

## Support material

# **BUSINESS STUDIES CLASS XII SYLLABUS**

Course Structure		Marks	
Units			
<b>PART A: Principles and Functions of Management</b>		<b>16</b>	
1.	Nature and Significance of Management	}	
2.	Principles of Management		
3.	Business Environment		
4.	Planning	}	}
5.	Organising		
6.	Staffing		
7.	Directing		
	Controlling		
<b>PART B: Business Finance and Marketing</b>			
9.	Financial Management	}	}
10.	Financial Markets		
11.	Marketing Management	}	}
12.	Consumer Protection		
<b>PART C: Project Work</b>			<b>20</b>
<b>Total</b>			<b>100</b>

# QUESTION PAPER DESIGN

## BUSINESS STUDIES

Code No. 054

Class XII

Time: 3 Hours			Max. Marks : 80						
S. No.	Typology of Questions	Learning Outcomes & Testing Skills	Very Short Answer (1 Mark)	Short Answer-I (3 Marks)	Short Answer-II (4 Marks)	Long Answer (5 Marks)	Essay Type (6 Marks)	Total Marks	% Weight age
1	Remembering-(Knowledge based Simple recall questions, to know specific facts, terms, concepts, principles, or theories, Identify, define, or recite, information)	<ul style="list-style-type: none"> <li>Reasoning</li> <li>Analytical Skills</li> <li>Critical Skills</li> </ul>	2	1	1	1	-	14	17%
2	Understanding(Comprehension - to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase, or interpret information)		2	2	1	-	1	18	23%
3	Application-(Use abstract information in concrete situation, to apply knowledge to new situations, Use given content to interpret a situation, provide an example, or solve a problem)		2	1	1	1	1	20	25%
4	High Order Thinking Skills - (Analysis & Synthesis - Classify, compare, contrast, or differentiate between different pieces of information, Organize and/or integrate unique pieces of information from a variety of sources)		2	1	2	—	1	19	24%
5	Evaluation-(Appraise, judge, and/or justify the value or worth of a decision or outcome, or to predict outcomes based on values)		-		1 (values based)	1	-	9	11%
	<b>TOTAL - 1 Project (20 marks) 20</b>		8×1=8	5×3=15	6×4=24	3×5=15	3×6=18	80 (25) Project (20)	100%
	<b>Estimated Time (in minutes)</b>		8 min	20 min	50 min	37 min	50 min	165 min + 15 min. for revision	

## CHAPTER 1

### NATURE AND SIGNIFICANCE OF MANAGEMENT

Management is an art of getting things done with and through others. Management can be defined as, the process of getting things done with the aim of achieving organizational goals effectively and efficiently.

Basis of Difference	Effectiveness	Efficiency
1. Meaning	It refers to completing the job on time, no matter whatever the cost.	It refers to completing the job in the cost-effective manner.
2. Objective	To achieve end result on time.	To conduct cost-benefit analysis.
3. Main Consideration	Time	Cost

Q.1 Rama Clothes Ltd.'s target is to produce 20,000 shirts per month at a cost of Rs.500/- per shirt. The production manager achieved this target at a cost of Rs.450/- per shirt. Do you think the manager is effective and efficient?

Ans. Yes, he completed the work on time and at a lower cost.

#### Characteristics of Management:

**Goal oriented Process:** It is a goal oriented process, which is undertaken to achieve already specified and desired objectives by proper utilization of available resources.

**Pervasive:** Management is universal in nature. It is used in all types of organisations whether economic, social or political irrespective of its size, nature and location and at every level.

**Multidimensional:** It is multidimensional as it involves management of **work, people** and **operations**. Every organisation is established for doing some work like school provides education, a factory produces etc. The management has to ensure the participation, of its people in the realisation of the organisation goal. Also management needs to conduct the various operations such as production, sale, purchase etc.

**Continuous:** Management is not a process which can be performed once and for all, but it is a continuous process. Functions of management like planning, organising, staffing, directing and controlling continuously need to be done.

**Group Activity:** It is a group activity since it involves managing and coordinating activities of different people as a team to attain the desired objectives.

**Dynamic function:** It is a dynamic function since it has to adapt according to need, time and situation of the changing environment in order to be successful, an organisation must change itself and its goals. For example, McDonalds made major changes in its 'Menu' to survive in the Indian market.

**Intangible Force:** Management is such a force that cannot be seen, only its presence can be felt. When the goals of an organisation are being realised in accordance with its plans, we can say that the management of the organisation is good.

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| <p><b>Q.2</b> An educational institution as well as a business organization both need to be managed. Which characteristic of management is highlighted here? (Pervasive)</p> <p><b>Q.3</b> "In an organization, the employees are happy and satisfied, there is no chaos and the effect of management is noticeable." Which characteristic of management is highlighted by this statement? (Intangible Force)</p> <p><b>Q.4</b> In order to be successful an organisation must change its goals according to the needs of environment. Which characteristic of management is highlighted here? (Dynamic)</p> |
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**Q.5** Management is multi-dimensional. Give any 2 dimensions of it. (Work, People and operations (any two))

**Objectives of Management**

**Organizational objectives:** It refers to the utilisation of human and physical resources available in the organisation, considering the interest of all stakeholders.

**Survival** – Management of an organisation must ensure the survival of the organisation by earning enough revenues to cover costs.

**Profit** – It plays an important role in facing business risks and successful running of business activities.

**Growth** – Management must ensure growth which can be measured by increase in sales of product, number of employees or increase in capital investment etc.

**Social objectives:** It refers to the consideration of the interest of the society during managerial activities. For e.g. - to save environment from getting polluted etc.

**Personal objectives:** It refers to the objectives to be determined with respect to the employees of the organisation.

**Q.6** One of the objectives of management is to consistently create economic value for various constituents of the society. Give two examples of this objective.

**Ans.** Social objectives of management.

Using environment friendly method of production.

Giving employment opportunities to disadvantaged sections of the society.

**Q.7.** Sana Ltd. is a company producing Fans. The company's profits are enough for the survival and growth. The management of the company believes that a satisfied employee creates a satisfied customer, who in turn creates profits that lead to satisfied shareholders. So, it pays competitive salaries and perks to all its employees. All the employees are happy working in the organisation because of personal growth and development.

The company has a strong sense of social responsibility. It has set up an Engineering College in which one-third of the students are girls to whom the company gives 50% scholarship.

Is the management of Sana Ltd. fulfilling its objectives? Justify your answer by giving reasons.

**Ans.** Yes, the management of Sana Ltd. is fulfilling all the objectives- **organisational objectives, social objectives** and **personal objectives** (For reasons students can quote the lines).

### **Importance of Management**

**Achieving Group Goals:** Management creates team work and coordination in the group. Managers give common direction to individual efforts in achieving the overall goals of the organization.

**Increases Efficiency:** Management increases efficiency by using resources in the best possible manner to reduce cost and increase productivity.

**Creates Dynamic organization:** Management helps the employees overcome their resistance to change and adapt as per changing situation to ensure its survival and growth.

**Achieving personal objectives:** Management helps the individuals achieve their personal goals while working towards organisational objectives.

**Development of Society:** Management helps in the development of society by producing good quality products, creating employment opportunities and adopting new technology.

### **Management as an Art**

Art refers to skilful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience.

The features of art as follows:

**Existence of theoretical knowledge:** In every art, systematic and organized study material should be available compulsorily to acquire theoretical knowledge.

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**Personalised application:** The use of basic knowledge differs from person to person and thus, art is a very personalised concept.

**Based on practice and creativity:** Art involves the creative practice of existing theoretical knowledge.

In management also a huge volume of literature and books are available on different aspects of management. Every manager has his own unique style of managing things and people. He uses his creativity in applying management techniques and his skills improve with regular application. Since all the features of art are present in management so it can be called an Art.

### **Management as a Science**

Science is a systematized body of knowledge that is based on general truths which can be tested any where and anytime. The features of Science are as follows:

**Systematized body of knowledge :**Science has a systematized body of knowledge based on principles and experiments.

**Principles based on experiments and observation :**Scientific principles are developed through experiments and observation.

**Universal validity:** Scientific principles have universal validity and application.

Management has systematic body of knowledge and its principles are developed over a period of time based on repeated experiments & observations which are universally applicable but they have to be modified according to given situation.

**Conclusion:** -As the principles of management are not as exact as the principles of pure science, so it may be called-an inexact science. The prominence of human factor in the management makes it a Social Science.

### **Management as Profession**

Profession means an occupation for which specialized knowledge and skills are required and entry is restricted. The main features of profession are as follows:

**Well-defined body of Knowledge:**All the professions are based on well-defined body of knowledge.

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**Restricted Entry:**The entry in every profession is restricted through examination or through some minimum educational qualification.

**Professional Associations:**All professions are affiliated to a professional association which regulates entry and frames code of conduct relating to the profession.

**Ethical Code of Conduct:** All professions are bound by a code of conduct which guides the behaviour of its members.

**Service Motive:**The main aim of a profession is to serve its clients.

**Conclusion:-**Management does not fulfil all the features of a profession and thus it is not a full-fledged profession because anybody can proclaim to be a manager; prescribed compulsory educational degree or license is not required. Besides there are not any formal ethical codes which are required to be observed.

**Q.8** Give one feature of Profession (a) satisfied by management (b) not satisfied by the management.

**Ans.** (a) Well defined body of knowledge.

(b) Restricted entry

### **Levels of Management: Top, Middle and Operational Levels**

“Levels of management” means different categories of managers, the lowest to the highest on the basis of their relative responsibilities, authority and status.

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### **Top Level**

Consists of Chairperson, Chief Executive Officer, Chief Operating Officer or equivalent and their team.

Chief task is to integrate and to coordinate the various activities of the business, framing policies, formulating organisational goals & strategies bearing the responsibility for the impact of activities of the business on society.

### **Middle Level**

Consists of Divisional or Departmental heads, Plant Superintendents and Operation Managers etc.

Main tasks are to interpret the policies of the top management, to ensure the availability of resources to implement policies, to coordinate all activities, ensure availability of necessary personnel & assign duties and responsibilities to them.

### **Lower Level/Supervisory Level**

Consists of Foremen and Supervisor etc.

Main task is to ensure actual implementation of the policies as per directions, bring workers' grievances before the management & maintain discipline among the workers, maintain the quality of output and minimise wastage

**Q.9** At which level of management, are the managers responsible for the welfare and survival of the organization? (Top level)

**Q.10** Managers at the top level spend more time doing this function of Management. Name it. (Determine policies)

**Q.11** Rakesh is working as Regional Manager in ABC Ltd. Name the level at which he is working. (Middle Level)

**Q.12** Name the level at which the managers are responsible for implementing and controlling the plans and maintaining the quality of output (Supervisory level).

### **Functions of Management / Elements of Management**

**Planning** is deciding in advance what to do in future and how to do it.

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**Organising** is to assign duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan.

**Staffing** is finding the right people for the right job by following a series of steps and includes training and development.

**Directing** is leading, influencing and motivating employees to perform the tasks assigned to them. It includes four activities: - Supervision, Communication, Leadership and Motivation.

**Controlling** is monitoring the organizational performance towards the attainment of the organizational goals.

**Q.13** Identify the functions of the management: —

Motivating employees and giving instructions to them to perform the tasks assigned to them.

Recruitment and selection of the personnel.

Finding out deficiencies in implementation of plans.

Preparing a blueprint for future

Process of defining and grouping activity of an enterprise to establish authority relationship.

**Ans.** (a) Directing; (b) Staffing; (c) Controlling (d) Planning (e) Organising.

### **Co-ordination**

Coordination is to synchronise the various activities of an organisation. In the context of business unit, the meaning of coordination is to balance its various activities (purchase, sales, production, finance, personnel etc.) so that objective of business can be easily achieved.

Lack of coordination results in overlapping, duplication, delay and chaos.

### **Characteristics of Coordination**

**Coordination integrates group efforts:** It integrates diverse business activities into purposeful group activity ensuring that all people work in one direction to achieve organizational goals.

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**Coordination ensures unity of action:** It directs the activities of different departments and employees towards achievement of common goals and brings unity in individual efforts.

**Coordination is a continuous process:** It is not a specific activity matter, it is required at all levels, in all departments till the organization continues its operations.

**Coordination is all pervasive function:** It is universal in nature. It synchronizes the activities of all levels and departments as they are interdependent to maintain organizational balance.

**Coordination is the responsibility of all managers:** It is equally important at all the Three-Top, Middle and Lower levels of management. Thus it is the responsibility of all managers that they make efforts to establish coordination.

**Coordination is a deliberate function:** Coordination is never established by itself rather it is a conscious effort on the part of every manager. Cooperation is voluntary effort of employees to help one another. Effective coordination cannot be achieved without cooperation of group members.

### **Coordination is the Essence of Management.**

Coordination is not a separate function of management. It is the force that binds all the functions & thus, called the essence of management.

It is needed in all management functions:

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

**Organising** – required between authority, responsibility and accountability

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

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

**Controlling** – Ensure actual result conform to expected results.

### **Needed at all levels of management**

**Top level** – needs coordination to integrate activities of the organisation for accomplishing the organisational goals.

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

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

### **NEED FOR COORDINATION**

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

**Growth in the size** of the organisation results in the increase in varied quality of manpower too with varied individual aspirations. Coordination seeks to match the individual goals with the organisational goals.

**Functional Differentiation** arising out of departmentalisation and division brings forth a motive for achievement of individual objectives, in isolation from other objectives leading to departmental clashes. Coordination seeks to iron out these variations.

**Specialisation** can give rise to feeling of superiority and prioritising of their zone or activities. Coordination seeks to sequence and integrate all the specialist of activities into a wholesome effort.

**Q.14** Name the process that synchronises the activities of different departments.(Coordination)

**Q.15** “Co-ordination is responsibility of all the managers”. Explain. (Managers perform it all levels to ensure that work proceed according to plans).

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## QUESTIONS FOR PRACTICE

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- Q.1** “Planning, Organising, Staffing, Directing and Controlling” is the sequence of functions in a process. Name it. (Management) (1)
- Q.2** Production Manager of Kavya Ltd. tries to produce goods with minimum cost. Name the concept which is being focussed by management. (Efficiency) (1)
- Q.3** In order to be successful, an organization must change it according to the needs of the environment which characteristic of management is highlighted in the statement? (Dynamic) (1)
- Q.4** Which force binds all other functions of management? (Coordination) (1)
- Q.5** Radhika Ltd. uses environment friendly methods of production. Identify the objective it is trying to achieve. (social objectives) (1)
- Q.6** Your uncle is serving as a foreman in a factory. At what level of management is he working? (Lower Level) (1)
- Q.7** Why is it said that “management is a goal oriented process”? (Because it helps in achieving organisational goals by unity of efforts. (1)
- Q.8** Identify the nature of management when it is practiced as personalised application of existing knowledge to achieve desired results. (Management is an art) (1)
- Q.9** “Success of an organisation largely depends upon its management” Explain any five reasons to fortify the above statement. (Any five points of importance) (1)
- Q.10** The General manager- GM of ‘RadhaswamiKidswear Limited’, Mr. SahilRadhaswami, has divided all the employees of his company into three levels (Top Level, Middle level and Lower Level) different individuals. At the Top Level the General Manager and Board of Directors themselves work. The Middle Level work is looked after by the four Departmental managers like the Production Manager, Purchase manager, Sales Manager and Finance Manager.
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The Lower Level is constituted of one supervisor of each of the four departments. These Supervisors look after the daily activities of their subordinates. They also maintained the flow of inputs in the production process to transform it to desired output.

Often, it is observed that the managers of all Levels remain busy sometimes with the planning of their respective departments and sometimes with the comparison of the desired and actual results. Similarly, sometimes they are busy with the Recruitment, Selection and Training of the employees and sometimes with their motivation.

Mr. Sahil knows it very well that the job of management cannot be done by a single person alone, but when all join hands to work together the meaning of management is realised. This is why he makes all his efforts to effect coordination in the activities of all his employees. All the employees are working with the team spirit.

**In the above paragraph features of management have been described. Identify them by quoting the relevant lines and explain them.**

((i) Continuous process (ii) Group activities (iii) pervasive (iv) Intangible force  
(v) Multi-dimensional. (5)



## CHAPTER - 2

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### PRINCIPLES OF MANAGEMENT

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#### Concept of Principles of Management

Principles of Management are the broad and general guidelines for managerial decision making, behaviour and action.

The management principles are derived from observation, analysis, experimental studies and personal experiences of the managers.

#### Nature of Principles of Management

The nature of principles of management can be described in the following points:

**Universal applicability** i.e. they can be applied in all types of organizations, business as well as non-business, small as well as large enterprises.

**General Guidelines:** They are general guidelines to action and decision making however they do not provide readymade solutions as the business environment is ever changing or dynamic.

**Formed by practice and experimentation:** They are developed after thorough research work on the basis of experiences of managers.

**Flexible:** They can be adapted and modified by the practicing managers as per the demands of the situations as they are manmade principles.

**Mainly Behavioural:** Since the principles aim at influencing complex human behaviour they are behavioural in nature.

**Cause and Effect relationship:** They intend to establish cause & effect relationship so that they can be used in similar situations.

**Contingent:** Their applicability depends upon the prevailing situation at a particular point of time. According to Terry, "Management principles are 'capsules' of selected management wisdom to be used carefully and discretely".

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## Significance of the Principles of Management

The significance of principles of management can be derived from their utility which can be understood from the following points:

**Providing managers with useful insights into reality:** Management principles guide managers to take right decision at right time by improving their knowledge, ability and understanding of various managerial situations and circumstances.

**Optimum utilization of resources and effective administration:** Management principles facilitate optimum use of resources by coordinating the physical, financial and human resources. They also help in better administration by discouraging personal prejudices and adopting an objective approach.

**Scientific decisions:** Decisions based on management principles tend to be more realistic, balanced and free from personal bias.

**Meeting the changing environmental requirements:** Management principles provide an effective and dynamic leadership and help the organization to implement the changes.

**Fulfilling social responsibility:** Principles of management not only help in achieving organizational goals but also guide managers in performing social responsibilities. Example: "Equity" and "Fair" remuneration.

**Management training, education and research:** Management principles are helpful in identifying the areas in which existing and future managers should be trained. They also provide the basis for future research.

- Q.1** How are management principles derived? (Formed by practice and experimentation)
- Q.2** "The principles of management are different from principles of science". How? (Principles of management are flexible but principles of science are rigid).
- Q.3** Give reasons, why principles of management are not rigid prescriptions? (Hint: As they are directly concerned with human behaviour which is always uncertain)
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- Q.4** How are Principles of management helpful for managers in fulfilling their social responsibility? (By interpreting principles in their newer and contemporary meaning with change in time)
- Q.5** What is the role of principles of management for managers? (They serve as guide to decision making).

### Fayol's Principles of Management

About Henry Fayol: Henry Fayol (1841-1925) got degree in Mining Engineering and joined French Mining Company in 1860 as an Engineer. He rose to the position of Managing Director in 1888. When the company was on the verge of bankruptcy. He accepted the challenge and by using rich and broad administrative experience, he turned the fortune of the company. For his contributions, he is well known as the "Father of General Management".

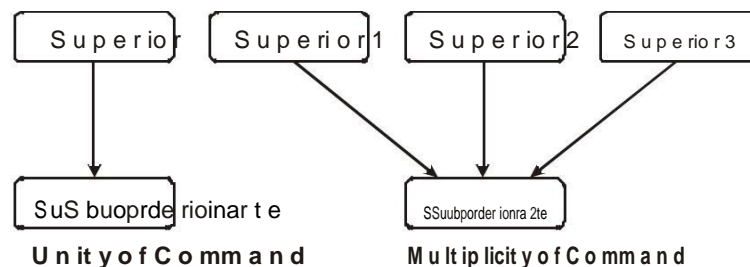
### Principles of Management developed by Fayol

**Division of work:** Work is divided in small tasks/job and each work is done by a trained specialist which leads to greater efficiency, specialisation, increased productivity and reduction of unnecessary wastage and movements.

**Authority and Responsibility:** Authority means power to take decisions and responsibility means obligation to complete the job assigned on time. Authority and responsibility should go hand in hand. Mere responsibility without authority, makes an executive less interested in discharging his duties. Similarly giving authority without assigning responsibility makes him arrogant and there is fear of misuse of power.

**Discipline:** It is the obedience to organizational rules by the subordinates. Discipline requires good supervisors at all levels, clear and fair agreements and judicious application of penalties.

**Unity of Command:** It implies that every worker should receive orders and instructions from one superior only, otherwise it will create confusion, conflict, disturbance and overlapping of activities.



**Q.6** The production manager of Bharat Ltd., instructs a salesman to go slow in selling the products whereas the marketing manager is insisting on fast selling to achieve the target. Which principle of management is being violated in this case. Write one of the consequences of violation of this principle. (Unity of command, Reduces the efficiency)

**Unity of Direction:** Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.

#### **Difference between Unity of Command and Unity of Direction**

<b>B a s i s</b>	<b>U n i t y o f C o m m a n d</b>	<b>U n i t y o f D i r e c t i o n</b>
( 1 ) M e a n i n g	One subordinate should receive orders from & should be responsible to only one superior.	Each group of activities having same objective, must have one head.
( 2 ) A i m	Prevents dual subordination.	Prevents overlapping of activities.
( 3 ) I m p l i c a t i o n s	Affects an individual employee.	Affects the entire organization.

**Subordination of Individual Interest to General Interest:** The interest of an organization should take priority over the interest of any one individual employee.

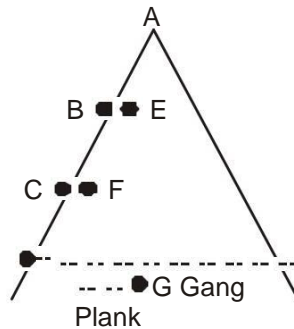
**Remuneration of Employees:** Remuneration of employees should be just and equitable so as to give maximum satisfaction to both the employees and organisation.

The employees should be paid fair wages/salaries which would give at least a reasonable standard of living. At the same time, it should be within the paying capacity of the company

**Centralisation and Decentralisation:** Centralisation means concentration of decisions making authority in few hands at top level. Decentralisation means evenly distribution of power at every level of management. Both should

be balanced as no organization can be completely centralised or completely decentralised.

**Scalar Chain:** The formal lines of authority between superiors and subordinates from the highest to the lowest ranks is known as **scalar chain**. This chain should not be violated but in emergency employees at same level can contact through Gang Plank by informing their immediate superiors.



**Order:** According to the principle of order, a right person should be placed at the right job and a right material should be placed at the right place. According to Fayol, every enterprise should have two different orders – material order for physical resources and social order for human resources.

**Equity:** The working environment of any organization should be free from all forms of discrimination (religion, language, caste, gender, belief or nationality) and principles of justice and fair play should be followed. No worker should be unduly favoured or punished.

**Stability of Personnel:** According to this principle, employees once selected, should be kept at their post/position for a minimum fixed tenure. They should be given reasonable time to show results.

**Initiative:** Workers should be encouraged to develop and carry out their plan for improvements. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan.

**Espirit De Corps:** Management should promote team spirit, unity and harmony among employees. This encourages mutual trust and belongingness, which results in minimum need for using penalties.

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- Q.7** Rakesh and Rahim are employed in the same company. They are working at same position and performing similar functions. But Rakesh is getting more salary than Rahim. Which principle of management is being violated? (Equity)
- Q.8** In an organization employees are transferred frequently; which principle of management is being over looked. (Stability of personnel)
- Q.9** Name and explain the principle of management according to which a manager should replace 'I' with 'we' in all his conversations with workers? (Espirit De Corps.)
- Q.10** State one positive effect of the Principle- "Unity of Command." (The efficiency of subordinate's increases)
- Q.11** Why did Fayol introduce Gang Plank in the principle of scalar chain? (to contact with the employees of equal rank in case of emergency).
- Q.12** Nikita and Salman completed their MBA and started working in a multinational company at the same level. Both are working hard and are happy with their employer. Salman had the habit of backbiting any wrong reporting about his colleagues to impress his boss. All the employees in the organization knew about it. At the time of performance appraisal, the performance of Nikita was judged better than Salman. Even then, their boss, Mohammad Sharif decided to promote Salman stating that being a female, Nikita will not be able to handle the complications of higher post. Identify and explain the principle of management that was overlooked by this multinational company.
- Identify the values which are being ignored quoting the lines from the above para.
- (Hint. (i) Equity; (ii) Good human behaviour, gender equality).**

### **Taylor's Scientific Management**

Fredrick Winslow Taylor (1856-1915) was a person who within a very short duration (1878-1884) rose from ranks of an ordinary apprentice to chief engineer in Midvale Steel Company, U.S.A. Taylor conducted a number of experiments and came to

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conclusion that workers were producing much less than the targeted standard task. Also, both the parties - Management and workers are hostile towards each other. He gave a number of suggestions to solve this problem and correctly propounded the theory of Scientific Management to emphasize the use of scientific approach in managing an enterprise instead of hit and trial method. For his contributions, he is well known as the "Father of the Scientific Management".

## **SCIENTIFIC MANAGEMENT**

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

Scientific Management attempts to eliminate wastes to ensure maximum production at minimum cost.

### **Principles of Scientific Management**

#### **Science, not rule of Thumb:**

There should be scientific study and analysis of each element of job rather than using intuition, experience or adopting old rule of thumb approach on a hit and miss method. Encourage "thinking before doing" and determining standard output.

#### **Harmony, not discord:**

There should be complete harmony and proper understanding between management and workers in achieving the organisation goals. For this he emphasised mental revolution i.e., a complete change in mental outlook and attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions and workers should work with full loyalty. Instead of fighting over distribution of profits, they must focus attention on increasing it.

#### **Cooperation not individualism:**

Taylor emphasised on the importance of cooperative group efforts between the management and workers in achieving the organisation's goal and not individualism. Both should realise that they need each other.

**Development of workers to their greatest efficiency and prosperity:** The management should scientifically select the workers; assign job as per

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their physical, mental and intellectual capabilities; and train them as per the job requirement to increase their efficiency.

**Q.13** Which principle of scientific management suggests the introduction of scientific investigation and analysis of management practices?(Science not rule of thumb)

**Q.14** Which principle of scientific management suggest that management should share its gains with workers and workers should be willing to embrace the change for good of the company (Harmony not discord)

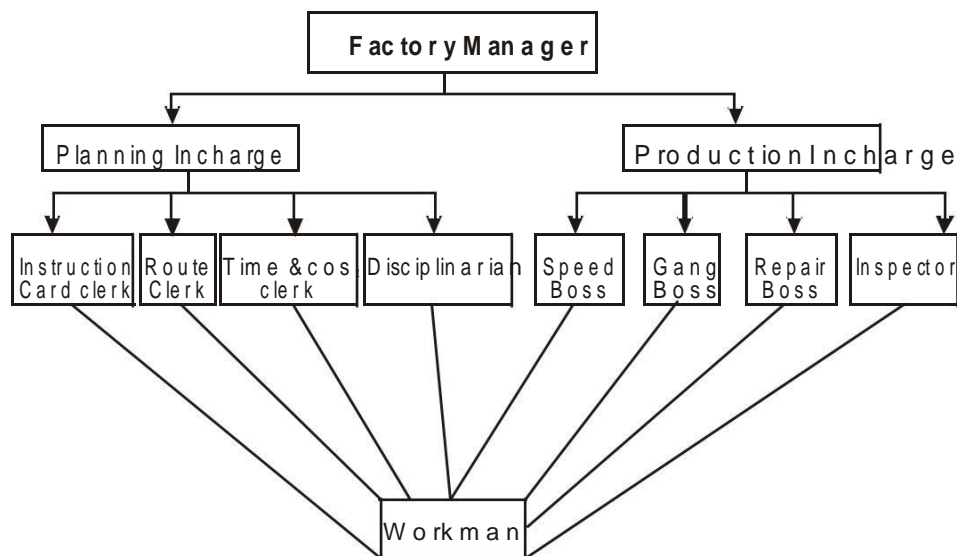
### Techniques of Scientific Management

#### **Functional Foremanship**

Supervision is to be divided into several specialized functions and each function to be entrusted to a special foreman.

Each worker will have to take orders from eight foreman in the related process of function of production.

Stress on separating **planning function** from **execution function**.



### **Planning Incharges :**

**Route Clerk** to specify the exact sequence and route of production.

**Instruction card clerk** is responsible for drafting instructions for the workers.

**Time and cost clerk** to prepare time and cost sheet for the job.

**Shop Disciplinarian** to ensure discipline and enforcement of rules and regulations among the workers.

### **Production Incharges:**

**Gang boss** is responsible for keeping tools and machines ready for operation.

**Speed boss** is responsible for timely and accurate completion of job.

**Repair boss** to ensure proper working conditions of tools and machines.

**Inspector** to check quality of work.

**Q.15** Name the technique of scientific management which focuses on separation of planning and execution functions.(Functional Foremanship)

### **Standardisation and Simplification of work:**

Process of setting standards of every business activity to maximise output is called **standardisation**.

**Simplification** is eliminating unnecessary varieties, sizes and grades of product manufactured in the organisation.

### **Method study:**

Finding one best way of doing a job.

Critical analysis is made for plant layout, product design, material handling and work processes using techniques like process chart, operations research etc.

**Q.16** In a Company, the Factory Manager appointed only one foreman for the work of production, planning, execution and supervision of workers. However, that foreman is not efficient in planning and execution.

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Which technique of scientific management is being violated here?

(Functional Foremanship.)

Write one consequence of this violation.

#### **D.Motion Study**

Making a thorough analysis of various motions being performed by a worker while doing a particular task.

Identifying and determining the ideal productive movements.

Eliminate the unproductive movements and equipments.

#### **Time study**

It is the technique used to determine the standard time taken by the workmen with reasonable skills and abilities to perform a particular task.

Here the job is divided into series of elements and the time required to complete each element idealistically is recorded using a stop watch.

#### **Fatigue study**

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

#### **Differential Piece Wage System**

Evolve a system wherein the efficient and inefficient workers are paid at different rates. (as financial incentives act as motivators)

First a standard task is established with the aid of time and motion study, then two rates are established. Higher, when standard output is produced and lower, when the standard is not met.

**For example:** Standard task is 10 units. Rates are: Rs 50 per unit for producing 10 units or more and Rs 40 per unit for producing less than 10 units

Worker A produces 11 Units; he gets Rs 550 (11 units' x 50 per unit)

Worker B produces 09 units; he gets Rs 360 (9 units' x 40 per unit)

This difference of Rs 190 will motivate B to perform better.

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### **Mental Revolution**

It involves a complete change in mental outlook and attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions & workers should work with devotion and loyalty. Instead of fighting over distribution of profits, they must focus attention on increasing it.

**Q.17** Which technique of scientific management aims at elimination of superfluous varieties sizes and dimensions of the product. (Simplification of work)

**Q.18** Name the technique of Taylor which is one of the strongest motivator for a worker to reach standard performance. (Differential piece wage system)

**Q.19** Explain the technique of scientific management that is extension of “Principle of Division of work” and specialisation? (Functional foremanship)

### **Fayol versus Taylor**

#### **TAYLOR V/S FAYOL**

	<b>Basis</b>	<b>Henry Fayol</b>	<b>F.W Taylor</b>
1.	Basis of formation	Personal Experience	Observation
2.	Focus	Improvement in the overall administration	Concentration on improving the productivity
3.	Applicability	Universally applicable	Applicable only to specialised situations
4.	Perspective	Top level management	Lower level-shop floor level
5.	Personality	Practitioner and known as the father of General management	Scientist and known as father of scientific management
6.	Human element	More importance given to human element; e.g. Principle of equity, stability of tenure	More importance attached to increasing the production than to the human element

7.	Emphasis	Greater emphasis on tools and standardisation of work i.e. General Theory of Administration	Emphasis on principles and theory of general administration i.e. Scientific Management
	Unity of Command	Staunch proponent that orders should be received from one boss.	Did not feel that it is important as under functional foremanship a worker received orders from eight specialists.



## QUESTIONS FOR PRACTICE

- Q.1** Which principle of Henry Fayol does functional foremanship violate? (Unity of command) (1)
- Q.2** A sales person is asked to finalize a deal with customer. The marketing manager allows him to give a discount of up-to 10% but the Finance Manager allows him to give discount of upto 25%. Which principle is violated here? (Unity of command) (1)
- Q.3** “Workers should be encouraged to develop and carry out their plan for development.” Identify the principle of management (Fayol)involved here. (Initiative) (1)
- Q.4** Principles of Taylor and Fayol are mutually complementary. One believed that the management should the gain with the workers while the other suggested that employees compensation should depend upon the earning capacity of the company and should give them a reasonable standard of living. Identify and explain the principles of management by Tayol and Fayol referred to in para? (1)
- [Hint: Fayol – Remuneration, Taylor – Harmony not Discord (Mental Revolution)]
- Q.5** A manager should have the right to punish a subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to his/her case. Identify the principle of management highlighted here.(Authority and Responsibility) (1)
- Q.6** Name and explain that principle of Fayol which suggest that communication from top to bottom should follow the official lines of command. (Scalar chain) (3 Marks)
- Q.7** The production manager of an automobile company asked the foreman to achieve a target production of 200 scooters per day. But he did not give him the authority to requisition tool and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve
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the desired target? Explain briefly the principle relating to the situation.  
(No, Production Manager can't blame the Foreman. Principle- Authority and Responsibility)

**Q.8** Which principle of scientific management suggests that management should be open to constructive suggestions and workers should be taken into confidence before taking important decisions.

(Co-operation not individualism)



## CHAPTER - 3

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### BUSINESS ENVIRONMENT

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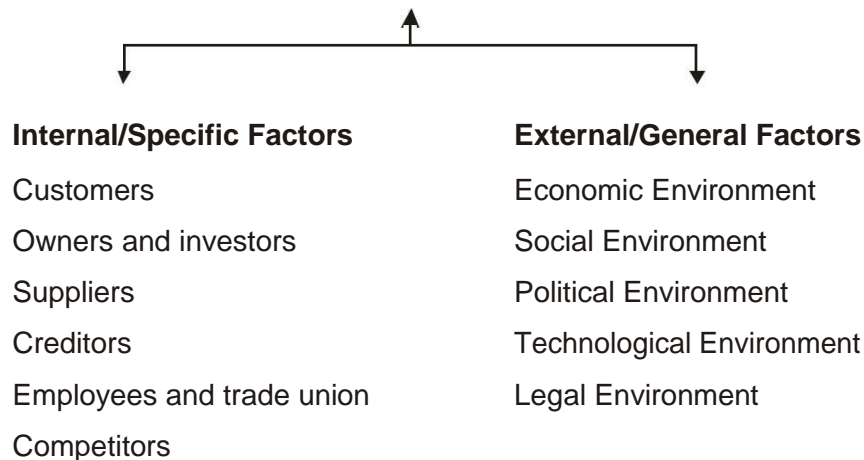
Business environment means the sum total of the factors which influence the business and over which the business has no control. The study of business environment enables the managers to identify threats and opportunities.

#### Features of Business Environment

**Totality of external forces:** Business environment is the sum total of all the forces/factors external to a business firm.

**Specific and general forces:** Business environment includes both specific and general forces. Specific forces influence business firm directly while general forces affect a business firm indirectly.

#### Components of Business Environment



**Inter-relatedness:** All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks in turn change the life style of people.

**Dynamic:** Business environment is dynamic in nature which keeps on changing with time. It may be change in technology, fashion and tastes etc.

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**Uncertainty:** Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.

**Complexity:** Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.

**Relativity:** Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, demand for ready to eat healthy food will be more in urban areas than in rural areas.

- Q.1** Business Environment includes both specific and general forces. List any two specific forces. (Any two- Investors, customers, bankers, suppliers, creditors, employees, trade unions.)
- Q.2** Why is it said that business environment is dynamic in nature. (Because it keeps changing with time)

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### IMPORTANCE OF BUSINESS ENVIRONMENT

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**Identification of opportunities to get first mover advantage:**

Understanding of business environment helps an organisation in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.

**Identification of threats and early warning signals:** Correct knowledge of business environment helps an organisation to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other multinational companies entered the auto industry.

**Tapping useful resources:** Business environment makes available various resources such as capital, labour, machines, raw material etc. to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.

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**Coping with Rapid changes:** Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively by developing suitable course of action.

**Assistance in planning and policy formulation:** Understanding and analysis of business environment helps an organisation in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.

**Helps in Improving performance:** Correct analysis and continuous monitoring of business environment not only helps an organisation in improving its performance but also continue to succeed in the market for longer time.

## **DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT**

**Economic Environment:** It represents the nature of an economy, its policy, systems and all those forces that have bearing on business activities like. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms.

**Social Environment:**It includes various social forces such as customs, beliefs, literacy rates, educational levels, lifestyle, values etc. Changes in social environment affect an organisation in the long run. Example: Now a days people are paying more attention towards their health, as a result of which demand for mineral water, Diet coke etc. has increased while demand of tobacco, fatty food products has decreased.

**Technological Environment:**It implies using new and advanced ways/ techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, booking of railway tickets on internet etc.

**Political Environment:** It includes political conditions and factors related to government affairs and their impact on business. Political stability builds

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confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government - single party or coalition government affects the business. Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

**Legal Environment:** It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

**Q.3** Identify the type of dimension of business environment related to the following:

Banks reducing interest rate on housing loans.

An increasing number of working women.

Booking of air tickets through internet.

Alcohol beverages are prohibited to be advertised on Doordarshan.

A stable government has built up confidence among the firms to invest in big project.

[(i)economic, (ii)Social, (iii)Technological, (iv)Legal, (v) political]

### **Economic Environment in India**

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991. This policy has sought to liberate industry from restrictions of licencing system (liberalisation), drastically reduce the.

The main objective of New Industrial Policy was to promote Liberalization, Privatization and Globalization.

**Liberalisation:** It means freeing of Indian Industry from all unnecessary government controls and restrictions. Abolishing licensing requirements; Freedom in deciding the scale of business; removals of restriction on movements of goods and service; reduction in tax rates; freedom in fixing

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prices; simplifying procedures; making it easier to attract foreign investment.

**Privatization:** Giving greater role to private sector in the nation building process and reduced role of public sector; Disinvestment in many Public Sector undertakings which would result in converting public sector undertakings to private sector hence diluting government ownership by and 51%. It aimed at improving efficiency and performance of government undertakings, reducing budgetary deficit & better utilization of national resources.

**Globalization:** It means integration of various economies of the world leading to the emergence of cohesive global economy. The measures taken by the Government include trade liberalization which includes import liberalization; Export Promotion through rationalization of tariff structure; Foreign exchange liberalization; increased interaction among global economies under the aegis (protection/support) of World Trade Organization. It resulted in addition of Export duty, Reduction of import.

- Q.4** State how business environment helps in coping with rapid change. (by knowing in advance & developing suitable course of action)
- Q.5** State any two reasons why managers should understand business environment (Any two points of importance starting with it helps the managers....)
- Q.6** Can the effect of various factors of business environment on business be recognised separately? (No, as the factors are related to each other)

## **IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY**

**Increasing Competition:** Delicensing and entry of foreign firms in Indian market has increased the level of competition for Indian firms.

**More Demanding Customers:** Now customers are more aware and they keep maximum information of the market as the result of which, now market is customer/buyer oriented. Now products are produced keeping in mind the demands of the customers.

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**Rapidly Changing Technological Environment:** Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.

**Necessity for Change:** After New Industrial Policy, the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.

**Need for Developing Human Resources:** The changing market conditions require people with higher competence and greater commitment. Hence there is a need for developing human resources which could increase their effectiveness and efficiency.

**Market Orientation:** Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.

**Reduction in budgetary Support to Public Sector:** The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.

**Managerial response to changes in business environment :** The impact of changes in economic policy of government has made managers aware of various areas where they have to focus to keep their business environment help them to take decision regarding increasing competition, the demands of customers and their expectations (consumer is the king), rapidly changing technological environment, necessity to adapt to change and need for developing human resources.

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## QUESTIONS FOR PRACTICE

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- Q.1** It is the process by which government control over the industry is being loosened. Give the term to which this statement is trying- to indicate.  
(Liberalisation) (1)
- Q.2** “The understanding of business environment enables the firm to identify opportunities.” What is meant by ‘opportunities’ here? (Possibility to start a new venture or launch a new product to earn more than competitors.) (1)
- Q.3** “It may be difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.” Which feature of business environment is highlighted by this point? (Complex) (1)
- Q.4** Government of India announced a new economic policy in July 1991 which provided greater role to private sector in nation building. Identify and explain the concept.
- Q.5** Just after declaration of Lok Sabha Elections 2014 results, the Bombay Stock Exchanges price index (Sensex) rose by 1000 points in a day. Identify the environmental factor which led to this rise giving reason. Also, explain any two other dimensions of business environment. (Political and any two form economic, technical, legal and social environments) (3)
- Q.6** Explain : “uncertainty” and “Complexity” as features of business environment.  
(Difficulty in predicting future, numerous inter-related dynamic conditions and forces) (3)
- Q.7** ‘Understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms.’ In the light of this statement, explain by giving any five points why in the present day competitive market, it is essential for a business enterprise to remain alert and aware of its environment. (Importance of business environment)
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**Q.8** The court issued the order that it is essential for the vehicles to be smokeless and that any one violating this order shall have to pay a heavy fine. Abiding by this order was necessary for the health of people. Making this strict order of the court as the base; 'Gyan Motors Limited' resolved to manufacture such vehicles by using modern technology as should not produce any smoke at all. The government should also announce to provide help in several ways to set up such industrial units.

Identify the three dimensions of Business Environment described in the paragraph above by quoting the relevant lines.

Write about any one of the values for society granted by the court. (5)

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