

Management - Paper 1 - Test 2

Section A

Q1) Planning is an important managerial function which bridges the difference between "where we are today" and "where we want to be".

Plans are classified into two types



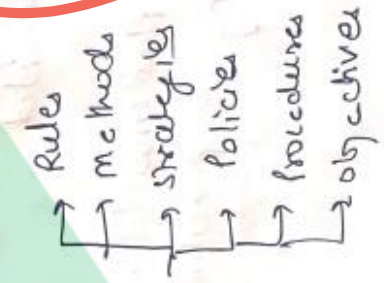
Multi-use Plans

Plans used by an organization multiple times,

- They are based on the organization

- They advise the managers in strategic matters such as sales and pricing policy

- They are of 6 types



They are longer term organizational matters

main objectives of

90%
129 is
250

- Since they have stood the test of time, they are used repeatedly by top management.

② Single use Plans

- They correspond to shorter period of time and are repeatedly modified to account for changes - in environment as well as within company

→ They are designed to work effectively on limited set of activities

eg Cost accounting plan for overheads which needs to be revised frequently due to inflation

→ They are of 2 types

	→ Budget
	→ Program

→ once the purpose of plan is achieved, it is modified or discarded

Thus, Plans should be strategically made to bring in operational efficiencies

More Detailed Examples

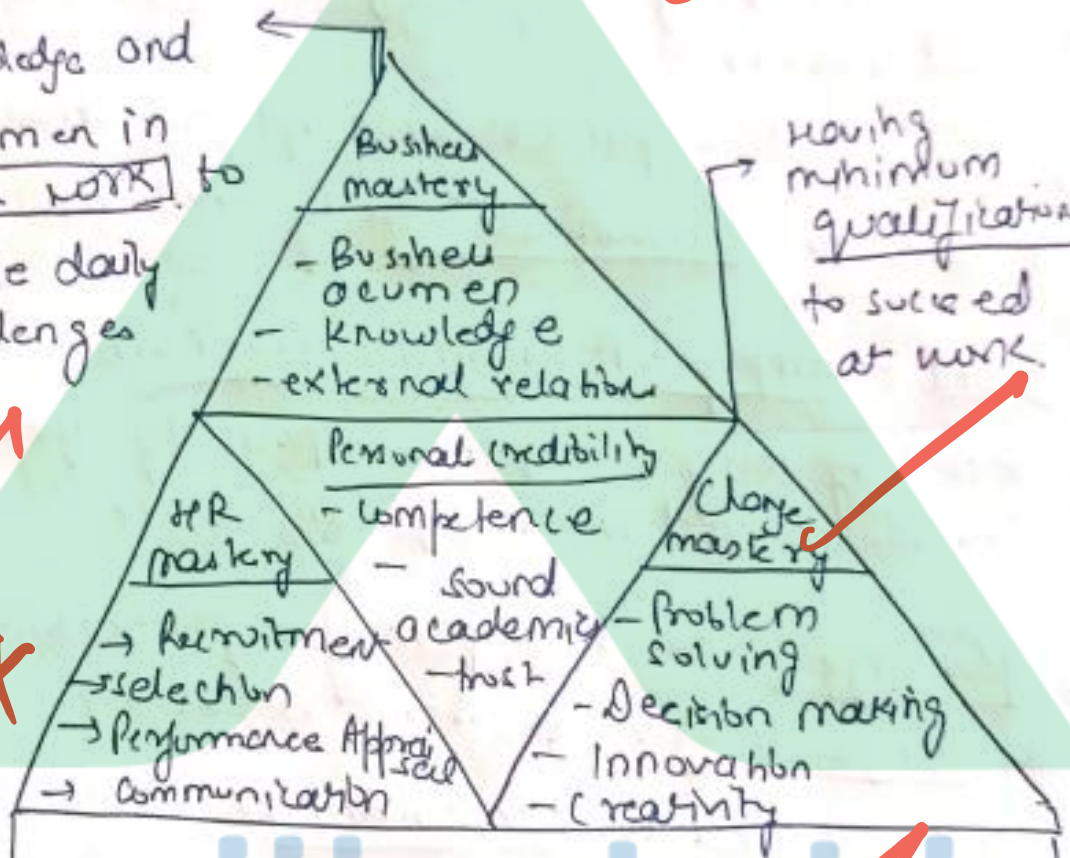
Q1/6

HR professionals have become change agents in view of rising competition among firms and high attrition rate due to COVID-19.

To be successful HR professional, he/she must possess varied qualities.

1) Knowledge and acumen in HR work to handle daily challenges

having minimum qualifications to succeed at work



HR competency model

To be able to communicate with the potential recruits the vision and goals of organization

To be able to solve problems of employees and bring in job creativity

highlight the qualities

55

Apart from above, HR personnel should also possess humane qualities like

1) Integrity and ethics - To be able to function with high moral standards and deal ethically with situations

2) In Industrial disputes, HR has a key role to play in dealing with management and labour

3) Trust development - as employees should be able to communicate freely with HR

4) EAP - Employee Assistance Program started by many companies especially after Covid-19 and work life imbalance

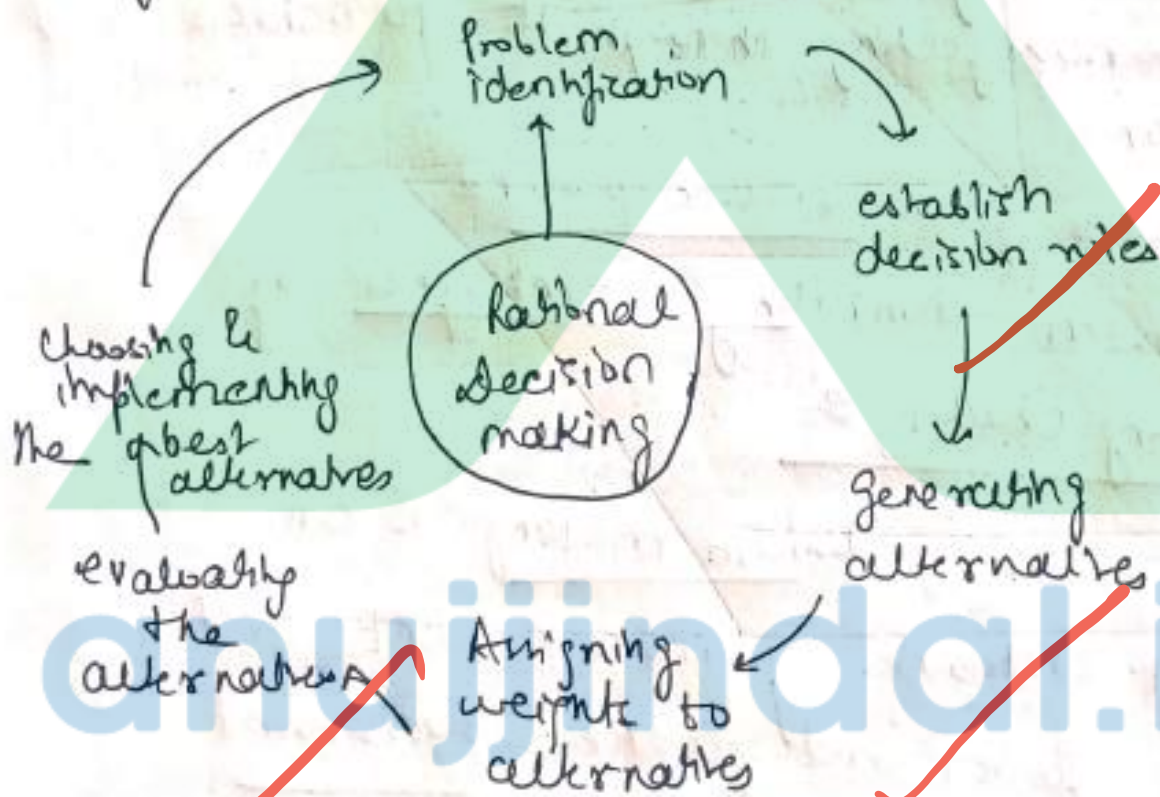
5) Courage - to be a part of organization as change maker to bring in better policies related to recruitment.

Thus, HR managers / professionals must have excellent qualities of head and heart to thrive in an unpredictable world.

Q1 (c) Decision making is a process of selection of a course of action from a choice of alternative.

- Plan doesn't become a plan until decision making takes place i.e. until commitment of resources has been made.

Rational Decision making essentially involves following a logical and systematic approach of making important decisions.



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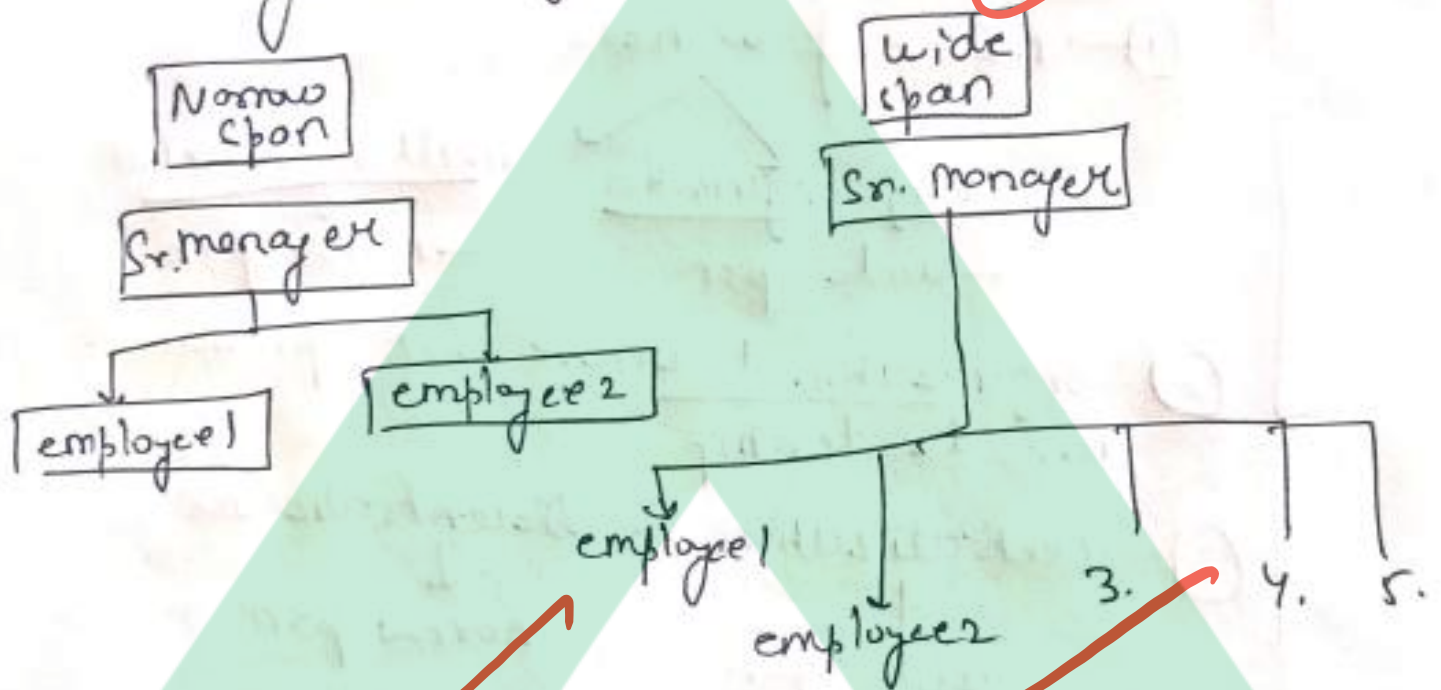
Significance of rational decision making

- 1) helps in reducing managerial workload and devolution of work.
- 2) helps in bridging the gap between where the organization is today and where it wants to be, say 5 years later
- 3) It results in high quality plans that leads to organizational efficiencies
- 4) understanding an important bottleneck activity helps in navigating through it to achieve deadlines
- 5) It reduces firm's risk exposure
- 6) It helps in motivating employees by accepting challenges

Thus, decision making is an important attribute of management and leads to faster and quicker turnaround time.

Q1 (d) Span of management refers to the number of employees directly reporting to an individual in the organization's hierarchy.

→ It is to ensure that a leader can effectively manage number of subordinates for achieving organization's goals.

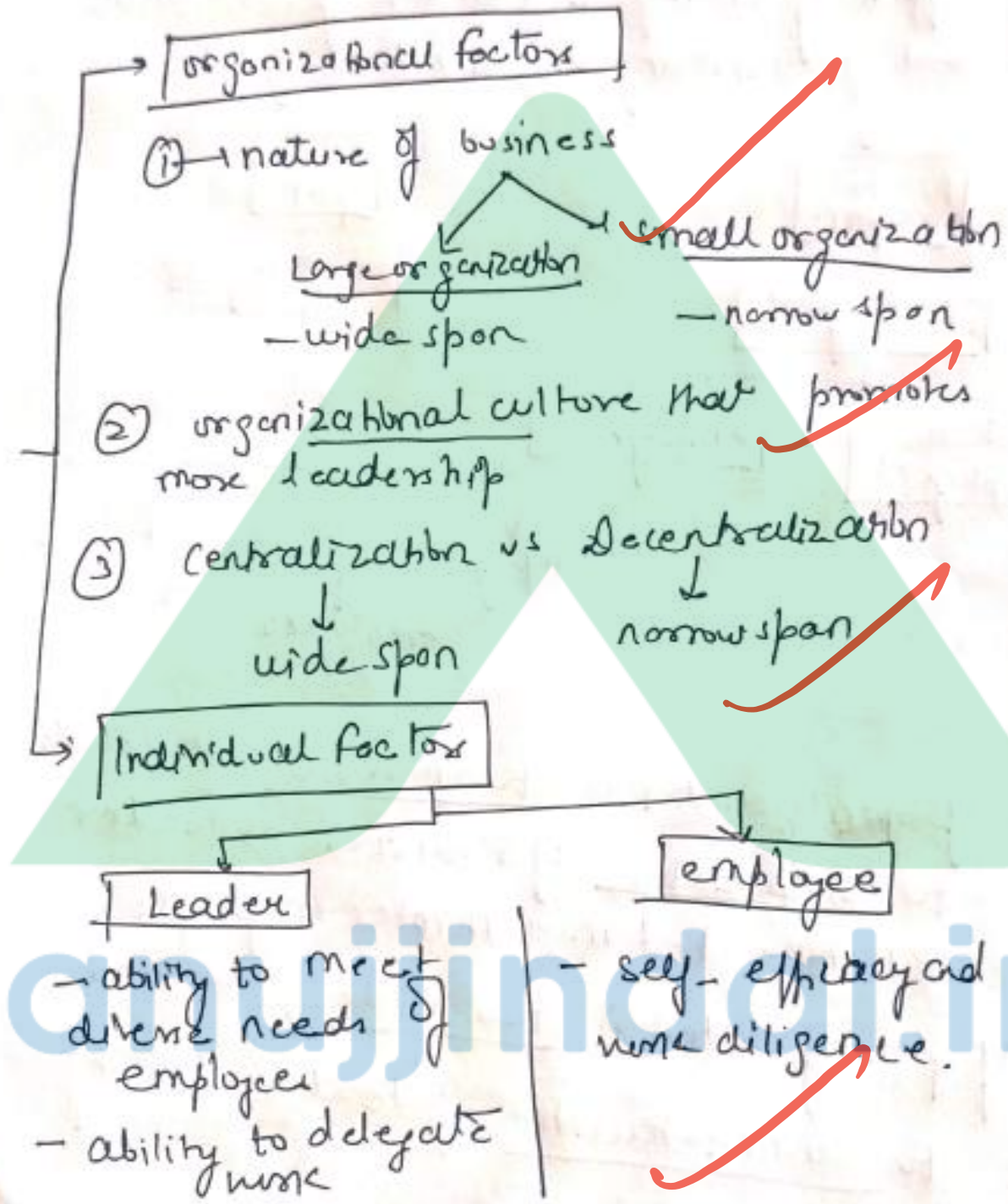


- If span of control is too narrow, it leads to unutilization of resources as leader could have led more number of people.

- If span of control is too wide, it leads to overexhaustion of leader leading to loss in efficiency.

Thus, an effective balance is needed between narrow and wide span of control

Factors that affect span of management



Thus, span of control needs to be measured effectively to enhance coordination among employees

Very Narrow span

Q) (e) Leadership is a process of developing a vision for the future. Leaders have the ability to influence a group towards achievements of a vision and a set of goals.

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eg) Leader like Steve Jobs and Steve Wozniak steered Apple towards a period of success.

Significance of Leadership

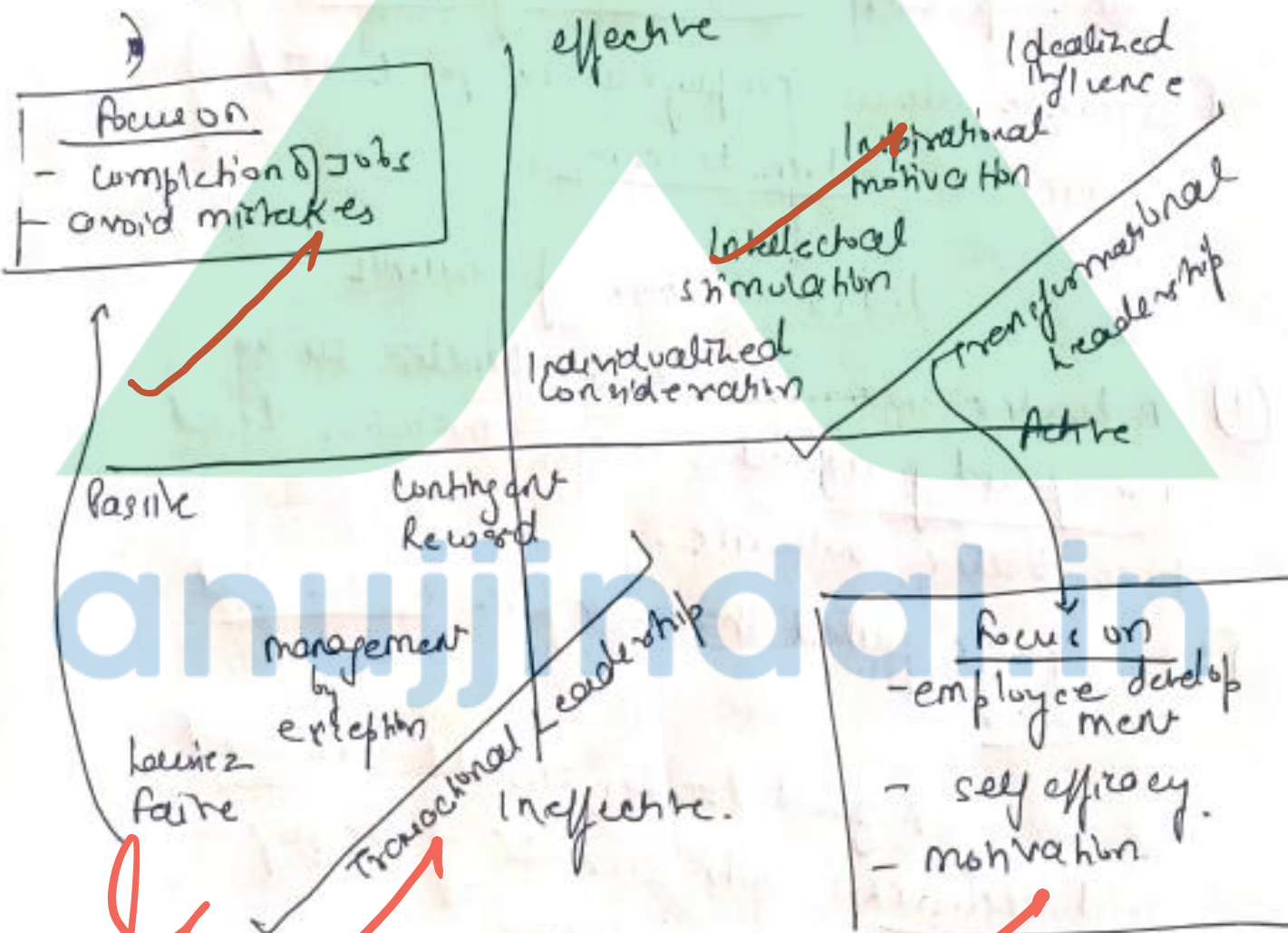


Fig: Leadership life cycle

W. J.

① It helps in setting goals and motivation of achieving those goals

② An effective great leader drives juniors towards higher achievements through.

higher morale

enhances confidence.

inspires enthusiasm

[ex] elon musk drives employees to achieve success through innovation and creativity

③ A leader empowers subordinates to come up with extraordinary solutions

[ex] Google allows employees to spend 15% of time on random learnings

↓
led to creation of GMAIL.

④ A leader encourages subordinates to be not afraid of mistakes as mistakes lead to a better outcome.

[ex] SpaceX failed thrice before unsuccessful launch

A good leader should reward and recognize achievements of employees for an efficient organization

Q3 Group Decision making is a process of taking collective decisions in an organization that may lead to better outcomes for the organization.

Ex During covid-19, it was collectively decided by Govt and RBI to defer IBC implementation for 6 months to ease burden on small firms.

But group decision making sometimes lead to modification in actual views of individuals leading to incorrect action.

Group shift

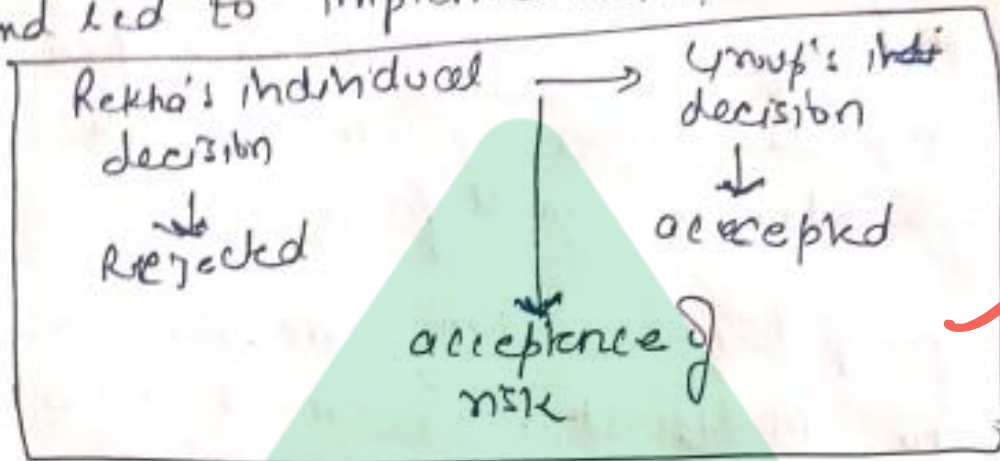
(i)

It happens when an initial position of an employee move towards an extreme position due to the higher acceptance of risk.

- As an individual, a person is generally risk averse and avoids taking risky decisions.

- But as a group, the risk gets divided proportionately.

For eg → In the above case, Rakha considered an investment decision as risky and dropped the idea. But when the boss asked her for advice, she pitched the idea which got approval from the group and led to implementation.



② **Groupthink** is a concept where an individual loses sense of own decision and decides on the action that the whole group is willing to take.

- It leads to loss of motivation and low innovation as individual decisions

are neglected

For eg Peter in the above case came up with a very innovative idea but it was rejected as the group wanted to stick to original or conventional decision.

This led to Peter giving up his idea.

Peter's innovative compromised Group's idea
idea by idea

Key Benefits of Group decision making

- ① It leads to collection of more and innovative ideas due to presence of experts from different fields.
- ② It leads to accommodation of diverse views → leads to better decision making as it's holistic.
- ③ It boosts the morale of the group and people become more participative and communicative.
- ④ It acts as a adhesive to bind the team together.

Thus group decision making is an effective tool to create an quick decisions but care must be taken to enhance participation and accommodation of innovative ideas.

Q3(b) SWOT analysis is a time tested tool that helps in analysing the competitive position of a company in the market

- It helps in achieving a competitive advantage over competitors

SWOT Analysis of Cadbury

Strength

- Strong brand presence
- International market
- wide products
- Better quality
- customer loyalty and high switching costs

Weaknesses

- Rise of healthy products and Cadbury lags on that
- Issues with respect to quality

more??

Opportunities

- untapped market in developing countries especially rural areas
- backward/forward integration to gain market share
- diversification

Threat

- heavy competition especially from local players
- taste not acceptable in all cultures
- Threat to health among increased cautious population

Cusbury's Chocolates

Cadbury should focus more on

following aspects :-

① Improving processing by enhancing quality standards by addressing key customer requirements

② Promoting healthy aspects like

- less sugar
- improve product quality
- environmentally friendly

③ focus on retention of existing customers
- As per Pareto 80/20 rule, 80% of Cadbury would come from 20% of customers

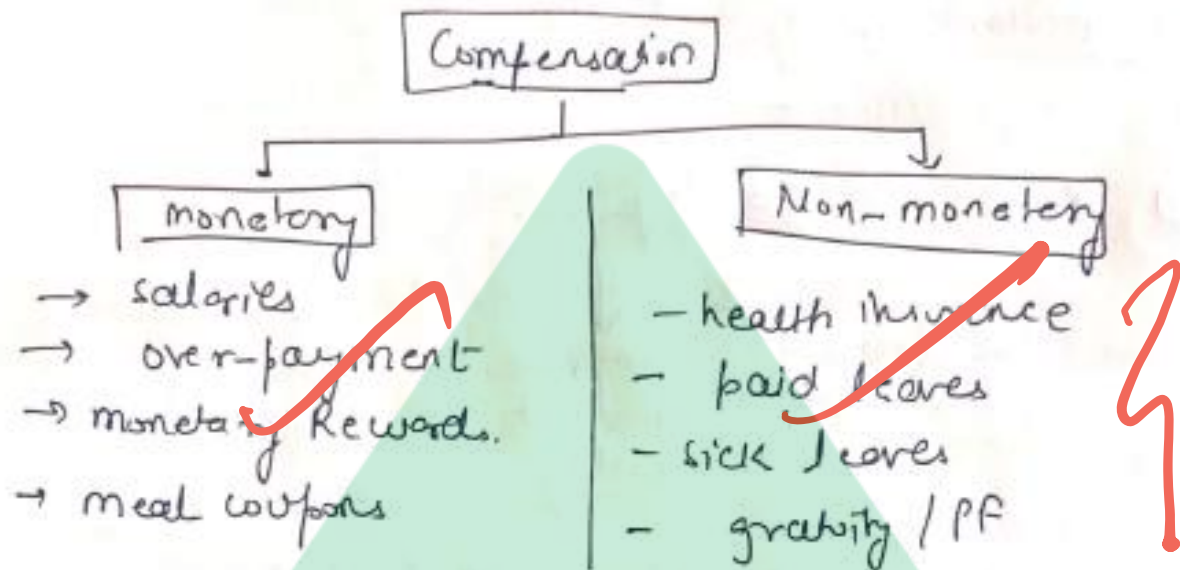
④ enhancing reach especially in rural markets

- more awareness
- smaller packets
- diverse products

⑤ Acquisition of market share of key competitors to enhance

SWOT analysis is thus an effective tool to enhance competitive advantage of a firm

Q3 (c) Compensation includes the financial and non-financial rewards to an employee in return for his/her service.



Factors to be considered before determining financial compensation of employees

① Company's revenue stream

- should be stable and increasing over time

② external job market

- an employee compensation should match establish job market standards

Demand & Supply

3) Knowledge and skills of an employee depend

- upon
- education
 - work experience
 - skills

In today's data driven world skills like data analysis are key.

4) Employee productivity and contribution to company's growth.

5) Regulations of Govt to ensure uniformity in payment.

6) Macro-economic conditions

eg- During covid-19, many companies had ~~are~~ reduced employee compensation.

Compensation should be adequate to drive an employee towards higher performance for sustained growth of company.

At least 8-9 factors

Respects Others in

Q4

(a) classical organizational theorists related more on mechanical aspect of organization

eg → Frederick Taylor emphasized on scientific management where he focused on

- ① → division of work
- ② → work specialization
- ③ → money to be paid based on hour worked.
- ④ → lack of focus on informal communication between workers
- ⑤ → lack of focus on human elements like trust, faith, etc
- ⑥ → strict supervision by managers so that employees remain productivity
- ⑦ → lack of autonomy with employees leading to low motivation and morale.

This had huge repercussion of employee's outlook towards work where employees didn't focus on work

money as the best motivator

1) It could not sustain for long.
Over time workers give more importance to inter-group relations and human relations

2) As an employee grows, more needs overpower his ideology

[eg]

maslow's hierarchy of needs



As an employee moves up the ladder, important needs like esteem and self-actualization overpowers him/her

Thus more focus is on

- Job growth
- attainment of skills
- competition and promotion.

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③ money as a motivator remains but becomes less and less important as a worker advances on trajectory

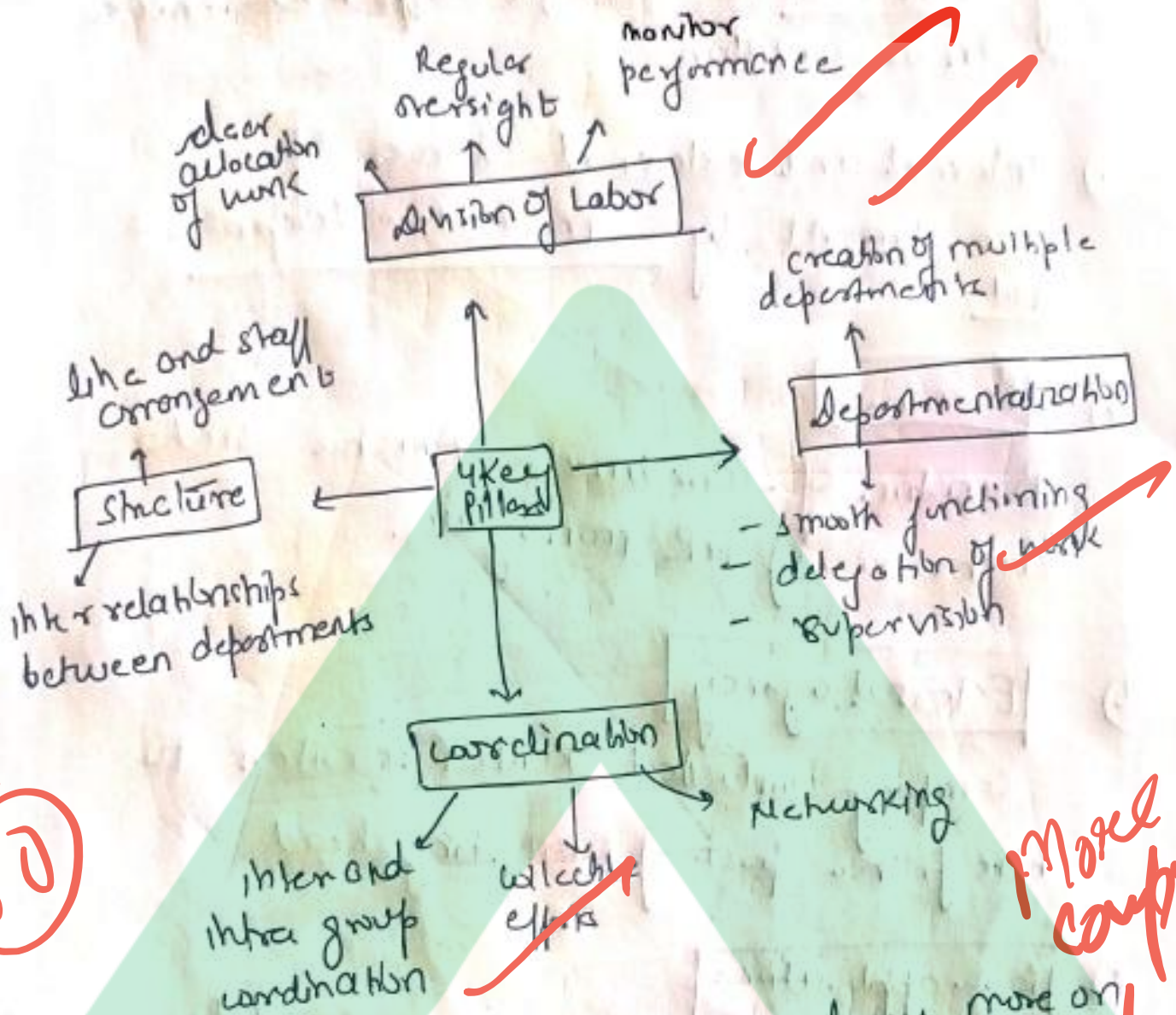
eg factors like organizational justice, networking & communication become more important.

④ Paying adequate compensation is not alone sufficient, factors like health insurance, employee rewards and stable work life balance - These aspects were missed by classical writers.

⑤ with increasing globalization and dynamism in society, challenges have come like stress, anxiety, domestic violence, behaviour, sexual harassment.

Thus, more focus is on human element in today's world which classical theorists missed.

4 Key Pillars of classical theory



10

Model comprises these

most of the above pillars focus more on mechanical aspect of human reduction them to a unit of machine and output. It thus did not lead to sustainability of organization and paved the way for emergence of neo-classical and contingency theories

Q4 (b) The above case highlights the importance of recruitment through different sources in an organization.

i) Internal and external sources of recruitment by Mindtree Enterprises Ltd.

a) Promotion
Promotion of subordinate Anisha Sinha to the role of HR manager.

b) External agency
Company contacted Keith Recruitment to hire for the post of marketing head.

c) Past applications
Aman's role was filled using an old application of a job applicant.

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2) merits of above methods

Promotion → Recognition by company in good performance helps in boosting morale and thus higher productivity

Employment agency provide standardized services and can help in recruiting talented personnel.

Job applications helps in quick hiring as well as reduce the loss of working for job applicants.

5

More examples??

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Q4 (c) Douglas McGregor proposed a theory of motivation called Theory X and Theory Y

- It was based on notion that human beings have certain assumptions that control their behaviour

X type of people → managers believe employees inherently dislike work and must be directed or even coerced into performing a task.

Y type of people → managers assume employees can view work as being natural as rest or play and thus an average person can learn to accept and even seek responsibility. assumption

- McGregor himself believed Theory Y were valid more than X. Thus, he proposed ideas such as participative decision making, responsible and challenging jobs etc

Theory X

- 1) Average human being has an inherent dislike for work and will avoid it if possible.
- 2) Average human is lazy and avoids responsibility.
- 3) Average person is indifferent to org. goals.
- 4) Average person prefers to be directed and wants security above all.

Theory Y

- 1) Average human being doesn't dislike work.
- 2) Average human is committed to work and he is self-directed and self-controlled. He/she seeks seeks responsibility.
- 3) Average human is committed to org. goals.
- 4) Average human prefers autonomy and is creative in approach.

If we apply above theory in modern times, we can divided it based on labor conditions of a country and sub-economic situation.

Corey → In a developing country like India, with only 5% in formal jobs (as per India skills Report 2021) and 28% of people in multidimensional poverty (World Bank), most of jobs are in unskilled and informal domain

↳ Here, labour work for their basic needs of food, clothing and shelter and with huge demand for eg in MGNREGA Labour has to be pushed for work. → Theory X

Contrasting it with IT and Analytics sector, new emerging data scientists and engineers are innovating at a rapid pace. Silicon valley comprises of self driven people who breaking new records. They are termed as professional and highly motivated employees

as per Theory Y

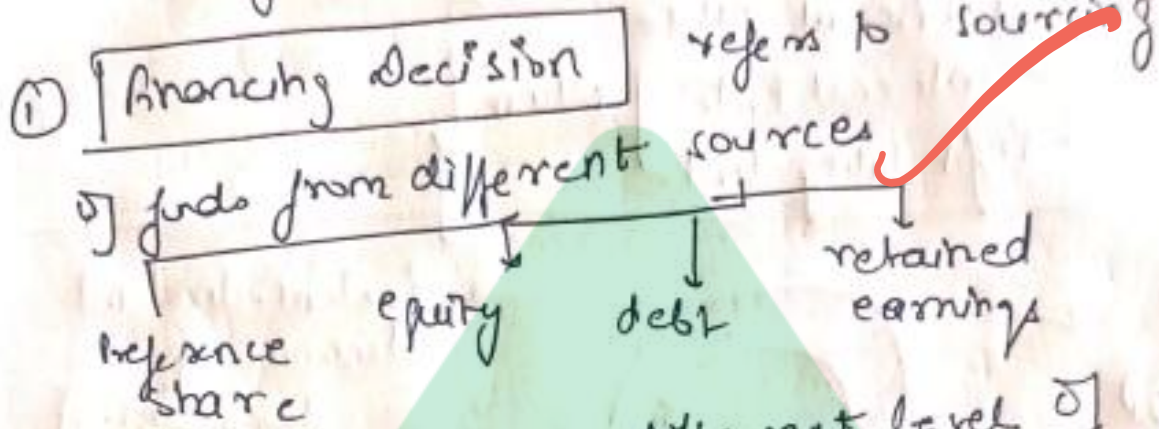
we need to devise new ways of enhancing employee experience so they can contribute effectively to organizational and self growth

Pointwise Answer

Q1
(a)

Finance function is an important component of an organization for its financial stability and long term sustainability

Three functions of finance



Each of them have different level of risk and associated costs and must be balanced well

② **Dividend Decision**

trade-off of retaining surplus liquidity to reinvest in company

It includes the

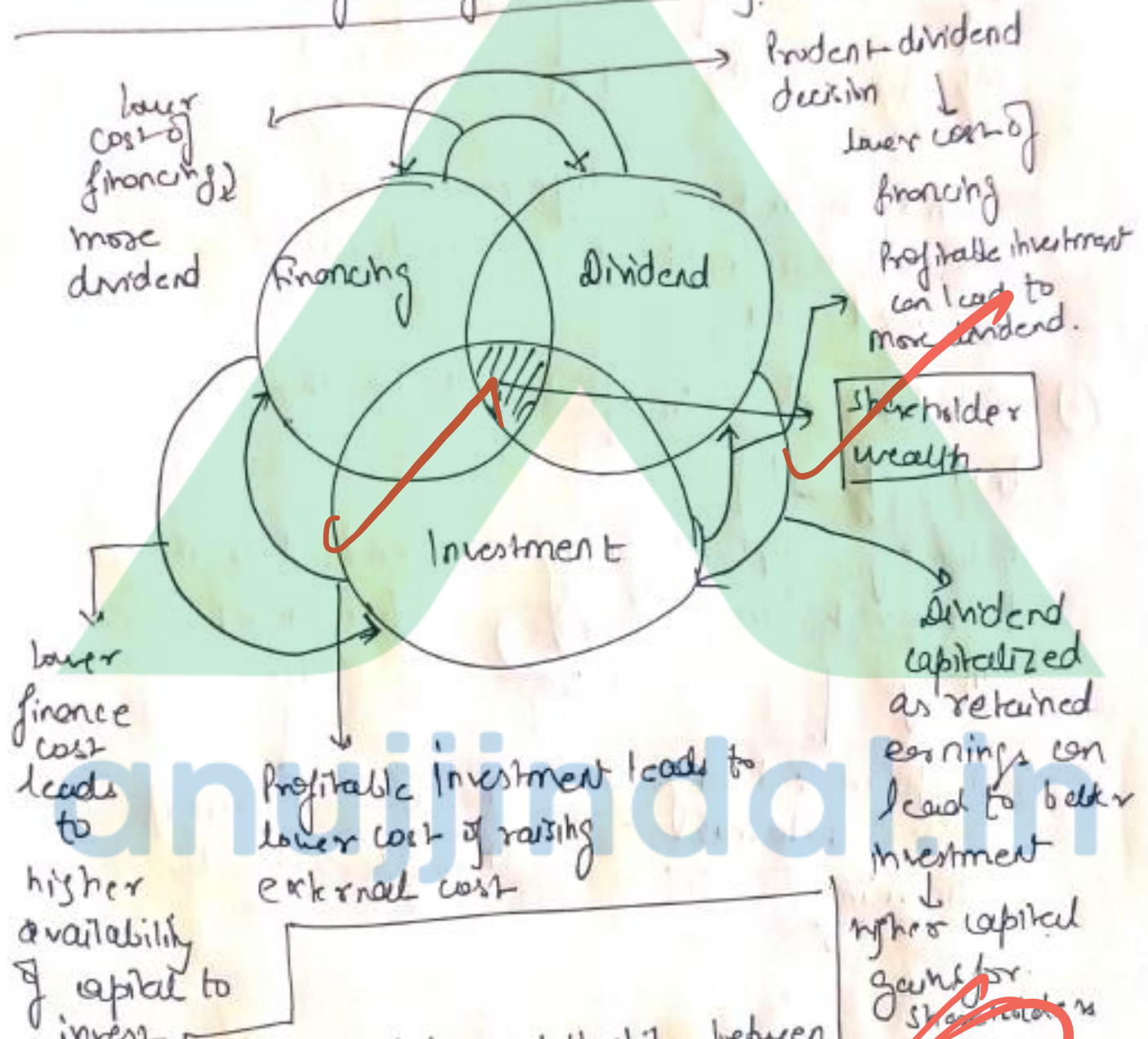
dividend distribution for shareholder's gain.

helps in reducing cost of external financing

helps in customer/ shareholder satisfaction

③ Investment decision Careful analysis of multiple projects are required to assess relative risk and return and sufficient cash flow generation. It involves methods like

- Net Present value
- Internal Rate of Return
- Profitability Index



The above inter-relationship between finance functions should be balanced for maximization of shareholder wealth.

Q5

(b) Finance is one of the fields of organization has evolved with many significant changes over the years

Traditional Approach

- 1) scope limited to only raising funds when required
- 2) Finance function was viewed as something external and not related to core business of an org.

3) focus on long term financing
→ one time investment led to under-utilization of resources and loss of capital

Modern Approach

1) Broadened scope to anticipate future needs and raise funds prior to utilization

2) Finance function has become an integral part of management

eg - many companies have vice president of finance domain

3) focus on short term financing

eg → Just in Time inventory leads to better usage of capital and lower wastage.

4) It was a closed and non-transparent financial decision making

[eg] → led to many corporate scandals like Enron, Satyam

5) one size fit all approach

[eg] one finance division would take care of all the financing need of the company

6) Lack of adequate checks and control leading to and financial crisis

and collapse of banks like Lehman Brothers

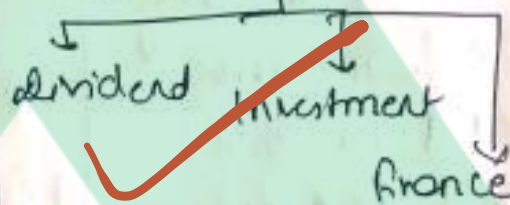
modern approach is thus more standardized and ensure fair utilization of capital

7) Based on open, fair and transparent disclosure of financial decisions

[eg] → strict company Rule, 2013 act demand timely delivery of financial statements and regular audit.

8) Different financing division

[eg] separation of finance functions



9) Adequate checks and controls

[eg] → IFRS 9 standards

Basel norms for Capital Adequacy Ratio.

5:5

45(c) Marginal costing refers to ascertainment of marginal cost impact on profits by differentiating between fixed and variable costs

Absorption costing is a costing method where all the manufacturing costs are 'absorbed' by the process. Thus, there is no difference between fixed and variable cost and direct material, labor or overhead.

Difference between the two methods

Marginal Costing

- ① - manufacturing cost is charged to unit of cost and fixed cost is written off
- ② Net profit per unit is considered
- ③ overheads are classified into fixed and variable overheads

Absorption Costing

- ① Both variable and fixed costs are included as part of product cost
- ② contribution per unit is considered
- ③ overheads are classified as administration, product or distribution

④ It is easy for manufacture to assess

④ It is comparatively difficult to assess due to standardization of costs

⑤ It is not GAAP compliant

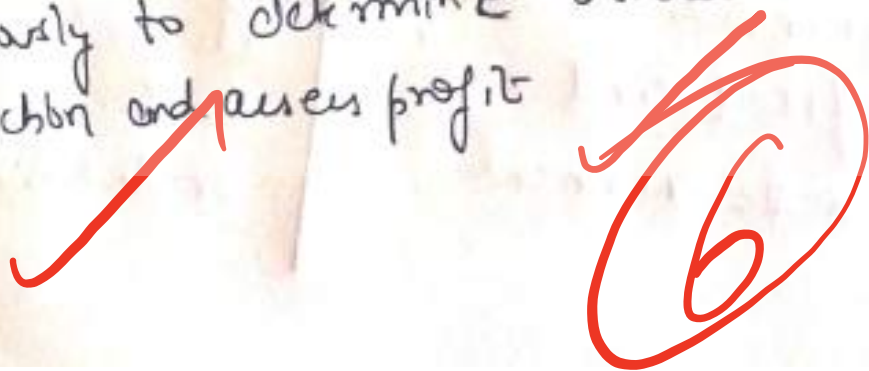
⑤ It is GAAP compliant

A company financials example

Production of 100 units of a product

	Total Cost Rs	Cost per unit Rs
Direct material	14,000	140
Direct Labor	8,000	80
Net cost	22,000	220
+ variable cost overheads	2,000	200
Marginal cost	24,000	240
+ fixed overheads	5,000	500
Absorption cost	29,000	290

Both methods of costing should be used cautiously to determine actual cost of production and assess profit



Q5 (d) marketing involves the process of identifying needs, wants and demands of the consumers and satisfying it with the products / service to develop competitive advantage.

eg when Ikea observed that consumers want less costly but quality furniture, it created knockdown furniture

eg when ebay recognized that consumers wanted to resell their used products, it created an online auction clearinghouse.

10 main types of entities

① Goods - physical goods like laptop, TV etc

② Services - that enhance quality of living
eg → Urbanclap etc created home cleaning services as people didn't have enough time amidst jobs

③ Experiences eg → amusement park or an restaurant with ambience

④ **People** are generally hired as
brand ambassadors
eg → Amitabh Bachchan's campaign against
Polio led to its eradication in India

⑤ **Events** like Olympics or FIFA Championship

⑥ **Information** like e-books, medical
diagnoses

⑦ **Places** eg → Kerala is termed as
God's own country

⑧ **Properties** like real estate or
industries

eg INVT lead to accumulation of
public funds for investment in infrastructure

⑨ **Ideas** eg → Swachh Bharat Mission or
"Do goz hai zeroni, mask hai zeroni" to
spread awareness against COVID-19

⑩ **Organizations** like No2 Foundation
— an NGO that works for LGBT rights.

Thus, marketing is a very holistic
concept and encompasses all human
dimensions

Qr (e) marketing function of a business aims to identify the gap between customer requirements and product features by differentiating between needs, wants and demands.

Need - basic human requirements

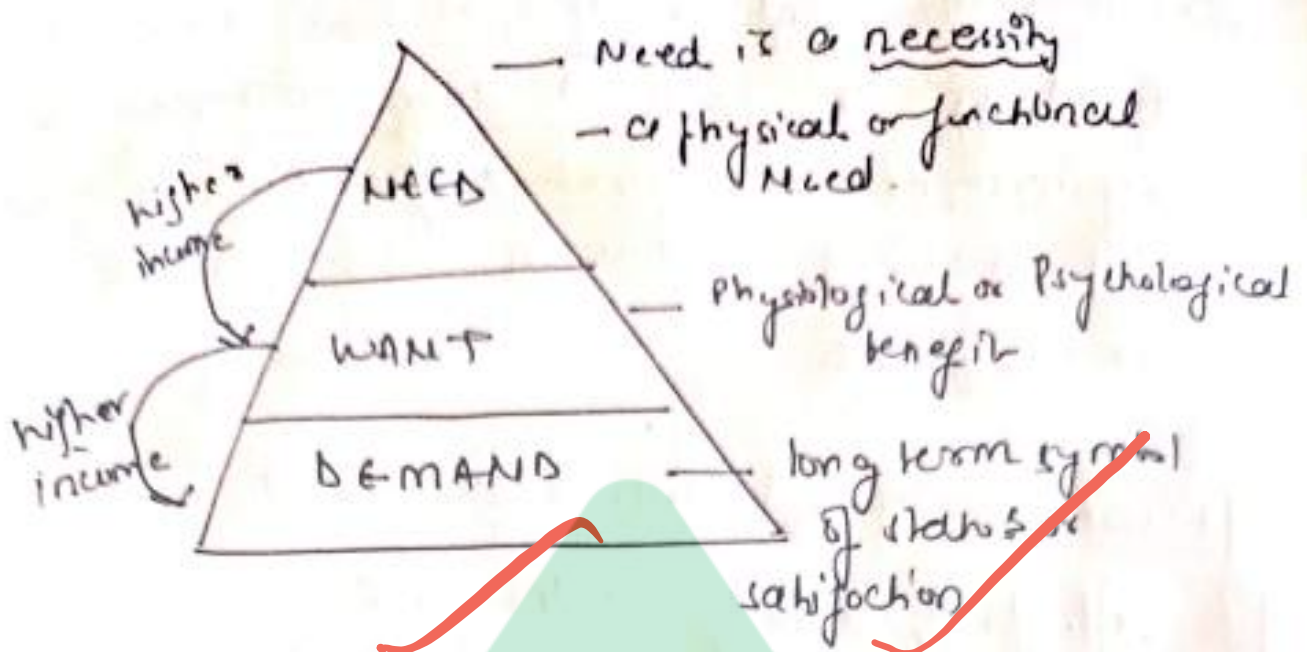
for ex - food, clothing, water etc
- They are essential for survival of a person and must be available

wants - human needs become wants when they are directed to specific objects that might satisfy the need

eg a person may need food, but wants pizza

demand - demands are specific wants but backed by an ability to pay.

eg many people want a lavish apartment but only few are able to buy one.



marketers do not create needs as needs pre-exist market. marketers along with wants, influence the demand of people.

[eg] Consumers are more aware in this digital world of 4th Industrial revolution. Consumers would not buy any product not needed even if provided for free.

for example, I do not need a set of furniture as I am a student.

But, when a product like a book or ticket to a cricket match is provided free of cost, I would definitely want it.

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Q6
(a)

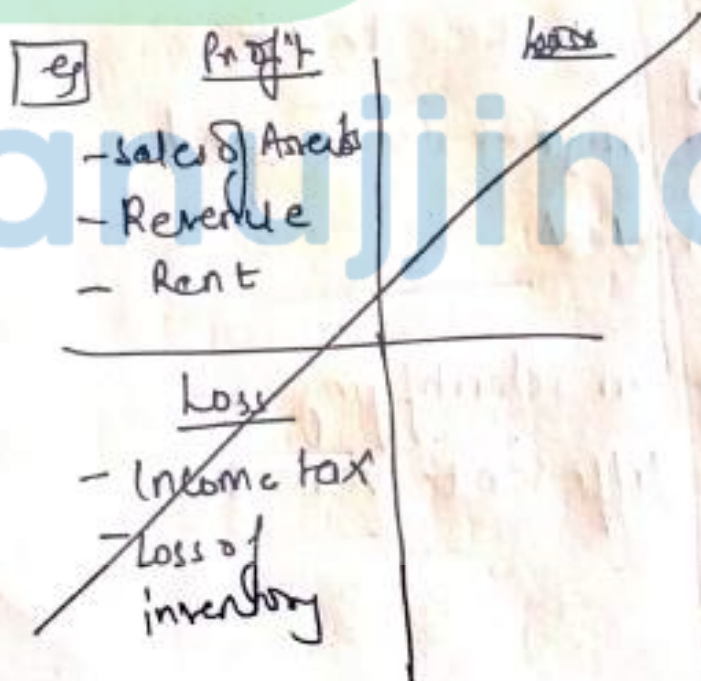
Financial statements are important documents used by auditors, government, banks, economists etc. to evaluate a company's performance.

→ It helps the top management to take decisions based on objective assessment and performance.

→ It also helps shareholders to assess whether the company is performing to maximize shareholder wealth.

Financial statements Tools

① Common size framework where each parameter is compared to others based on % contribution



	Standard Income Statement		Common size Statement	
	2020	2021	2020	2021
Sales	100	150	100%	100%
(Variable cost + fixed cost)	50	60	50%	40%
Profit	50	90	50%	60%
- admin expense	20	40	20%	26.67%
PBT	30	50	30%	33.33%
- Tax @ 30%	9	15	9%	10%
PAT	21	35	21%	23.33%

② Cash Flow Analysis and Fund Flow Analysis

- To predict and evaluate the future cash flows that a company expects in an accounting year.

- It helps in identifying activities that are inefficient due to higher cost and thus must be eliminated

③ **Ratio Analysis** helps in identifying relationships between different variables

Examples
Types of ratios

eg) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

helps in evaluating risk of a solvency of a firm

④ Trend Analysis helps in understanding historical information to predict future trends

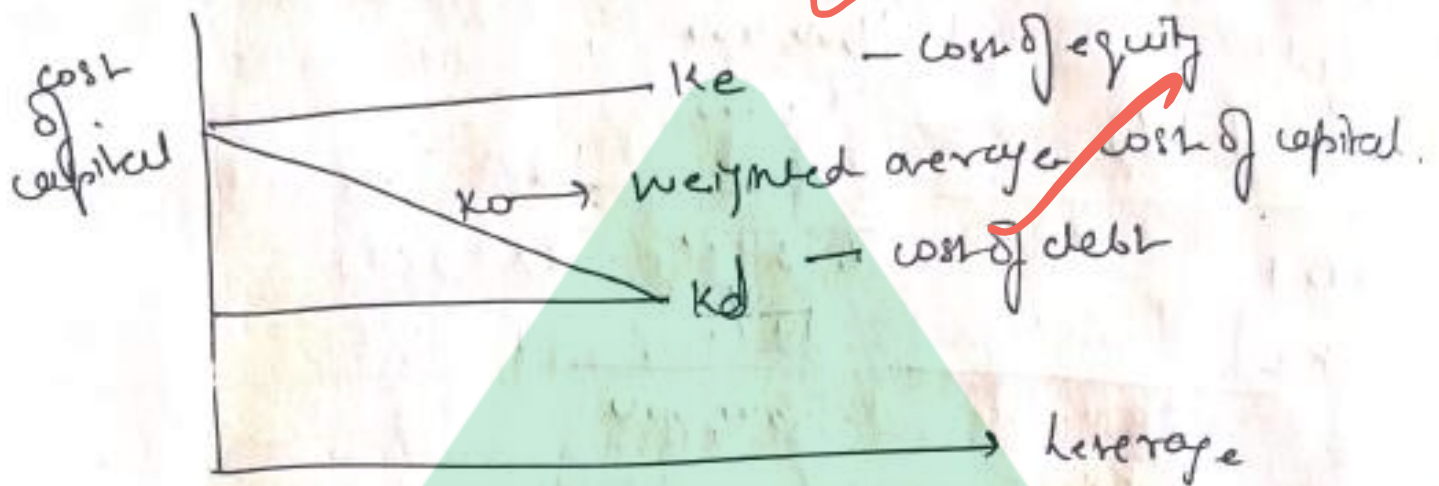


Such analysis come handy during COVID-19 due to uncertainties in financial market

Such tools and techniques should be understood deeply to understand company's financial position and gain profitable growth.

⑤ Comparative Analysis

Q6 (i) Net Income Approach of capital structure is a method of capital structure which says valuation of a firm is relevant to capital structure decision.



It means that cost of debt and cost of equity remains fixed. As cost of debt increases with more usage of debt in the capital structure, the weighted average cost of capital comes down as K_d is generally lesser than K_e .

$$\text{value of firm} = E + D$$

$$E = \frac{\text{Net Income / PBT}}{K_e}$$

$$D = \frac{\text{Interest}}{K_d}$$

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$$EBIT = 4,00,000$$

$$K_e = 10\%$$

$$D = 10,00,000, K_d = 7\%$$

(a)

$$\begin{array}{r} EBIT \\ - \text{Int. (7\%)} \\ \hline \end{array} \quad \begin{array}{r} 4,00,000 \\ 70,000 \\ \hline \end{array}$$

$$\begin{array}{r} PBT \\ K_e \\ \hline \end{array} \quad \begin{array}{r} 3,30,000 \\ 10\% \\ \hline \end{array}$$

$$E = \frac{PBT}{K_e} = \frac{3,30,000}{10\%} = 33,00,000$$

$$D = 10,00,000$$

$$V = E + D = 33,00,000 + 10,00,000 = 43,00,000$$

$$K_0 = \frac{EBIT}{V}$$

$$\frac{4,00,000}{43,00,000} = 9.302\%$$

b) Increase of debt by 2,00,000

$$\begin{array}{r} EBIT \\ - \text{Int (7\%)} \\ \hline \end{array} \quad \begin{array}{r} 4,00,000 \\ 1,40,000 \\ \hline \end{array}$$

$$\begin{array}{r} PBT \\ K_e \\ \hline \end{array} \quad \begin{array}{r} 2,60,000 \\ 10\% \\ \hline \end{array}$$

$$E = \frac{PBT}{K_e} = \frac{2,60,000}{10\%} = 26,00,000$$

Increase of debt by 2,00,000

EBIT	4,00,000
- Int (7% of 12,00,000)	84,000
PBT	316,000
K_e	10%
$E = \frac{PBT}{K_e}$	31,60,000
$D = 12,00,000$	12,00,000
$V = E + D$	43,60,000
$K_0 = \frac{EBIT}{V}$	$\frac{4,00,000}{43,60,000} = 9.17\%$

K_0 decreases as debt increases

Decrease of debt by 2,00,000

EBIT	4,00,000
- Int (7% of 8,00,000)	56,000
PBT	3,44,000
K_e	10%
$E = \frac{PBT}{K_e}$	34,40,000
$D = 8,00,000$	8,00,000
$V = E + D$	42,40,000
$K_0 = \frac{EBIT}{V}$	$\frac{4,00,000}{42,40,000} = 9.43\%$

K_0 increases as debt decreases

13

Q. (c) PESTEL Analysis is a method to analyse macro-environment that affects an organization in its lifetime.

More Examples

① Political environment - that impacts an organization

[eg] → an unstable political environment in countries like Iran, N. Korea discourage investment and organizational growth.

② Economic environment → impacts the earning potential of a firm.

[eg] → easy compliance and low tax provide conducive environment to companies in Mauritius, Cayman Islands

③ Social environment → helps to an organization to grow in a socio-cultural environment that encourages innovation and growth

④ Technological Environment →

[eg] Silicon valley hosts multiple technical startups

due to ease of access to technical and educationally qualified individuals.

5) Environmental environment → compliance to environmental regulations and more focus on greener technologies
eg Nordic countries like Sweden, Norway

6) Legal environment → less regulatory compliance and legal hurdles promote economic growth.

The above case study focuses on

Economic Environment

It emphasises on the economy of a country

Characterized by

→ higher GDP growth

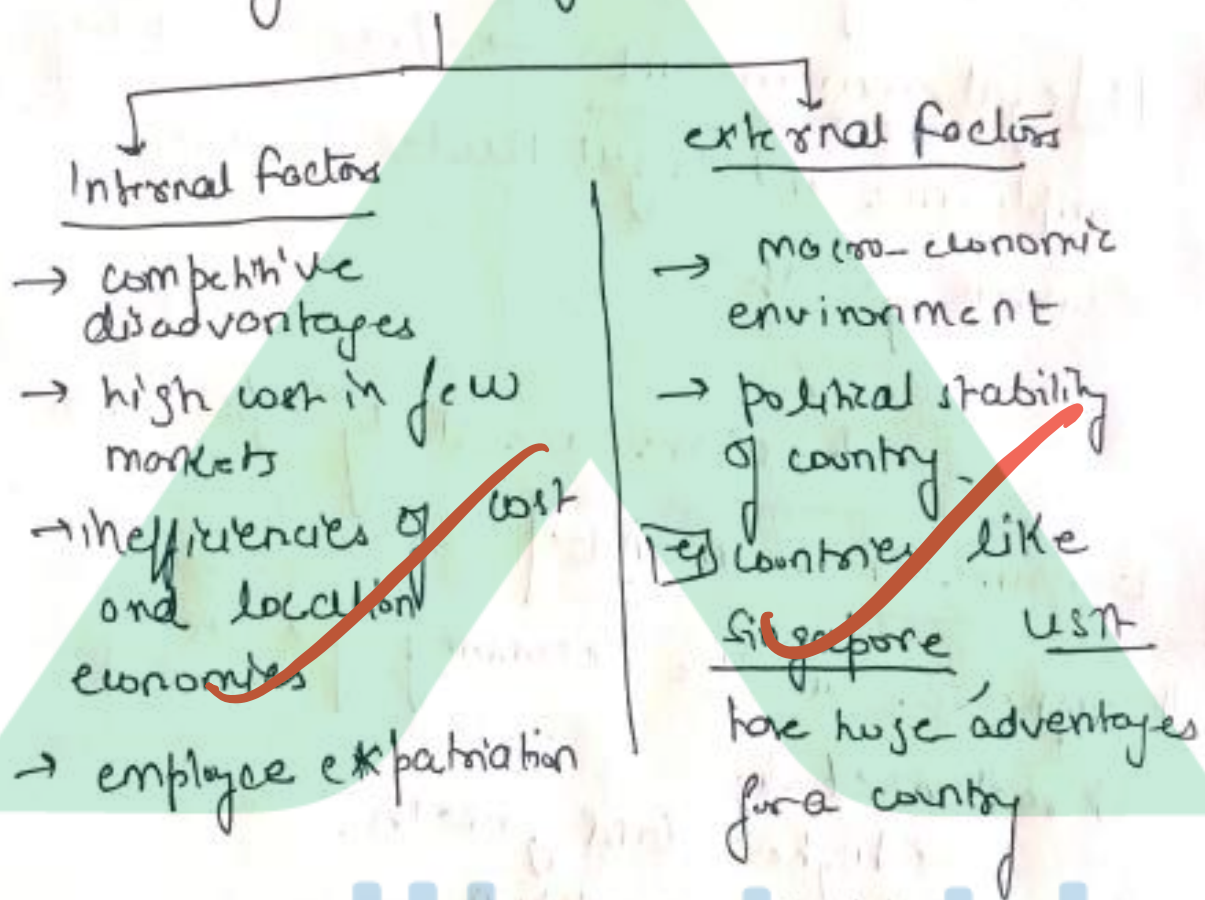
→ high consumption

→ stable exchange rate and inflation

→ education level of population.

ii) Importance of environmental scanning for marketers

a) It is a sort of SWOT Analysis for a company to evaluate internal and external factors that may impact the organization's growth.



b) It helps in assessing risk before heavy investment is made

eg] Any company investing in developing countries like Bangladesh for cheap cost of labor would also look at political stability

c) It helps in realizing cost advantages

Key Trade-off between export and local manufacturing depend on how cost can be lowered in a foreign market

d) It helps in assessing competition

Key Any country where many companies pre-exist → an organization may not have first market advantage and lose out to monopolies / oligopolies due to high entry barriers

e) Analysis of consumer demand and disposable incomes help in forecasting future revenue stream

Key Developing countries like India, Indonesia with expanding per capita income and rural market expansion provide huge untapped market.

Thus, a systematic analysis of macro environment through PESTEL analysis helps in enabling a firm to grow and succeed in a hyper-competitive world.

11



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