CBSE Class 12 Business Studies 2026 — Set 3 — Answer Key

English Medium

Time Allowed: 3 Hours

General Instructions:

1. This is an answer key — each question is shown with its correct answer and a step-by-step explanation.
2. Questions appear in the original paper order.

Q.1

_____ serves as an intermediary between the investor and the depository who is authorised to maintain the accounts of dematerialised shares.

(a) Depository Participant <<
(b) National Securities Depository Limited
(c) Central Depository Services Limited
(d) Stock Exchange

Explanation:

A Depository Participant (DP) acts as an agent of the depository and serves as the intermediary between the investor and the depository.

DPs are authorised to open and maintain demat (dematerialised) accounts for investors.

Q.2

On Raksha Bandhan, Reena received a gift from her brother. After removing the gift wrap paper, she saw a decorative cardboard box. Inside the box, she found a small glass bottle containing an expensive face cream. Both the decorative cardboard box and the glass bottle had a beautiful label displaying the brand name, ingredients, expiry date, etc. Which level of packaging does the glass bottle represent ?

(a) Primary packaging <<
(b) Transportation packaging
(c) Secondary packaging
(d) General packaging

Explanation:

Primary packaging is the first layer directly in contact with the product.

Here, the glass bottle directly contains the face cream, so it represents primary packaging.

The decorative cardboard box is secondary packaging, and the gift wrap paper is the outermost (transport/display) layer.

Q.3

Read the following statements : Assertion (A) and Reason (R).

Assertion (A) : Holding shares in demat form is very convenient as it is just like a bank account.

Reason (R) : Securities and Exchange Board of India (SEBI) has made it mandatory for the settlement procedures to take place in demat form.

Choose the correct alternative from the following :

(a) Assertion (A) is false and Reason (R) is true.
(b) Both Assertion (A) and Reason (R) are false.
(c) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A). <<
(d) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

Explanation:

Both A and R are true: demat is convenient like a bank account (A is true), and SEBI has made demat settlement mandatory (R is true).
However, R does not explain why holding shares in demat form is convenient — it only states SEBI's mandate.
The convenience stems from ease of transfer, no physical certificates, etc.
Therefore R is not the correct explanation of A.

Q.4

Read the following statements carefully :

Statement I : Business environment includes both specific and general forces.

Statement II : Specific forces have an impact on all business enterprises and

thus may affect an individual firm only indirectly.

In light of the given statements, choose the correct alternative from the following :

(a) Statement I is true and Statement II is false. <<
(b) Statement I is false and Statement II is true.
(c) Both Statement I and Statement II are true.
(d) Both Statement I and Statement II are false.

Explanation:

Statement I is correct: business environment includes both general forces (economic, social, political, technological, legal) and specific forces (suppliers, customers, competitors, investors).

Statement II is incorrect: it is GENERAL forces (not specific forces) that affect all enterprises indirectly.

Specific forces directly and immediately affect an individual firm (e.g., specific customers, competitors of that firm).

Hence only Statement I is true.

Q.5

Which of the following statements are correct with respect to the benefits the organisation would get by imparting training to its employees ?

(i) Training equips the future manager who can take over in case of an emergency.
(ii) Training makes an employee more efficient to handle machines and thus, they are less prone to accidents.
(iii) Training increases the satisfaction and morale of the employees.
(iv) Training enhances employee productivity, both in terms of quantity and quality, leading to higher profits.

Options :

(a) (i), (ii), (iii) and (iv) <<
(b) (ii) and (iii)
(c) (i) and (iv)
(d) (i) and (ii)

Explanation:
All four statements describe benefits of training to the organisation: (i) prepares future managers for emergencies — organisational benefit;
(ii) efficiency with machines reduces accidents — organisational benefit;
(iii) increased satisfaction/morale — organisational benefit (lower attrition, higher commitment);
(iv) enhanced productivity and profits — direct organisational benefit.
All are correct.

Q.6

Which of the following is not an advantage of divisional structure of an organisation ?

(a) It helps in development of varied skills in the divisional head which prepares him for higher positions.
(b) It promotes flexibility and initiative, because each division functions as an autonomous unit, leading to faster decision making.
(c) It facilitates expansion and growth as new divisions can be added without interrupting the existing operations.
(d) It leads to minimal duplication of effort which results in economies of scale and lowers cost. <<

Explanation:
In a divisional structure, each division has its own set of functions (finance, marketing, production etc.), which means there is duplication of effort and resources across divisions.
This results in higher costs — not economies of scale.
Therefore option (D) is NOT an advantage of divisional structure;
it is actually a limitation.

Options A, B and C are genuine advantages.

Q.7

From the picture given below, identify the responsibility that the consumer is fulfilling while purchasing 'Ready-to-Eat Pasta' :

[Image shows a consumer reading the label on a Ready-to-Eat Pasta packet]

(a) Be aware about various goods and services available in the market so that an intelligent and wise choice can be made.

(b) Assert yourself to ensure that you get a fair deal.

(c) Read labels carefully so as to have information about prices, net weight, manufacturing and expiry dates, etc. <<

(d) Ask for a cash memo on purchase of goods or services.

Explanation:

The picture shows a consumer reading the label on a Ready-to-Eat Pasta packet. This corresponds to the consumer responsibility of reading labels carefully to obtain information about prices, net weight, manufacturing and expiry dates, etc. before making a purchase decision.

OR

Q.7

[For Visually Impaired Candidates only — in lieu of Q. No. 7] Which of the following consumer rights under Consumer Protection Act, 2019 gives the freedom to consumers to access a variety of products at competitive prices ?

(a) Right to be informed

(b) Right to be assured <<

(c) Right to consumer education

(d) Right to be heard

Explanation:

The Right to be Assured (Right to Choice) under the Consumer Protection Act, 2019 gives consumers the freedom to access a variety of goods and services at competitive

prices.

It ensures that consumers have access to a range of goods and services at competitive prices without being limited to a monopoly supplier.

Q.8

'Gamma Ltd.', with its state-of-the-art manufacturing set-up in Karnesha, produces smartphones for the Indian market. Rapid technological improvements, changing consumer preferences and the entry of new competitors in the market push the company to revise its plans frequently. This reflects which characteristic of business environment ?

(a) Inter-relatedness

(b) Dynamic nature <<

(c) Complexity

(d) Relativity

Explanation:

The business environment is dynamic in nature — it keeps changing constantly.

The fact that rapid technological improvements, changing consumer preferences and new competitors force the company to revise its plans frequently reflects the dynamic (ever-changing) nature of business environment.

Q.9

'Radhe Textiles', a children's garment manufacturing business, and Ghanshyam Garments, a home furnishing manufacturing business operate in the same industrial area. Both companies jointly set up a common dyeing and finishing plant. This was because the scale of operations of each of them was not sufficient to make full use of the plant. With both of them jointly using the plant, the requirement of fixed capital for each company will now be :

(a) Higher than earlier

(b) Lower than earlier <<

(c) Same as earlier

(d) Nil

Explanation:

Fixed capital refers to investment in long-term assets such as plant and machinery.
By jointly setting up and sharing a common dyeing and finishing plant, each company needs to invest only a portion of the total cost of the plant (shared cost).
Therefore the requirement of fixed capital for each company will be lower than earlier (when each would have had to invest in its own plant).

Q.10

'RAVL' is a company manufacturing LED bulbs. To ensure efficiency in production, the workers are given monthly targets. For the month of October 2025, the workers were given a target to produce 8,000 bulbs. At the end of the month, it was found that actual production was only 6,000 bulbs. After investigation, it was found that the target was not met due to shortage of trained workers. To resolve the problem, the Production Manager arranged training programmes for workers and also hired additional workers.
Which step of the controlling process was followed by the Production Manager to resolve the problem of shortage of trained workers ?

(a) Setting performance standards
(b) Measurement of actual performance
(c) Comparing actual performance with standards
(d) Taking corrective action <<

Explanation:

The controlling process involves: (1) Setting standards (8,000 bulbs/month), (2) Measuring actual performance (6,000 bulbs), (3) Comparing actual with standards (shortfall of 2,000 bulbs identified), and (4) Taking corrective action.
Arranging training programmes and hiring additional workers to resolve the shortage of trained workers is the corrective action step.

Q.11

Which of the following is not a limitation of internal sources of recruitment ?

(a) It reduces the scope of induction of fresh talent in the organization.
(b) The employees may become lethargic if they are sure of time-bound promotions.
(c) It may lead to dissatisfaction and frustration among existing employees as they may feel that their chances of promotion are reduced. <<
(d) The spirit of competition among the employees may be hampered.

Explanation:
Option (C) describes a limitation of EXTERNAL sources of recruitment (when outside candidates are hired, existing employees may feel their promotion prospects are reduced).
Options A, B and D are genuine limitations of internal sources: internal recruitment reduces fresh talent (A), may make employees complacent if promotions are guaranteed by seniority (B), and may reduce healthy competition (D).
Hence (C) is NOT a limitation of internal sources.

Q.12

'A manager motivates and leads his team in such a manner that individual members are able to achieve personal goals while contributing to the organisational objective.'
The point of importance of management highlighted above is :

(a) Management helps in achieving group goals
(b) Management helps in increasing efficiency
(c) Management helps in achieving personal objectives <<
(d) Management helps in the development of society

Explanation:
The statement highlights that the manager leads the team so that individual members are able to achieve PERSONAL goals while also contributing to organisational objectives.
This corresponds to the importance of management that says 'Management helps in achieving personal objectives' — it integrates individual goals with organisational goals.

Q.13

Match the step of the process of organising given in Column-I with its explanation given in Column-II :

Column-I

1. Departmentalisation
2. Establishing authority and reporting relationships
3. Identification and division of work
4. Assignment of duties

Column-II

(i) Each individual is told who he has to take orders from and to whom he is accountable

(ii) The work is divided into manageable activities so that duplication can be avoided and burden of work can be shared among the employees

(iii) Work of different job positions is defined and work allocated to various employees in accordance with their skills and competencies

(iv) Activities of a similar nature are grouped together, which facilitates specialization

Choose the correct option from the following :

(a) 1-(i), 2-(ii), 3-(iii), 4-(iv)

(b) 1-(iv), 2-(i), 3-(ii), 4-(iii) <<

(c) 1-(iv), 2-(i), 3-(iii), 4-(ii)

(d) 1-(ii), 2-(iii), 3-(i), 4-(iv)

Explanation:

Correct matching: Departmentalisation (1) = grouping similar activities together for specialization →

(iv).

Establishing authority and reporting relationships (2) = telling each person who they

report to →

(i).

Identification and division of work (3) = dividing work into manageable parts to avoid duplication and share workload →

(ii).

Assignment of duties (4) = defining job positions and allocating work per skills/competencies →

(iii).

So: 1-(iv), 2-(i), 3-(ii), 4-(iii).

Q.14

The market where existing securities are traded is known as :

(a) Both Primary and Secondary Market

(b) Primary Market

(c) Secondary Market <<

(d) Money Market

Explanation:

The Secondary Market (also called the stock exchange or stock market) is the market where existing/previously issued securities are bought and sold among investors.

The Primary Market is where new securities are issued for the first time (e.g., IPOs).

Therefore the market for existing securities is the Secondary Market.

Q.15

The number of times earnings before interest and taxes of a company cover the interest obligation is referred to as :

(a) Capital structure

(b) Financial leverage

(c) Interest Coverage Ratio <<

(d) Debt-Service Coverage Ratio

Explanation:

The Interest Coverage Ratio (ICR) = EBIT / Interest Expense.

It measures how many times a company's earnings before interest and taxes (EBIT)

can cover its interest obligations.
A higher ICR indicates greater ability to meet interest payments.
Capital structure is the mix of debt and equity;
financial leverage measures the degree to which debt is used;
Debt-Service Coverage Ratio covers both interest and principal repayments.

Q.16

Read the following statements : Assertion (A) and Reason (R).

Assertion (A) : Workload analysis and workforce analysis are important to understand the manpower requirements.

Reason (R) : It helps the organization to know whether it is overstaffed, understaffed or optimally staffed.

Choose the correct alternative from the following :

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). <<
(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(c) Assertion (A) is true, but Reason (R) is false.
(d) Assertion (A) is false, but Reason (R) is true.

Explanation:
Both A and R are true.
Workload analysis determines how many people are needed (workload requirements), and workforce analysis determines how many are available.
Together they help understand manpower requirements (A is true).
The reason they are important is precisely because this analysis tells the organisation whether it is overstaffed, understaffed or optimally staffed (R is true and directly explains A).

Q.17

Read the following statements carefully :

Statement I : Higher fixed operating costs result in higher business risk.

Statement II : If the firm's business risk is lower, the firm's capacity to use debt is higher.

In light of the given statements, choose the correct alternative from the following :

(a) Statement I is true and Statement II is false.
(b) Statement I is false and Statement II is true.
(c) Both Statement I and Statement II are true. <<
(d) Both Statement I and Statement II are false.

Explanation:

Statement I is true: higher fixed operating costs mean that even if revenues fall, fixed costs must be paid — this operating leverage magnifies losses and increases business (operating) risk.

Statement II is also true: business risk and financial risk have an inverse relationship in capital structure decisions.

A firm with lower business risk can afford to take on more financial risk (debt), so it has a higher debt capacity.

Both statements are correct.

Q.18

Shikha, a first-time investor, was excited yet nervous about investing in the stock market as she felt it was risky. She sought guidance from her friend, Rama, who was an experienced investor. Rama assured Shikha that it is safe to invest in the stock market as the membership of stock exchange is regulated by Securities and Exchange Board of India (SEBI). She also told Shikha that SEBI performs various functions to protect the rights and

interests of investors.

Which of the following functions mentioned by Rama is not a protective function of SEBI ?

(a) Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging, etc.

(b) Conducting research and publishing information useful to all market participants. <<

(c) Controlling insider trading and imposing penalties for such practices.

(d) Promotion of fair practices and code of conduct in the securities market.

Explanation:

SEBI's protective functions include prohibiting fraud and unfair trade practices (A), controlling insider trading (C), and promoting fair practices/code of conduct (D).

Conducting research and publishing information useful to all market participants (B) is a DEVELOPMENTAL function of SEBI — it aims to develop and educate the market, not specifically protect investors from misconduct.

Hence B is not a protective function.

Q.19

'Bright Appliances Ltd.' plans to launch a new product line of energy-efficient air purifiers. To ensure a smooth launch of the air purifiers, the company needs to arrange adequate funds. For this, the Finance Manager estimates the fund requirements and specifies the source of funds the company should use. The process followed by the Finance Manager is called :

(a) Financial planning <<

(b) Financial management

(c) Financial leverage

(d) Investment decision

Explanation:

Financial planning involves estimating the financial requirements of a business and determining the sources from which these requirements will be met.

The Finance Manager estimating fund requirements and specifying the sources of

funds for the air purifier launch is a textbook example of financial planning.

Q.20

'Sumi', a well-established domestic car manufacturer, anticipates entry of a premium foreign automobile brand in the country. The management of the company foresees a decline in the market share, especially in the premium segment. To retain its market share and stay competitive, the company launches aggressive advertising and takes measures to reduce the cost of production. It further invests in improving product quality, introducing new features and aligning their cars with international standards.

The point of importance of business environment described above is :

(a) It helps in coping with rapid changes.
(b) It helps in tapping useful resources.
(c) It enables a firm to identify opportunities and getting the first mover advantage.
(d) It helps the firm to identify threats and early warning signals. <<

Explanation:

Sumi anticipates (identifies in advance) the threat of a foreign competitor entering the premium segment.

Based on this early warning, the company takes proactive steps to counter the threat.

This illustrates how understanding the business environment helps a firm identify threats and receive early warning signals, allowing it to prepare in advance.

Q.21

Aditi purchased a high speed blender from an online retailer for Rs. 2,000. When she used it to prepare soup, it made a loud noise. It also failed to blend properly and emitted an unusual smell.

She first contacted the online retailer through their toll-free helpline. They told her that they were responsible only for selling the blender and were not responsible for defects. Aditi then collected all relevant proofs such as the invoice and records of her communication etc. Then she contacted the

customer service team of the manufacturer. The technical team inspected the blender and confirmed that the motor was defective. Despite this, the manufacturer neither replaced the blender, nor refunded her money. They stopped responding to Aditi's calls. Aditi was frustrated and filed a complaint against the manufacturer in the appropriate consumer court.

State any three reliefs available to Aditi if the consumer court is satisfied about the defect in the high speed blender.

Answer: Any three of the following reliefs are available to Aditi under the Consumer Protection Act, 2019:

1. Removal of defect — The consumer court can direct the manufacturer to have the defect in the blender removed.
2. Replacement of goods — The manufacturer can be directed to replace the defective blender with a new one of the same description which shall be free from any defect.
3. Refund of price — The court can direct the manufacturer to refund the price paid (Rs. 2,000) to Aditi.
4. Award of compensation — Aditi may be awarded compensation for any loss or injury suffered due to the negligence of the manufacturer.
5. Removal of deficiency in services — If applicable, removal of deficiency in services provided.
6. Discontinue unfair trade practice — The court can direct the manufacturer to stop the unfair/restrictive trade practice.
7. Payment of adequate costs — The court may award costs of litigation to Aditi.

Explanation:

Under the Consumer Protection Act, 2019, when a consumer court is satisfied that the goods are defective or services are deficient, it may order one or more of the following reliefs: removal of defects from goods;
replacement of defective goods;
refund of price paid;
payment of compensation for loss/injury;

removal of deficiency in services;
discontinuing unfair/restrictive trade practices;
paying adequate costs.
Aditi's case clearly involves a defective product (confirmed defective motor), so these reliefs are applicable.

Q.22

'KUL', an eco-friendly stationery brand is expanding its business in three different markets. For this, it uses different promotional strategies in each market.

In the corporate gifting market, the company appoints salespersons to contact prospective corporate clients and create awareness about its eco-friendly stationery with the aim of making a sale. In the international market, the company focuses on managing public opinion and building a positive image for its product. It disseminates information and builds goodwill about the business. In the domestic retail market, the company offers cash discounts, free gifts, etc. to encourage the buyers to make immediate purchase of its product.

Identify and state three different promotion tools used by 'KUL' to expand its business in each of the markets.

Answer: 1. Corporate gifting market — Personal Selling: The company appoints salespersons (sales representatives) to personally contact prospective corporate clients to create awareness and make sales. Personal selling involves direct face-to-face interaction between the salesperson and the prospective buyer.

2. International market — Public Relations (PR): The company manages public opinion and builds a positive image by disseminating information and building goodwill. Public relations involves creating a favourable image of the company in the minds of the public/stakeholders.

3. Domestic retail market — Sales Promotion: The company offers cash discounts and free gifts to encourage buyers to make an immediate purchase. Sales promotion includes short-term incentives to stimulate quick buying.

Explanation:

The four elements of the promotion mix are: Advertising, Personal Selling, Sales Promotion, and Public Relations.

The case clearly maps to three of these: salespersons contacting clients = Personal Selling;

managing public opinion and building goodwill = Public Relations;

cash discounts and free gifts to encourage immediate purchase = Sales Promotion.

Q.23

(a) Explain the following functions of Marketing :

(i) Marketing planning

(ii) Customer support services

Answer: (i) Marketing planning: It involves setting marketing objectives and determining a course of action to achieve them. It involves developing strategies for the product, price, place and promotion (the marketing mix). It helps the firm to anticipate future trends, allocate resources effectively and direct efforts towards achieving sales/market share targets.

(ii) Customer support services: These are services provided to customers after the sale of a product to ensure their satisfaction. They include activities like handling complaints and adjustments, providing credit and financing services, after-sales services (warranty/maintenance/repairs), technical assistance, and information services. They help build long-term relationships and customer loyalty.

Explanation:

Marketing functions include marketing research, buying and assembling, selling, transportation, storage/warehousing, grading and standardisation, packaging, financing, risk bearing, and after-sales/customer support.

Marketing planning sets the direction and objectives;

customer support services ensure post-sale satisfaction and loyalty.

OR

Q.23

(b) Explain the following factors which affect the fixation of price of a product

:

(i) Extent of competition in the market

(ii) Marketing methods used

Answer: (i) Extent of competition in the market: In a highly competitive market, a firm has less freedom to set its own price. If competitors offer similar products at lower prices, a firm must set comparable prices to remain competitive. In a monopolistic situation, the firm has more pricing power. The price is influenced by the number of competitors, the similarity of competing products, and the aggressiveness of competitors.

(ii) Marketing methods used: The price of a product is also influenced by the marketing methods employed by the firm. If the firm uses extensive advertising, incurs high distribution costs, offers after-sale services, gives generous credit terms, or uses premium packaging, these add to costs and thus influence the price upward. Conversely, low-cost marketing methods allow for lower pricing.

Explanation:

Factors affecting pricing include: product cost, utility and demand, extent of competition, government and legal regulations, pricing objectives, and marketing methods used.

Competition constrains pricing freedom;

marketing methods (advertising, distribution, packaging, after-sales) affect the cost base which in turn affects the price.

Q.24

(a) Distinguish between Capital Market and Money Market on the following basis :

(i) Investment outlay

(ii) Duration

(iii) Safety

Answer: Capital Market vs Money Market:

(i) Investment outlay: Capital market instruments generally require a larger investment outlay (e.g., equity shares, debentures can be bought in larger

amounts though face values vary). Money market instruments (e.g., Treasury Bills, Commercial Paper) are traded in large denominations (e.g., minimum Rs. 25 lakh for T-Bills), primarily involving institutional investors with high investment amounts per transaction.

(ii) Duration: Capital market deals in long-term securities with maturity of more than one year (e.g., equity shares with no maturity, bonds of 5–30 years). Money market deals in short-term instruments with maturity of up to one year (e.g., T-Bills of 91/182/364 days, call money overnight to 14 days).

(iii) Safety: Capital market instruments carry higher risk as they are subject to market fluctuations, credit risk, and business risk. Money market instruments are considered relatively safer because they are short-term and are typically issued by the government or creditworthy institutions.

Explanation:

Capital market: long-term (>1 year), includes equity and debt instruments, higher risk-return, involves retail and institutional investors.

Money market: short-term (<=1 year), includes T-Bills, commercial paper, call money, CDs, lower risk, primarily institutional.

OR

Q.24

(b) Give any three differences between Primary Market and Secondary Market.

Answer: Three differences between Primary Market and Secondary Market:

1. Meaning/Function: Primary market is where new/fresh securities are issued for the first time (new issue market). Secondary market is where existing/previously issued securities are traded among investors (stock exchange).

2. Company/Investor: In the primary market, the company (issuer) directly receives the proceeds of sale from investors. In the secondary market, transactions are between investors; the company does not receive any funds.

3. Price determination: In the primary market, the price is fixed by the company (or determined through book-building). In the secondary market, prices fluctuate

based on demand and supply forces.

4. Intermediaries: In the primary market, merchant bankers, underwriters and brokers assist in the issue. In the secondary market, stockbrokers facilitate transactions between buyers and sellers.

5. Nature of securities: Primary market deals with new securities; secondary market deals with existing/outstanding securities.

Explanation:

Primary market (new issue market) vs Secondary market (stock exchange): key distinctions include direction of funds (company receives in primary; not in secondary), pricing mechanism (fixed vs market-determined), and purpose (capital raising vs liquidity provision).

Q.25

'GW Textiles' was facing rising competition, inefficiencies on the shop floor and declining revenues. To address these problems, Leena was appointed as the new Factory Manager. In the first few weeks, Leena walked around the factory and watched how work was actually being done. She noticed that some workers were sincere and focused, while others showed little interest and avoided responsibility.

To overcome this problem Leena began spending time on the shop floor every week, interacting closely with the workers and was able to make them act in the desired manner to achieve organisational goals. Her approach helped create a positive work environment where employees felt encouraged to perform better, leading to improved efficiency on the shop floor and improved revenues.

(i) Identify the element of directing highlighted in the above case.

(ii) State any three features of the element identified in (i) above.

Answer: (i) Element of directing identified: Leadership (specifically, Leena demonstrates leadership by influencing/guiding workers to act in the desired manner to achieve organisational goals through personal interaction and

motivation).

(ii) Three features of Leadership:

1. Leadership involves influencing the behaviour of others: A leader influences the behaviour of subordinates to work willingly towards the achievement of organisational goals, as Leena did by personally interacting with workers to make them act in the desired manner.

2. Leadership is a continuous process: Leadership is not a one-time activity; it continues throughout the life of the organisation. Leena spent time every week on the shop floor — it was an ongoing process.

3. Leadership applies to group situations: Leadership is exercised over a group of people. Leena led the entire workforce on the shop floor, not just one individual.

4. Leadership involves creating a positive environment: A good leader creates conditions where employees feel encouraged to perform better, exactly as Leena's approach helped create a positive work environment.

Explanation:

Directing consists of four elements: Supervision, Motivation, Leadership, and Communication.

The case describes Leena personally interacting with workers to influence their behaviour towards desired goals — this is leadership.

Key features of leadership: it is a personal quality, involves influencing behaviour, is situational, and is a continuous process.

Q.26

Rahul, Priya, Amit and Sneha were friends. They decided to start a business jointly. With rising focus on hydration, fitness and a healthy lifestyle, they saw a steady market for water bottles. Customers often own multiple bottles for different uses. Bottles wear out or go out of style over time, creating repeat sales opportunities. Excited by this idea, they all sat together to brainstorm and decide what kind of water bottle they should make.

Rahul believed that to maximise profits, production should be done on a large scale making goods available and affordable to consumers.

Amit, on the other hand, was of the opinion that the bottles should be of a very good quality with features like time markers, filters or infusers, etc.
Priya agreed with Amit, but felt that they should first identify the needs of the present and prospective buyers, so that they can satisfy them in an effective way. She suggested offering personalised designs, sports bottles, insulated bottles, etc., depending on the customers' needs.
Sneha believed that the business orientation should not be short-sighted to serve only the consumers' needs. It should also consider larger issues of long-term social welfare. So, she suggested reusable water bottles made from eco-friendly sustainable materials.
Identify and state the marketing management philosophies discussed by Rahul, Priya, Amit and Sneha.

Answer: 1. Rahul — Production Concept: Rahul believes in large-scale production to make goods widely available and affordable. The production concept holds that consumers will prefer products that are widely available and low in cost. Management focuses on achieving high production efficiency and wide distribution.

2. Amit — Product Concept: Amit believes the bottles should be of very high quality with special features (time markers, filters, infusers). The product concept holds that consumers will favour products that offer the most quality, performance and features. Management focuses on continuous product improvement.

3. Priya — Marketing Concept: Priya believes in first identifying the needs of present and prospective buyers and then satisfying them effectively with personalised products. The marketing concept holds that achieving organisational goals depends on determining the needs and wants of target markets and delivering the desired satisfaction better than competitors (customer-centric).

4. Sneha — Societal Marketing Concept: Sneha believes the business should not only serve consumer needs but also consider long-term social welfare, hence suggesting eco-friendly sustainable reusable bottles. The societal marketing concept holds that the firm should satisfy consumer needs in a way that also

preserves the consumer's and society's well-being in the long run.

Explanation:

The five marketing management philosophies/orientations are: Production, Product, Selling, Marketing, and Societal Marketing concepts.

The case maps four of these: Rahul=Production (large scale, affordable), Amit=Product (high quality, features), Priya=Marketing (customer needs first), Sneha=Societal Marketing (long-term social welfare).

Q.27

(a) State any four psychological barriers to communication.

Answer: Four psychological barriers to communication:

1. Premature evaluation: When the receiver forms a judgement about the message before it is fully conveyed, he/she tends to stop listening carefully. This leads to misunderstanding and distortion of the message.

2. Lack of attention/Poor retention: When the receiver is preoccupied with something else or not paying attention, the message is not received properly. Also, people tend to retain only a part of the message which leads to poor communication.

3. Distrust: If there is a lack of trust between the sender and the receiver, the message may be doubted or interpreted negatively, creating a barrier to effective communication.

4. Emotions/Emotional state: The emotional state of the sender or receiver (e.g., anger, fear, anxiety) can distort the message. A person who is emotionally disturbed may not communicate effectively or may misinterpret a message.

5. Resistance to change: People tend to resist new ideas or information that conflicts with their existing beliefs. This makes them reluctant to receive or act on messages that suggest change.

Explanation:

Psychological (semantic) barriers to communication arise from the mental states of the sender or receiver.

Examples include premature evaluation, lack of attention, poor retention, distrust, emotional disturbance, and resistance to change.

OR

Q.27

(b) State any four points of importance of staffing function of management.

Answer: Four points of importance of staffing function of management:

1. Helps in discovering and obtaining competent personnel: Staffing ensures that the right person is placed at the right job. It helps the organisation discover, develop and maintain a competent workforce, which is essential for achieving organisational goals.
2. Ensures higher performance: By placing appropriately skilled and competent people in appropriate positions, staffing ensures that employees can perform their duties effectively and efficiently, contributing to higher overall organisational performance.
3. Helps in growth of the organisation: Staffing ensures a continuous supply of people who can be trained for higher level positions (succession planning). Competent staffing helps the organisation grow and expand as more capable people are available to take on additional responsibilities.
4. Ensures optimum utilisation of human resources: Proper staffing prevents both overstaffing (which wastes resources) and understaffing (which overbur-dens employees), thereby ensuring optimal utilisation of the human resource.
5. Improves job satisfaction and morale: When employees are correctly placed in jobs that match their skills and interests, they experience higher job satisfaction and morale, leading to better retention and lower turnover.

Explanation:

Staffing is the managerial function of filling and keeping filled the positions in the organisation structure.

Its importance: ensures availability of competent personnel, higher performance, growth, optimal HR utilisation, and improved job satisfaction/morale.

Q.28

'Staple Foods Ltd.', a packaged food company is planning to expand its operations. To meet growing manpower needs, it adopts different external sources of recruitment for different levels of employees by balancing cost, time and quality in talent acquisition across organisational levels.

For positions requiring high trust and confidentiality, the company prefers applicants introduced by existing senior employees. For specialised technical and professional roles like Marketing Head, Operations Manager, etc., it contacts private agencies and professional bodies. These agencies are able to access a wider talent pool as they compile bio-data of a large number of candidates and recommend suitable names to their clients. For casual vacancies of unskilled or semi-skilled jobs, they post job vacancies on the company's notice board to attract local candidates. Job seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot. 'Staple Foods Ltd.' also maintains a record of unsolicited job applications and contacts suitable candidates from this pool whenever vacancies arise.

State the external sources of recruitment used by 'Staple Foods Ltd.' for recruitment of people at various organisational levels.

Answer: External sources of recruitment used by 'Staple Foods Ltd.':

1. Recommendations of Existing Employees (Employee Referrals): For positions requiring high trust and confidentiality, the company prefers applicants introduced/recommended by existing senior employees. This source provides pre-screened candidates who come with a personal endorsement.

2. Placement Agencies / Private Employment Agencies and Professional Bodies: For specialised technical and professional roles (Marketing Head, Operations Manager), the company contacts private agencies and professional bodies. These agencies maintain bio-data of a large number of candidates and recommend suitable names to client organisations, accessing a wide talent pool.

3. Labour Contractors / Gate Hiring (Direct Recruitment at Factory Gate): For

casual vacancies of unskilled or semi-skilled jobs, the company posts notices on the company's notice board. Job seekers assemble at the premises on a specified date and selection is done on the spot. This is also called casual callers or gate hiring.

4. Unsolicited Applications (Walk-in / Direct Applications): The company maintains records of unsolicited job applications received from people who apply without any specific job vacancy. Suitable candidates from this pool are contacted when vacancies arise.

Explanation:

External sources of recruitment include: advertisement, employment exchanges, placement agencies, management consultants, employee referrals, unsolicited applications, educational institutions, labour contractors, and walk-in interviews.

The case identifies four specific external sources used by Staple Foods Ltd. for different levels of staffing needs.

Q.29

(a) Explain the following points of importance of controlling function of management :

(i) Accomplish organisational goals

(ii) Making efficient use of resources

Answer: (i) Accomplish organisational goals: Controlling ensures that activities in the organisation are performed in accordance with the plans. By constantly monitoring actual performance against set standards and taking corrective action when deviations occur, controlling keeps the organisation on track to accomplish its goals. Without controlling, even well-laid plans may fail because deviations would go undetected and uncorrected.

(ii) Making efficient use of resources: Controlling helps managers ensure that the resources of the organisation (human, financial, material and time) are used efficiently. By setting standards for resource utilisation and checking actual use against those standards, controlling prevents wastage, detects inefficiencies and ensures optimal utilisation of all resources, thereby reducing costs.

Explanation:

Importance of controlling: accomplishes organisational goals;
makes efficient use of resources;
ensures order and discipline;
facilitates coordination;
helps in employee motivation;
makes planning more effective.

OR

Q.29

(b) Explain the following non-financial incentives :

(i) Status

(ii) Organisational climate

Answer: (i) Status: Status refers to the rank, authority, responsibility, recognition and prestige that goes with a job position in an organisation. People are motivated by the desire for a higher status. Organisations can motivate employees by giving them a higher designation, a bigger cabin, an executive-grade car, or other perquisites that confer higher status. Managers can use status symbols as a non-monetary motivator when financial incentives are constrained.

(ii) Organisational climate: Organisational climate refers to the overall environment or atmosphere prevailing in an organisation. It is characterised by factors such as the degree of individual autonomy, reward orientation, consideration for employees' feelings, communication openness, and the overall spirit of teamwork. A positive, supportive organisational climate acts as a strong non-financial motivator — when employees feel comfortable, respected and engaged, they tend to be more productive and committed.

Explanation:

Non-financial incentives include: status, organisational climate, career advancement, job enrichment, employee recognition, job security.
Status gives a sense of prestige and importance;
organisational climate is the overall psychological atmosphere of the workplace.

Q.30

'Suruchi Textiles Ltd.' is a reputed textile manufacturing company with stable earnings. It has been paying regular dividends for the last seven years, which has helped it to build a loyal investor base. It has a large number of its shareholders who depend on regular income from their investment and therefore expect at least a minimum dividend every year. To meet these expectations and maintain shareholders confidence, the company has followed a high dividend policy.

During the current year, the company planned further expansion, which required additional funds. However, since a major portion of its earnings had been distributed as dividends in earlier years, the company had retained limited funds. But, since 'Suruchi Textiles Ltd.' had a strong reputation in the capital market, it was able to raise the required capital from the capital market to finance its expansion plans.

Identify and explain four factors affecting the dividend decision discussed in the above case.

Answer: Four factors affecting the dividend decision identified from the case:

1. Stability of earnings (Stable earnings): 'Suruchi Textiles Ltd.' has stable earnings. A company with stable and consistent earnings is better positioned to declare regular dividends. Companies with stable earnings follow a high dividend policy since they can predict future income reliably. (Reference: 'is a reputed textile manufacturing company with stable earnings')

2. Shareholder preference / Investor type (Stability of dividends / Preferences of shareholders): The company has a large number of shareholders who depend on regular income from their investment and expect at least a minimum dividend every year. Shareholder composition influences dividend policy — when shareholders prefer regular income (income-seeking investors), the company tends to follow a high/stable dividend policy. (Reference: 'large number of its shareholders who depend on regular income...expect at least a minimum dividend every year')

3. Retained earnings / Access to capital markets (Growth opportunities): Since the company distributed most earnings as dividends, it had limited retained funds for expansion. This highlights the trade-off between dividends and retained earnings for growth. A firm with access to capital markets (as Suruchi had) can rely on external financing when retained earnings are insufficient. (Reference: 'since a major portion of its earnings had been distributed as dividends...retained limited funds')

4. Access to capital market / Liquidity / External financing: Suruchi was able to raise capital from the capital market due to its strong reputation. A company that can easily access the capital market can afford to distribute higher dividends since it can raise funds externally for growth. Its capital market reputation also helped. (Reference: 'Suruchi Textiles Ltd. had a strong reputation in the capital market, it was able to raise the required capital from the capital market')

Explanation:

Factors affecting dividend decision: stability of earnings, shareholder preferences, growth opportunities and retained earnings, access to capital markets, tax considerations, liquidity, statutory restrictions, contractual constraints.

The case specifically highlights stable earnings, income-seeking shareholders, the retained earnings trade-off, and capital market access.

Q.31

'Global Tech Ltd.' was a multinational company that manufactured modern electronics devices and employed nearly 10,000 people from across the world. The company had a well-defined organisational structure with separate departments for finance, marketing and production. Every department had its own objectives, policies and style of working. As each department performed its activities in isolation from others, conflicts arose within the organisation.

Further, due to complex technology involved in producing modern electronic devices, 'Global Tech Ltd.' relied heavily on specialists. The specialists were confident of their professional knowledge and often did not consider

suggestions from others in matters pertaining to their area of specialisation. This resulted in conflict among different specialists and others in the organisation. As the company continued to grow, more employees from different backgrounds and work habits joined the organisation. The increasing size of workforce, along with departmental differences and dependence on specialists, made it difficult to ensure that everyone worked towards the same organisational goals. Therefore it became necessary for the management to harmonise individual goals with organisational goals and integrate the efforts of departments and specialists to achieve common objectives.

(i) Identify and state the concept which would help 'Global Tech Ltd.' in bringing together the efforts of employees and specialists to achieve common goals of the organisation.

(ii) Quoting lines from the given case, state any three points of importance of the concept identified in (i) above.

Answer: (i) Concept identified: Coordination

Coordination is the process by which a manager synchronises the activities of different departments and individuals in the organisation so that they work harmoniously towards the achievement of common organisational goals. It integrates diverse activities, resolves conflicts between departments and aligns individual goals with organisational goals.

(ii) Three points of importance of Coordination (with quotes from the case):

1. Coordination helps in achieving unity of action / integrating efforts of departments: The case states 'conflicts arose within the organisation' because 'each department performed its activities in isolation from others' and 'every department had its own objectives, policies and style of working'. Coordination ensures that all departments work together in a unified direction rather than in silos, eliminating conflicts and duplication.

2. Coordination integrates the efforts of specialists: The case notes that

'specialists were confident of their professional knowledge and often did not consider suggestions from others' leading to 'conflict among different specialists and others'. Coordination integrates the work of specialists with the rest of the organisation, ensuring their expertise serves the organisational goal rather than creating conflict.

3. Coordination harmonises individual goals with organisational goals: The case directly states it became necessary for management 'to harmonise individual goals with organisational goals and integrate the efforts of departments and specialists to achieve common objectives'. Coordination ensures that individual and departmental goals align with the overall organisational objective, preventing fragmented efforts.

Explanation:

Coordination is described as the 'essence of management' as it synchronises all activities.

Its importance: achieves unity of action, integrates specialist efforts, reconciles individual and organisational goals, ensures smooth functioning across departments.

Q.32

'Kia Tyres' is a company manufacturing tyres for cars, two-wheelers, trucks and buses. It has a well-defined organisational structure designed by the management to facilitate smooth functioning of the organisation. It specifies the relationships among various job positions and the nature of their inter-relationship. It is easier to fix responsibility, since mutual relationships are clearly defined. There is no ambiguity in the role that each member has to play, as duties are specified. This also helps in avoiding duplication of work. As a result, 'Kia Tyres' is able to effectively accomplish its goals.

However, during lunch breaks and after office hours, employees from different departments of 'Kia Tyres' meet regularly. This helps to fulfil the social needs of employees and allows them to interact with like-minded people. This enhances their job satisfaction by giving them a sense of belongingness in the organisation.

(i) Identify the types of organisation discussed in the above and give their meaning.
(ii) State two advantages of each of the types of organisation identified in (i) above, not discussed in the given case.

Answer: (i) Types of organisation identified:

1. Formal Organisation: 'Kia Tyres' has a well-defined organisational structure with clearly defined relationships, specified duties and mutual accountability — this is a formal organisation. Formal organisation is the official structure deliberately created by management to achieve organisational goals. It specifies the role, authority and responsibility of each member and defines the official channels of communication.
2. Informal Organisation: Employees from different departments meet during lunch breaks and after office hours, fulfilling social needs and creating a sense of belongingness. This is an informal organisation. Informal organisation refers to the network of social relationships that emerge spontaneously among people working together. It is not created by management and has no official structure.

(ii) Two additional advantages of each (not discussed in the case):

Formal Organisation (additional advantages):

1. It provides the basis for specialisation: Since activities are grouped systematically and authority is clearly defined, it facilitates division of work and specialisation, leading to efficiency.
2. It facilitates coordination: A clear hierarchy and defined reporting relationships in the formal structure help coordinate the activities of different departments and individuals, ensuring that everyone works towards common goals.

Informal Organisation (additional advantages):

1. It acts as a supplement to formal channels of communication: Informal channels (the 'grapevine') transmit information quickly and can pass messages that formal

channels may delay. This helps in faster information flow within the organisation.
2. It compensates for the inadequacies of formal organisation: In situations where the formal structure cannot respond quickly or where rigid rules create obstacles, informal relationships help solve problems quickly through mutual cooperation and goodwill.

Explanation:
Every organisation has both a formal structure (official, deliberate, designed) and an informal organisation (spontaneous, social, unofficial).
Formal org: clear authority, no ambiguity, accountability, coordination.
Informal org: social needs, grapevine, flexibility, supplements formal channels.

Q.33

(a) Explain the following principles of management :
(i) Discipline
(ii) Unity of direction
(iii) Equity

Answer: (i) Discipline: Discipline means obedience to organisational rules, norms and respect for authority. It is essential for the smooth running of an organisation. Fayol considered discipline as the outward mark of respect to agreements between the firm and its employees. Discipline requires good superiors at all levels, clear and fair agreements between the firm and its employees, and judicious application of penalties. Without discipline, no enterprise can prosper.
(ii) Unity of direction: According to this principle, each group of activities having the same objective must have one head and one plan. There should be one unit of command to ensure that efforts are directed towards the same objective. Unity of direction provides coordination and concentration of effort, and avoids confusion. Note: Unity of direction (one plan, one head for each group) is different from unity of command (one boss per employee).
(iii) Equity: Equity means a combination of kindliness and justice in the treatment of employees. Managers should be fair and impartial while dealing with

subordinates. Employees expect and deserve to be treated equally — with a combination of justice (implementation of rules) and kindness (goodwill). Equity in treatment leads to loyalty and devotion among employees, contributing to the smooth running of the organisation.

Explanation:

Fayol's 14 principles of management.

Discipline: orderly behaviour, obedience.

Unity of direction: one plan and one head for each objective.

Equity: fair and kind treatment of employees.

OR

Q.33

(b) Explain the following points of significance of principles of management :

(i) Providing managers with useful insights into reality

(ii) Scientific decisions

(iii) Meeting changing environment requirements

Answer: (i) Providing managers with useful insights into reality: Management principles provide managers with ready-made guidelines for dealing with real-life management problems. They help managers understand and interpret complex organisational situations and take appropriate decisions. Without these principles, managers would have to rely solely on trial and error, which is time-consuming and costly. Principles add to their knowledge and help them think through problems systematically.

(ii) Scientific decisions: Management principles are based on logic and analysis rather than blind faith or superstition. When managers apply these principles, their decisions are systematic, fact-based and rational — making decision-making more scientific. They provide a structured framework for analysing problems, weighing alternatives and selecting the best course of action, thereby reducing the element of subjectivity and arbitrariness in managerial decisions.

(iii) Meeting changing environment requirements: Management principles are dynamic and flexible. They are based on human behaviour and social forces that

keep changing. Principles of management have evolved continuously to keep pace with changing environments (technological, social, economic). They help managers adapt to new situations by providing general guidelines that can be applied flexibly depending on the circumstances, thus equipping the organisation to handle change effectively.

Explanation:

Significance of management principles: provide useful insights, basis for scientific decisions, meet changing environment needs, provide optimal use of resources, serve as basis for training, help in social responsibility.

All three asked points reflect how principles enhance managerial effectiveness.

Q.34

(a) Explain the following limitations of planning :

(i) Planning leads to rigidity

(ii) Planning may not work in a dynamic environment

(iii) Planning involves huge costs

Answer: (i) Planning leads to rigidity: Once a plan is drawn up and put into action, managers may be hesitant to change it even if circumstances change. This inflexibility can harm the organisation because it may prevent managers from taking initiatives and making adjustments that changing conditions require. Adherence to the pre-determined plan may become more important than getting results, which can reduce creativity and responsiveness.

(ii) Planning may not work in a dynamic environment: Business environment is dynamic — it keeps changing constantly. It is difficult to accurately forecast all future events and conditions. Plans are based on forecasts and assumptions about the future, and these assumptions may prove incorrect. In a rapidly changing environment, plans can quickly become obsolete or irrelevant, making the planning process itself a futile exercise.

(iii) Planning involves huge costs: Planning is a time-consuming and expensive process. It requires the collection, analysis and processing of a large amount of

information. Expert consultants may need to be hired; managers spend considerable time and resources in the planning process. If the plans do not yield proportionate benefits, these costs cannot be justified. Small organisations often find the costs of formal planning prohibitive.

Explanation:

Limitations of planning: leads to rigidity;
does not work well in dynamic environments;
involves huge costs;
reduces creativity;
planning may give a false sense of security;
planning is a time-consuming process.

OR

Q.34

(b) Explain the following points of importance of planning :

(i) Planning facilitates decision-making

(ii) Planning establishes standards for controlling

(iii) Planning promotes innovative ideas

Answer: (i) Planning facilitates decision-making: Planning helps managers make decisions by providing a pre-determined set of objectives and courses of action. When managers have a clear plan, they can evaluate alternatives against the plan's objectives and choose the most suitable course of action. Planning narrows down choices, reduces uncertainty and provides a framework within which sound and rational decisions can be made efficiently.

(ii) Planning establishes standards for controlling: Planning provides the standards (targets, benchmarks, quotas) against which actual performance is measured and evaluated. Controlling is not possible without standards, and these standards are set during the planning process. For example, a production plan of 10,000 units per month becomes the standard against which actual output is measured. Thus planning and controlling are interdependent — planning feeds into controlling.

(iii) Planning promotes innovative ideas: Planning requires managers to think

ahead, anticipate future problems and identify new opportunities. This forward-looking process encourages creative and innovative thinking. Managers are encouraged to think of new ways of doing things and to develop innovative solutions to potential challenges. As a result, planning is the starting point for generating novel ideas and innovations within an organisation.

Explanation:

Importance of planning: reduces uncertainty, provides direction, facilitates decision-making, establishes standards for controlling, promotes innovative ideas, reduces wasteful activities, improves coordination.