals in monetary assets whose period of maturity is up to one year. These assets are close substitutes for money.

It is a market where low risk, unsecured and short term debt instruments that are highly liquid are issued and actively traded every day.

It has no physical location, but is an activity conducted over the telephone and through the internet.

It enables the raising of short-term funds for meeting the temporary shortages of cash and obligations and the temporary deployment of excess funds for earning returns.

21. Ans. Demutualization separates the ownership and control of stock exchanges from the trading rights of members. This reduces the conflicts of interest between the exchange and the brokers and the chances of brokers using stock exchanges for personal gains.

22. “A stock market index is a barometer of market behaviors”. Why?

Ans. Because it reflects market direction and indicates day-to-day fluctuations in stock prices. It measures the overall market sentiments.

CHAPTER 11 WORKSHEET 11 MARKETING

Q.1. Every organization requires that it should have good will in the minds of all concerned. To establish goodwill, it is essential to have dialogue. It is by way of dialogue that an Organization gets the necessary information.

How is it possible?

Ans: It is possible through establishing public relations

Q.3. It is the belief that “Suvidha Garments Pvt Ltd” that if the quantity of goods / services is good then the customers can easily be attracted. The basis of this thinking is that the customers get attracted towards the product of good quality. On the basis of this thinking the company direct its marketing efforts towards improving the quality of the product.

Identify the marketing philosophy as mentioned in para.

Ans: Product Marketing philosophy.

Q. 4. A tea producer uses such packets/things for packing tea, which can be used, even after consuming theta, for other purposes. Here, which values are being affected by him?

The values affected are:

- (a) Giving usable benefits to the customers through reusable packaging materials.
- (b) Conserving the environment as the packaging is not wasted but reused for some other purpose.

Q.5. ‘Gulati Saree Kendar’ is of the view that leaving the customers alone will not help. Rather there is need to attract the customers to toward it. In other word, goods are not bought but they have to be sold. The basis of this thinking that the customers can be attracted. Keeping in view of this thinking, companies concentrate their marketing efforts towards educating and attracting the customers. This company is therefore of the view to sell what you have

Identify the Marketing philosophy as mentioned above.

Ans: Selling & Marketing Philosophy

Q.7. Before buying a thing, a customer analyses its cost and the satisfaction that he is to get from it. He will buy the thing only when he feels that its satisfaction will be more than its cost. Seller is to make the things while keeping in mind this tendency of the buyer. A seller, who does not pay heed to the importance that the buyer gives to the product, certainly lags behind in competition.

Which feature of marketing has been highlighted in the above paragraph?

Ans: Customer Value

3 MARK QUESTIONS

Q.9Mr. Sukhdev Lohan is the Sales Manager of “Sagar Pvt Ltd”. Since sometime, performance of his department has failed to reach the acceptable level. It is a matter concern for the General

Manager. He is keen to mend this dismal situation at any cost. Mr. Lohan made efforts to find out the causes of his situations. He found that the members of his team lacked training and that giving incentive to the buyers was absolutely necessary. To impart training to his team members he set up a training center and appointed a trainer for this purpose. The trainer imparted them necessary training keeping in mind the actual situation. Besides, Mr. Lohan launched a scheme for customers. Under this scheme, a coupon is to be issued to that customer who buys goods to a specified date. Later on, draw will be taken by a given date and gifts will be distributed among the winners.

Identify the said Training & sales promotion methods.

Ans: (i) Vestibule Training Method has been adopted to impart training to the members of sales departments.

(ii) Lucky Draw Scheme: has been initiated to attract the customers towards the product.

Q.10. Radha found a worm crawling in a newly opened tetra pack of a Juice manufactured by a reputed company Zest Ltd. She went back to the Shop keeper from where the pack was purchased who directed her to call up to the Customer care Centre. When all other her efforts failed, she went to consumer activity group to seek help. The group decided to help Radha and take measures to impose restrictions on the sale of the firm's products of the particular batch and urge customers to refrain from buying the product of the company. Zest Ltd. lost the image in the market. The CEO gives the responsibility of bringing back the lost image of the company to a Manager.

1) Identify the concept of Marketing Management which will help the Manager getting the firm out of the above crisis.

2) Also explain the role of above identified concept by stating any two points.

Ans: (i) Public Relations

(ii) Role of Public Relations

The Role or importance of public relations is obtained by the following facts:

(1) More Credible: Public relation activity is considered more reliable. Public is of the opinion that they can be misled by advertising and other such mediums for increasing sales. But this is not possible in public relations because its objective is to improve the image of Organization.

(2) Economical Medium: To attract the attention of public this is the cheaper medium available. Like a lot of more money has to be spent on the advertisement as compared to this.

Q. 11. “Bending the Customer according to the Product” and “Developing the product according to customer-needs” are the two important concepts of Marketing Management.

Identify the concepts & differentiate between the two.

Ans: (i) “Bending the customer according to the product” – this statement is with Selling Concept.

(ii) “Developing the product according to the customer needs” – The statement is related to related with marketing concept.

Following are the main difference:

Basis of Difference	Selling Concept	Marketing Concept
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1. Starting Point	Factory	Market
2. Main Focus	Attracting consumers	Consumer Satisfaction
3. Means	Advertising, personal selling and sales promotion	Various marketing activities
4. Ends	Profit through maximum sales	Profit through consumer satisfaction

Q. 12. ‘Beauty Products Ltd’ is a natural and ethical beauty brand famous for offering organic beauty products for men and women. The company uses plant based materials for its products and is the No. 1 beauty brand in the country. It not only satisfies its customers but also believes in overall protection of the plant. Identify the marketing management philosophy being followed by ‘Beauty Products Ltd.’

Ans.Societal concept.

Q.13. Advertisement is an important business activity. On the other hand, it makes available to the people information regarding different new and old products and on the other, it is also a source of living for many persons. Impressed by the trails of the advertisement Tanu, Manu, and Sanchit, three students of class XII, made up their mind to go ahead with project work on the advertisement. All the three conversed with the people almost about advertisement. Each of them, basis on the survey, concluded of his survey, concluded as under:

- (i) Tanu opined that advertisement costs get transferred to consumers in the process of high prices.
- (ii) Manu was of the opinion that the advertisement showed reality in a twisted form.
- (iii) Sanchi maintained that advertisement was turning people from reality to artificiality.
 - (a) What do the above remarks about advertisement hint at? Clarify it.
 - (b) Identify two values that advertisement presents to the society.

Ans: (a) The remarks in the above in the above paragraph hint at objections against advertisement. According to all the three participants in the project work, the main advantage of advertisement is as under:

(i) Advertisement add to costs: An organization has to spend huge amount on advertisement. It increases cost of the products. To meet the expenditure, price of the product is raised. No manufacturer pays for advertising expenditure out of his pocket. Advertising therefore, leads to unnecessary rise in prices. In this regard, it is said that advertising costs are passed on to the consumers in the form of higher prices.

(ii) It confuses the Buyers: Many a time distorted version of really is depicted in the advertising. Under the influence of advertisement, consumers go in for the product. When they use it, they felt cheated. Then they realize that the information given in the advertisement about the product was quite different from the actual product. In this way advertisement state people’s confidence in it. Therefore, it is said that advertising confuse the consumers rather than helping them.

(iii) It undermines Social Value: Advertisement is a kind of day-dreaming for the people. It drives people away from reality into the realm of artificiality. Through its medium people are regularly informed about the new products. Only very few products of any worth for them. The brilliance of new products overwhelms them. They are tempted to buy them but lack the necessary resources.

Consequently, they feel frustrated with their lot. Considering a social evil, it can be said that advertisement undermines social values.

(b) Values

(i) Add to knowledge

(ii) Provides employment opportunities.

Q.14. Simran, Sakshi, and Sarita all are doing MBA (Marketing). All the Three are to give the presentation on the topic of Marketing. They are discussing about the material to be included in the presentation. Main ideas of their discussion are as follows:

Simran was of the view that” he should be able to speak in a clear, loud and balanced voice. While communicating, he should be fully confident”.

Sakshi was of opinion that, “he should be a Psychologist”. Besides, “he should remain vigilant of the nature of the Company for which he works”.

Sarita held the view that, “a healthy person very soon associated with the customers”.

Clarify the topic in whose context the above discussion is being held. Identify three points mentioned in the above paragraph, in your answer.

Ans: (a) The discussion refers to the qualities of a good sales man.

(c) All the three students have highlighted the following qualities of a good sales man:

(i) Simran: Good Communication skills

(ii) Sakshi: Psychological and Technical Qualities.

(iii) Sarita: Physical Qualities.

Q. 22. You have been appointed as a Brand Manager of Ford Motors. The company is to introduce a compact small car in the Indian market. The name of the car is yet to be decided. You have been asked to chair a brainstorming session. Before the suggestions come forward, you have to briefly explain the participants as to what constitutes a good brand name with the help of suitable examples.

Ans. The constituents of a good brand name are:

- (a) Brand name should be short and simple. Long and complex words should be avoided because they create difficulty in reading and remembering.
- (b) Suggestive brand names are better because they can convey product attributes or benefits.
- (c) The brand name should be distinctive. A brand is distinctive when it stands apart from others in the category.

Finally a brand name should be selected after considering its meaning in other languages and cultures. Some words are perfect in one culture or country but many words become offensive and inappropriate in other countries.

CHAPTER 12 WORKSHEET 12 CONSUMER PROTECTION

Q.2. A company engaged in selling spice, claims about purity in its advertisement but in laboratories after examination, the spices were found adulterated. Which values are being violated here?

- Ans. 2. (i) Harmful for health
ii) Adulteration is violation of law
iii) False information to consumers.

Q.4. A Pharmacy Co. doesn't provide information for the expiry date on the packet of his drug. This manufacture violates which value?

- Ans. 4. (i) Endangering the lives
ii) Violation of law
iii) False information to consumers

Q.6 A manufacture of food products uses bad quality material for packing the product resulting in spoiling goods that reaching the consumers. Which value is being ignored here?

- Ans. 6. i) Deterioration of quality of products.
ii) Reduction in quantity of the products
iii) Bad effects on health of consumers

Q.8. A toy manufacturing co. uses low quality plastics and harmful colors which affects the health of the children. Which value is being ignored here?

- Ans. 8. i) Bad effects on the health of children
ii) Polluting the environment
iii) Violation of rules/regulations

Q.10. Mohan purchased a press for Rs.1000/-. On using it he found it defective. The seller did not respond to the complaint. In your view what should be done by seller as well as Mohan?

- Ans. 10. i) The sellers should get the iron of Mohan repaired.
ii) Rights of Mohan should not be violated
iii) Mohan should file complaint to the company against the seller.
iv) If not heard then Mohan should move to consumer court.

Q.12. A patient didn't read carefully the instructions on the pack of the drug. On using it his health deteriorated further instead of improvement. If you are in his place then what you would do?

- Ans. 12. i) To read the instructions and Information carefully.

ii) To consult the chemist / doctor.

Ans. 14. (a) Public Relation.

- b) (i) Press Relation. (ii) Product Publicity. (iii) Corporate Communication.
(iv) Counseling.

Ans. 17. Functions of an NGO: /Consumer organisation (any six)

- (i) Educating the villagers/general public about consumer rights by organising training programmes, seminars and workshops.
- (ii) Publishing periodicals and other publications to impart knowledge about consumer problems, reliefs available and other matters of interest.
- (iii) Carrying out comparative testing of consumer products in accredited laboratories to test relative qualities of competing brands and publishing the test results for the benefit of consumers.
- (iv) Encouraging consumers to strongly protest and take an action against exploitative and unfair trade practices of sellers.
- (v) Providing legal assistance to consumers by way of providing aid, legal advice etc, in seeking legal remedy.
- (vi) Filing complaints in consumer courts on behalf of consumers.
- (vii)** Taking an initiative in filing cases in consumer courts in the interest of the villagers/general public, not for any individual.
