

SAMPLE QUESTION PAPER - 4
BUSINESS STUDIES (054)
CLASS XII

Time Allowed: 3 hours

Maximum Marks: 80

General Instructions:

1. This question paper contains 34 questions.
2. Marks are indicated against each question.
3. Answers should be brief and to the point.
4. Answers to the questions carrying 3 marks may be from 50 to 75 words.
5. Answers to the questions carrying 4 marks may be about 150 words.
6. Answers to the questions carrying 6 marks may be about 200 words.
7. Attempt all parts of the questions together.

1. The style of singing of Arijit Singh and Honey Singh are to each other, however, they acquired the same knowledge of ragas. Identify the feature of the art discussed above. **[1]**
 - i. Based on practice and creativity
 - ii. Universal validity
 - iii. Existence of theoretical knowledge
 - iv. Personalized application
 - a) iii and iv
 - b) i and ii
 - c) only iv
 - d) only ii
2. The total number of Stock Exchanges in India is: **[1]**
 - a) 23
 - b) 21
 - c) 22
 - d) 20
3. _____ is a statement of expected results in numerical terms. **[1]**
 - a) Budget
 - b) Plan
 - c) Estimate
 - d) Forecast
4. Short-term financial plan is called _____. It includes detailed plan of action for a period of one year or less. **[1]**
 - a) Financial leverage
 - b) Financial planning

c) None of these

d) Budget

5. When does the measuring of actual performance become meaningful? [1]

a) When standards are not flexible

b) When the standards have not been set

c) When standards are not quantitative

d) When the standards have been set

6. Identify the principle of management followed in the following pictorial representation. [1]



a) Scalar Chain

b) Order

c) Unity

d) Equity

7. It is necessary for an investor to obtain Certificate of Deposits for ₹ _____ lakh. [1]

a) 10

b) 50

c) 25

d) 5

8. A company gets application on and off even without declaring any vacancy. However, as and when the vacancy arises, the company makes use of such applications. Name the source of recruitment used by the company. [1]

a) Direct recruitment

b) Web publishing

c) Casual Callers

d) Recommendations of employees

9. Which of the following statements is false regarding financial management? [1]

i. Money required for carrying out business activities is called business finance.

ii. For optimal procurement, different available sources of finance are identified and compared in terms of their costs and associated risks.

iii. The objective of financial management is to minimise the current price of equity shares.

iv. All of the above.



a) Option (i)

b) Option (iv)

c) Option (iii)

d) Option (ii)

10. **Assertion (A):** Assignment of Duties is the third step in the process of Organising. [1]

Reason (R): Duties are assigned to the employees by giving them a document called Job Description.

a) Both A and R are true and R is the correct explanation of A.

b) Both A and R are true but R is not the correct explanation of A.

c) A is true but R is false.

d) A is false but R is true.

11. An ideal Capital market is one: [1]

- i. Where finance is available at a higher cost.
- ii. Must provide insufficient information to investors.
- iii. Where market operations are inconsistent.
- iv. Which facilitates economic growth.

a) i and ii

b) only iv

c) ii and iii

d) iii and iv

12. Pawan Ltd. is an 87-year-old reputed consumer goods company. It is known for [1]

offering good quality electronic products at reasonable prices. It has branches all over India. It has a large shareholder base. The shareholders desired that some dividend is paid every year on their investments. Company's management understands that it is important to keep the shareholders happy and satisfied. As a matter of policy, they declare a certain amount of dividend every year out of profits rather than reinvesting the whole as retained earnings. The factor affecting dividend decision being highlighted in the above situation is _____.

a) Cash Flow Position

b) Stability of Dividends

c) Shareholders' preference

d) Stability of Earnings

13. **Statement I:** District commission has a jurisdiction to entertain complaints where [1]

value of goods or services paid as consideration does not exceed twenty lakh rupees.

Statement II: If any of the parties is not satisfied by the order of District Commission, it can appeal against such order to the State Commission on the grounds of facts or law within a period of thirty days from the date of order.



a) Statement II is correct and Statement I is not correct.

b) Both the Statements I and II are correct.

c) Statement I is correct and Statement II is not correct.

d) Both the Statements I and II are not correct.

14. Aman Ayurvedic Ltd. is an established Indian company manufacturing organic consumer goods like toothpastes and shampoos. It has planned to increase its market share from 30% to 40% in the current financial year. With the expanding market of organic products, other companies in the consumer goods industry have also launched these products with organic components. The competition in the market has increased and it was found that the sales of Aman Ayurvedic Ltd. came down and its market share was reduced to 23%. Identify the limitation of planning highlighted in the above case: [1]

a) Planning reduces overlapping and wasteful activities.

b) Planning may not work in dynamic environment.

c) Planning involves huge costs.

d) Planning is time consuming.

15. A firm borrows @ 12% and the tax rate is 25%. The after-tax cost of debt is _____. [1]

a) 12%

b) 25%

c) 15%

d) 9%

16. **Statement I:** The focus of the marketing concept is on customer needs and the customer satisfaction becomes the means to achieving the firms' objective of maximising profit. [1]

Statement II: The purpose of marketing is to generate customer value at a profit.

a) Statement II is correct and Statement I is not correct.

b) Both the Statements I and II are correct.

c) Both the Statements I and II are not correct.

d) Statement I is correct and Statement II is not correct.

17. Viren India Limited is a well-established International Camera Company. It was pioneer in introducing products like non-digital **aim and shoot** cameras. After tasting success in the previous project, they introduced wide array of products in DSLR cameras. Their products range from 20 to 250 megapixels digital cameras. With the advancement of technology, they planned to make huge investment in developing and selling even higher resolution digital cameras. The made a budget allocation of ₹1,000 crore in developing it. The company has started working on this improved [1]



product. It is a lengthy process of research and development. It may take 2 to 3 years to actually start production. In the meantime one of its competitors moved a step forward and developed and marketed mirror-less cameras in the market. It resulted in heavy losses to Viren India Limited.

Identify the limitation of planning from the above para.

- a) Planning involves huge cost
- b) Planning is time-consuming
- c) Planning may not work in a dynamic environment
- d) All of these

18. Match the objective of management in Column I with their respective definition in Column II: [1]

(a) Organisational Objectives	(i) Survival, profit and growth
(b) Social objectives	(ii) Providing basic amenities like schools and healthcare, etc.
(c) Personnel objectives	(iii) Satisfying diverse needs of employees, e.g. financial needs such as competitive salaries and perks, social needs such as peer recognition and higher level needs such as personal growth and development.

- a) (a) - (i), (b) - (ii), (c) - (iii)
- b) (a) - (ii), (b) - (i), (c) - (iii)
- c) (a) - (iii), (b) - (ii), (c) - (i)
- d) (a) - (i), (b) - (iii), (c) - (ii)

19. The concept provides a link between investment and financing decisions: [1]

- a) Capital structure
- b) Financial leverage
- c) Trading on equity
- d) Financial planning

20. Which of the following is related to the finance and accounting standard? [1]

- a) Sale expenses
- b) Capital expenditure
- c) Labour turnover
- d) Quantity

21. 'Clever Data' is a leading marketing research company. The organisation exists for the collection and analysis of data collected from different sections of society for predicting market behaviour. The organisation works on strict disciplined approach. The main concern for the organisation is to create and maintain awareness among its different departments to achieve a common target on time. They are paid by their clients for giving them vital information about the market. The internet [3]

revolution throughout the world has affected the demand of the company's data in different parts of the world. The company is under pressure of performing well. However, when the company decided to bring latest technology to improve its working the employees resisted. A quick meeting of the management with the employees was arranged. The result was the calming down of the resistance of employees. Earlier public sector companies used to be major clients but due to a process they have also changed ownership and the company's old clients are not there. The inner environment of company is based on a combined approach of centralisation and decentralisation in different branches. Most of the decisions of the company related to the salaries of the employees are based on situations. The company supplies authentic data to its customers and keeps their information secret.

- a. In the above case identify the characteristics of management highlighted.
- b. Identify one importance of management highlighted above.

22. An intelligent manager should make use of positive aspects of informal channels and [3]
minimise negative aspects of this channel of communication. In the light of this statement, state the positive and negative aspects of informal communications.

OR

How does co-partnership/stock option motivate employees?

23. Primary objective of financial management is to maximise shareholders wealth. [3]
Explain.
24. Explain any four responsibilities of the consumer to safeguard his interests. [3]

OR

State any three directions which can be issued by the consumer court to the opposite party if it is satisfied about the genuineness of the complaint.

25. 'Planning is the basic function of management'. Comment. [4]

OR

Explain 'Method' and 'Rule' as types of plans.

26. **Controlling is the last function of management.** Do you agree? Explain. [4]

OR

If anything goes wrong with the performance of key activities, the entire organization suffers. Therefore, the organization should focus on them. Explain the statement with a suitable example.

27. Ms. Ritu and Mr. Mohit are Data Entry Operators in a company having the same [4]
educational qualifications. Ritu is getting Rs. 5,000 per month and Mohit Rs. 6,000



per month as salary for the same working hours. Which principle of management is violated in the case? Name and explain the principle?

28. Explain any three barriers to communication. [4]
29. Explain the developmental functions of the Securities and Exchange Board of India (SEBI). [4]
30. Explain the following rights of a consumer provided under The Consumer Protection Act, 2019: [4]
- i. Right to be Informed
 - ii. Right to be Heard
31. Explain in brief the various steps involved in the process of staffing. [6]

OR

What is meant by **Selection**? Explain any five steps involved in the process of selection of employees.

32. How would you argue that the success of a business enterprise is significantly influenced by its environment? [6]

OR

In an environment of rising petroleum prices and a large middle class population in India, KV Motors Ltd. recognized the need for small cars in India. It created a product far superior than their competitors not only in terms of quality but also in terms of overall driving experience. It soon became the leader in the small car market. As the Indian government was encouraging foreign investment, MNCs having a big name in car manufacturing entered the Indian market.

KV Motors further expanded its service network and quality creating an entry barrier for the competitors. It depicted its strengths through various brand-building activities. As a result, the market share of KV Motors is refusing to go down in spite of all major automakers as its competitors.

- a. Identify and explain briefly the economic reforms highlighted in the above case.
 - b. Quoting the lines, explain any two points of importance of Business Environment being highlighted in the above case.
33. A company X Limited manufacturing cosmetics, which has enjoyed a preeminent position in business, has grown in size. Its business was very good till 1991. But after that, the new liberalized environment has seen entry of many MNC's in the sector. With the result the market share of X Limited has declined. The company had followed a very centralized business model with Directors and divisional heads making even minor decisions. Before 1991, this business model had served the [6]



company very well as consumers had no choice. But now the company is under pressure to reform.

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

34. After acquiring the necessary knowledge and skills on starting an Aloevera Farm, Ashok wanted to be the leading manufacturer of Aloevera products worldwide. He observed that the products were expensive as the demand of the products was more than the supply. He was also keen to promote methods and practice that were economically viable, environmentally sound and at the same time protecting public health. [6]
- Ashok's main consideration was about the amount of money paid by the consumers in consideration of the purchase of Aloevera product. He also thought that competitors prices and their anticipated reactions must also be considered for this. After gathering and analysing information and doing correct marketing planning, he came to know that the consumers compare the value of a product to the value of money they are required to pay. The consumers will be ready to buy a product when they perceived that the value of the product is at least equal to the value of money which they would pay.
- Since he was entering into a new market, he felt that he may not be able to cover all costs. He knew that in the long run the business will not be able to survive unless all costs are covered in addition to a minimum profit.
- He examined the quality and features of the products of the competitors and the anticipated reactions of the consumers. Considering the same he decided to add some unique features to the packaging and also decided to provide free home delivery of the products.
- The above case relates to a concept which is considered to be an effective competitive marketing weapon. In conditions of perfect competition most of the firms compete with each other on this concept in the marketing of goods and services.
- i. Identify the concept.
 - ii. Explain briefly any four factors discussed in the above case related to the concept so identified.



Solutions

1.
(c) only iv
Explanation: Personalised application of art.
2.
(c) 22
Explanation: A total number of stock exchanges in India is 22.
3. (a) Budget
Explanation: A budget is a statement of expected results in numerical terms.
4.
(d) Budget
Explanation: Budget
5.
(d) When the standards have been set
Explanation: Standards are the criteria against which actual performance would be measured. Standards serve as benchmarks towards which an organization strives to work.
6. (a) Scalar Chain
Explanation: Scalar Chain
7.
(c) 25
Explanation: 25 lakh is required to obtain certificate of deposit
8.
(c) Casual Callers
Explanation: Casual Callers
9.
(c) Option (iii)
Explanation: The objectives of financial management is to maximize the wealth of shareholders, to provide maximum returns to the owners on their investment. To ensure continuous availability of sufficient funds at reasonable cost, etc.
10.
(b) Both A and R are true but R is not the correct explanation of A.
Explanation: Job Description document contains the contents and responsibilities related to the job and is given at the time of assigning duties.
11.
(b) only iv
Explanation: An ideal capital market is one which facilitates economic growth
12.
(c) Shareholders' preference



Explanation: Shareholders' preference

13.

(d) Both the Statements I and II are not correct.

Explanation: Both the Statements I and II are not correct.

14.

(b) Planning may not work in dynamic environment.

Explanation: Planning may not work in dynamic environment.

15.

(d) 9%

Explanation: 9%

16.

(b) Both the Statements I and II are correct.

Explanation: Both the Statements I and II are correct.

17.

(d) All of these

Explanation: All of these

18. **(a)** (a) - (i), (b) - (ii), (c) - (iii)

Explanation: (a) - (i), (b) - (ii), (c) - (iii)

19.

(d) Financial planning

Explanation: Financial planning aims at smooth operations by focusing on fund requirements and their availability in the light of financial decisions. Financial planning process tries to forecast all the items which are likely to undergo changes. It enables the management to foresee the fund requirements both the quantum as well as the timing. Likely shortage and surpluses are forecast so that necessary activities are taken in advance to meet those situations. Hence, it provides a link between both investment and financing decisions.

20.

(b) Capital expenditure

Explanation: Sale expenses are related to Marketing standard. Quantity is related to Production standard. Labour turnover is related to Human Resource management.

21. a. The characteristics of management highlighted in the above case are:

i. **Goal Oriented:** The organisation exists for the collection and analysis of data collected from different sections of society for predicting market behaviour. Every organisation has a set of goals that they are constantly working towards.

ii. **Group activity:** The main concern for the organisation is to create and maintain awareness among its different departments to achieve a common target on time.

b. **It helps in making an organisation dynamic:** The result was the calming down of resistance of employees. Since the organisation accepted change it became dynamic. Management strives to change and adapt to maintain competitiveness and remain relevant.



22. Positive aspects:

- **Encouraging open communication** – Informal communication can foster an open and friendly environment, in which people feel more comfortable sharing their thoughts and ideas.
- **Allowing for the exchange of information** – Informal communication can facilitate the exchange of information and ideas, particularly in situations where formal channels of communication may be slow or cumbersome.

Negative aspects:

- Informal communication spreads rapidly and sometimes gets distorted. It is very difficult to detect the source of such communication.
- It also leads to generate rumours which are not authentic. People's behaviour is affected by rumours and informal discussions and sometimes may hamper work environment.

OR

Co-partnership/ stock option: Under these incentive schemes, employees are offered company shares at a price which is lower than market price. Sometimes, management may allot shares in line of various incentives payable in cash. The allotment of shares creates a feeling of ownership to the employees and makes them to contribute for the growth of the organisation .

23. The primary aim of financial management is to maximize shareholders wealth, which is referred to as the wealth maximization concept. The wealth of the shareholders tend to increase with the rise in the prices of the shares. The Share price of the share will increase or decrease in the market is dependent upon the investment decisions, financing decisions and dividend decisions of the company. Hence, there is always a need for prudent decisions in terms of Investment, Financing, and Dividend appropriation.

24. Four responsibilities of the consumer to safeguard his interests are:

- The consumer must exercise his rights:** Consumers must be aware of his rights with regard to the products or services they buy from markets and must exercise them as and when required. In this way, he can prove to be a vigil consumer.
- Cautious consumers:** Before purchasing, the consumer must insist on getting all information on the quality, quantity, price, utility, etc of the goods/services. This will ensure a better purchase as he will not depend entirely on a seller and will prevent him from any type of exploitation.
- Filing complaint:** Sometimes, consumers ignore the deception of traders believing that the loss is small but this attitude encourages corrupt business practices to continue. On the other hand, some consumers also make excessive claims for compensation on small defects in goods which is not justified. Therefore, a prudent consumer must neither overlook or ignore the loss completely nor should demand excessive compensation.



- iv. **Quality conscious:** This is the only way to eradicate the problems of adulteration and spurious goods. While making purchases, consumers must look for standard quality certification marks like ISI, Agmark, FPO, Wool mark, etc. which prevents him and his family from any untoward incident.

OR

The reliefs available to a consumer under the Consumer protection act, 1986 are:

- i. To refund the price paid for the product.
- ii. To remove the defects in goods or deficiency in services.
- iii. To replace the defective product with a new one, free from any defect.

25. Planning precedes the execution of all other managerial functions. After plans are made, other managerial functions like organizing, staffing, directing and controlling are performed within the framework of such plans. That is why, planning is the primary function of management as it is the base for all other functions.

OR

Rule:

- (i) Rules are specific statements that inform or guides the employees what should or shouldn't be done in the organisation.
- (ii) Rule is standing type of plan. They are generally formalised in writing and are not made for individual.
- (iii) They do not allow for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken.
- (iii) For example, 'No Smoking' is a rule in some work areas and other places. Similarly, organisations formulate service rules and work rules on recruitment, promotion, leave, transfer, discipline, retirement, and so on.

Method:

- (i) Methods provide the best possible way to do a task and are performed for achievement of the objective.
 - (ii) Selection of proper method saves time, money and effort and increases efficiency.
 - (iii) For example, there are a number of methods for training the new employees amongst all the organisation. For higher level management orientation programmes, lectures and seminars can be organised whereas at the supervisory level, on the job training methods and work oriented methods are appropriate.
26. We do not agree with the statement that controlling is the last function of management. The controlling function finds out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same. This process helps in the formulation of future plans in light of the problems that were identified and, thus, helps in better planning in the future periods. Thus, controlling only completes one cycle of the management process and improves planning in the next cycle. It is a continuous process thus we can say that controlling is not the last function of management

OR



The given statement refers to the importance of 'Critical Point Control' in order to ensure effective performance of key activities in an organization.

Critical Point Control: According to this principle, control should focus on Key Result Areas (KRAs), which are critical to the success of the organisation. When anything goes wrong in these areas, the entire organisation suffers, e.g. a 5% -increase in labour cost is much more harmful than a 20% increase in postal charges.

27. The principle of 'equity' is violated in this case. According to this principle, employees should be given kind, fair and just treatment and there should not be any discrimination based on caste, creed, color, sex etc. Apparently, Ritu is getting less in view of bringing a female which is against this principle. The violation of the principle of equity not only puts a stigma on the face of the society but also demotivates and demeanor an employee who otherwise is working with utmost sincerity and dedication.
28. Most Common Barriers to Effective Communication
1. Physical Barriers: This has to do with poor or outdated equipment used during communications, background noise, poor lighting, temperatures that are too hot or too cold.
 2. Attitudes: Emotions like anger or sadness can taint objectivity. Also being extremely nervous, having a personal agenda or “needing to be right no matter what” can make communications less than effective. This is also known as “Emotional Noise”.
 3. Language: This can seem like an easy one, but even people speaking the same language can have difficulty understanding each other if they are from different generations or from different regions of the same country. Slang, professional jargon and regional colloquialisms can even hurt communicators with the best intentions.
 4. Physiological Barriers: ill health, poor eyesight or hearing difficulties, pain.
 5. Problems with Structure Design: companies or institutions can have organization structures that are not clear, which can make communications difficult. Also to blame for faulty communications are bad information systems, and lack of supervision or training of the people involved.
 6. Cultural Noise: people sometimes make stereotypical assumptions about others based on their cultural background.
29. **Following are the developmental functions performed by SEBI:**
- i. **Training** - SEBI provides training to intermediaries such as brokers, sub-brokers, underwriters etc. This ensures an orderly functioning of the stock exchanges and securities market.
 - ii. **Development of capital market** - SEBI undertakes measures to develop the capital market by adopting a flexible approach. SEBI aims to offer a competitive, professionalised and expanding the market with efficient infrastructure.
 - iii. **Accurate and authentic information** - SEBI conducts research and publishes information useful to all market participants.



- iv. **Investor education** - SEBI makes the public aware of investors' rights and interests of investors and educates them.
30. i. **Right to be Informed:** The consumer has a right to have complete information about the product he intends to buy including its ingredients, date of manufacture, price, quantity, directions for use, etc. It is because of this reason that the legal framework in India requires the manufacturers to provide such information on the package and label of the product. The right to be informed means the consumers must be made aware of the quality, quantity, potency, purity, standard, and price of the goods.
- ii. **Right to be Heard:** The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or a service. It is because of this reason that many enlightened business firms have set up their own consumer service and grievance cells. Many consumer organisations are also working towards this direction and helping consumers in redressal of their grievances. Right to be heard means that the consumer's interests must be heard properly. Their problem must receive all the due consideration at the right forums.
31. Various steps in the process of staffing are as follows
- i. **Estimating manpower requirements-** It refers to finding out the number of persons or employees and type of employees needed in the organisation in near future. At the time of determining the number of persons required, the possibilities regarding internal promotions, retirements, resignations and dismissals, etc.
- a. **Work load analysis-** Finding the number and type of employees required to perform various jobs.
- b. **Work force analysis-** Analysing existing work force already occupying the job positions.
- c. **Comparison-** The manager compares the two and find out the excess of work load over work force indicating under staffing, and thus fulfills the gap.
- ii. **Recruitment-** It refers to the process of inducing the people to apply for the job in the organisation. After assessing the number and type of required employees, the manager tries to get a greater number of applicants for the job, so that the organisation can select better candidates.
- iii. **Selection-** It refers to the choosing of most suitable candidate to fill the vacant job position. Selection is done through a process, which involves tests, interviews, etc. It is important to keep in mind that the ability of the applicant and the nature of work must match.
- iv. **Placement and orientation-** Placement refers to join the post for which a person has been selected. After this, a brief presentation about the company is given and employee is introduced to his superiors, subordinates and colleagues and it refers to orientation.
- v. **Training and development-** In this step, training is imparted to the selected candidate, by which he/she can enhance his/her skills, knowledge, which increases their efficiency and effectiveness.



- vi. **Performance appraisal**- It refers to evaluating the performance of employees against some standards which are known to employees in advance. To judge his capability his actual work performance is compared with the work assigned to them.
- vii. **Promotion and career planning**- Promotions are an integral part of people's career. It means people placed in positions of increased responsibility on the basis of their capability and it usually means more pay, responsibility and job satisfaction.
- viii. **Compensation**- It refers to fixing the compensation of an employee for his contribution to the organisation. It includes pay, rewards and other incentives given to all the employees. It includes direct as well as indirect payments. It may be of two types:
 - a) Direct Financial Payments- It includes wages, salaries, incentives, commissions and bonuse
 - b) Indirect payments-It includes insurance, medical,vacations etc

OR

Selection is the process of carefully screening the candidates out of a large number of applicants who offer themselves for the appointment so as to choose the most appropriate person for the job.

Main steps of the selection process adopted by big oraganisations are:

- i. **The preliminary**: Applications forms are scrutinized on the basis of qualifications and whose conditions are not acceptable to the organisation are not called for preliminary interview.screening
- ii. **Selection tests**: Through these test, ability and skill of the candidate are measured. It includes proficiency tests, psychological tests, mental ability etc.
- iii. **Employment Interview**: Having successfully cleared all tests, the candidate is called for the final interview. An interview is a phase of testing on the basis of face to face interaction between the interviewer and the applicant.
- iv. **Reference and background checking**: Gather more information about the candidates from those persons whose names are mentioned in the column of "References", candidate's friends or previous employer.
- v. **Selection decision**: Candidates who clear Selection tests, Employment interview and Reference checks are selected. The opinion of the concerned manager where the selected employee has to work is sought.
- vi. **Medical Test**: The candidate is put to a medical examination with three aims: a) physical fitness b) infectious disease c) excessive expenditure on the treatment of the employees.
- vii. **Job offer**: Letter of appointment mentioning the date by which a candidate has to report on duty is handed over to the appointee.
- viii. **Contract of employment**: After the acceptance of job offer by a selected candidate, he signs various documents like Contract of Employment. It includes various details such as pay, allowances, work rules etc.

32. Success of a business enterprise is influenced by its environment:



1. **First Mover Advantage:** Business environment enables the firm to identify opportunities and getting the first mover advantage. Better understanding of the environment provides new opportunities and new ideas. A firm must scan the environment to identify the opportunities for success of the enterprise. Early identification of opportunities helps a business firm to be the first to exploit them instead of losing them to competitors. For example; Maruti Udyog became the leader in the small car market because it scanned the environment and recognize the need for small cars in India.
2. **Planning and policy formulation:** Environment plays an important role in providing new opportunities and warning signals for a business enterprise. For effective planning and decision making it is necessary to understand and analyse the business environment. In simple words, for the welfare and survival of a business firm, while making plans and policies, it is important to keep in mind business environment because policies and strategies have to be implemented in the presence of environmental factors.
3. **Warning Signals:** Scanning of business environment will help the firm to identify threats and early warning signals. Business environment does not provide opportunities only; it is a source of identifying the threats and warning signals. Threats refer to changes in the external environment trends that will hinder a firm's performance.
4. **Tapping useful resources:** A business organization takes various resources from the environment for its smooth functioning i.e. raw materials, men, machine etc. and supply produced goods to the market. In other words, it takes resources from the environment, adds value to it and supply the output to the environment.
5. **Coping with rapid changes:** In these days business environment is changing very fast and these changes have great impact on business. It is important for a business firm to keep pace with these changes. All type of business organizations are facing dynamic environment. To cope with these significant changes it is necessary to understand the environment and make strategies and policies accordingly.
6. **Improving performance:** Scanning of environment is important to improve the performance of a business firm. The interaction with the environment leads to opening up new opportunities of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities. Future of an enterprise is closely bound up with what is happening in the environment. A business firm must monitor business environment continuously to make foothold in the market for a longer period.

OR

a. **Liberalisation and Globalisation**

The economic reforms that were presented were directed at liberalising the Indian business and trade from all the redundant restrictions and limitations.



Globalisation implies the combination of different economies of the world heading towards the development of a united (closely-knitted) global marketplace.

b. Importance of Business Environment

i. It helps the firm to identify opportunities and get the first mover advantage.

“KV Motors Ltd. recognized the need for small cars in India.”

ii. It helps the firm in improving performance.

“It created a product far superior than their competitors not only in terms of quality but also in terms of overall driving experience. It soon became the leader in the small car market.”

iii. It helps the firm in planning and policy formulation.

“KV Motors further expanded its service network and quality creating an entry barrier for the competitors. It depicted its strengths through various brandbuilding activities.”

33. i. The company should shift from centralized to a decentralized structure. It would ensure quick decision-making, motivate the subordinates and ensure effective communication.

ii. Even in Fast moving consumer goods (FMCG) industry, there is a need for decentralization. By using decentralization, a company gets the following benefits.

a. **Develops initiative among subordinates:** Decentralisation helps to promote self-reliance and confidence amongst the subordinates. This is because when lower managerial levels are given freedom to take their own decisions they learn to depend on their own judgment.

b. **Develops managerial talent for the future:** Formal training plays an important part in equipping subordinates with skills that help them rise in the organization but equally important is the experience gained by handling assignments independently.

c. **Quick decision-making:** The management hierarchy can be looked upon as a chain of communication. In a centralized organization, every decision is taken by the top management, the flow of information is slow as it has to traverse many levels. The response also takes time. This reduces the speed of decision-making and makes it difficult for an enterprise to adapt to dynamic operating conditions.

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

34. i. The concept referred to above is Pricing. Price is the value that is put to a product or service and is the result of a complex set of calculations, research and understanding and risk taking ability. A pricing strategy takes into account segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others. It is targeted at the defined customers and against competitors.



- ii. The four factors discussed in the above case related to the concept so identified are:
- a. **Product Cost:** The total cost of product includes production, selling and distribution costs. In the long run the firm strives to cover all their costs. The cost sets the minimum level or floor price for a product. In addition to that firm aims to earn a profit margin over and above the costs.
 - b. **The Utility and Demand:** It is necessary to anticipate the utility and demand of a product, while fixing the price, as if a product is offering higher utility, one can easily charge high price from the customer. Whereas, if utility is low, one cannot charge a high price for such products.
 - c. **The extent of Competition in the Market:** The price of a product can be set up to the higher limit, if the extent of competition is low in the market, and vice-versa. Competitors' price, their reactions, their product, quality and features must be considered before fixing the price.
 - d. **Government and Legal Regulations:** To protect the interest of general public, the government has all the rights to control the prices of various products and services by including the products in the category of essential commodities such as drugs, some food items, LPG, etc.

