STUDENT SUPPORT MATERIAL

Class XI

Business Studies

Session 2020-21

KENDRIYA VIDYALAYA SANGSTHAN

RO AGRA

STUDENT SUPPORT MATERIAL

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Business Studies

Class XI

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SYLLABUS

Session 2020-21

BUSINESS STUDIES

CLASS XI

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	Total (ii)	**70**	**40**
	Project Work (iii)	**20**	**20**
	Grand Total (i + ii +iii)	**165**	**100**

DELETED TOPICS

(for Session 2020-21)

BUSINESS STUDIES

CLASS XI

Units	Name of The Unit	DELETED TOPICS
Part A:	**Foundation of Business**	
Unit - 2:	Forms of business organisations	Choice of forms of Business Organisations
Unit - 3:	Public, Private and Global Enterprises	Global Enterprises – Features. Joint Ventures; Public Private Partnership - Concept
Unit - 4:	Business Services	Postal Services – Mail, Registered Post, Parcel, Speed Post, Courier - Meaning
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Unit - 10:	International Business	Export Trade – Meaning and Procedure Import Trade – Meaning and Procedure Documents involved in International Trade – Indent, Letter of Credit, Shipping Order, Shipping Bill, Mate's Receipt (DA/DP) World Trade Organisation (WTO) – Meaning and Objectives

UNIT - 1

Evolution & Fundamentals of Business

History of Trade and Commerce in ancient India

- Trade and commerce have played a vital role in making India to evolve as a major actor in the economic world in ancient times.
- Commercial cities like Harappa and Mohenjodaro were founded in the third millennium B.C. The civilization had established commercial connections with Mesopotamia and traded in gold, silver, copper, coloured gemstones, beads, pearls, sea shells, terracotta pots, etc.
- Silk Route helped in establishing commercial and political contacts with adjoining foreign kingdoms and empires of Asia, in particular, and the world, in general.
- Maritime Route linked the east and the west by sea and were used for the trade of spices, so also known as 'spice route'.

Indigenous Banking System

As economic life progressed, the earlier barter system was replaced by metals. The metallic currency served as a medium of exchange as money because of its durability and divisibility.
Other financial documents, which were prominent in the subcontinent and used to perform transactions, were Hundi and Chitti. Hundi is an instrument of exchange.

Hundi involved a contract which:

(i) Warrant the payment of money, the promise or order which is unconditional

(ii) Capable of change through transfer by valid negotiation.

Name of *Hundi*	***Type***	**Payable to**
Dhani-jog	*Darshani*	Payable to any person
Nam-Jog	*Darshani*	Payable only to person whose name mentioned on it (and can't be endorsed in favour of any other person)
Sah-jog	*Darshani*	Drawn by one person on another, asking the latter to pay the amount to a third person. Here the drawee is a person who has certain level of credit worthiness in the market i.e. a person, someone 'respectable'.
Firman-jog	*Darshani*	*Hundi* made payable on order either to a person whose name mentioned in it or to any person so ordered by him.
Dekhan-har	*Darshani*	Payable to the presenter or bearer.
Dhani-jog	*Muddati*	Payable to any person
Firman-jog	*Muddati*	*Hundi* made payable to order
Jokhmi	*Muddati*	Drawn against dispatched goods. (not negotiable and conditional in nature, means payable only on completion of a certain condition)

Indigenous banking system played a prominent role in lending money and financing domestic and foreign trade with currency and letter of credit. With the development of banking, people began to deposit precious metals with lending individuals functioning as bankers or Seths.

Agriculture and the domestication of animals were important components of the economic life of ancient people. Other economic activities were weaving cotton, dyeing fabrics, making clay pots, utensils, and handicrafts, sculpting, cottage industries, masonry, manufacturing, transports (i.e., carts, boats and ships), etc.

Workshops (Karkhana) were prominent where skilled artisans worked and converted raw materials into finished goods which were high in demand. Family-based apprenticeship system (where skills and knowledge, which were passed on from one generation to another) was in practice and duly followed in acquiring trade-specific skills.

Rise of Intermediaries

Intermediaries played a prominent role in the promotion of trade. It comprised

(i) Commission Agents and Brokers

(ii) Distributors (both for wholesale and retail goods)

The evolution of *Jagat Seths* also developed and exercised great influence during the Mughal period and the days of the East India Company.

Commercial and Industrial banks later evolved to finance trade and commerce and agricultural banks to provide both short-and long-term loans to finance agriculturists.

Transport

Trade was performed by both *land ways and water ways.*

The trade that took place through water ways was known as **Maritime trade.**

Pepper was particularly valued in the Roman Empire and was known as '*Black Gold'*. For centuries, it remained the reason for rivalry and conflict between various empires and trade powers to dominate the route for this trade.

Trading Communities Strengthened

In different parts of the country, different communities dominated trade as follows:

S. No.	Region	Dominating trading community who handles business
1	Northern Region	*Punjabi* and *Multani*
2	States of Gujarat and Rajasthan	*Bhats (*In western India, these groups were called *Mahajan*)
3	Southern Region	Chattis

In urban centers, such as Ahmedabad the Mahajan community collectively represented by their chief called *Nagarseth.*

Other urban groups included professional classes, such as hakim and vaid (physician), wakil (Lawyer), pundit or mulla (teachers), painters, musicians, calligraphers, etc.

Merchant Corporations

The merchant community also derived power and prestige from *Guilds*, which were the autonomous corporations, formed to protect the interests of the traders.

These corporations, organized on formal basis, framed their own rules of membership and professional code of conduct, which even kings were supposed to accept and respect.

The guild chief dealt directly with the king or tax collectors and settled the market toll on behalf of its fellow merchants at a fixed sum of money.

The major sources of income were:

(i) **Trade and industry taxes:** Traders had to pay octroi duties that were levied on most of the imported articles at varying rates. Customs duties varied according to the commodities and province.

(ii) **Ferry tax:** It had to be paid for passengers, goods, cattle and carts. The right to receive the labour tax was usually transferred to the local bodies.

Major Trade Centres

The following were the leading trade centres in ancient India:

1. **Patliputra (modern day Patna):** It was not only a commercial town, but also a major centre for export of stones. It was a city in ancient India and was built by Magadha ruler 'Udayin' in 490 BC as a small fort near Ganga River named as Paaligrama.

2. **Peshawar:** It was an important exporting centre for wool and for the import of horses. Through Peshawar, the business was done between India, China and Rome in the first century A.D.
3. **Taxila:** It was a major centre on the important land route between India and Central Asia. It was also a city of financial and commercial banks. The city occupied an important place as a Buddhist centre of learning. The famous Taxila University flourished here.
4. **Indraprastha:** It was the commercial junction on the royal road where most routes leading to the east, west, south and north converged.
5. **Mathura:** It was an emporium of trade and people here subsisted on commerce. Many routes from South India touched Mathura and Broach.
6. **Varanasi:** It was well placed as it lay both on the Gangetic route and on the highway that linked North with the East. It grew as a major centre of textile industry and became famous for beautiful gold silk cloth and sandalwood workmanship. It had links with Taxila and Bharuch.
7. **Mithila:** The traders of Mithila crossed the seas by boats, through the Bay of Bengal to the South China Sea, and traded at ports on the islands of Java, Sumatra and Borneo. Mithila established trading colonies in South China, especially in Yunnan.
8. **Ujjain:** Agate, carnelian, muslin and mallow cloth were exported from Ujjain to different centres. It also had trade relations through the land route with Taxila and Peshawar.
9. **Surat:** It was the emporium of western trade during the Mughal period. Textiles of Surat were famous for their gold borders (zari). It is noteworthy that Surat hundi was honoured in far off markets of Egypt and Iran.
10. **Kanchi:** Today known as Kanchipuram, it was here that the Chinese used to come in foreign ships to purchase pearls, glass and rare stones and in return they sold gold and silk.
11. **Madura:** It was the capital of the Pandayas who controlled the pearl fisheries of the Gulf of Mannar. It attracted foreign merchants, particularly Romans, for carrying out overseas trade.
12. **Broach:** It was the greatest seat of commerce in Western India. It was situated on the banks of river Narmada and was linked with all important marts by roadways.
13. **Kaveripatta:** Also known as Kaveripatnam, it was scientific in its construction as a city and provided loading, unloading and strong facilities of merchandise. Foreign traders had their headquarters in this city. It was a convenient place for trade with Malaysia, Indonesia, China and the Far East. It was the centre of trade for perfumes, cosmetics, scents, silk, wool, cotton, corals, pearls, gold and precious stones; and also for ship building.
14. **Tamralipti:** It was one of the greatest ports connected both by sea and land with the West and the Far East. It was linked by road to Banaras and Taxila.

Major Exports and Imports

Export/Import	Name of Items
Exports consists of	spices, wheat, sugar, indigo, opium, sesame oil, cotton, parrot, live animals and animal products—hides, skin, furs, horns, tortoise shells, Stones - pearls, sapphires, quartz, crystal, Lapis lazuli, granites, turquoise and Copper etc.
Import consists of	horses, animal products, Chinese silk, flax and linen, wine, gold, silver, tin, copper, lead, stones- rubies, coral, glass, amber, etc.

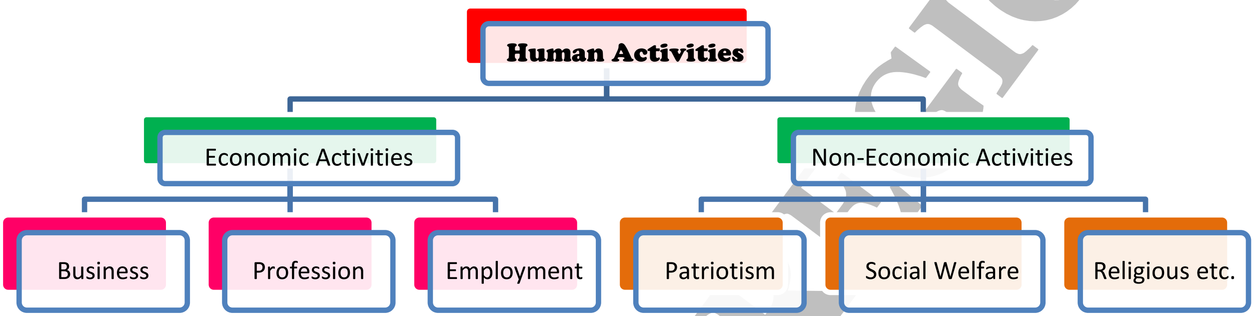
Human Activities

In every society, people undertake various activities to satisfy their needs. These activities may be broadly classified into two groups:

(i) Economic Activities
(ii) Non-economic Activities

Economic Activities
Economic activities are those by which we can earn our livelihood. For example, a worker working in a factory, a doctor operating in his clinic, a manager working in an office and a teacher teaching in a school.
Economic activities may be further divided into three categories, namely business profession and employment.

Non-economic Activities
Non-economic activities are performed out of love, sympathy, sentiment, patriotism, etc. for example a housewife cooking food for her family, or a boy helping an old man cross the road are performing non-economic activities since they are doing so out of love or sympathy.



Business
Business is an economic activity which involves production and exchanging of something of value whether goods or services, for mutual gain or profit, on regular basis. It does not involve production and exchange of goods or for personal consumption.

Features or Characteristics of Business

(i) **Economic activity:** Business is an economic activity as it involves production and distribution of goods and services for earning profit.
(ii) **Production or procurement of goods or services:** Business involves both production and procurement of goods and services for resale purpose for a price or consideration.
(iii) **Sale or Exchange of goods or services:** Business involves sale or exchange of goods and services for a price or consideration. If there is no sale, transfer or exchange for a consideration, it will not be a business activity.
(iv) **Dealing in goods and services:** Every business produces or buys and sells goods or services Goods may be consumer goods or producer goods.
(v) **Profit earning:** The primary objective of doing business should be to earn money or profit. Without profit, a business cannot run for long.
(vi) **Regular dealing:** Business transaction should be of recurring nature. A single transaction cannot be called a business.
(vii) **Uncertainty of return:** It is not certain as to what amount of profit will be earned. Also, there is always a possibility of losses being incurred, despite the best efforts put into the business.
(viii) **Risk:** Risk is inherent in every business. A business can suffer risk of loss due to change in taste, fashion, strike, natural calamities, fire, theft

Profession

Profession is an economic activity, whereby someone renders the professional services backed by some specific knowledge say doctors, lawyers, chartered accountants etc.

Features of profession

(i) **Well-defined and organized body of knowledge:** Every profession has well defined body of knowledge which contains principles, theories, and techniques of that particular field. It is formed through observation and experimentation.

(ii) **Entry restricted by qualification:** Anybody who wants to enter a profession must pass an examination and obtain degree/diploma.

(iii) **Recognized National Body:** There must be an association, which prescribes the minimum qualification for entry, provides training, conduct exams and award diploma/degree in the particular field. Every profession has to be a member of this association. E.g.: All doctors need to be a member of the Medical council of India and have to follow its rules and regulations (code of conduct).

(iv) **Ethical code of conduct:** Every profession has a code of conduct set by the professional association, which every member has to follow.

(v) **Dominance of service motive:** Every professional is expected to give priority to service motive rather than his selfish gains. But a professional is provided fee for rendering services.

Employment

Employment refers to an occupation in which people work for others to get remuneration in return in the form of salary or wages or otherwise. E.g. Vikas works as Accountant in a firm and gets salary.

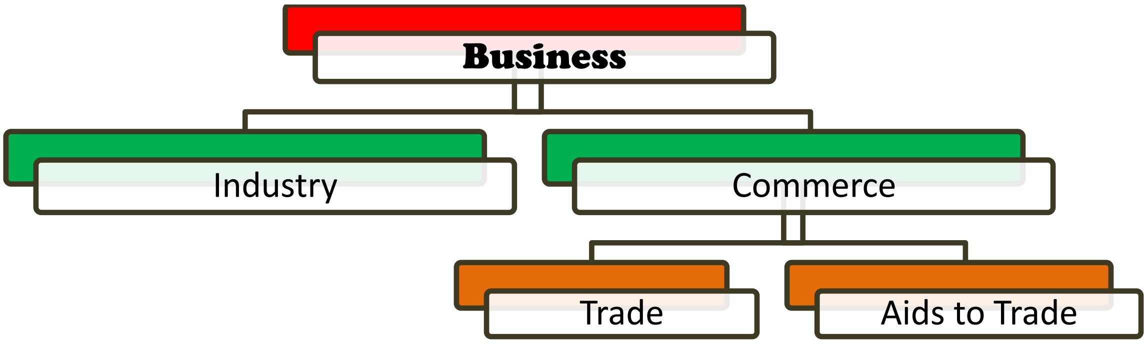
Difference between Business; Profession and Employment

Basis	Business	Profession	Employment
Mode of Establishment	Entrepreneur's decision with required legal formalities	Membership of a professional body and certificate of practice.	Service contract and letter of appointment.
Nature of Work	Supply of goods and services	Personal services of expert nature.	Work assigned by the employer.
Qualification	No minimum qualification required	Minimum educational qualification and training is required	Depends upon the type of job.
Basic Motive	Profit making	Providing services	Earning wages or salaries
Capital Investment	Capital Investment is required depending upon size and nature of business.	Small amount of Investment is required to set up office.	No capital investment is required
Reward	Profits	Fees	Wages or salaries
Risk	Inherent	Very little	No risk or negligible risk.
Transfer of Interest	Ownership can be transferred as per the law	Cannot be transferred	Now transferrable
Code of Conduct	No code of conduct.	Professional code of conduct	Terms and conditions of the employer have to be followed.

Business activities are broadly classified into two categories:

(i) Industry

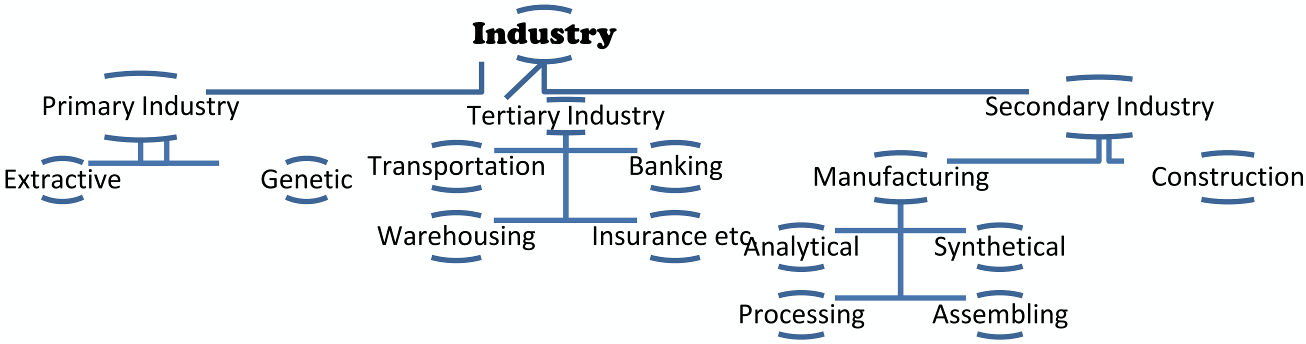
(ii) Commerce



Industry

The term industry refers to the production or processing of goods through the utilization of various resources e.g. making furniture from a log of wood. This also includes activities relating to breeding and raising of plants & animals. Industry is further divided into the following categories:

(i) Primary Industry
(ii) Secondary Industry
(iii) Tertiary Industry



Primary Industry

All business activities which are concerned with the extraction of natural resources and breeding of plants and animals are known as primary industries. These include the following:

(i) **Extractive Industries:** These industries are engaged in extraction of useful materials from beneath the surface of the earth and sea means natural resources. In these industries, the products, gifted by nature, are extracted and collected for the benefit of human beings e.g. Mining, Quarrying, Fishing, Forestation etc.

(ii) **Genetic Industries:** These are engaged in breeding plants & animals for their use in further reproduction e.g. Nurseries, Cattle breeding, Poultry farms, Dairy farming etc.

Difference between Genetic and Extractive Industry

Basis	Extractive Industry	Genetic Industry
Involvement of human beings	In the extractive Industry no wealth is added by human beings i.e. it only involves extracting products from natural resources.	In the genetic Industry, human being not only adds to the growth but also reproduces the nature made goods.

Example	Extracting minerals from earth, fish from rivers etc.	Rearing of cattle for milk, Poultry farming i.e. raising of chickens, ducks etc., for farming meat, eggs etc.

Secondary Industry

These industries process materials, which have been already extracted from the primary industries, to produce goods for final consumption or for further processing by other industrial units. E.g. mining of iron ore is a primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry. The secondary industries are further subdivided as follows:

(i) **Manufacturing Industries:** These are concerned with the processing or transformation of raw materials & semi-finished goods (half made goods) into finished products. These industries are engaged in producing goods through processing of raw materials and, thus, creating form utilities. Manufacturing industries are of following types:

a. **Analytical Industries:** Under it, a basic raw material is broken into general useful materials. E.g.: In an oil refinery, the crude oil is analysed and separated into several products such as petrol, diesel, Kerosene and lubricating oil.

b. **Synthetical Industries:** Under it, two or more materials are combined to form a new product. E.g.: Concrete, gypsum, coal are mixed to produce cement.

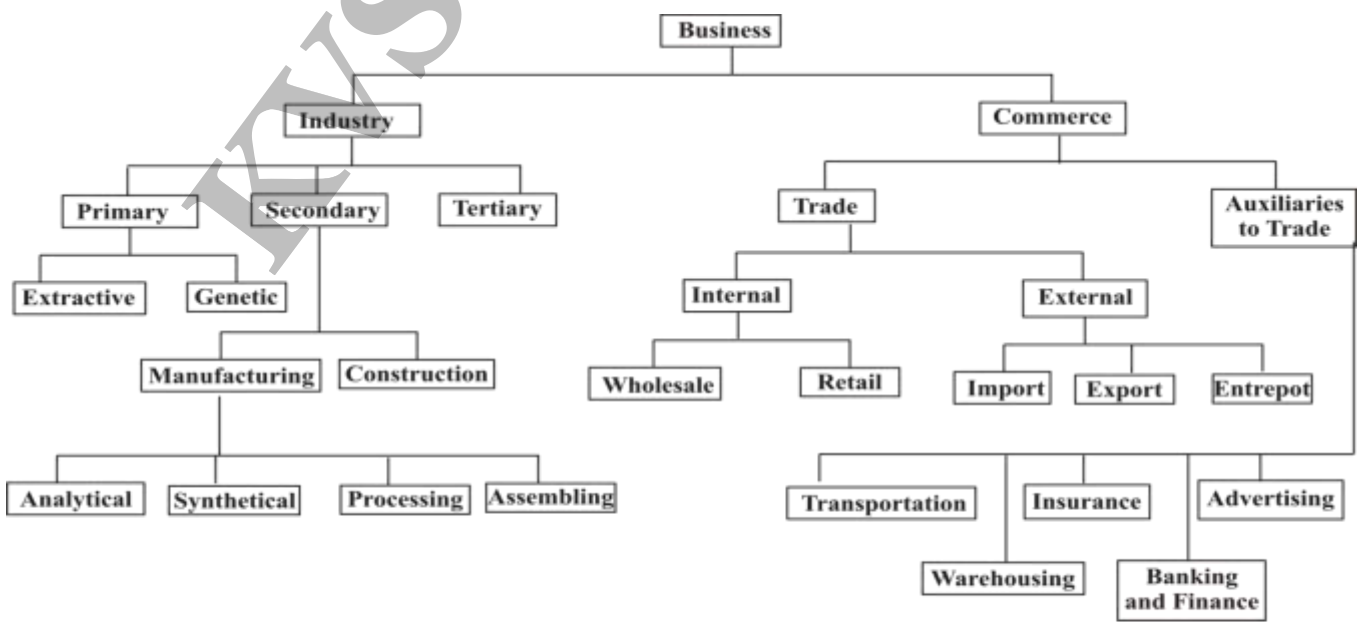
c. **Processing Industry:** Under it, a raw material is processed through various steps to make the final product. E.g.: In the cotton textile industry, cotton passes through spinning, weaving, dyeing, bleaching, printing process to convert it into cloth. Other examples are making of cheese, jams etc.

d. **Assembling Industry:** Under this, manufactured components/parts are combined together mechanically or chemically to produce a new product. E.g.: Manufacture of TV sets, computers, automobile industry etc.

(ii) **Construction Industry:** This Industry is engaged in the construction of buildings, roads, bridges etc. They utilize the products of manufacturing industries like cement, steel iron, and bricks.

Tertiary Industries

These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. As business activities, these may be considered part of commerce because as auxiliaries to trade these activities assist trade. Included in this category are transport, banking, insurance, warehousing, communication, packaging and advertising.



Commerce
Commerce includes all those activities, which are necessary for movement of goods from producer to consumers. So it includes buying, selling and distribution of commodities. Commerce is divided into two categories i.e. Trade and Auxiliaries to Trade.

Trade
It means buying and selling or exchange of goods and services. Trade removes hindrance of person by bringing the producers and consumers together. Trade is further divided into two categories:

(i) **Home Trade or Internal Trade:** It is the buying and selling of goods within the geographical boundaries of a country. It is also known as domestic trade. It includes wholesale trade and retail trade.

(ii) **Foreign Trade or International Trade or External Trade:** It is the buying and selling of goods or services beyond the geographical boundaries of a nation. Foreign Trade is of the following types:
   a. **Import Trade:** It is the buying of goods from a foreign country.
   b. **Export Trade:** It is the selling of goods to a foreign country.
   c. **Entrepot Trade:** It is the buying of goods from one country not for consumption in the home country but for exporting it to other country.

Auxiliaries to Trade (Aids to Trade)
Activities which are meant for assisting trade and industry are known as auxiliaries to trade. These are the activities which help in the buying and selling of goods (i.e. trade). Commerce helps in removing various hindrances (obstacles). Auxiliaries to trade includes following services:

(i) **Transportation:** Transportation facilitates movement of goods from one place (place of manufacturing) to another place (place of consumption) provides place utility to the product.
Production of goods takes place at a particular place whereas the consumers are scattered in different places. Commerce removes this hindrance through transport.

(ii) **Warehousing:** Generally there is a time gap between production and consumption. As such, it becomes necessary to store the goods until they are sold.
This hindrance of time gap between production and consumption is removed by warehousing. Thus warehousing creates the time utility.
This also helps to balance the demand and supply thereby leading to price stabilization.

(iii) **Insurance:** Risk is inherent in every business. During transit or storage, goods may be damaged due to natural calamities, theft, mishandling, fire etc.
Insurance removes the hindrance of risk in return for the payment of small premium. Thus, it creates risk utility.

(iv) **Banking & Finance:** Finance is the life blood of the business. Without finance, there will be no business. Banking removes the hindrance of finance, by making available the adequate amount of finance wherever required. Thus it creates the finance utility.
Also convenient and safe means of payment are required to settle the business transaction. Banks remove the obstacle in the process of exchange by making and collecting payment on behalf of their clients. Therefore, Banking removes the hindrance of exchange.

(v) **Advertising:** A producer often finds it difficult to sell his goods and services because the consumers are not aware of the benefits and usage of their goods and services. Advertising removes the hindrance of knowledge by informing the customers about the goods and services. Thus it creates the utility of knowledge.

Various utilities created & hindrances removed by different auxiliaries to trade:

S. No.	Auxiliary to Trade	Utility which is created	Hindrance removed
1	Transportation	Place Utility	Hindrance of Place
2	Banking	Finance Utility	Hindrance of Finance
3	Insurance	Risk Utility	Hindrance of Risk
4	Warehousing	Time Utility	Hindrance of Time
5	Advertising	Knowledge Utility	Hindrance of Knowledge

Objectives of Business
Objectives of business are classified into the following categories:

(i) **Economic objectives:**

a. **Earning of Profit:** Every business man does business with the objective of earning profit. No business can survive without making adequate profits.

b. **Creating customers or Market standing:** Market standing refers the position of the business in comparison of its competitors. Thus, creation and satisfaction of customers is an important economic objective of business. This can be done by identifying customer's needs, planning and developing products and services and selling them at a reasonable price.

c. **Innovation:** Innovation means making new and more improved products. A business man needs to continuously innovate otherwise his products will become obsolete and he will lose his market standing.
There may be product innovation (usability of the product may be enhanced by adding new features); Production innovation (technique of production may be improved) or distribution innovation (explore new and effective & efficient channels of distribution).

d. **Productivity:** Productivity can be measured in terms of ratio between inputs and output. Every business must strive to increase its productivity for continuous growth and survival.

e. **Best possible use of scarce resources:** Business is expected to make the best possible use of scarce resources. For this a business man has to allocate funds and spend them efficiently.

(ii) **Social objectives**

a. **Good quality goods and services of fair prices:** The first social objective of any business should be to provide good quality goods and services at reasonable prices.

b. **Avoidance of anti-social and unfair trade practices:** Anti-social practices like boarding, black-marketing, adulteration, making false claims, misleading advertisements etc. should be avoided.

c. **Generation of Employment:** A business is expected to generate employment opportunities in the society without any discrimination on account of caste, sex, religion, creed etc.

d. **Employee welfare:** A business should ensure welfare of its employees by providing good working conditions, fair wages and facilities like housing, insurance, medical etc.

e. **Community service:** Business is expected to serve the local community by establishing charitable schools, hospitals, sponsoring games, making donations for social and religious purposes etc.

f. **Protection of environment:** A business should take all reasonable steps to protect the environment by making proper arrangement for garbage disposal, smoke etc.

(iii) **Individual Objectives**

a. It includes providing healthy and safe working conditions.
b. To pay fair and competitive salaries and perks
c. Providing opportunities for personal growth and development of employees through training.
d. Providing security of service.
e. Providing financial and non-financial incentives & motivate the employees.
f. Encouraging employees to participate in management.

Importance of profits
Profit is not an objective but a requirement of business. A business must earn profit because of the following reasons.

(i) Survival
(ii) Growth
(iii) Symbol of efficiency

(iv) Reward for risk bearing
(v) Improves goodwill.

Profit can no more be the objective of business than eating is the objective of living. Profit earning is essential for the survival and growth of business enterprises. Maximization of profit is not desirable because it leads to exploitation. Maximization of profit is opposed because of the following reasons:

(i) It leads to exploitation of workers and consumers. For the sake of more profit, the businessman may exploit the worker by paying less and may exploit the consumers by providing them less quality products.
(ii) It leads to a state of social inequalities where rich becomes richer and the poor becomes poorer.
(iii) It leads to a number of corrupt practices.
(iv) It lowers the human values because the state of increased profit will lead to a materialistic society.

Business Risks

The term business risk refers to the possibility of inadequate profits or even losses due to some uncertainties or unexpected events. For example, demand for a particular product may decline due to change in tastes and preferences of consumers or due to increased competition from other producers. Lower demand results in long sales and profits.

Types of Risks

- Speculative Risks
- Pure Risks

Speculative Risks

Speculative risks involve both the possibility of gain, as well as, the possibility of loss. Speculative risks arise due to changes in market conditions, including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers. Favourable market conditions are likely to result in gains, whereas, unfavourable ones may result in losses.

Pure Risks

Pure risks involve only the possibility of loss or no loss. The chance of fire, theft or strike is examples of pure risks. Their occurrence may result in loss, whereas, non-occurrence may explain absence of loss, instead of gain.

S. No.	Basis	Pure Risks	Speculative Risk
1	Meaning	Pure risks involve only the possibility of loss or no loss.	Speculative risks involve both the possibility of gain, as well as, the possibility of loss.
2	Factors	The key factors are strike, fire, theft, natural calamities etc.	The key factor is market condition like changes in demand and supply, price fluctuation etc.
3	Effect	Pure risk may result in loss on occurrence of above events or no loss on non-occurrence. But there will be no profit.	Favourable market condition leads to profits and unfavourable market condition leads to losses.

Nature of Business Risks

(i) **Business risks arise due to uncertainties:** Business environment is totally dynamic and anything can happen in future like change in government policy, change in price level, demand, natural calamities, etc. Risk arises due to these uncertainties.

(ii) **Risk is an essential part of every business:** Risk is inherent in every business as business prone to various uncertainties. Risk can be minimized through various ways like insurance but can't be eliminated altogether.

Degree of risk depends mainly upon the nature and size of business: Business which is run on a large scale has higher risk as compared to a small scale business.

It also depends on nature of business like IT business and Fashion industry have greater risk factors due to rapid changes takes place.

(iii) **Profit is the reward for taking the risk:** The motive to earn higher profit makes business men to take risk. Thus, profit is the reward for taking risk. The higher the risk, higher is the chances of making higher profit. So, the concept "No risk, No gain" is applicable to all business organisations.

Causes of Business Risk:

(i) **Natural Calamities:** These include risk due to flood, earthquake, heavy rain, drought etc. which are beyond the control of human beings.

(ii) **Human Causes:** These include theft, carelessness of employees, strike, embezzlement of funds, riots etc.

(iii) **Economic Causes:** It includes fluctuation in demand and prices, change in exchange rate, change in competition etc.

(iv) **Physical causes: I**t includes mechanical defects like explosion in a boiler etc.

(v) **Other Causes:** It includes unforeseen events like political disturbances, change in technology etc.

Different ways of dealing with business risks are:

(i) Decide not to enter into too risky transaction.

(ii) Take preventive measures, like fire fighting devices, to reduce risk.

(iii) Take insurance policy to transfer risk to insurance company.

(iv) Assume risk by making provisions in the current earnings as is the case of provision for bad and doubtful debts; or

(v) Share risks with other enterprises as manufacturers and wholesalers may do by agreeing to share losses which may be caused by falling prices

(vi) Transfer of risks

MCQs:

Q1. Identify the activity which is not an auxiliary to trade?

(a) Banking (b) Warehousing
(c) Insurance (d) Mining

Q2. Industries like sugar mill or oil refinery are put under which category-

(a) Primary (b) Secondary
(c) Tertiary (d) None of the above

Q3. Which of the following is not a characteristic of business?

(a) Production (b) Exchange or sale
(c) Wages or salaries (d) Risk element

Q4. Which of the following is not a business activity?

(a) Production of goods (b) Work in a factory for wages
(c) Exchange of goods (d) Transportation

Q5. Which of the following is not an economic activity?

(a) Production (b) Trading in goods
(c) Professional (d) Social service

Q6. Name the occupation in which people work for others in return for wages or salaries?

(a) Employment (b) Business
(c) Profession (d) None of the above

Q7. Support services to industrial \business activities are clubbed under?

(a) Commercial industries (b) Primary industries

(c) Secondary industries (d) Tertiary industries

Q8. Which of the following is not a cause of business risk?

(a) Breakdown of machinery (b) Efficient management

(c) Riot (d) Changing government policy

Q9. Why should a business earn profit?

(a) To provide return to investors. (b) To provide funds for future growth.

(c) To increase the reputation of business. (d) All the above

Q10. Which of the following in not a true statement?

(a)The scope of commerce is narrower than business.

(b)Commerce includes trade and auxiliaries to trade.

(c)Foreign trade is purchase and sale by the traders of the same country.

(d)Traders serve as a link between producers and consumers.

Q11. The possibilities of inadequate profits or even losses due to uncertainties are known as ....

(a) Business contingencies (b) Business risks

(c) Business ventures (d) None of these

Q 12. Which one of the following may not be a factor behind starting a business?

(a) Routine workload (b) size of the firm

(c) finance (d) location of the business

Q13. Name the two broad categories of business activities.

(a) Trade and Commerce (b) Trade and Industry

(c) Industry and Commerce (d) None of these

Q14.Commerce includes activities relating to trade and________________ to trade.

(a) Supporting (b) Subsidiaries

(c) Auxiliaries (d) None of these

Q15.'Earning of profit is considered to be the subsidiary objective of the business.' The given statement is-

(a) True (b) False

(c) Cannot says (d) None of these

Q16. Following are the characteristics of business risks. Identify the incorrect one

(a) Loss is the reward for risk bearing

(b) Business risks are due to uncertainties

(c) Risk is an essential component of every business

(d) Degree of risk depends mainly upon the nature and size of business

Q17. Transfer of interest exists in the case of

(a) Profession (b) Employment

(c) Business (d) None of these

Q18. Human activities are of ____________ types.

(a) One (b) Two

(c) Three (d) Four

Q19.Which of the following is not an example of non-economic activity?

(a) Patriotism (b) Teaching

(c) Sentiment (d) Sympathy

Q20. Economic activities may be classified into business, ___________ and employment

(a) Profession (b) Occupation

(c) Vocation (d) Work

Q21.Mr X started business of buying and selling of refrigerators. The term for this type of business activity is-

(a) Commerce (b) Trade

(c) Selling (d) Transaction

Q22.The occupation in which people work for others and get remunerated in return is –

(a) Business (b) Employment

(c) Profession (d) None of these

Q23. Recognise the assembling industry out of these-

(a) Poultry, cattle farms (b) Cement, brick

(c) Sugar, cotton (d) Television, computer

Q24. The industry concerned with using the material which have already been extracted at the primary stage is-

(a) Primary (b) Tertiary
(c) secondary (d) None of these

Q25.The best example of analytical industry is-

(a) Cement (b) Computer
(c) Sugar mill (d) Oil refinery

Answers: 1(d); 2(b); 3(c); 4(b); 5(d); 6(a); 7(d); 8(b); 9(d); 10(c); 11(b); 12(a); 13(c); 14(c); 15(b); 16(a); 17(c); 18(b); 19(b); 20(a); 21(b); 22(b); 23(d); 24(c); 25(d);

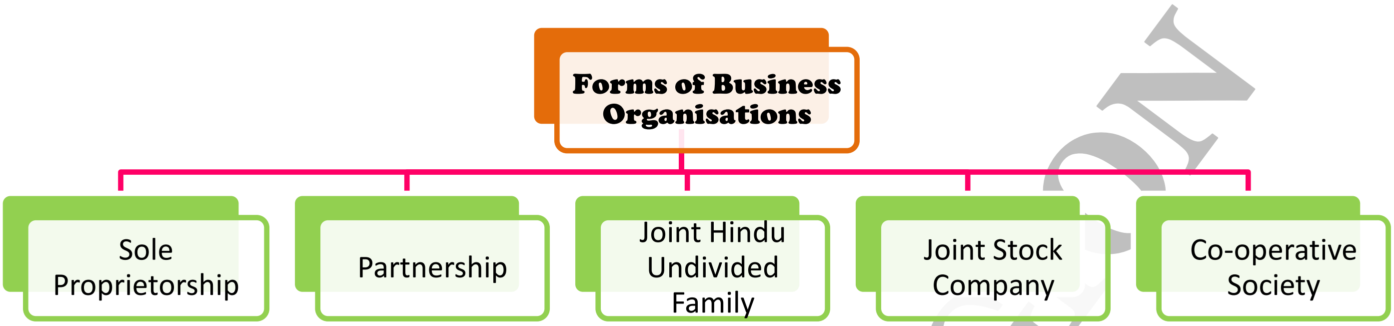
Exercise:

1. Vijay sells his mobile to his friend at a profit of Rs. 1,000. Will it be considered as a business? Name and explain the characteristic of business which is being highlighted in the given example.
2. Abhay, Binay and Charu are friends. They are pursuing their MBA from IIM, Kolkata. While having a coffee during break-time, they were discussing their future plans. Abhay said that he is planning to help his father by joining his printing press after completing MBA. Binay, on the other hand, wanted to get a job in some big company through institute's placement cell. Since Charu loves children, she shared her willingness to join an NGO and use her knowledge and skills to help underprivileged children.
   a. Identify and give two points of difference between Abhay's and Binay's plans?
   b. How would you classify the activity which Charu is willing to pursue after college?

UNIT - 2

Forms of Business Organisations

The business organizations in private sector are divided into following five categories:



Sole Proprietorship

A sole proprietorship firm refers to a business which is owned, managed and controlled by an individual, who will take all the profits and will bear all the risks of the business.
The sole proprietor has unlimited liability. It means the personal property of the owner can be utilized to set off the losses or to pay the liabilities of the business.

Features of Sole Proprietorship

1. **Formation and closure:** It can be formed very easily as there is no legal formalities. In certain cases, a license is required like medicines shop, restaurant etc. It can also be dissolved very easily.
2. **Unlimited liability:** If the sole proprietor is unable to pay the liabilities of the business from his business assets, then his personal property can be used to pay off the liabilities of business.
3. **Sole risk bearer and profit recipient:** The risk of failure of business is borne all by the sole proprietor alone. However, if the business is successful, the proprietor enjoys all the benefits. He receives all the business profits which become a direct reward for his risk bearing.
4. **Control:** A sole proprietorship business is controlled and managed by a single person i.e. sole proprietor. He alone takes all the decisions. At the most, he can employee a few people to help him in running the business.
5. **No separate legal entity:** The sole proprietorship business and the sole owner has no separate legal existence. If the owner dies or becomes insolvent, the business will be dissolved.
6. **Lack of business continuity:** The sole proprietorship business is owned and controlled by one person only. Therefore death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor will have a direct and detrimental effect on the business and may even cause closure of the business.

Merits or Advantages of Sole Proprietorship

1. **Quick decision making:** A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision making is prompt because there is no need to consult others. This may lead to timely capitalisation of market opportunities as and when they arise.
2. **Confidentiality of information:** Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy. A sole trader is also not bound by law to publish firm's accounts.

3. **Direct incentive:** A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profits. The need to share profits does not arise as he/she is the single owner. This provides maximum incentive to the sole trader to work hard.
4. **Sense of accomplishment:** There is a personal satisfaction involved in working for oneself. The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also instils in the individual a sense of accomplishment and confidence in one's abilities.
5. **Ease of formation and closure:** As sole proprietorship is the least regulated form of business, it is easy to start and close the business as per the wish of the owner.
6. **Flexibility of operation:** As there is no need to consult anyone regarding the nature & size of operations.

Demerits of Sole Proprietorship

1. **Limited Resources:** Resources of a sole proprietor are limited because the capital brought in either from proprietor's own funds or from borrowed funds. The borrowing capacity of a sole proprietor is limited.
2. **Limited life of business concern:** The sole proprietorship business is owned and controlled by one person. So death, insanity, imprisonment, physical ailment or bankruptcy of a proprietor affects the business and can lead to its closure.
3. **Unlimited liability:** A major disadvantage of sole proprietorship is that the owner has unlimited liability. If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor.
4. **Limited managerial ability:** The owner has to assume the responsibility of varied managerial tasks such as purchasing, selling, financing, etc. It is rare to find an individual who excels in all these areas.
5. **Limited scope of expansion**

Suitability of sole Proprietorship: Sole proprietorship is suitable in the following business:
1. Businesses which are carried on a small scale with less capital and limited managerial ability. E.g. Grocery shop, Medicine store, Bakeries etc.
2. Business where customers wants personalized services such as Hair cutting Salons, Beauty Parlour, Tailoring shop etc.
3. Businesses producing artistic goods such as craft centers, sculpture making painting etc.
4. Businesses where risk is not extensive i.e. less fluctuations in demand and price.

Joint Hindu Family Business / Hindu Undivided Family Business

It refers to the form of business in which all members of a Hindu family are engaged in the business under the control and direction of the head of the family called the Karta (eldest member of the family, male or female).
It is the oldest firm of business found in India.
There should be minimum two members in the family and they must inherit some ancestral property. This business is governed by 'HINDU LAW' Succession Act, 1956.

Gender Equality in the Joint Hindu Family a Reality: According to the Hindu Succession (Amendment) Act, 2005, the daughter of a coparcener of a Joint Hindu Family shall, by birth, become a coparcener. Married daughter has equal rights in property of a Joint Hindu Family.

Features
1. **Formation:** To form an HUF, there should be at least two members in the family and they must inherit some ancestral property.
2. **Liability:** The liability of the coparceners is limited, the liability of the Karta in unlimited.
3. **Control:** The business is controlled by the head of the family i.e. the eldest member called Karta.

4. **Continuity:** The business is not affected by the death of the members because their legal heirs are entitled for the deceased's share. If karta dies, the next eldest person in the family becomes the karta of the business.
5. **Minor members:** Since membership is by virtue of birth in the family, even a minor can also be a member.
6. **Membership by birth:** The membership of JHFB is by birth in the family. All members have equal ownership rights over the ancestral property and are known as coparceners.
7. **No maximum limit:** There is no maximum limit of number of co-parceners of HUF business. However, only three consecutive generations can be members in this business.

Merits of Hindu Undivided Family Business

1. **Effective control:** The karta has absolute decision making power. This avoids conflicts among members as no one can interfere with his right to decide. This also leads to prompt and flexible decision making.
2. **Continued business existence:** The death of the karta will not affect the business as the next eldest member will then take up the position. Hence, operations are not terminated and continuity of business is not threatened. The business continues even after the death or insanity (mental illness) of the karta or the other members (co-parceners).
3. **Limited liability of the members:** The liability of all the coparceners except the karta is limited to the extent of their share in the business. As such their risk is well defined and precise.
4. **Ease of formation:** Hindu undivided family business can be set without much legal formalities. Similarly, if the karta and all the other members of the family want to dissolve the business, it can be done easily
5. **Increased loyalty:** Since the business is run by and co-operation family members they are loyal and co-operate with each other.
6. **Quick decisions:** As karta is free to take any decision about the business, quick decision is possible.
7. **Secrecy:** All the important decisions are taken by the karta himself. It is not necessary for him to consult the other family members; as such secrecy can be maintained.

Demerits of Hindu Undivided Family Business

1. **Limited capital:** The investment is limited to the extent of ancestral property. Members do not invest their personal capital in the business.
2. **Unlimited liability of the karta:** Since the Karta has unlimited liability i.e. even if personal assets will be utilized to pay off the business debts, he hesitates to take risk which greatly affects the growth and expansion of the business.
3. **Dominance of karta:** Most of the decisions are taken by the karta which, at times, may not be acceptable to the other members. This may lead to conflict among them.
4. **Limited managerial capacity:** Since the business is managed and controlled by the karta alone, there is limited managerial capacity because the karta cannot be an expert in all the areas of management.
5. **Instability:** There are chances of disputes due to lack of confidence, trust and mutual faith among the family members which may lead to partition of the family.

Partnership

According to the 'Indian Partnership Act', 1932, "partnership is defined as a relationship between persons who have agreed to share the profits of the business carried on by all or any one of them acting for all."

A partnership should have minimum two members and maximum upto fifty members.

Feature of Partnership

1. **Formation:** A partnership can come into existence by an agreement among the partners which can be both oral or in writing.

2. **Liability:** The liability of the partners is unlimited to the extent of their personal property if the business assets are not enough to pay off the business debts.
3. **Risk bearing:** All the partners bear the risk in an agreed ratio.
4. **Membership:** There must be at least two members and maximum fifty members.
5. **Profit Sharing:** All the partners must share the profits in an agreed ratio.
6. **Decision making & control:** All the partners have a right to take part in the management of the business and make decision with mutual consent.
7. **Continuity:** A partnership comes to an end with lunacy, retirement, insolvency of a partner etc. However, the remaining partners may decide to continue the business by entering into a new agreement.
8. **Number of partners:** There must be at least two partners and can be fifty at maximum.
9. **Mutual agency:** It means the partnership business can be carried on by all the partners or by any one of them acting for all. Thus, every partner is an agent as well as principal of the other partners. It means, an agreement made by a partner will be binding other partners. This is also known as implied authority of a partner.

Merits of Partnership

1. **Ease of formation and closure:** A partnership firm can be formed easily by an agreement (oral or written) between two or more persons. Registration of partnership firm is not compulsory. Similarly, closure of the firm is also an easy task.
2. **Balanced decision making:** Since the decisions are made collectively by the partners, there is better decision making.
3. **More funds:** There is more capital and other resources in a partnership as compared to a sole proprietorship because all the partners will contribute towards the capital. As such, the firm can expand its business easily.
4. **Sharing of risks:** The profits and losses are shared by the partner in an agreed ratio. Due to the sharing of risk, the burden or stress on an individual partner will get reduced.
5. **Secrecy:** A partnership firm is able to maintain secrecy because it is not mandatory for them to publish their books of accounts in newspapers and magazines.
6. **Personal supervisions:** Since the partnership firm is managed by partners themselves, they establish direct contact with the employees and customers. As such, they can fulfil their requirements easily.

Demerits of Partnership

1. **Unlimited liability:** All the partners in a firm have unlimited liability i.e. if the business assets are not enough to pay off the liability, then the personal assets of the partners can be utilized. As such, partners are hesitant in expanding the business and taking more risk.
2. **Limited resources:** A partnership firm's financial resources are limited upto the capital contributed by the partners, whose number is restricted.
3. **Possibility of conflicts:** Since every partner has a right to participate in the management of the firm, there are chances of conflict in management because all the partners may not have same opinion on all the matters of the firm.
4. **Lack of continuity/uncertain life:** A partnership firm comes to an end due to insolvency, death and retirement etc. of a partner.
5. **Lack of public confidence:** Since a partnership firm is not required to publish their books of accounts in newspapers and magazines, the public has very limited confidence in these firms.
6. **Non-transferability of interest:** In a partnership firm, no partner can transfer his share to any outsider or third party without the consent of all other partners. Due to this, sometimes, the partners feel unnecessarily binding on them.

Suitability of Partnership: Partnership is suitable when
1. Mutual trust and complementary skills are present among partners.
2. Where more financial resources and managerial skills are required.

3. Where the partners want to share the burden of risks.
4. It is suitable in case of business of wholesale merchants; chartered accountancy firm; architect firm; law firm: medium sized manufacturing units etc.

Types of Partners

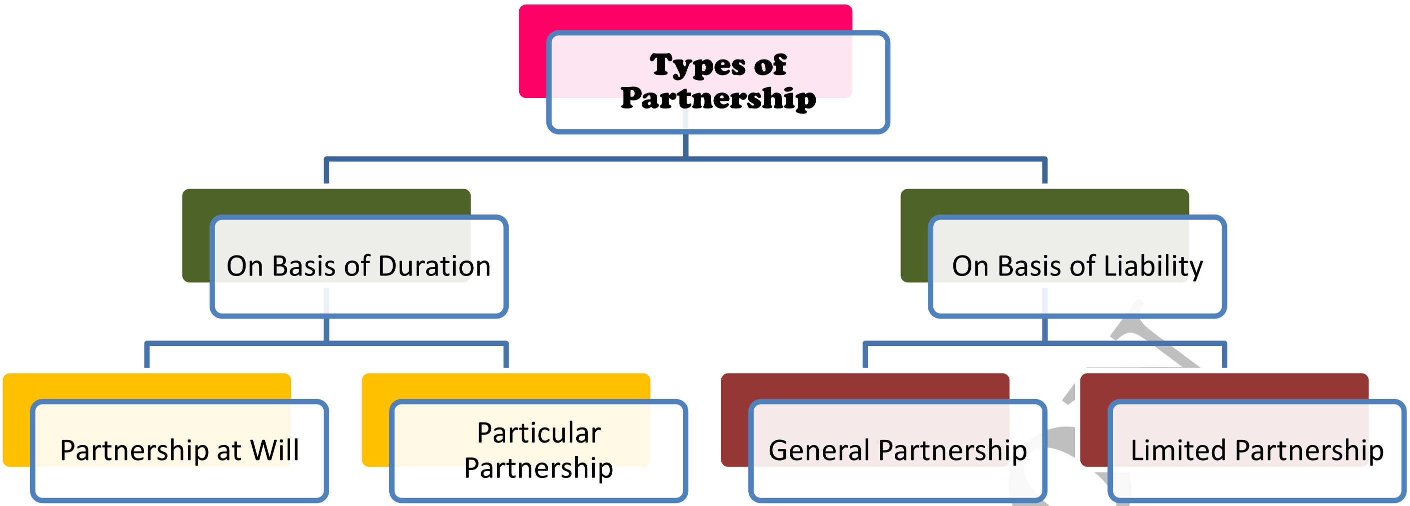
1. **Active partner:** Active partner is the partner, who actively participates in the working and management of business. He contributes the capital in the business. He shares the profits & losses in an agreed ratio and also has unlimited liability.
2. **Sleeping or dormant partner:** Sleeping partner is the partner, who does not participate in the management of the business. But he contributes the capital in the business. He shares the profits & losses in an agreed ratio and also has unlimited liability.
3. **Secret partner:** Secret partner is the partner, whose association with the firm is not known to the general public. But he contributes the capital in the business. He shares the profits & losses in an agreed ratio and also has unlimited liability.
4. **Nominal partner:** Nominal partner is the partner, who just gives his name to the firm for the benefit of the firm. He does not contribute capital & does not participate in the management of the business. He generally does not share profit or losses. However, he has the unlimited liability towards the third party.
5. **Partner by estoppel:** He is a person who, through his conduct or behaviour, gives an impression to others that he is a partner of the firm.
   He does not contribute capital and participate in the management of the business. He will not share any profits or losses. However, he will have unlimited liability to the creditors/outsiders because in the eyes of the third, party or outsiders, he is considered a partner.
6. **Partner by holding out:** He is a person, who is not a partner of the firm but does not contradict or make any statement at the time when others declare him a partner of the firm. In such a case, he will be deemed to be a partner because others enter into contract with the firm under the impression that he is a partner of the firm.
   He does not contribute capital & participate in the management of business. He does not share profits or losses. However, he will have unlimited liability to the outsiders if they have entered into a contract with the firm assuming that he is also a partner of the firm.

Minor as a Partner
A partner is called minor if he is less than eighteen years of age.
A minor person has no right to sign any contract, so he cannot be admitted as a full-fledged partner in a firm. But, a minor can be admitted to the benefits of the partnership firm with the consent of all the other partners. In this case, his status will be as follows:

- He will also not bear the losses of the firm.
- His liability towards the debts of the firm will be limited up to the extent of capital invested by him in the firm.
- He has no right to buy or sell goods or sign any contract with outsiders on behalf of the firm.
- He cannot participate in management but he can inspect the books of the accounts of the firm.

Minor, on attaining majority

On attaining majority, minor has to decide whether he would like to continue as a partner in the firm or not.
He has to give a public notice of his decision within six months of attaining majority. If he fails to do, he will be considered as a full-fledged partner.



Classification on the basis of duration

1. **Partnership at will:** Partnership at will is the partnership, which will continue as long as the partners want and it may be dissolved only if any partner gives a notice to this effect. This type of partnership is created for an indefinite period and not for a particular period of time or project.
2. **Particular Partnership:** Particular partnership is the partnership, which is created for a specific period of time or to complete a particular project. As soon as the project or time period is over, the partnership comes to an end.

Classification on the basis of liability

1. **General Partnership:** Under this partnership, all the partners have unlimited liability and they enjoy the right to participate in the management of this firm.
   Every partner has mutual agency relationship and the firm comes to an end due to the death insolvency etc. of a partner.
2. **Limited partnership:** Under this partnership, all the partners except one have limited liability up to the extent of the capital invested by them. A limited partner has no right to participate in management of business. His death & insolvency has no effect on the existence of firm. Such form of partnership was permitted in India after "The New Enterprise Policy."

Partnership Deed
A partnership deed is a written partnership agreement, which contains all the terms & conditions of the partnership among the partners.

Content of Partnership Deed:
1. Name of firm
2. Nature of business and location of business
3. Duration of business
4. Investment made by each partner
5. Distribution of profits and losses
6. Duties and obligations of the partners
7. Salaries and withdrawals of the partners etc.

Registration of Partnership Frim
Registration of a partnership firm is not compulsory and it is optional. However, registering a partnership firm is considered beneficial due to the following reasons:
1. The partner of an unregistered firm cannot file a suit against the firm.
2. An unregistered firm cannot file a suit against any third party for the recovery of claims.

3. An unregistered firm cannot file a suit a case against any partner.

Cooperative Society
Cooperative organisation is "a society which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles."

- The Indian Cooperative Societies Act 1912

The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members.
The cooperative society is compulsorily required to be registered under the Cooperative Societies Act 1912. To form a cooperative society, a consent of at least ten adult persons is required to form a society.

Features of Cooperative Society

1. **Voluntary membership:** The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. There cannot be any compulsion for him to join or quit a society.
2. **Legal status:** Registration of a cooperative society is compulsory. This accords a separate identity to the society which is distinct from its members. The society can enter into contracts and hold property in its name, sue and be sued by others.
3. **Limited liability:** The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital.
4. **Control:** In a cooperative society, the power to take decisions lies in the hands of an elected managing committee.
5. **Service motive:** The cooperative society through its purpose lays emphasis on the values of mutual help and welfare. Hence, the service to members is the prime objective.
6. **Distribution of surplus:** If any surplus is generated as a result of its operations, it is distributed among the members as dividend in conformity with the byelaws of the society.

Merits of Cooperative Society
The cooperative society offers many benefits to its members. Some of the advantages of the cooperative form of organisation are as follows:
1. **Equality in voting status:** The principle of 'one man one vote' governs the cooperative society. Each member of the society is entitled to equal voting rights irrespective of the amount of capital contribution by him.
2. **Limited liability:** The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.
3. **Stable existence:** Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society's existence is unaffected by any change in the membership.
4. **Economy in operations:** The members generally offer honorary services to the society as the focus are to eliminate the middlemen. It this helps in reducing the costs. The customers or producers themselves are members of the society, and hence the risk of bad debts is lower.
5. **Support from government:** The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.
6. **Ease of formation:** The cooperative society can be started with a minimum of ten members. The registration procedure is simple involving a few legal formalities. Its formation is governed by the provisions of Cooperative Societies Act 1912.

Limitations of Cooperative Society
The cooperative form of organisation suffers from the following limitations:
1. **Limited resources:** Resources of a cooperative society consists of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership or more capital from the members.

2. **Inefficiency in management:** Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries.
3. **Lack of secrecy:** As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act, it is difficult to maintain secrecy about the operations of a cooperative society.
4. **Government control:** In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc.
5. **Differences of opinion:** Internal quarrels arising as a result of contrary viewpoints may lead to difficulties in decision making. Personal interests may start to dominate the welfare motive. The benefit of other members may take a backseat if personal gain is given preference by certain members.

Types of Cooperative Societies

Various types of cooperative societies based on the nature of their operations are described below:

1. **Consumer's cooperative societies:** The consumer cooperative societies are formed to protect the interests of consumers. The members comprise of consumers desirous of obtaining good quality products at reasonable prices.
   It purchases goods in bulk directly from the wholesalers and sells goods to the members, thereby eliminating the middlemen.
   The society aims at eliminating middlemen to achieve economy in operations.
2. **Producer's cooperative societies:** These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers.
   It supplies raw materials, equipment and other inputs to the members and also buys their output for sale.
   The society aims to fight against the big capitalists and enhance the bargaining power of the small producers.
3. **Marketing cooperative societies:** Such societies are established to help small producers in selling their products. The members consist of producers who wish to obtain reasonable prices for their output.
   It pools the output of individual members and performs marketing functions like transportation, warehousing, packaging, etc., to sell the output at the best possible price.
   The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products.
4. **Farmer's cooperative societies:** These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise farmers who wish to jointly take up farming activities.
   The aim is to gain the benefits of large scale farming and increase the productivity.
   Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops.
5. **Credit cooperative societies:** Credit cooperative societies are established for providing easy credit on reasonable terms to the members. The members comprise of persons who seek financial help in the form of loans.
   Such societies provide loans to members out of the amounts collected as capital and deposits from the members and charge low rates of interest.
   The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans.
6. **Cooperative housing societies:** Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs. The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs.
   These societies construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

The aim is to solve the housing problems of the members by constructing houses and giving the option of paying in instalments

Joint Stock Company

It is an association of persons having separate legal entity, perpetual succession and common seal, which is started with investing money jointly.
As per section 2(20) of companies act 2013, "a company means company incorporated under this act or any other previous company law."

Features/Characteristics /Elements

1. **Artificial person:** A company is an artificial person created by law. It is known as a person because it has all the rights of a natural person like buying property in its own name, signing documents, can sue and be sued in its own name.
2. **Separate legal entity:** The company has a separate existence distinct from its members in the eyes of law. As such, the company can carry its own business, enters into contracts, buy and sell property in its own name.
3. **Perpetual succession:** The company has a continuous life and its life is not affected by the death or insolvency of its members/shareholders. Members may come and go but the companies continue to exist.
4. **Control:** The management and control of the affairs of the company is undertaken by the board of directors, selected by the shareholders. The shareholders do not have the right to be involved in the day-to-day running of the business.
5. **Limited liability:** The liability of members or shareholders is limited upto the extent of the unpaid amount on the shares purchased by them.
6. **Incorporate association:** The company is formed through incorporation or registration under the 'Companies Act 2013' or any previous act. Without incorporation no company can come into existence.
7. **Common seal:** Since, the company is an artificial person, it cannot sign the documents. As such, it uses the common seal in place of its signature.
8. **Separation of ownership and management:** The owners of the company are the shareholders whereas the management of the company is looked after by the board of directors who is elected by the shareholders.
9. **Transferability of shares:** The shareholders of a company can sell their shares to any person in the open market or stock exchange whenever they want to convert their shares and cash and leave the company.

Merits of Company

1. **Limited liability:** Shareholders in a company are liable to pay only the unpaid amount on the shares held by them.
2. **Transferability of interest:** The shareholders of a public limited company can freely transfer their shares by selling it in the open market. As such the shareholders can convert their shares into cash very easily.
3. **Perpetual existence:** The existence of a joint stock company is more stable as it is not affected by the death, retirement, insolvency, insanity or lunacy of its members. As such company can take long-term plans.
4. **Scope for expansion:** Perpetual existence and availability of huge finance enable a company to expand and diversify its business.
5. **Professional management:** Joint stock companies are managed well because they can afford to employ specialized managers due to its huge financial resources.
6. **Huge financial resources:** This form of business organization has huge financial resources because there is no restriction regarding maximum number of members in the public companies.

Demerits of Company

1. **Complexity in formation:** Incorporation of a company requires a lot of legal formalities. After incorporation, raising capital is also very difficult.
2. **Lack of secrecy:** There is lack of secrecy because it is mandatory for a public company to get their books of accounts audited and published in newspapers and magazines.
3. **Impersonal work environment:** There is a divorce between management and ownership of a company. The owners may not have any personal contact with the managers, employees, customers etc.
4. **Numerous regulations:** A company has to fulfil many legal provisions and regulations like compulsory audit, preparation of documents, filing of report and mandatory publication of books of accounts in newspapers.
5. **Delay in decision making:** The companies take more time in making decisions because they have to hold meeting, pass resolutions and complete a lot of legal formalities.
6. **Oligarchic management:** Though company is set to have democratic style of management, but in reality, the control and management of the company rest in the hands of Board of Directors and some influential shareholders. They take advantage of the situation for their personal gains.

Types of Companies

Private Company

Public Company

Private Company

"Private Company" means a company which by its articles -

(i) Restricts the right to transfer its shares;
(ii) Except in One person Company, limits the number of its members to two hundred;
(iii) Prohibits any invitation to the public to subscribe for any securities of the company.
(iv) Private limited company must use the words 'Pvt. Ltd.' with its name.

Public Limited Company

A public company means a company which is not a private company. Thus, a public company is one which:

(i) has no restriction on transfer of its shares.
(ii) has a minimum of seven members and no limit on maximum number of members.
(iii) Can invite the public to subscribe to its share capital or debentures.

One Person Company

The Companies Act 2013 introduces the formation of a one-person company (OPC) apart from private or public company. An OPC means a company with only one person as its member [section 3(1) of 2013 Act].

Requirement of One person Company

(i) Rule 3(1) provides that only a natural person who is an Indian citizen and a resident in India shall be eligible to incorporate OPC.
(ii) No person shall be eligible to incorporate more than one OPC or become nominee in more than one such company.
(iii) OPC to compulsory convert itself into public or private company in certain cases.
(iv) Where the paid up share capital of an OPC exceeds fifty lakh rupees or its average annual turnover during the relevant period exceeds two crore rupees, it shall cease to be entitled to continue as a One Person Company.

Difference between Private and Public Limited Company

S.No.	Basis of Difference	Private Limited company	Public Limited Company
1)	No. of members	Minimum-2 member, maximum-200 (including the past and present employees)	Minimum-7, Maximum – no limits
2)	No. of Directors	Minimum-2	Minimum-3
3)	Transfer of shares	Transfer of shares is restricted	Transfer of shares is allowed
4)	Index of members	Not compulsory	Compulsory
5)	Invitation for public subscription	Not permitted	Permitted
6)	Name	Necessary to use the words 'Pvt. Ltd.' after its name.	Necessary to use the words 'Public Limited' after its name.
7)	Commencement of business	After getting 'Certificate of Incorporation'	After getting 'Certificate of Commencement of Business'.

Privileges of a Private Limited Capital
A private company enjoys following privileges as against a public company:
1. A private company can be formed only by two members.
2. A private company need not file a prospectus or a statement in lieu of prospectus with the registrar.
3. It needs to have only two directors.
4. It can commence immediately after getting 'certificate of incorporation'.
5. A private company need not keep an index of members.
6. It is not required to hold statutory meeting and file statutory report with the registrar of companies.

Formation of a Company
The steps which are required from the time a business idea originates to the time, a company is legally ready to commence business are referred to as stages in the formation of a company.
To fully understand the process one can divide the formalities into three distinct stages, which are:
(i) Promotion;
(ii) Incorporation and
(iii) Subscription of capital.
However, the private company can start business just after incorporation.

Promotion
The term promotion refers to the preliminary steps taken for the purpose of registration of the company. The person who does the work of promotion is known as the promoter. He conceives the idea of the business and takes initiative to form the company.
A promoter can be a company, a firm (partnership), an association or an individual e.g. J.R.D. Tata was the promoter of TATA GROUP.

Promoter
A promoter is one who undertakes to form a company with reference to a given project.
He conceives a business opportunity, analyse its prospects and bring together the men, materials, machinery, managerial abilities and financial resources and set the organisation going.

Steps in Promotion Process/Functions of Promoter

1. **Discovery of a business idea:** The promoter first identifies business ideas and areas of profitable investment.
2. **Feasibility studies:** Having identified the business opportunity, the promoter conducts a detailed investigation of the business idea. He has to see whether the idea is technically, financially and economically feasible or not.
   - **Technical feasibility:** Sometime an idea may be good but technically not possible to execute. It may be so because the required raw material or technology is not easily available.
   - **Financial feasibility:** Every business activity requires funds. The promoters have to estimate the fund requirements for the identified business opportunity. If the required outlay for the project is so large that it cannot easily be arranged within the available means, the project has to be given up.
   - **Economic feasibility:** Sometimes it so happens that a project is technically viable and financially feasible but the chance of it being profitable is very little. In such cases as well, the idea may have to be abandoned.
3. **Name approval:** The promoters select an appropriate name for the company which should not resemble the name of any existing business enterprise or show any relation with any government department.
4. **Fixing up signatories to the memorandum of association:** The promoters have to decide about the members (usually the first directors of the company) who will sign the memorandum of association of the proposed company.
5. **Appointment of professionals:** The promoters make appointment of underwriters, bankers, auditors etc.
6. **Preparation of necessary documents:** The promoters prepare necessary documents like memorandum of association, articles of association, etc. and submit it to the registrar.

Incorporation

Incorporation refers to the registration of the company under the companies Act, 2013. The various steps under the incorporation stage are as follows:

Filling of necessary documents: Once the registrar approve the name, the following documents have to be submitted with him:

(i) A copy of the registrar's letter approving the name of the company.
(ii) Memorandum of association
(iii) Articles of association
(iv) A list of directors with their names, address, occupation and age.
(v) Statement of authorized capital.
(vi) The written consent of the directors to act as directors.
(vii) Notice of the address of the registered office of the company.
(viii) A statutory declaration stating that all the formalities related to the formation of the company are duly completed.

Along with the above documents the required fee for registration has to be paid to the registrar. If the registrar is satisfied that all the legal formalities have been fulfilled, he will register the name of the company in his register and issue the Certificate of Incorporation.

A company is legally born on the date printed on the certificate of incorporation. With effect from November 1, 2000, the registrar of companies allots a *CIN (Corporate Identity Number)* to the company.

Effect of the Certificate of Incorporation

A company is legally born on the date printed on the certificate of incorporation. The certificate of incorporation is a conclusive evidence of the regularity of the incorporation of a company.

Differentiate between Preliminary contracts and Provisional Contracts:

Basis	**Preliminary contracts**	**Provisional contracts**
Signed	These are signed by the promoters on behalf of the company.	These are signed by the company.

Timing	These are signed before incorporation	These are signed after incorporation.
Binding	These are not binding on the company. Promoter remains personally liable for these contracts.	These are binding on the company after registration.

Preliminary Contracts
During the promotion of the company, promoters enter into certain contracts with third parties on behalf of the company. These are called preliminary contracts or pre-incorporation contracts. These are not legally binding on the company.
A company after coming into existence may, if it so chooses, decides to enter into fresh contracts with the same terms and conditions to honour the contracts made by the promoters. Note that it cannot ratify a preliminary contract. A company thus cannot be forced to honour a preliminary contract. Promoters, however, remain personally liable to third parties for these contracts.

Director Identification Number (DIN)
Every individual intending to be appointed as director of a company shall make an application for allotment of *Director Identification Number (DIN)* to the Central Government in prescribed form along with fees. The Central Government shall allot a Director Identification Number to an application within one month from the receipt of the application. No individual, who has already been allotted a Director Identification Number, shall apply for, obtain or possess another Director Identification Number.

Capital Subscription Stage
After getting the certificate of incorporation, the private company can commence its business but a public company has to go through one more stage to commence their business.
A public company can raise funds from the public by issuing a prospectus and undergoing the following formalities.

(i) **SEBI Approval:** SEBI (Security Exchange Board of India) is a regulatory body which controls the capital market of India to protect the interests of the investors. The public limited companies must submit all relevant information with SEBI and get its approval before issuing its securities in the capital market.

(ii) **Filing of prospectus or statement in lieu of prospectus:** A public company has to prepare a prospectus & invites the general public to buy the shares of the company.
   a. If a public company having a share capital is confident of getting fund privately, it issues a statement in lieu of prospectus.
   b. The company has to file a copy of prospectus or statement in lieu of prospectus with the registrar.

(iii) **Appointment of bankers, brokers and underwriters:** Bankers are appointed by the company to receive application money. In case, the company is not sure about minimum subscription of shares by the public, it may appoint underwriters.

(iv) **Minimum subscription:** Minimum subscription is the amount which, in the opinion of the board of directors, is sufficient to provide working capital, preliminary expenses, purchase price of any asset etc. As per SEBI guidelines, the minimum subscription is 90% of the issued amount. If the company is unable to do so, then it must return all the money received.

(v) **Permission from stock exchange:** The company has to make an application to at least one stock exchange on which its shares can be bought and sold.

(vi) **Allotment of shares:** After receiving the minimum subscription, the company issues the allotment letters to the allottees and a written letter of allotment is filed with the registrar of companies within 30 days of allotment.

Important Documents
1. Memorandum of association
2. Articles of association

3. Prospectus
4. Statement in lieu of prospectus

Memorandum of Association

It is the document which defines the powers and objectives of the company as well as the scope of its operations beyond which the company cannot operate. If a company does anything beyond what is mentioned in the memorandum, it will be treated as illegal. The MOA defines the relationship of the company with the outside world.

It is the principal document of the company and is known as the charter or constitution of the company. No company can be registered without memorandum of association.

Contents/Clauses of Memorandum of Association

1. **Name clause:** Under this, the name of the company is written. The name should not be identical to the name of any existing company.
2. **Situation clause (registered office clause):** Under this, the name of the state in which the registered office of the company is to be situated is mentioned.
3. **Object clause:** Under this, the objective or the purpose, with which the company has been formed, is mentioned. A company is not allowed to do any business other than the one specialized in this clause.
4. **Liabilities clause:** Under this clause, the liability of the members is mentioned which is up to the amount of unpaid share capital held by them.
5. **Capital clause:** In this clause, the authorized capital of the company is mentioned and no company can raise more capital than this limit.
6. **Association clause (subscription clause):** In this clause, the director (minimum seven in case of public company and minimum two in case of private company) has to give in writing of their intention to be associated with the company and buy the qualifying shares.

Articles of Association

The articles of association of a company are its by-laws or regulations which govern the management of its internal affairs. It defines the duties, powers, and authority of the shareholders and the directors of the company. This document is secondary to the memorandum of association.

Clauses of Articles of Association

(i) The amount of share capital and the different classes of shares.
(ii) Rights of each type of shareholders.
(iii) Procedure for making allotment of shares.
(iv) Procedure for issuing shares certificates.
(v) Procedure for transfer of shares.
(vi) Procedure for forfeiture of shares.
(vii) Procedure for re-issue of forfeited shares.
(viii) Procedure for conducting meetings etc.

The preparation of articles of association is not compulsory for public company limited by shares. It may adopt 'TABLE F' of the companies act in case it is not preparing its own articles of association.

Difference between Memorandum of Association and Articles of Association

Basis	Memorandum of Association	Articles of Association
Objectives	MOA defines the objects for company is formed.	AOA are the rules of internal management. They indicate how the objects of the company are to be achieved.

Position	This is the main document of the company and subordinate to the Companies Act	This is subsidiary document and is subordinate to bot MOA and Companies Act.
Relationship	MOA defines the relationship of the company with outsiders	AOA defines the relationship of the company and its members.
Validity	Acts beyond MOA are invalid and can't be ratified even by a unanimous vote of the members	Acts which are beyond articles can be ratified by members, provided they don't violet MOA.
Necessity	Every company has to file a MOA	It is not compulsory for public limited company to file AOA. It may adopt Table F of Companies Act 2013.

Prospectus
It is a document which can be in the form of notice, circular, advertisement or any other document inviting deposits from the public or inviting general public to subscribe to the shares or debentures of a company. The prospectus contains the present position, history of the company and the future prospects of the company.
A public limited company limited by shares, must issue the prospectus if it wants to make an appeal to the general public to subscribe to shares or debentures.

Statement in lieu of Prospectus
A public company which does not want to invite the general public to invest in the company, will not issue a prospectus. As such, it will file a statement in lieu of prospectus with the registrar of companies. The statement in lieu of prospectus is prepared on the same lines and contains more or less the same information contained in the prospectus.
It must be signed by all the directors and must be filed with the registrar of companies at least three days before the allotment of shares or debentures.

Qualification Shares
To ensure that the directors have some stake in the proposed company, the articles usually have a provision requiring them to buy a certain number of shares. They have to pay for these shares before the company obtains certificate of commencement of business. These are called qualification shares.

MCQs:
Q1.The liability of all the co-parceners except the...........is limited to their share in the business, and consequently their risk is well-defined and precise.
(a) Karta (b) Partners
(c) Members (d) Shareholders

Q2................ is a type of business unit where a person is solely responsible for providing the capital.
(a) Sole proprietorship (b) Joint Hindu family business
(c) Partnership (d) Cooperative societies

Q3. Partnership is the relation which subsists between persons who have agreed to combine their property, labour or skill in some business and to share the profits there from between them.
(a) True (b) False
(c) Partly True (d) None of these

Q4. The relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.
(a) Sole proprietorship (b) Joint Hindu family business
(c) Partnership (d) Cooperative societies

Q5.A ....partner is one whose association with the firm is unknown to the general public.
(a) Secret (b) Active
(c) Sleeping (d) Nominal

Q6. It can continue as long as the partners want and is terminated when any partner gives a notice of withdrawal from partnership to the firm.
(a) Partnership at will (b) Particular partnership
(c) General Partnership (d) Limited Partnership

Q7. It is optional for a partnership firm to get registered.
(a) True (b) False
(c) Partly True (d) None of these

Q8.A………… which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles.
(a) Sole proprietorship (b) Joint Hindu family business
(c) Partnership (d) Cooperative societies

Q9. The cooperative society is compulsorily required to be registered under the Cooperative Societies Act………
(a) 1912 (b) 1956
(c) 1932 (d) 1965

Q10. The principle of 'one man one vote' governs the cooperative society.
(a) True (b) False
(c) Partly True (d) None of these

Q11. The liability of members of a cooperative society is ……… to the extent of their capital contribution.
(a)Born (b) Shared
(c) Unlimited (d) Limited

Q12. The society aims to fight against the big capitalists and enhance the bargaining power of the small producers.
(a) Consumer's cooperative societies (b) Producer's cooperative societies
(c) Marketing cooperative societies (d) Farmer's cooperative societies

Q13. The aim is to gain the benefits of large scale farming and increase the productivity.
(a) Consumer's cooperative societies (b) Producer's cooperative societies
(c) Marketing cooperative societies (d) Farmer's cooperative societies

Q14. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products.
(a) Consumer's cooperative societies (b) Producer's cooperative societies
(c) Marketing cooperative societies (d) Farmer's cooperative societies

Q15. The members comprise of consumers desirous of obtaining good quality products at reasonable prices.
(a) Consumer's cooperative societies (b) Producer's cooperative societies
(c) Marketing cooperative societies (d) Farmer's cooperative societies

Q16. The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans
(a) Consumer's cooperative societies (b) Producer's cooperative societies
(c) Credit cooperative societies (d) Farmer's cooperative societies

Q17. The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs.
(a) Consumer's cooperative societies (b) Producer's cooperative societies
(c) Marketing cooperative societies (d) Cooperative housing societies

Q18. The company form of organisation is governed by The Companies Act, ……
(a) 1912 (b) 2013
(c) 1932 (d) 1965

Q19. A company is a creation of law and exists independent of its members.
(a) Formation (b) Separate legal entity
(c) Perpetual succession (d) Artificial person

Q20. Contracts signed after incorporation but before commencement of business are Provisional Contracts.
(a) True (b) False
(c) Partly True (d) None of these

Q21. The law does not recognise the business and owners to be one and the same.

(a) Perpetual succession, (b) Formation
(c) Separate legal entity (d) Artificial person

Q22. Members may come and members may go, but the company continues to exist.
(a) Perpetual succession, (b) Formation
(c) Separate legal entity (d) Artificial person

Q23. The shareholders do not have the right to be involved in the day-to-day running of the business.
(a) Risk bearing (b) Common seal
(c) Liability (d) Control

Q24. The members can be asked to contribute to the loss only to the extent of the unpaid amount of share held by them.
(a) Risk bearing (b) Common seal
(c) Liability (d) Control

Q25. The Board of Directors enters into an agreement with others by indicating the company's approval through a ....
(a) Risk bearing (b) Common seal
(c) Liability (d) Control

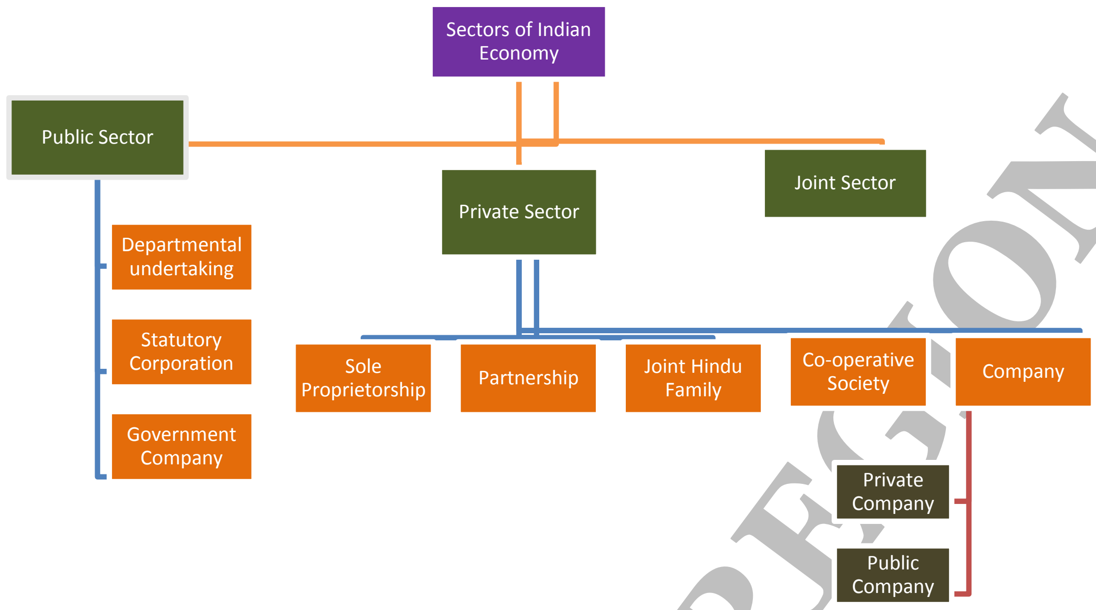
Answers:1 (a); Q2 (a); Q3 (a); Q4 (c); Q5 (a); Q6 (a); Q7 (a); Q8 (d); Q9 (a); Q10 (a); Q11 (d); Q12 (b); Q13 (d); Q14 (b); Q15 (a); Q16 (c); Q17 (d); Q18 (b); Q19 (b); Q20 (a); Q21 (c); Q22 (a); Q23 (d); Q24 (c); Q25 (b);

Exercise:

1. Kiran is a sole proprietor. Over the past decade, her business has grown from operating a neighbourhood corner shop selling accessories such as artificial jewellery bags, hair clips and nail art to a retail chain with three branches in the city. Although she looks after the varied functions in all the branches, she is wondering whether she should form a company to better manage the business. She also has plans to open branches countrywide.
   a. Explain two benefits of remaining a sole proprietor.
   b. Explain two benefits of converting to a joint stock company.
   c. What legal formalities will she have to undergo to operate business as a company?
2. Gurpreet operates a textile business. His family is joint and has a lot of ancestral property. All the 15 family members are a part of this business. He is the eldest male member in the family so he hands the business. He is liable to all the creditors of the business as he is the decision-maker. Gurpreet's grandson has just born a few days ago and he is also the member of the business.
   a. Which form of business is being undertaken by Gurpreet?
   b. Identify the features of this form of business highlighted in the above para.
   c. Textile business is a part of which type of industry according to you. State.
3. "Every day AMUL collects milk from 2.12 million farmers (many illiterate) and converts the milk into branded packaged products and delivers goods all over the country. The story of AMUL started in Dec, 1946 with a group of farmers been to free themselves from intermediaries, gain access to the market and thereby ensure maximum returns for their efforts."

UNIT - 3

Private, Public and Global Enterprises



Private Sector Enterprises

The private sector consists of business enterprises owned by individuals or a group of individuals. The various forms of private sector enterprises are as follows:

1. Sole-proprietorship
2. Partnership
3. Joint Hindu Family Business
4. Cooperative Society and
5. Company

Public Sector Enterprises

It consists of various organizations owned and managed by the government. They are either owned by the central government, state government or partly by both of them. The various forms of public sector enterprises are as follows:

1. Departmental Undertaking
2. Statutory Corporation
3. Government Company

Department Undertaking

These are those public sector enterprises which are created, managed and controlled by a particular department of government i.e. a particular ministry e.g. Indian Railways under Railway Ministry, Post & Telegraph under Ministry of Communications. Other examples are Delhi Milk Scheme, All India Radio, and Doordarshan etc.

This is the oldest and most traditional form of organising public enterprises.

Features of Departmental Undertaking

1. **Finance:** The funding of these enterprises come directly from the government treasury and these are annual appropriation from the budget of the government. The revenue earned by these is also paid into the treasury.
2. **Control:** They are subject to accounting and audit controls applicable to other government activities.
3. **Management and control:** The employees of the departmental undertaking are government servants and their recruitment and conditions of service are the same as that of other employees directly under the government.
   They are headed by Indian Administrative Service (IAS) officers and civil servants who accountable to the concerned department's minister.
4. **Accountability:** The departmental undertakings are accountable to the parliament as applicable to government department.
5. **No separate entity:** They have not been constituted as autonomous or independent institutions and as such are not independent legal entities. They are part of the government department.
6. **Suits:** They can be sued in the same manner as one can file a suit against the government.

Merits of Departmental Undertaking

1. **Easy to form:** It is easy to form a government undertaking because registration of departmental undertaking is not compulsory.
2. **Effective control:** The control is very effective as it is directly under a particular ministry and the officials are answerable to the concerned minister.
3. **Optimum utilization of funds:** Proper utilization of funds is possible because financial matters are subject to ministerial sanction, budget, accounting & audit control.
4. **Accountability:** Since there is direct parliamentary control, the performance of departmental undertaking can be discussed in the parliament because they are accountable to the public.
5. **Public revenue:** The revenue earned by the departmental undertakings is deposited in the government treasury. Hence, they help in increasing the government revenue.
6. **Secrecy:** The departmental undertaking, being directly under the control of the concerned ministry, is in a position to keep the secrets. This is especially necessary from the point of view of national security.

Demerits of Departmental Undertakings

1. **Delayed decisions:** The employee/heads of departmental undertakings are not allowed to take independent decisions, without the approval of the concerned ministry. This leads to delay in matters where prompt decisions are required.
2. **Inflexibility:** These undertakings work strictly under parliamentary control. As such, it reduces the flexibility of these enterprises & they are unable to take advantage of opportunities arise due to changing business environment.
3. **Political interference:** There is a lot of political interference through ministerial control.
4. **Lack of financial autonomy:** These enterprises cannot plan long term investment projects because they are subject to budgetary control of government. They are not allowed to use their revenue freely because it has to be deposited in government treasury.
5. **Inefficient management:** Normally inefficiency is found in the management of departmental undertakings as government officials are overburdened with paperwork.
6. **Red tapism & bureaucracy:** Red tapism and bureaucracy refers to delay in decision making due to lot of many formalities.
7. **No advantage of business opportunities:** These enterprises are unable to take advantage of business opportunities. The bureaucrat's over cautious and conservative approval does not allow them to take risky ventures.
8. **Insensitivity towards consumers:** These organisations are usually insensitive to consumer needs and do not provide adequate services to them.

Suitability of departmental undertakings

The departmental undertakings are suitable in following cases:

1. Where national security is concerned, this form is most suitable since it is under the direct control and supervision of the concerned ministry.
2. Where at most secrecy is required e.g. defence productions.
3. Where government control is necessary e.g. broadcasting.
4. Where huge investment is required e.g. aircrafts, iron & steel etc.
5. Undertakings which are a source of revenue for the government e.g. Indian Railways.

Statutory Corporation / Public Corporation

It refers to the corporate body formed by a special act of parliament or legislature, which defines the powers and functions, duties, privileges and pattern of management of the corporation being setup e.g.

- Reserve Bank of India (RBI)
- Life Insurance Corporation (LIC)
- AIR INDIA
- Employees State Insurance Corporation (ESIC)
- Industrial Finance Corporation of India (IFCI)

It is fully financed by the government. It is financially independent with a clear control over a specified area or a particular type of commercial activity. Statutory corporations therefore have the power of the government and considerable amount of operating flexibility of private enterprises.

Features of Statutory Corporations

1. **Created by special act:** A public corporation is created by a special act of parliament or legislature. The act defines the powers, objectives, privileges etc. of the corporation.
2. **Owned by state:** This type of organisation is wholly owned by the state. The government has the ultimate financial responsibility and has the power to appropriate its profits. At the same time, the state also has to bear the losses, if any.
3. **Autonomous body:** A statutory corporation is an autonomous body and body corporate and can sue and be sued, enter into contract and acquire property in its own name.
4. **Status of employees:** The employees of these enterprises are not government or civil servants and are not governed by government rules and regulations.
5. **Freedom from budget formalities:** A statutory corporation is not subject to the same accounting and audit procedures applicable to government departments.
6. **Accounting and Audit procedure:** They do not have rigid audit formalities. Its accounts are audited by professional chartered accountants in the same way as it is done in the commercial organizations.
7. **Service motive:** The corporations are set up with the motive of providing services for the public and not for profit motive.
8. **No Interference:** It is an autonomous body. The government does not interfere in its day to day working & policy formulations. It is managed by board of directors who are appointed by the government according to the provisions of the special act.

Merits of Statutory Corporations

1. **Operational autonomy:** It enjoys the operational autonomy and flexibility in their day to day working and policy formulations. These corporations are free from undesirable government regulation and control.
2. **Free from undesirable control:** Since the funds of these organisations do not come from the central budget, the government generally does not interfere in their financial matters, including their income and receipts. It is free from undesirable government regulations & control. The act which forms these corporations defines its powers, objectives, privileges etc.
3. **Financial autonomy:** It has full financial autonomy as it does not rely on the budgetary allocations of the government. It is free to use its income in the desired manner.
4. **Quick decisions:** As these corporations are free from red tapism; these are able to take quick decisions.
5. **Appointment of employees:** These corporations are free to formulate their own terms & conditions regarding appointment of employees.

6. **Instrument of economic development:** These corporations are the instrument of economic development because these have the powers of the government and on the other hand, these have the flexibility and initiative of private enterprises.

Demerits of Statutory Corporations

1. **Government and political interference:** Government and political interference has always been there in major decisions or where huge funds are involved.
2. **Corruption:** Where there is dealing with public, rampant corruption exists;
3. **Delay in decision-making:** The government has a practice of appointing advisors to the corporation board. This curbs the freedom of the corporation in entering into contracts and other decisions. If there is any disagreement, the matter is referred to the government for final decision.
4. **Autonomy on papers only:** Government has a practice of appointing advisers to the corporation board. This curbs the freedom of the corporation in taking decisions.
5. **Lack of professional training:** The members the board of directors consist of politicians, civil servants, professional from other departments etc. In most of the cases, they lack professional knowledge & training required to run such corporations.
6. **Neglect of government policies:** There may be a danger that freedom from political pressure may be taken in a wrong way and the corporation may start neglecting government policies even if they are in general interest.

Suitability

Public corporation is suitable:

1. Where the undertakings require monopoly powers.
2. Where the undertaking requires special powers, defined by the act or statue.
3. Where the undertakings requires regular grants from the government.
4. Where the undertakings requires appropriate combination of public accountability and operational autonomy.
5. Where the undertakings provide public utility services.

Government Companies

A government company means any company in which not less than 51 per cent of the paid up capital is held by the central government or by any state government or partly by central government and partly by one or more state governments and includes a company which is a subsidiary of a government company. e.g. BHEL (Bharat Heavy Electrical Ltd.); SAIL (Steel Authority of India Ltd.); STC (State Trading Corporation) etc.

The shares of the company are purchased in the name of the President of India.

Features of Government Company

1. **Appointment of employees:** Employees of these companies are appointed according to the own rules and regulations specified in Memorandum and Articles of Association of the company.
2. **Accounting audit:** These companies are exempted from the accounting and audit rules and procedures. An auditor is appointed by the central government and the annual report is to be presented in the parliament or the state legislature.
3. **Source of Funds:** The government company obtains its funds from government shareholdings and other private shareholders. It is also permitted to raise funds from the capital market.
4. **Ownership:** It is either wholly owned by the government (central; state or partly by both) or its ownership may be shared by the private sector also.
5. **Creation/ Registration:** A government company is registered under the companies Act, 2013 (or any previous act) just like any other joint stock company.
6. **Separate legal entity:** Government companies have separate legal entity in the eyes of law. As such, it can hold property in its own name. It can enter into contract and can sue or be sued by a third party in its own name.

7. **Management:** A government company is managed by the board of directors, who are appointed by the shareholders or are nominated by the government.
8. **Ministerial control:** A government company is subject to ministerial control because the concerned ministry appoints directors.

Merits of Government Company
1. **Formed under companies act:** A government company can be established by fulfilling the requirements of the Indian Companies Act. A separate act in the parliament is not required
2. **Separate legal entity:** It has a separate legal entity, apart from the government.
3. These companies by providing goods and services at reasonable prices are able to control the market and curb unhealthy business practices.
4. **Better operating efficiency:** As the management of these companies are under dual control of government and private sector. They are compelled to improve their operating efficiency.
5. **Not subject to bureaucratic harassment:** A government company is free from bureaucratic authority because it does not work under any government department.
6. **Working on commercial pattern:** A government company can follow commercial policies just like any other private sector companies. So it is capable of earning more profits.
7. **Autonomy in administrative and financial matters:** The company adopts a free and independent policy in administrative and financial matters. As such, it has more flexibility in its functioning as compared to other government departments.

Demerits of Government Company
1. **Accountability:** It evades constitutional responsibility, which a company financed by the government should have. It is not answerable directly to the parliament.
2. **Autonomy on paper only:** The government being the sole shareholder, the management and administration rests in the hands of the government. The main purpose of a government company, registered like other companies, is defeated. The freedom and flexibility in the government company is only theoretical.
3. **Lack of managerial competence:** As officers are often comes from administrative services, management suffers from lack of business experience, delayed decision making etc.
4. **Private shareholders have no say:** A government company may be partly owned by private shareholders. These minority shareholders have no say in the administrations, finance and other matters
5. **Political interference:** These companies are treated as the personal property of ministers. The interference of ministers is frequent and the policies of the government companies are formed according to the whims & fancies of the ministers.

Suitability
Government Company is suitable in the following cases:
1. Where government wants to control a company in the private sector without nationalization.
2. Where government wants to go for collaboration with a private company.
3. Where the projects require government planning & funds.

Difference

Basis of Difference	**Departmental Undertaking**	**Public Corporation**	**Govt. Companies**
(1) Formation	These are formed by the ministry as department of the government.	These are formed by passing an act in the parliament or state legislature.	These are formed by getting registered under the companies act, 2013 (or any previous act).
(2) Ownership	Wholly owned by the government.	Wholly owned by the government.	At least 51% shares by the central or state government or by both of them jointly.

(3)	Finance	Finance is provided by the government in budgetary allocation.	It gets its funds from government but can borrow independently also.	Finance is arranged from the government share holdings and private shareholding.
(4)	Control & Management	It is managed and controlled by government officials from the concerned ministry.	Managed and controlled by appointed board of directors who are nominated by the government and provisions of the act which makes the corporation.	Controlled by board of directors who are nominated by the government but private individuals can also be directors.
(5)	Appointment of employees	Employees are government servants and are headed by civil servants.	Employers are not government servants and professional may also be hired.	The MOA & AOA defines the terms & conditions of selection & service.
(6)	Autonomy	No autonomy, it works under strict control of the government.	Administrative autonomy as the government does not interfere in the day- to-day working.	Some freedom from government interference.
(7)	Public accountability	Highest, as it works under direct control of the ministry.	Accountable to the parliament.	Accountable to the ministry concerned.
(8)	Audit Control	It is subject to accounting and audit control as applicable to other government activities.	Same accounting and audit control as applicable to government departments.	Auditors appointed by the central government & audit report presented in parliament.

MCQs:

Q1. A Public Sector Company is incurring heavy losses and govt. proposes for closing the same. Which term is related to this statement?
(a) Disinvestment (b) Privatisation
(c) Demonetisation (d) Socialisation.

Q2. In your neighbourhood market, there are shops owned by sole proprietors or big retail organisations run by a company. They belong to which sector?
(a)Public (b) Private
(c) Social (d) Mixed

Q3. In India, Railways is an organisation wholly owned and managed by the ___________.
(a) Reliance (b) Tata
(c) Government (d) Railway department.

Q4. A business which operates in more than one country know as _________organisations.
(a) Private (b) Public
(c) Functional (d) Global.

Q5. Indian economy is a ____________ kind of economy.
(a)Global (b) Mixed
(c)Capitalist (d) Socialist.

Q6. Which of the following is not a type of public sector enterprise?
(a)Joint Hindu Family business (b) Departmental undertaking
(c)Statutory Corporation (d) Government Company.

Q7. Public sector organisations may either be partly or wholly owned by the___________ government.

(a) State (b) Central
(c) Foreign (d) Central or state.

Q8. When was the first Industrial Policy Resolution passed by the Govt. of India?
(a) 1947 (b) 1948
(c) 1991 (d) 2001.

Q9. Entry of MNCs into Indian market is an example of:
(a) Privatisation (b) Liberalisation
(c) Disinvestment (d) Globalisation.

Q10. Which policy was launched by Govt. of India in 1991?
(a) JPG (b) GST
(c) LPG (d) MPG.

Q11. Public sector enterprises are accountable to public through_________.
(a) Parliament (b) Government
(c) Public (d) Media

Q12.Which is the oldest and most traditional form of organising public enterprises?
(a) Statutory Corporation (b) Public company
(c) Government company (d) Departmental Undertaking.

Q13. An organisation is working for the purpose of public welfare as a ministry of government. It is financed by govt. and all its income is deposited in govt. treasury. Identify which kind of public sector enterprise is it.
(a)Partnership (b) Departmental undertaking
(c) Sole proprietorship (d) Company

Q14.If a public sector enterprise is making losses continuously, it was referred to the__________.
(a) GIFR (b) CIFR
(c) TIFR (d) BIFR

Q15. Govt. of India establishes its enterprises in backward areas. By doing this which objective is fulfilled?
(a) Economies of scale (b) Regional balance
(c) Development of Infrastructure (d) Import substitution.

Q16. Which government enterprise is registered under Indian Companies Act, 1956?
(a) Departmental undertaking (b) Public corporation
(c) Government company (d) Partnership companies

Q17. Conversion of a PSU into a private sector enterprise is termed as____.
(a) Globalisation (b) Deurbanisation
(c) Privatisation (d) Liberalisation.

Q18. Producing goods in our own country rather than purchasing it from other countries is known as___________.
(a) Export (b) Import
(c) Entrepot (d) Import Substitution

Q19. How many industries are now reserved for public sector?
(a) 2 (b)3
(c) 4 (d) 17

Q20. Which of these industries is not reserved for public sector?
(a) Atomic energy (b) Air transport
(c) Arms (d) Rail transport.

Q21. Which PSU was the first to be privatised successfully in India?
(a) LJMC (b) GAIL
(c) ONGC (d) BHEL

Q22. Govt. has given autonomy to a PSU to improve its performance but held it accountable for specified results under an agreement. What is this agreement called?
(a) MoA (b) AoA
(c) MoU (d) GoU

Q23. An enterprise having huge capital, huge turnover and its branches are spread all over the country. What do we call such kind of enterprises?
(a) Joint venture (b) Global enterprise

(c) Large corporation (d) Huge company.

Q24. Global enterprises usually enter into agreements with Indian companies pertaining to sale of technology, production of goods; use of brand names for the final products, etc. What is the technical term used for such kind of partnerships?

(a) Foreign collaboration (b) Global enterprise
(c) Combined corporation (d) Partnership Company

Q25. What do we call a company formed as the result of an agreement between two businesses in different countries?

(a) Partnership (b) Joint venture
(c) Mixed company (d) MNC

Answers: 1.a 2.b 3.c 4.d 5.b 6.a 7.d 8.b 9.d 10.c 11.a 12.d 13.b 14.d 15.c 16.c 17.c 18.d 19.b 20.b 21.a 22.c 23.b 24.a 25.b

Exercise:

1. Identify the type of public sector enterprise in the following statements:
   a. RBI and FCI are the examples of this form of enterprise.
   b. It enjoys maximum autonomy in all business decisions.
   c. Where national security is concerned, this form is most appropriate.
   d. These are established under an Act of Parliament.
   e. This enterprise is financed directly from the Government Treasury.
   f. Indian Railways and Posts and Telegraphs are the examples of this form of enterprise.
   g. Minimum 51% of the paid up capital is held by the government.
   h. Hindustan Aircrafts is the example of this form of enterprise.

2. Some organisations are directly attached to a particular Ministry of the Central or State Government and are under the direct control of the concerned Minister. The business decisions are thus influenced by political consideration.
   a. State the type of enterprise come under this category.
   b. Give any two examples of such organisations.

3. Maharashtra Pharmaceuticals Co. Ltd., registered under the Companies Act, 1956, was started with a paid-up capital of Rs. 50,00,000. 40% of this paid-up capital is in the hands of private individuals and the balance is held by the Government of Maharashtra. Maharashtra Pharmaceuticals Ltd. belongs to which form of public sector enterprise. State it's any two features and any two merits.

UNIT - 4

Business Services

Services
Services are those separately identifiable, essentially intangible activities that provide satisfaction of wants, and are not necessarily linked to the sale of a product or another service. Their purchase does not result in the ownership of anything physical.

Goods
A good is a physical product capable of being delivered to a purchaser and involves the transfer of ownership from seller to customer. Goods are also generally used to refer to commodities or items of all types, except services, involved in trade or commerce.

Nature of Services
There are five basic features of services:

2. **Intangibility:** Services are intangible, i.e., they cannot be touched. They are experiential in nature. One cannot taste a doctor's treatment, or touch entertainment. One can only experience it. An important implication of this is that quality of the offer can often not be determined before consumption and, therefore, purchase.
3. **Inconsistency:** Since there is no standard tangible product, services have to be performed exclusively each time. Different customers have different demands and expectations. Service providers need to have an opportunity to alter their offer to closely meet the requirements of the customers. This is happening, for example, in the case of mobile services.
4. **Inseparability:** Another important characteristic of services is the simultaneous activity of production and consumption being performed. This makes the production and consumption of services seem to be inseparable.
5. **Inventory (Less):** Services have little or no tangible components and, therefore, cannot be stored for a future use. That is, services are perishable and providers can store some associated goods but not the service itself. For example, a railway ticket can be stored but the railway journey will be experienced only when the railways provides it.
6. **Involvement:** One of the most important characteristics of services is the participation of the customer in the service delivery process. A customer has the opportunity to get the services modified according to specific requirements.

Difference between goods and services

Basis	**Services**	**Goods**
Nature	An activity or process. e.g. watching a movie in a cinema hall	A physical object. e.g. video cassette of movie
Type	Heterogeneous	Homogenous
Intangibility	Intangible e.g. doctor treatment	Tangible e.g. medicine
Inconsistency	Different customers having different demands e.g. mobile services	Different customers getting standardised demands fulfilled. e.g. mobile phones
Inseparability	Simultaneous production and consumption. e.g. eating ice-cream in a restaurant	Separation of production and consumption. e.g. purchasing ice cream from a store
Inventory	Cannot be kept in stock. e.g. experience of a train journey	Can be kept in stock. e.g. train journey ticket
Involvement	Participation of customers at the time of service delivery. e.g. self-service in a fast food joint	Involvement at the time of delivery not possible. e.g. manufacturing a vehicle

Types of Services
Services can be classified into three broad categories as follows:

1. **Business Services:** Business services are those services which are used by business enterprises for the conduct of their activities e.g. banking, insurance, transportation, warehousing and communication services.
2. **Social Services:** Social services are those services which are generally provided voluntarily to attain certain social goals like to improve the standard of living for weaker sections of society, to provide educational services to their children, or to provide health care and hygienic conditions in slum areas.
3. **Personal Services:** Personal services are those services which are experienced differently by different customers. They will differ depending upon the service provider. They will also depend upon customer's preferences and demands e.g. tourism, recreational services, restaurants.

Banking
Banking means accepting deposits from public for the purpose of lending and investment, which are repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise.

Bank
A bank is an institution which is involved in banking activities i.e. the institution which accepts deposits from public for the purpose of lending and investment, which are repayable on demand.

Type of Banks
1. **Commercial Banks:** Commercial banks are those banks which accept demand deposits from the public for purpose of lending or investment. These are governed by Indian Banking Regulation Act 1949.
   There are two types of commercial banks, public sector and private sector banks.
   Public sectors banks are those in which the government has a major stake and they usually need to emphasise on social objectives than on profitability. There are a number of public sector banks like SBI, PNB, IOB etc.
   Private sector banks are owned, managed and controlled by private promoters and they are free to operate as per market forces. The private sector banks are HDFC Bank, ICICI Bank, Kotak Mahindra Bank and Jammu and Kashmir Bank etc.
2. **Cooperative Banks:** Cooperative banks are governed by the provisions of State Cooperative Societies Act and meant especially for providing cheap credit to their members. It is an important source of rural credit, i.e., agricultural financing in India.
3. **Specialized Banks:** Specialized banks provide financial aid to industries, heavy turnkey projects & foreign trade.
   Specialised banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities.
4. **Central Bank:** Central bank of any country supervises controls & regulates the activities of all the commercial banks of that country. It also acts as a government banker. It controls and coordinates currency and credit policies of any country. The Reserve Bank of India is the central bank of our country.

Functions of Commercial Banks
1. **Accepting deposits:** Commercial banks accept deposits from general public who want to save their excess money and also at the same time earn interest. These deposits are generally taken through current bank account, saving bank account and fixed deposits etc.
2. **Lending of funds:** Second major activity of commercial banks is to provide loans and advances out of the money received through deposits. These advances can be made in the form of overdrafts, cash credits, discounting trade bills, term loans, consumer credits and other miscellaneous advances.

3. **Agency functions:** Bank acts as agent of its customer and performs many tasks on their behalf. Bank charges certain fee for that. The various agency functions performed by banks are:
   a. Collection and payment of cheques, bills, drafts
   b. Remittance of funds.
   c. Payment of insurance premium on behalf of the customer.
   d. Collection of dividend, interest, pension etc. on behalf of the customer.
   e. Purchasing shares, debentures, bonds etc. on behalf of the customer (issued by Govt.) companies.
4. **Miscellaneous Functions:**
   a. Providing locker facility to customer for safe custody of valuable ornaments, papers etc.
   b. Under writing of shares & debentures.
   c. Collection and publication of some statistic relating to trade and industry.

Types of Bank Deposit Accounts

1. **Current Account:** This account is primarily opened by businessmen and those people who frequently deposit and withdraw money from their bank account. Through this account, payments can be done unlimited number of times. Normally, interest is not provided on current account deposits.
   Overdraft facility is also available on this account, under which the account holder can overdraw money from his account. The extra money is given as a loan by bank and bank charges interest from him.
2. **Saving Bank Account:** Under this account, a person can deposit money many times in his account. However, there might be some restrictions on the number of withdrawals in a week. A small interest is paid to these account holders by the bank.
   It is a kind of modest credit option available to the depositor. Two free cheque books will be issued each year.
   Internet banking facility will be provided without any charge. Balance enquiry, NEFT, bill payment, mobile recharge, etc., are provided through mobile phones. Students can open this account with zero balance by providing the required documents.
3. **Fixed Deposit Account / Term Deposit Account:** Under this, a person deposits a lump-sum in the bank for a fixed period say 3 months, 6 months, 1 year etc. The bank pays a higher rate of interest on fixed deposit because the customer cannot withdraw his principle amount (PAL) before the expiry of the maturity period.
   The minimum FDR in metro and urban branches is Rs. 10,000 and in rural and semi-urban and for senior citizens is Rs. 5,000
   Interest rate differs from bank to bank depending upon the tenure of the deposits and as bank changes the rate.
   Additional interest of 0.50% is offered to senior citizens on deposits placed for a year and above.
4. **Recurring Deposits Account:** Under this, the customer deposits a fixed amount every month for a fixed period. After the expiry of the fixed period, the PAL along with interest is given to the account holder by the bank.
   It is also called cumulative deposit scheme. The account can be opened for any period ranging from 6 months to 120 months, in multiple of 1 month for monthly instalment. The amount selected for instalment at the start of the scheme is payable every month and the number of instalments once fixed, cannot be changed. The rate of interest is compounded quarterly and the final amount is paid on maturity.
5. **Multiple Option Deposit Account:** This account can be a combination of fixed deposit account with saving/current account. When the amount of deposits exceeds a particular limit then automatically the amount gets transferred into FD account and vice-versa. If the bank receives a cheque for this account and the balance is not sufficient, the amount will be transferred from fixed deposit account to savings bank account to clear the cheque.
   This account depositor can enjoy the liquidity of saving /current account and interest facility of FD account.

Types of Advances

1. **Bank overdraft:** Under this, a customer having a current account is allowed to withdraw money beyond the amount in his account. The overdrawn amount is up to a specific limit and the bank charges interest on the amount overdrawn. This overdrawn amount is also to be paid later on.
2. **Cash credit:** Under this, bank gives loan on securities like shares, debentures, etc. The loan amount is always less than the actual value of the securities. The limit of cash credit is fixed on the basis of goodwill of customers. The customer can withdraw within the specified limit and the interest is charged only on the withdrawn amount.
3. **Short/Medium/Long term loans:** A loan is a lump sum advance given to the customer, repayable by the customer on the expiry of the specified period or in instalments along with interest. It may be secured or unsecured.
4. **Discounting of bills:** Businessmen generally do not wait till maturity of the bill. They get the bill discounted from a bank. The bank gives cash against the bill after deducting the amount of discount. On the due date; the bank gets the full amount from the drawer of the bill.

Short Notes

1. **RTGS (Real Time Gross Settlement):** RTGS is a fund transfer mechanism where transfer of money takes place from one bank to another on a 'real time' and on 'gross basis'. The RBI maintains this payment network.
   'Real Time' means the transactions are settled as soon as they are processed without any waiting period. 'Gross Settlement' means the transaction is settled on one to one basis without bunching with any other transactions. Thus, under RTGS transactions are processed continuously throughout the RTGS business hours.
2. **National Electronic Funds Transfer (NEFT):** It is a nationwide system that facilitates individual, firms and corporate to electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country. The transfer of funds does not take place immediately as NEFT operates on Deferred Net Settlement Basis, which settles transactions in batches at a particular point of time.
3. **ATMs (Automated Teller Machines):** ATMs are installed by banks in different parts of the cities to enable customers to withdraw and deposit funds 24 hours a day. The customers are provided with an ATM card with unique PIN number to access the facility. The ATM card is inserted in the machine and the Pin number is entered to withdraw money from ATM. The customer also receives a receipt after the transaction which shows the balance amount in the customer's account.
4. **Debit Card:** It is plastic card which provides an alternative payment method to pay cash while making purchases. It can be used at an ATM to withdraw money from bank account. It combines the functions of an ATM card and cheque.
5. **Credit Card:** The credit card allows its holder to purchase product or services without cash & to pay at a later date. It provides overdraft facility to the customers. For the credit card, a customer might open an account with the bank which sponsors the card. The customer has to pay interest on the amount used if not paid within the specified period. VISA was the first credit card recognized worldwide.

e–Banking

Under e-banking, the transactions are carried out through interest, mobile phone, ATMs etc.
Internet banking means any user with a PC and a browser can get connected to the banks website to perform any of the virtual banking functions and avail of any of the bank's services. All the services that the bank has permitted on the internet are displayed on a menu. There is no face- to- face interaction of customers and bank in e-banking.

Range of services offered by e-banking are:

1. Automated Teller Machines (ATM) and Point of Sales (PoS),
2. Electronic Data Interchange (EDI) and Credit Cards,
3. Electronic or Digital Cash and

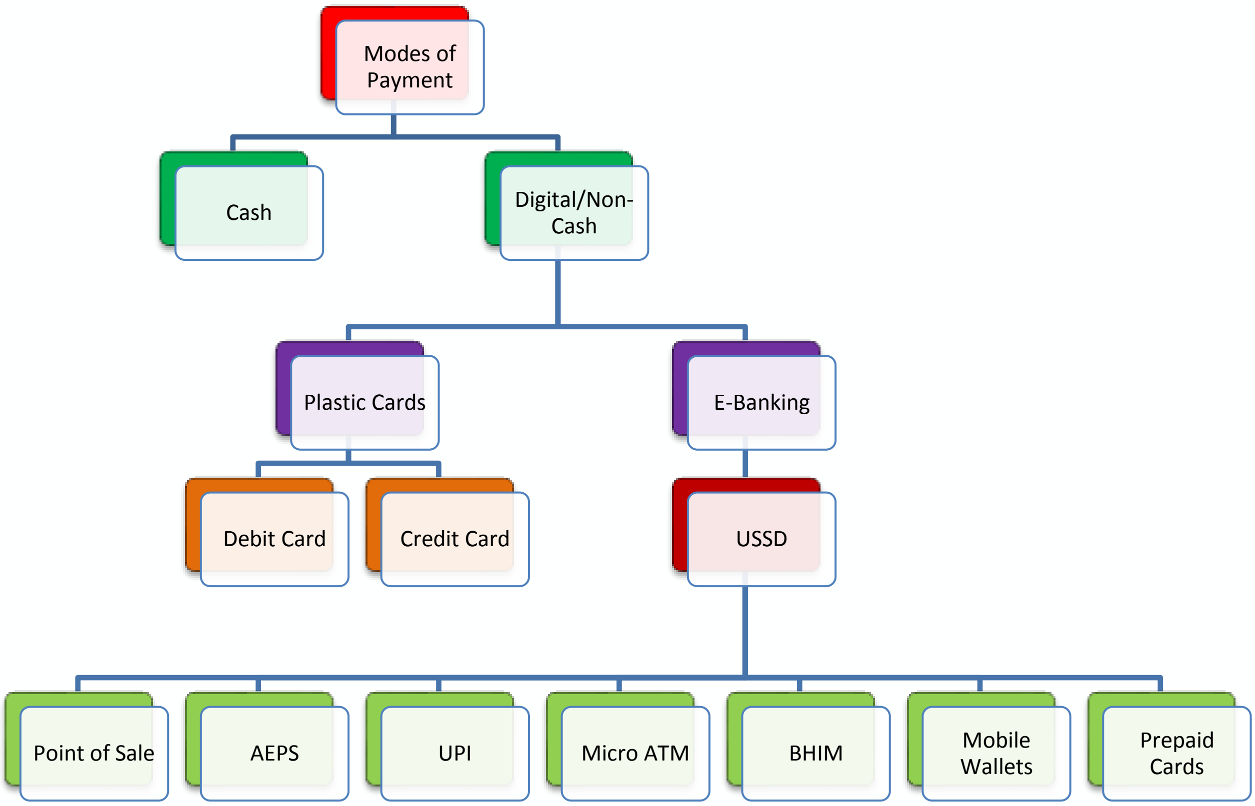
4. Electronic Bank Transfer (EFT). The two ways in which EFT can be done are: NEFT (National Electronic Fund Transfer) and RTGS (Real Time Gross Settlement).

Benefits of e-Banking to customers

1. e-banking facilitates digital payments and promotes transparency in financial statements.
2. e-banking provides 24 hours, 365 days a year services to the customers of the bank.
3. It helps in accessing banking facilities from anywhere, be it home or office or even while travelling via mobile phones also.
4. It inculcates a sense of financial discipline by recording each and every transaction.
5. Greater customer satisfaction by offering unlimited access to the bank, not limited by the walls of the branch and less risk and greater security to the customer as they can avoid travelling with cash.
6. It helps in increasing customer satisfaction by adding value to banking relationships.
7. It speeds up the transactions and reduces the chances of committing errors as everything is done through computers.

Benefits of e-Banking to Banks

1. e-banking provides competitive advantage to the bank.
2. e-banking provides unlimited network to the bank and is not limited to the number of branches, any PC connected to a modem and a telephone having an internet connection can provide cash withdrawal needs of the customer.
3. Load on branches can be considerably reduced by establishing centralised data base and by taking over some of the accounting functions.



Insurance

Insurance is a contract or agreement under which one party (Insurer) agrees, in return for a consideration (Premium), to pay an agreed amount of money to another party (Insured) to compensate his loss, damage or injury of subject matter, in which the insured has a pecuniary interest, as a result of some uncertain event.

The agreement/contract is put in writing and is known as *'policy'*. The person whose risk is insured is called *'insured'* and the firm which insures the risk of loss is known as *insurer/ assurance underwriter.*

Fundamental principle of insurance

Thus insurance is the substitution of a small periodic payment (premium) for a risk of large possible loss.

The loss of risk still remains but the loss is spread over a large number of policyholders exposed to the same risk. The premium paid by them are pooled out of which the loss sustained by any policy holder is compensated. Thus, risks are shared with others.

Ideally, insurance is defined as the equitable transfer of the risk of a potential loss, from one entity to another, in exchange for a reasonable fee.

Functions of Insurance

The various functions of insurance are as follows:

1. **Providing certainty:** Insurance provides certainty of payment for the risk of loss. Insurance removes uncertainties and the assured receives payment of loss. The insurer charges premium for providing the certainty.
2. **Protection:** The second main function of insurance is to provide protection from probable chances of loss. Insurance cannot stop the happening of a risk or event but can compensate for losses arising out of it.
3. **Risk sharing:** On the happening of a risk event, the loss is shared by all the persons exposed to it. The share is obtained from every insured member by way of premiums.
4. **Assist in capital formation:** The accumulated funds of the insurer received by way of premium payments made by the insured are invested in various income generating schemes.

Principles of Insurance

1. **Principle of utmost good faith:** A contract of insurance is a contract of uberrimae fidei i.e., a contract found on utmost good faith. According to this principle, both the insurer and the insured must display utmost good faith towards each other by disclosing all the relevant facts. In case the necessary disclosures are not made, the contract becomes voidable.
   Examples of facts to be disclosed:
   - Fire insurance: Construction of building, fire detection and fire fighting equipment; nature of its use.
   - Motor insurance: Type of vehicle; driver details.
   - Personal Accident insurance: Age, height, weight, occupation, previous medical history.
   - Life insurance: Age, previous medical history, smoking/drinking habits.
2. **Principle of insurable interest:** According to this principle, the insured must have insurable interest in the subject matter of insurance. The insured must have an interest in the preservation of the thing or life insured, so that he/she will suffer financially on the happening of the event against which he/she is insured. It means that the insured must stand to gain by its existence and loose by its destruction.
   E.g. a husband has insurable interest in the life of his wife, the employer has insurable interest in the life of the employee, and parents have insurable interest in the life of their children and vice-versa.
   - In case of life insurance, insurable interest must be present at the time of taking the policy.
   - In case of fire insurance, insurable interest must be present at the time of taking the policy as well as at the time of the loss of subject matter.
   - In case of marine insurance, insurable interest should be present at the time of loss of subject matter.
3. **Principle of indemnity:** According to this principle, the insured will be paid by the insurer (insurance company), the actual amount of loss or the amount of policy, whichever is less, in case of risk or loss suffered by the insured. The main purpose of this principle is to place the insured in the same position where he would have been if he had not suffered loss due to the risk. The insured is not allowed to make any profit out of the loss of subject matter.

All insurance contracts of fire or marine insurance are contracts of indemnity. The principle of indemnity is not applicable to life insurance because the value of life of a person cannot be estimated.

4. **Principle of cause Proxima:** According to this principle, an insurance policy is designed to provide compensation only for such losses as are caused by the perils which are stated in the policy. In case of loss arising out of any mishap, the most proximate cause of the mishap should be taken into consideration.
5. **Principle of mitigation of loss:** According to this principle, insured must take reasonable steps to minimize the loss or damage to the insured property. If reasonable care is not taken like any prudent person then the claim from the insurance company may be lost.
6. **Principle of subrogation:** As per this principle, after the insured is compensated for the loss or damage to the property insured, the right of ownership of such property passes on to the insurer.
   This is because the insured should not be allowed to make any profit, by selling the damaged property or in the case of lost property being recovered.
7. **Principle of contribution:** According to this principle, if a person has taken more than one insurance policy for the same subject matter, then all the insurers will contribute the amount of loss and compensate the insured for the actual amount of loss. The insured cannot separately claim the total loss from each insurer. The insurers contribute to the total loss in proportion to the amount insured by each.
   This principle is corollary of the principle of indemnity.
   It implies that in case of double insurance, the insurers are to share the losses in proportion to the amount assured by each of them.

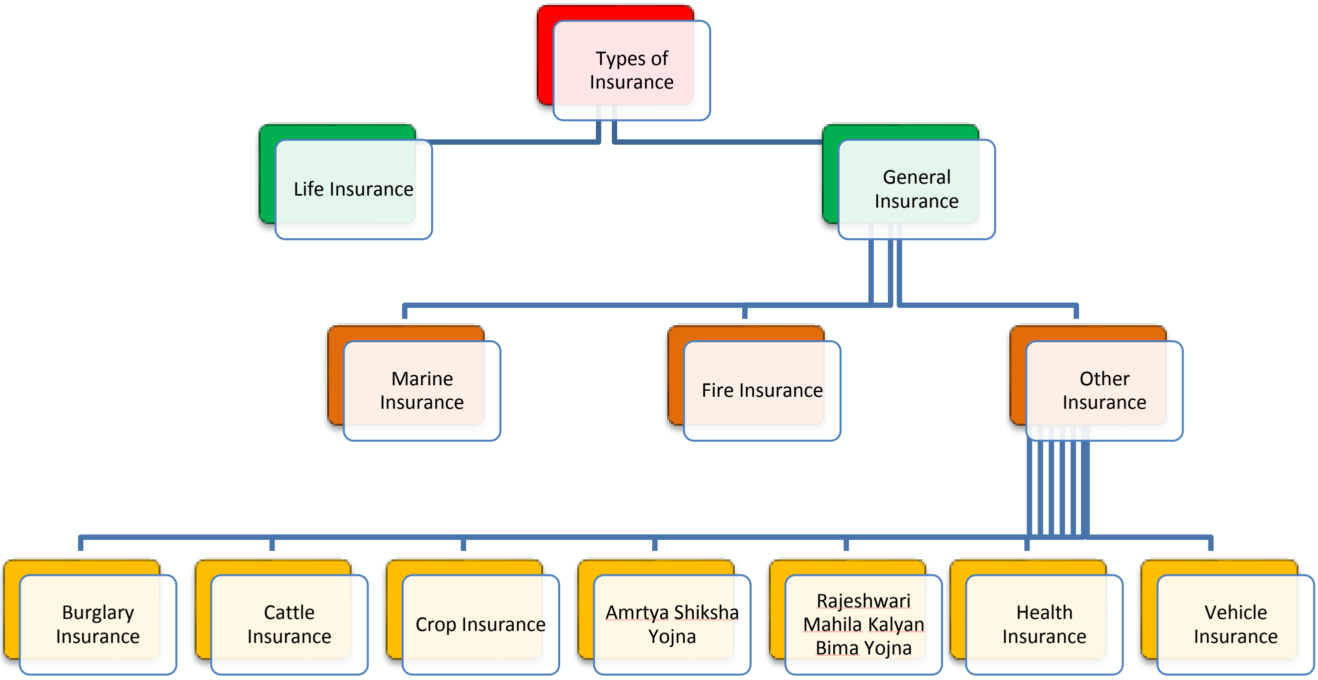
Short Notes

1. **Double insurance:** When the same subject matter is insured with two or more independent insurers, it is called double insurance. In case of fire and marine insurance, even in case of double insurance, the insured will be indemnified only up to the amount of actual loss. The compensation will be contributed by the insurers or by one of them who can later recover proportionate amount from the other insurer.
   However, in case of life insurance a person can take as many numbers of policies and on the maturity of the policies or in case of loss he will get full claim of all the policies from all the insurers.
2. **Re-insurance:** When the insurer accepts a big insurance and later realizes that he can't conveniently bear the loss, then he can re-insure the whole or part of the risk with other insurer through a contract which is known as re-insurance.

Basis of Difference	Double Insurance	Re-Insurance
(1) No. of insurers	The insured insures the same risk, with more than one insurer.	The insurer insures the risk in full or in part with re-insurer.
(2) Compensation	The insured can claim the compensation from all the insurers but up to the amount of actual loss.	The insured cannot claim compensation from the re-insurer.

Basis of Difference	Insurance	Assurance
(1) Base	In the contract of insurance, the insured must suffer a damage or loss to claim compensation.	In the contract of assurance the sum assured is bound to be paid whether insured suffers a loss or not.
(2) Nature of risk	The term 'insurance' is used when risk is uncertain; it may or may not happen.	The term 'assurance' is used when risk is certain and it is bound to happen.

(3)	Happening of event	In insurance, the compensation is paid only on happening of an event.	In assurance the compensation is paid whether the event happens or not
(4)	Examples	fire insurance, marine insurance etc.	life insurance.



Life Insurance
Life insurance may be defined as a contract in which the insurer in consideration of a certain premium, agrees to pay to the assured, or to the person for whose benefit the policy is taken, the assured sum of money, on the happening of a specified event contingent on the human life or at the expiry of certain period.
Thus, the insurance company undertakes to insure the life of a person in exchange for a sum of money called premium.
This premium may be paid either in a lump sum or by other periodical payments.

Types of life insurance policies

1. **Whole Life Policy:** In this kind of policy, the amount payable to the insured will not be paid before the death of the assured. The sum then becomes payable only to the beneficiaries or heir of the deceased.
2. **Endowment Life Assurance Policy:** The insurer (Insurance Company) undertakes to pay a specified sum when the insured attains a particular age or on his death whichever is earlier. The sum is payable to him legal heir/s or nominee named therein in case of death of the assured.
3. **Joint Life Policy:** This policy is taken up by two or more persons. The premium is paid jointly or by either of them in instalments or lump sum. The assured sum or policy money is payable upon the death of any one person to the other survivor or survivors.
4. **Annuity Policy:** Under this policy, the assured sum or policy money is payable after the assured attains a certain age in monthly, quarterly, half-yearly or annual instalments. The premium is paid in instalments over a certain period or single premium may be paid by the assured. This is useful to those who prefer a regular income after a certain age.
5. **Children's Endowment Policy:** This policy is taken by a person for his/ her children to meet the expenses of their education or marriage. The agreement states that a certain sum will be paid by the insurer when the children attain a particular age. The premium is paid

by the person entering into the contract. However, no premium will be paid, if he dies before the maturity of the policy.

Fire Insurance

Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by fire during a specified period upto the amount specified in the policy.

Normally, the fire insurance policy is for a period of one year after which it is to be renewed from time to time. The premium may be paid either in lump sum or instalments. A claim for loss by fire must satisfy the two following conditions:

(i) There must be actual loss; and

(ii) Fire must be accidental and non-intentional.

Marine Insurance

A marine insurance contract is an agreement whereby the insurer undertakes to indemnify the insured against marine losses. Marine insurance provides protection against loss by marine perils or perils of the sea e.g. collision of ship with the rock, or ship attacked by the enemies, fire and captured by pirates and actions of the captains and crew of the ship.

Marine insurance is slightly different from other types. There are three things involved i.e., ship or hull, cargo or goods, and freight.

1. **Ship or hull insurance:** Since the ship is exposed to many dangers at sea, the insurance policy is for indemnifying the insured for losses caused by damage to the ship.
2. **Cargo insurance:** The cargo while being transported by ship is subject to many risks. These may be at port i.e., risk of theft, lost goods or on voyage etc. Thus, an insurance policy can be issued to cover against such risks to cargo.
3. **Freight insurance:** If the cargo does not reach the destination due to damage or loss in transit, the shipping company is not paid freight charges. Freight insurance is for reimbursing the loss of freight to the shipping company i.e., the insured.

Difference

Basis	Life Insurance	Fire Insurance	Marine Insurance
Subject Matter	The subject matter of insurance is human life.	The subject matter is any physical property or assets.	The subject matter is a ship, cargo or freight.
Element	Life Insurance has the elements of protection & investment or both.	Fire insurance has only the element of protection & not the element of investment.	Marine insurance has only the element of protection.
Insurable interest	Insurable interest must be present at the time of effecting the policy but need not be necessary at the time when the claim falls due.	Insurable interest on the subject matter must be present both at the time of effecting policy as well as when the claim falls due.	Insurable interest must be present at the time when claim falls due or at the time of loss only.
Duration	Life insurance policy usually exceeds a year and is taken for longer periods ranging from 5 to 30 years or whole life.	Fire insurance policy usually does not exceed a year.	Marine insurance policy is for one or period of voyage or mixed.

Indemnity	Life insurance is not based on the principle of indemnity. The sum assured is paid either on the happening of certain event or on maturity of the policy.	Fire insurance is a contract of indemnity. The insured can claim only the actual amount of loss from the insurer. The loss due to the fire is indemnified subject to the maximum limit of the policy amount.	Marine insurance is a contract of indemnity. The insured can claim the market value of the ship and cost of goods destroyed at sea and the loss will be indemnified.
Loss measurement	Loss is not measurable.	Loss is measurable.	Loss is measurable.
Surrender value or paid up value	Life insurance policy has a surrender value or paid up value.	Fire insurance does not have any surrender value or paid up value.	Marine insurance does not have any surrender value or paid up value.

Different Types of Insurance

Health Insurance
Health Insurance is a safeguard against rising medical costs. A health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed price (the premium). Health insurance usually provides either direct payment or reimbursement for expenses associated with illness and injuries.

Motor Vehicle Insurance
Motor Vehicle Insurance falls under the classification of general insurance. This insurance is becoming very popular and its importance increasing day-by-day. In motor insurance the owner's liability to compensate people who were killed or insured through negligence of the motorists or drivers is passed on to the insurance company.

Burglary Insurance
Burglary insurance falls under the classification of insurance of property. In case of burglary policy, the loss of damages of household goods and properties and personal effects due to theft, larceny, burglary, house-breaking and acts of such nature are covered. The actual loss is compensated.

Cattle Insurance
Cattle insurance is a contract whereby a sum of money is secured to the assured in the event of death of animals like bulls, buffaloes, cows and heifers. It is a contract against death resulting from accident, disease, or pregnant condition as the case may be. The insurer usually undertakes to pay the excess in the event of loss.

Crop Insurance
A contract of crop insurance is a contract to provide a measure of financial support to farmers in the event of a crop failure due to drought or flood. This insurance covers against all risks of loss or damages relating to production of rice, wheat, millets, oil seeds and pulses etc.

Sports Insurance
This policy assures a comprehensive cover available to amateur sportsmen covering their sporting equipment, personal effects, legal liability and personal accident risks.

Amartya Sen Siksha Yojana
This policy offered by the General Insurance Company secures the education of dependent children.
If the insured parent/legal guardian sustains any bodily injury resulting solely and directly from an accident, caused by external, violent and visible means and if such injury shall within twelve calendar months of its occurrence be the sole and direct cause of his/her death or permanent

total disablement, the insurer shall indemnify the insured student, in respect of all covered expenses to be incurred from the date of occurrence of such accident till the expiry date of policy or completion of the duration of covered course whichever occurs first and such indemnity shall not exceed the sum insured as stated in the policy schedule.

Rajeswari Mahila Kalyan Bima Yojana

This policy has been designed to provide relief to the family members of insured women in case of their death or disablement arising due to all kinds of accidents and/or death and/or disablement arising out of problems incidental to women only.

Social Security Schemes

1. **Atal Pension Yojana:** This scheme is offered to individuals in the age group of 18 to 40 years. The individual is expected to contribute in the scheme until he/she attains the age of 60 years. The scheme acts as an investment for availing old-age pension.
2. **Pradhan Mantri Suraksha Bima Yojana:** This scheme offers accidental and disability cover of Rs. 2 lakh at a premium of Rs. 12 per year. Any individual holding a savings account can be enrolled under this scheme.
3. **Pradhan Mantri Jan Dhan Yojana:** The scheme offers savings account with no minimum balance. The RuPay ATM-cum-Debit card has in-built accident and life cover of Rs. 1,00,000 and Rs. 30,000 respectively. The scheme is suitable for economically weaker sections of society.
4. **Pradhan Mantri Jeevan Jyoti Bima Yojana:** The scheme offers a protection term insurance cover of Rs 2,00,000 to the dependents of the policy holder in the event of his/her death at a premium of Rs. 330 per year. Any individual in the age group of 18-70 years having a savings account can opt for this scheme.

MCQs:

Q1. A person takes the insurance policy of his property of Rs. 20,000 for Rs.10,000. The property gets damaged to the extent of Rs. 15,000. The loss of Rs.7,500 is compensated without considering the average basis. What is the name of this insurance policy?
(a) Average Policy (b) Valued Policy
(c) Specified Policy (d) Comprehensive Policy

Q2. Maximum period limit of a General Insurance is-
(a) 1 year (b) 2 years
(c) 3 Years (d) No limit

Q3. The state finance corporation is-
(a) A commercial Bank (b) An Industrial Development Bank
(c) Central Bank (d) None of these

Q4. UPI stands for-
(a) Unique Payment Introduction (b) Union Payment Interface
(c) Upper Payment Interface (d) Unified Payment Interface

Q5. Which of the following is the subject matter of Marine Insurance?
(a) Hull (b) Wages
(c) Ship Captain (d) Strom

Q6. A person gets his stock with Rs.25,000 insured for Rs.35,000. A fire occurs and the whole stock gets damaged. The insurance company will pay him only Rs.25,000, the actual value of his stock and not Rs.35,000. Which principle of insurance is applied in this case?
(a) Principle of Contribution (b) Principle of Subrogation
(c) Principle of Indemnity (d) Principle of Insurable Interest

Q7. HDFC Bank is-
(a) Public Sector Bank (b) Private Sector Bank
(c) Cooperative Sector Bank (d) None of these

Q8. Which of the following is not related to Life Insurance Contract?
(a) Conditional Contract (b) Unilateral Contract
(c) Indemnity Contract (d) None of these

Q9.Ankur saves Rs.3,000 every month. Which type of Bank Account he should open with the bank?

(a) Current Account (b) PPF Account
(c) Recurring Deposit Account (d) Saving Account

Q10.Geeta has Rs.20,000 in her account. He doesn't have any use of these for two years. To earn more interest which type of bank account she would be opened with the bank?

(a) Recurring Deposit (b) Fixed Deposit
(c) Current Account (d) Saving Account

Q11. The insured is expected to disclose all the important facts related to property insured. Which principle is discussed here?

(a) Mitigation (b) Insurable Interest
(c) Indemnity (d) Utmost Good Faith

Q12. Mohan mortgages his factory to Shyam and get loan from him. Shyam get it insured for fire. Which principle of insurance applicable here?

(a) Principle of Insurable Interest (b) Principle of Utmost Good Faith
(c) Principle of Indemnity (d) None of these

Q13. A plant manager gets his stock of goods insured but he hide the fact that the electricity board has issued him statutory warning letter to get his factory wiring changed. Later on, the factory catches fire due to short circuit. Which principle is violated in the case?

(a) Principle of Subrogation (b) Principle of Utmost Good Faith
(c) Principle of Indemnity (d) Principle of Insurable Interest

Q14. Which one of these is a Public Corporation?

(a) HDFC (b) Life Insurance Corporation
(c) SIDBI (d) None of these

Q15.*A* is a KVS employee and posted in Gujarat, 1600kms away from his hometown his friend need Rs. 20,000 and requested *A* for the amount. *A* sends the amount by Paytm App, Which mode of payment used by *A*-

(a) Digital Payment (b) Cheque Payment
(c) Cash Payment (d) None of these

Q16. How many hours do the ATM works in a day?

(a) 24 Hours (b) 12 Hours
(c) 48 Hours (d) 15 Hours

Q17. Debit Card and Credit Card also called as-

(a) Bank Balance (b) Plastic Money
(c) Debit Money (d) Smart Money

Q18. A bank, which occupies a central position in the monetary and banking system of the country and has a superior financial authority, is called?

(a) Central Bank (b) Co-operative Bank
(c) Commercial Bank (d) Exchange Bank

Q19. Banks are necessary for the effective implementation of ....policy.

(a) Tax Policy (b) Current Account Policy
(c) Demat Account (d) Monetary Policy

Q20. .... cheque is payable to the person named in the cheque or his order.

(a) Discounted (b) Order
(c) Self (d) Dishonoured

Answers:

1. c 2. a 3. b 4. d 5. a 6. c 7. b 8. c 9. c 10. b 11. d 12. a 13. a
14. b 15. a 16. a 17. b 18. a 19. d 20. b

Exercise:

1. A company has undertaken a fire insurance policy for Rs.5 lakh. After two months due to fire it incurred a loss of Rs.2 lakh. How much amount will the company get as compensation
2. A transport company took an accident insurance policy for all its vehicles. A truck of that company carrying oranges met with an accident. Due to that accident there was no damage

to oranges but oranges were unloaded from that truck and reloaded to another. Due to time wasted in unloading and reloading the oranges got spoiled. Will the company get compensation for loss of oranges from the insurance company or not? Which principle is related with this case? Explain that principle of insurance.

3. A husband took the life insurance policy of his wife. After one year the couple got divorced and later on after two years the wife died. Will husband get compensation from the insurance company?
4. A factory owner took a fire insurance policy for his factory without informing the insurance company that he received notice from electricity department to get the wiring of the factory repaired. After six months of taking policy the factory caught fire due to faulty wiring. Will the factory owner get compensation for the loss due to fire? Which principle of insurance is related with this case? Explain that principle.

UNIT - 5

Emerging Mode of Business

The manner of conducting business is referred to as the 'mode of business.' 'Emerging' means the changes happening here and now. So 'emerging modes of business' means the latest ways or trends of doing business, which are recently developed.

Following are the recently developed trends of doing business:

1. Digitisation - The conversion of text, sound, images, video, and other content into a series of ones and zeroes that can be transmitted electronically,
2. Outsourcing, and,
3. Inter - nationalisation and globalisation.

Meaning of E-Business

E-Business (electronic business) means conducting business (trade, industry & commerce) using computer network. It offers the convenience of 24 hours □ 7 days a week □ 365 days a year business. E-Business is a wider term & includes e-commerce also.

Difference between e-business and e-commerce

Basis	e-business	e-commerce
(1) Meaning	It means conducting industry, trade and other business activities using computer network.	It means buying and selling of products and services over the internet.
(2) Scope	It includes not only e-commerce but also other electronically conducted business function such as production, inventory management, product development, accounting and finance and human resource management.	It covers a firm's interactions with its customers and suppliers over the internet.
(3) Concept	Broader Concept	Narrow concept

Difference between traditional business and e-business

Basis	E-Business	Traditional Business
Formation	It is easy to form e-business.	It is difficult to form traditional business as a number of formalities are required to be fulfilled.
Physical presence	Not required	Required
Locational requirement	None	Proximity to the source of raw materials or the market for the products
Setting-up cost	Low, as no requirement of physical facilities	High setting-up cost due to requirement of physical facilities
Operating Cost	Low, as a result of reliance on network of relationships rather than ownership of resources	High due to investment in procurement and storage, production, marketing and distribution facilities
Nature of contact with suppliers & customers	There is a direct contact with suppliers and customers	Indirect contact through intermediaries
Global access	Online trading allows reaching customers all around the globe.	Global reach is limited.

Interpersonal touch	Less	More
Government patronage	Much, as IT sector is among the topmost priorities of the government	Shrinking
Nature of human capital	Technically and professionally qualified personnel needed	Semi-skilled and even unskilled manpower needed.

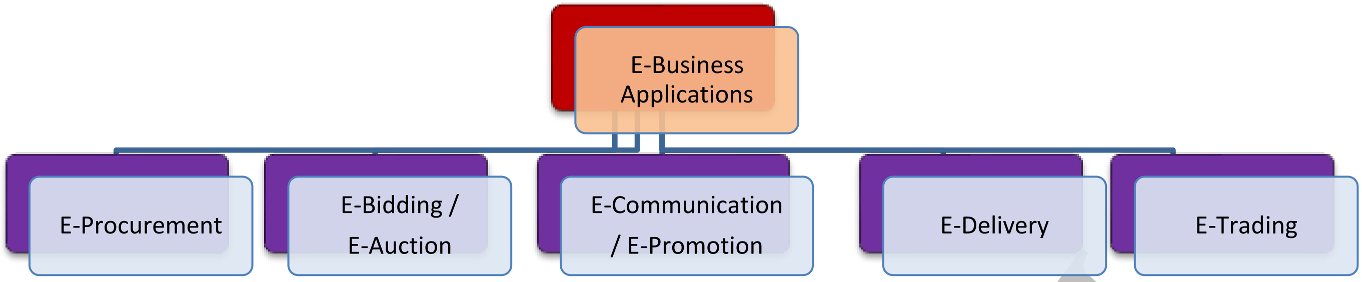
Benefits of e-business

1. **Ease of formation and lower investment requirements:** Unlike a host of procedural requirements for setting up an industry, e-business is relatively easy to start.
2. **Convenience:** Internet offers the convenience of '24 hours x 7 days a week x 365 days' a year business. e-business offers the advantage of accessing anything, anywhere, anytime.
3. **Speed:** As already noted, much of the buying or selling involves exchange of information that internet allows at the click of a mouse. This benefit becomes all the more attractive in the case of information-intensive products such as softwares, movies, music, e-books and journals that can even be delivered online.
4. **Global reach/access:** Internet is truly without boundaries. On the one hand, it allows the seller an access to the global market; on the other hand, it affords to the buyer a freedom to choose products from almost any part of the world.
5. **Movement towards a paperless society:** Use of Internet has considerably reduced dependence on paperwork and the attendant 'red tape.' In fact, e-commerce tools are affecting the administrative reforms aimed at speeding up the process of granting permissions, approvals and licences.

Limitation of e-Business

1. **Low personal touch:** e-business lacks warmth of interpersonal interactions. To this extent, it is relatively less suitable mode of business in respect of product categories requiring high personal touch such as garments, toiletries, etc.
2. **Incongruence between order taking/giving and order fulfilment speed:** Information can flow at the click of a mouse, but the physical delivery of the product takes time. At times, due to technical reasons, web sites take unusually long time to open. This may sometimes frustrate the user.
3. **Need for technology capability and competence of parties to e-business:** Apart from the traditional 3R's (Reading, WRriting, and ARithmetic), e-business requires a fairly high degree of familiarity of the parties with the world of computers.
4. **Increased risk due to anonymity and non-traceability of parties:** Internet transactions occur between cyber personalities. As such, it becomes difficult to establish the identity of the parties. Moreover, one does not know even the location from where the parties may be operating. There is also a risk of 'virus,' and 'hacking.'
5. **People resistance:** The process of adjustment to new technology and new way of doing things causes stress and a sense of insecurity. As a result, people may resist an organisation's plans of entry into e-business.
6. **Ethical fallouts:** Nowadays, companies use an 'electronic eye' to keep track of the computer files you use, your e-mail account, the websites you visit etc. this is an example of ethical fallouts.

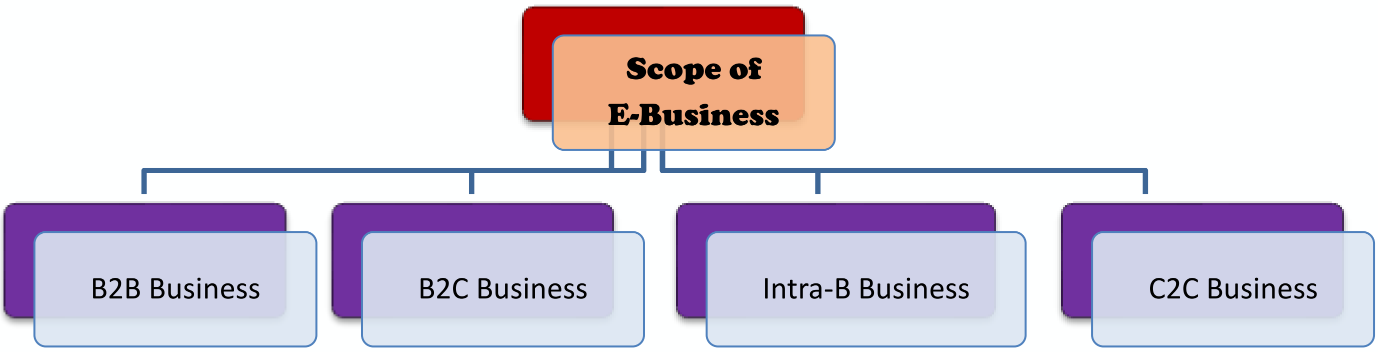
Some e-Business Applications



1. **e-Procurement:** It involves internet-based sales transactions between business firms, including both, "reverse auctions" that facilitate online trade between a single business purchaser and many sellers, and, digital marketplaces that facilitate online trading between multiple buyers and sellers.
2. **e-Bidding/e-Auction:** Most shopping sites have 'Quote your price' whereby you can bid for the goods and services (such as airline tickets!). It also includes e-tendering whereby one may submit tender quotations online.
3. **e-Communication/e-Promotion:** Right from e-mail, it includes publication of online catalogues displaying images of goods, advertisement through banners, pop-ups, opinion poles and customer surveys, etc. Meetings and conferences may be held by the means of video conferencing.
4. **e-Delivery:** It includes electronic delivery of computer software, photographs, videos, books (e-books) and journals (e-journals) and other multimedia content to the user's computer. It also includes rendering of legal, accounting, medical, and other consulting services electronically.
5. **e-Trading:** It involves securities trading, that is online buying and selling of shares and other financial instruments. For example, sharekhan.com is India's largest online trading firm.

Scope of e-Business

The scope of e-Business is wide and covers a wide range of business activities. Depending on the number of parties involved in electronic transactions, e-business can be of the following type:



B2B (Business 2 Business)

It refers to the business transactions taking place between two or more business firms. A business needs to interact with many other firms, resource providers and specialized agencies before the final product is manufactured or delivered. When the business uses computer network to interact with such parties, it is called B2B commerce.

B2C (Business 2 Customer/Consumer) Commerce

It is a system where a customer interacts with business firm for buying goods through internet. It is used for placing order for goods. It involves various informative services provided to customers regarding prices, airline schedules etc. B2C is also referred as online shopping.

Intra-B Commerce

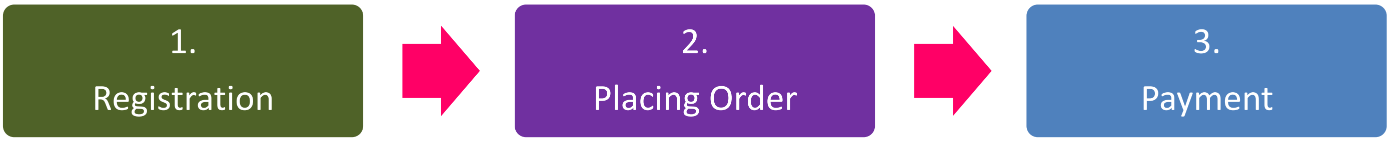
It refers to the transactions which take place among different persons or departments within a firm only e.g. the marketing department can interact with the production department to inform them about the customer requirements through Intra-B Commerce.

Companies are resorting to personnel recruitment, interviewing and selection, training, development and education via e-commerce (captured in a catch-all phrase 'e-learning'). Instead, in a way the office goes to them and they can work from wherever they are, and at their own speed and time convenience. Meetings can be held online via tele/ video conferencing.

C2C (Customer to Customer) Commerce

It refers to the commerce which takes place between two or more customers for the sale and purchase of goods for which there is no established market mechanism. The activities here involve auctions between customers that are facilitated by firms such as e-bay classified ads etc. An excellent example of this is found at eBay where consumers sell their goods and services to other consumers.

Online Transactions



1. **Registration:** Before online shopping, one has to register with the online vendor by filling-up a registration form. Registration means that you have an 'account' with the online vendor. Among various details that need to be filled in is a 'password' as the sections relating to your 'account', and 'shopping cart' are password protected.
2. **Placing an order:** You can pick and drop the items in the shopping cart. Shopping cart is an online record of what you have picked up while browsing the online store. After being sure of what you want to buy, you can 'checkout' and choose your payment options.
3. **Payment mechanism:** Payment for the purchases through online shopping may be done in a number of ways:
   a. **Cash-on Delivery (CoD):** As is clear from the name, payment for the goods ordered online may be made in cash at the time of physical delivery of goods.
   b. **Cheque:** Alternatively, the online vendor may arrange for the pickup of the cheque from the customer's end. Upon realisation, the delivery of goods may be made.
   c. **Net-banking Transfer:** Modern banks provide to their customers the facility of electronic transfer of funds over the Internet using Immediate Payment Services (IMPS), NEFT and RTGS. In this case, therefore, the buyer may transfer the amount for the agreed price of the transaction to the account of the online vendor who may, then, proceed to arrange for the delivery of goods.

Credit or Debit Cards

These are popularly known as plastic money.

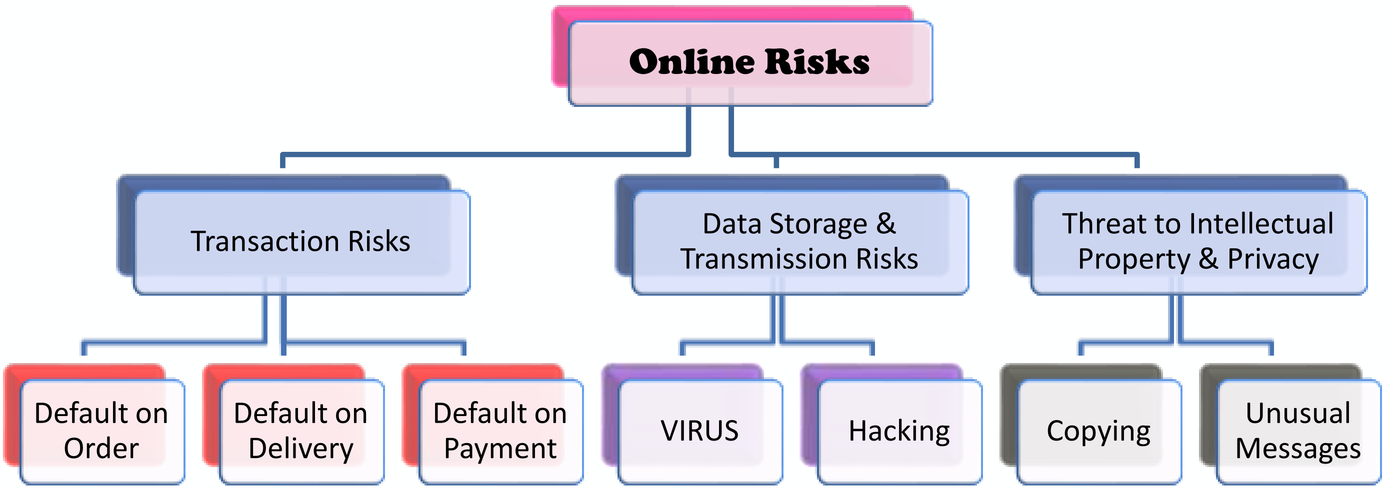
Credit card allows its holder to make purchase on credit. The amount due from the card holder to the online seller is assumed by the card issuing bank, who later transfers the amount involved in the transaction to the credit of the seller.

Debit card allows its holder to make purchases through it to the extent of the amount lying in the corresponding account. The moment any transaction is made, the amount due as payment is deducted electronically from the card.

Digital Cash
This is a form of electronic currency that exists only in cyberspace. This type of currency has no real physical properties, but offers the ability to use real currency in an electronic format. First you need to pay to a bank (vide cheque, draft, etc.) an amount equivalent to the digital cash that you want to get issued in your favour. Then the bank dealing in e-cash will send you a special software (you can download on your hard disk) that will allow you to draw digital cash from your account with the bank.

Resources required for successful implementation of e-business:
1. **Well-designed website:** 'Web' means World Wide Web (www) and site means 'location'. Thus, a website is a firm & location on the World Wide Web. A business firm must develop a comprehensive website to communicate effectively with its customers.
2. **Adequate computer hardware:** The business firm must install computers with necessary speed, memory and modes to handle the expected volume of business.
3. **Technically qualified and responsive work force:** A well trained work force who are capable of working with the internet and computer network is essential for e-business.
4. **Effective telecommunication system:** E-business requires an effective telecommunication system in the form of telephone lines, optic fiber, cables etc.

Security and safety of e-transaction or e-business



Online risks associated with e-business can be classified under three categories:
1. Transaction Risks
2. Data storage and Transmission Risks
3. Risks of threat to intellectual property and privacy risks.

Transaction Risks
Transaction Risks can be as follows:
1. **Default on order taking or giving:** The seller may deny that customer had placed the order or the customer may deny that he had placed the order.
2. **Default on delivery:** The delivery may not take place or goods may be delivered at wrong address or wrong goods are delivered.
3. **Default on payment:** Under this, the seller does not get the payment for the goods supplied whereas the customer claims that the payment was made.

Data Storage and Transmission Risks
The data stored in the system and their transmission is exposed to a number of risks. The risks can be as follows:
1. **VIRUS:** VIRUS means 'Vital Information Under Seize'. It is a computer program (a series of commands) that replicates itself on the other computer systems. VIRUS may enter the

computer system through e-mails, disk drive, floppy or websites and destroy the information stored in the computer.
The effect of computer viruses can range from mere annoyance in terms of some on-screen display (Level-1 virus), disruption of functioning (Level-2 virus) damage to target data files (Level-3 virus), to complete destruction of the system (Level-4 virus).
2. **Hacking:** It means unauthorized entry into a website. Hackers intercept message sent on Internet. They misuse such confidential information to their advantage or modify and even destroy its content to harm the parties.

Risk of threat to intellectual property and privacy risks
Internet is an open space. It becomes very difficult to protect information from being copied and used for someone's personal gain. The privacy of the users is threatened as a host of advertising and promotional literature may be dumped in their inboxes.

Safety and Security of e-business
The following methods can be used to ensure safety and security of online transactions:
1. **Verification from cookies:** In order to confirm that the customer has correctly entered his details in the registration form, the online vendor (seller) may verify the same from the cookies. Cookies are very similar to the 'Caller Id' in telephones that provide information such as customer's name, address, previous purchase record.
This helps to avoid risk of default on delivery.
2. **Confirming the payment details before the delivery of goods:** The customer is required to furnish the details such as the Credit Card number, Card issuer and the card validity online. These details may be processed offline and only after satisfying himself the vendor should deliver the goods. This helps to avoid risk of default on payment.
3. **Antivirus programmes:** Installing and timely updating antivirus programmes and scanning the files and disk with them provides protection to the data files, folders and system from virus attack.
4. **Cryptography /Encryption technology:** cryptography refers to the art of protecting information by transforming it into unreadable format called 'Cyphertext'.
5. **Cyber Crime Cells:** Govt. may setup special cyber-crime cells to look into the cases of hacking and take necessary action against the hackers.
6. **Purchase from well-established shopping sites:** As for customer's protection from anonymous sellers, it is always advisable to shop from well-established shopping sites. These sites provide protection to the customers against default on delivery and reimburse the payments made up to some extent.

MCQs:
Q1. Which one of the following cannot be considered as a trend shaping the business?
(a) Digitisation (b) Outsourcing
(c) Demonetisation (d) Globalisation
Q2. Your friend has joined as a manager in a company where conduct of Industry, trade and commerce is done using the computer network. Out of the following options which is the right term to explain the aforesaid company?
(a) E-business (b) E-commerce
(c) E-trade (d) E-industry
Q3. A firm's electronic transactions and networks can be visualised as extending into all these directions except
(a) B2B (b) B2C
(c) C2C (d) Intra-B
Q4. The term B2B commerce stands for
(a) Business to Buyer (b) Buyer to Buyer
(c) Buyer to Business (d) Business to Business
Q5. B2B commerce helps in all these except
(a) Customised production (b) Improved distribution system
(c) Reduce dependence on single supplier (d) Online customer surveys

Q6. A firm uses internet to send and receive commercial documents like purchase orders or invoice to another firm which technology is it using

(a) EDI (b) NEFT
(c) RTGS (d) RTI

Q7. You use ATM to withdraw money which type of e-commerce is this?

(a) B2B (b) B2C
(c) Both of them (d) None of these

Q8. What is true about B2C commerce?

(a) It moves from Business to commerce
(b) It is moves customers to Business
(c) It is corollary i.e. both ways
(d) None of these

Q9. Employees of ABC Ltd. Are connected through VPN, which helps them to all of the following things, except

(a) To work from where they are
(b) To work at their own speed and time
(c) To be in touch with its customers
(d) To conduct video conferencing

Q10. VPN stands for

(a) Vital Personal Network (b) Virtual Personal Network
(c) Virtual Private Network (d) Vital Private Network

Q11. Your father has an old scooter and you want to replace it with a new scooter. Your father is not ready to sell old scooter because he thinks he will not get good price for his old scooter and he cannot afford a new scooter. You found a buyer for your scooter at OLX who was ready to buy your scooter at a good price so you finally sold your old scooter. Which type of e-commerce did you use?

(a) B2B (b) B2C
(c) B2E (d) C2C

Q12. C2C commerce is best suited for dealing in goods

(a) For which there is no established market
(b) Which cannot be sold through stores
(c) Which are considered harmful for the society
(d) Which are of low standards

Q13. 'Networked individuals and firms are more efficient than networthed individuals' highlights the importance of

(a) Money (b) Knowledge
(c) Assets (d) Internet

Q14. Find the odd one out

(a) Amazon (b) Snapdeal
(c) Flipcart (d) Snapchat

Q15. Which benefit of e-business is highlighted in the statement 'accessing anything, anywhere, anytime?

(a) Speed (b) Global reach
c) Convenience (d) Low personal touch

Q16. What is known as electronic pulse of e-business?

(a) Man (b) Machine
(c) Money (d) Material

Q17. What is wrong about internet (e-business?)

(a) Internet is without boundary
(b) The benefit of internet technology accrue to big business only
(c) Internet offers convenience
(d) Internet permits to do fabulous business even if one does not have much of the investment

Q18. Information Technology Act 2000 has made it possible to have paperless dealings by

(a) Giving recognition of electronic records

(b) Using electronic records and digital signatures in government agencies
(c) Retaining electronic record
(d) All of the above

Q19. Which of the following is not a limitation of e-business?
(a) Need for technology capability and competence
(b) People resistance
(c) Paperless society
(d) Low personal touch

Q20. Opportunity for inter-personal touch is
(a) More in traditional business than e-business
(b) More in e-business than traditional business
(c) Same in both
(d) None of the above

Answers: 1.d 2.a 3.c 4.d 5.d 6.a 7.b 8.c 9.c 10.c 11.d 12.a 13.d 14.d 15.c 16.c 17.b 18.d 19.c 20.a

Exercise:

1. Himanshu wanted to sell his mobile phone but does not get any buyer. On his friends suggestion he posted the mobile on sale on www.olx.com and found a buyer within two days. Identify and explain the type of e-business highlighted here.
2. www.olx.com and www.quicker.com are examples of well-known websites used to conduct business. Tarasha's sofa set got spoild in rain. Her friend suggested that she should change the fabric so that it looks new and put it for sale on www.olx.com. Tarasha followed her friend's advice and got her sofa repaired so that it looks better and uploaded nicely clicked pictures on the website without disclosing the fact that it was damaged from inside. She found a buyer and sold it for Rs. 10,000. After five days the buyer found the real state of sofa set and called Tarasha but she did not answer any of the call.
   (a) Identify the type of business highlighted in the above case.
   (b) Explain any two benefits and limitations of e-business.
3. Name the payment mechanism for the products bought online in which the amount for the agreed price of the transaction is transferred by the buyer to the account of the online vendor through electronic transfer of funds.

UNIT - 6

Social Responsibilities of Business and Business Ethics

Meaning of Social Responsibility

Social responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of the objectives and values of our society.
It refers to the obligations of business enterprises to enhance social wellbeing and improve quality of life with taking decisions for the growth of the business.

Corporate Social Responsibility

The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore and more, or a net worth of Rs. 500 crore and more, or a net profit of Rs. 5 crore and more.

1. The new rules, which are applicable from the fiscal year 2014-15 onwards, also require companies to setup a CSR committee consisting of their board members, including at least one independent director.
2. The Act encourages companies to spend at 2% of their average net profit in the previous three years on CSR activities.

e.g.

1. Indian Oil Corporation (IOC) has taken initiative in providing clean drinking water, running child and maternity health centre, construction of school buildings, libraries, financial help to deserving students from poor and needy families etc.
2. Infosys Foundation has taken initiative in providing Medical Facilities to remote rural areas, organizing Novel Business Scheme and aiding orphans and street children.

Arguments for Social Responsibility / The case for Social Responsibility

1. **Justification for existence and growth:** Business exists for providing goods and services to satisfy human needs. The prosperity and growth of business is possible only through continuous service to society. Thus, assumption of social responsibility by business provides justifications for its existence and growth.
2. **Long term interest of Business:** Doing business in a fair and responsible manner is in the long term interest of the business. By adopting unethical and unfair means, the reputation is tarnished in the eyes of the public.
3. **Avoidance of government intervention:** Fulfilment of social obligation helps business in avoiding govt. intervention. Govt. intervention affects flexibility & freedom of business in making decisions and meeting competition.
4. **Maintenance of society:** People who feel that they are not getting their due from the business may resort to anti-social activities, not necessarily governed by law. This may harm the interest of business itself. Therefore, it is desirable that business enterprises should assume social responsibilities.
5. **Availability of resources with business:** This argument holds that business institutions have valuable financial and human resources which can be effectively used for solving problems.
6. **Converting problems into opportunities:** Related with the preceding argument is the argument that business with its glorious history of converting risky situations into profitable deals, can not only solves social problems but it can also make them effectively useful by accepting the challenge.
7. **Better environment for doing business:** If business is to operate in a society which is full of diverse and complicated problems, it may have little chance of success. Therefore, it is argued that the business system should do something to meet needs before it is confronted with a situation when its own survival is endangered due to enormous social illnesses. A society with fewer problems provides better environment for a firm to conduct its business.

Arguments against Social Responsibility

1. **Violation of profit maximisation objective:** According to this argument, business exists only for profit maximisation. Therefore, any talk of social responsibility is against this objective.
2. **Burden on consumers:** It is argued that business firms spend huge amounts in discharging their social responsibility. These costs are ultimately passed on to consumers in form of higher prices.
3. **Lack of Social Skills:** Managers lack social skills and don't have proper understanding and knowledge of social problems. As such they are unable to solve these problems.
4. **Lack of broad public support:** Here the argument is that the public in general does not like business involvement or interference in social programmes. Therefore, business cannot operate successfully because of lack of public confidence and cooperation in solving social problems.
5. **Conflicting objectives:** Business managers need to focus both on profit maximization as well as social responsibility which in itself are opposite to each other.
6. **Government's Responsibility:** It is stated that taking care of well-being of society is responsibility of the government. Business should not be overburdened with additional responsibility of CSR.

Reality of Social Responsibility

It will be useful here to go into some of the reasons and factors, which have forced and persuaded businessmen to consider their responsibilities and the conditions which were favourable to the development of business concern with social responsibility. Some of the more important among them are:

1. **Threat of public regulation:** Where business institutions operate in a socially irresponsible manner, government takes action for safeguarding the interest of public. This makes the business enterprise to take up the social responsibility.
2. **Pressure of labour movement:** Now, labour has become far more educated and organised. This has forced business enterprises to pay due regard to the welfare of workers instead of following a policy of 'hire and fire' under which they could deal with workers at their will.
3. **Impact of consumer consciousness:** Education; mass media and increasing competition have made the consumer conscious about his rights. The principle of caveat emptor (or let the buyer beware) has been substituted by the principle of 'customer is king'. Business enterprises have started following customer oriented policies.
4. **Development of social standard for business:** Businesses are no longer considered as money minting machines. Now only those business are preferred which also serve the social needs as no business can be done in isolation from society.
5. **Development of business education:** Development of business education with social responsibility content has made more and more people aware of the social purpose of business. Educated persons as consumers, investors, employees, or owners have become more sensitive towards social issues.
6. **Relationship between social interest and business interest:** Business enterprises have started realising the fact that social interest and business interest are not contradictory. Instead, these are complementary to each other for the long run interest of business.
7. **Development of professional, managerial class:** Professional management education has created a separate class of professional managers with sensitive attitude towards social responsibility. Professional managers are more interested in satisfying a multiplicity of interest groups in society for running their enterprises successfully than merely following profit goals.

Kinds of Social Responsibility

Social responsibility of business can broadly be divided into four categories, which are as follows:

1. **Economic responsibility:** A business enterprise is basically an economic entity and, therefore, its primary social responsibility is economic i.e., produce goods and services that society wants and sell them at a profit. There is little discretion in performing this responsibility.

2. **Legal responsibility:** Every business has a responsibility to operate within the laws of the land. Since these laws are meant for the good of the society, a law abiding enterprise is a socially responsible enterprise as well.
3. **Ethical responsibility:** This includes the behaviour of the firm that is expected by society but not codified in law. For example, respecting the religious sentiments and dignity of people while advertising for a product. There is an element of voluntary action in performing this responsibility.
4. **Discretionary responsibility:** This refers to purely voluntary obligation that an enterprise assumes, for instance, providing charitable contributions to educational institutions or helping the affected people during floods or earthquakes. It is the responsibility of the company management to safeguard the capital investment by avoiding speculative activity and undertaking only healthy business ventures which give good returns on investment.

Social Responsibility towards different Interest Groups

1. **Responsibility of business towards owners/shareholders/investors**
   a. To ensure a fair return on investment of owners and shareholders.
   b. To ensure safety of funds by investment in projects after careful analysis of risk and return involved.
   c. To maximize wealth of shareholders by ensuring appreciation in share prices.
   d. To present true and fair position of business to shareholders.
   e. To ensure optimum utilization of funds through efficiency in operations & correct decision making.
2. **Responsibility of Business towards employees/workers**
   a. Fair wages and salaries must be provided to the employees.
   b. Safe and healthy working conditions must be provided like, well- ventilated rooms, clean drinking water etc.
   c. Proper training should be provided to increase efficiency and ensure safety of workers.
   d. Growth and development opportunities should be provided
   e. Employees should be provided economic (monetary) security through various insurance schemes and pension.
   f. Management should treat employees as part of organisation and must respect their human rights.
   g. Employees must be involved in decision making process.
   h. They must be provided incentives like housing, medical, retirement benefits etc.
3. **Social Responsibility of Business towards Customers / consumers**
   a. To provide good quality goods and services, which can satisfy the needs and wants of the customer.
   b. To charge fair prices for the goods and services provided.
   c. To adopt fair trade practices and provide the relevant and mandatory information under law.
   d. To handle consumer complaints and grievances quickly.
   e. Not to mislead consumers by wrong advertisements.
4. **Responsibility of business towards Government**
   a. To pay taxes honestly and on time to the govt.
   b. To abide by govt. policies and rules issued from time to time.
   c. To encourage fair trade practices and dealing in the country.
   d. To discourage corruption by getting work done through proper channels.
   e. To support govt. in enhancing the well-being of the society and the growth of the country.
5. **Responsibility of business towards community**
   a. To provide right quality of goods in the right quantity at right time and at right price to the consumers.
   b. To promote national integration.
   c. To generate employment opportunities.
   d. To help the weaker sections of the society.

e. To participate in community development programs such as free medical camps, opening schools and hospitals etc.
f. To ensure efficient utilization of scarce resources
g. To preserve social and cultural values.

6. **Responsibility of business towards suppliers**
   a. To ensure regular payment to the suppliers
   b. To adopt fair dealings with the suppliers
   c. To provide a true and fair information about the business
   d. To protect and assist small scale suppliers by placing orders with them
   e. To guide and assist the suppliers in improving quality of their products.

Business and Environmental Protection

Pollution — the injection of harmful substances into the environment is known as pollution. Pollution changes the physical, chemical and biological characteristics of air, land and water. Pollution harms human life and the life of other species.

Causes of Pollution

Business activities such as production, distribution, transport, storage, consumption of goods and services are known to be the most critical sources of environmental pollution problems.
Many business enterprises have been responsible for causing (i) air, (ii) water (iii) land, and (iv) noise pollution.

These types of pollution are discussed as follows:

1. **Air pollution:** Air pollution is the result of a combination of factors which lowers the air quality. It is mainly due to carbon monoxide emitted by automobiles which contributes to air pollution. Similarly, smoke and other chemicals from manufacturing plants pollute the air. Resultant air pollution has created a hole in the ozone layer leading to dangerous warming of the earth.
2. **Water pollution:** Water becomes polluted primarily from chemical and waste dumping. For years, business enterprises have been dumping waste into rivers, streams and lakes with little regard for the consequences. Water pollution has led to the death of several animals and posed a serious threat to human life.
3. **Land pollution:** Dumping of toxic wastes on land causes land pollution. This damages the quality of land making it unfit for agriculture or plantation. Restoring the quality of the land that has already been damaged is a big problem.
4. **Noise pollution:** Noise caused by the running of factories and vehicles is not merely a source of annoyance but is also a serious health hazard. Noise pollution can be responsible for many diseases like loss of hearing, malfunctioning of the heart and mental disorder.

Need for Pollution Control

Some of the important reasons which make a case for pollution control are as follows:

1. **Reduction of health hazards:** There is increasing evidence that many diseases like cancer, heart attacks and lung complications are caused by pollutants in the environment. Pollution control measures can not only check the seriousness of such diseases but can also be supportive of a healthy life on earth.
2. **Reduced risk of liability:** It is possible that an enterprise is held liable to pay compensation to people affected by the toxicity of gaseous, liquid and solid wastes it has released into the environment. Therefore, it is sound business policy to install pollution control devices in its premises to reduce the risk of liability.
3. **Cost savings:** An effective pollution control programme is also needed to save costs of operating business. Cost savings are particularly noticeable when improper production technology results in greater wastes which leads to higher cost of waste disposal and cost of cleaning the plants.
4. **Improved public image:** As society becomes increasingly conscious of environmental quality, a firm's policies and practices for controlling wastes will increasingly influence

people's attitude towards its working. A firm that promotes the cause for environment will be able to enjoy a good reputation and will be perceived as a socially responsible enterprise.

5. **Other social benefits:** Pollution control results in many other benefits like clearer visibility, cleaner buildings, better quality of life, and the availability of natural products in a purer form.

Role of Business in Environmental Protection

Business enterprise can also take the following steps for environmental protection is as stated below:

1. A definite commitment by top management of the enterprise to create, maintain and develop work culture for environmental protection and pollution prevention.
2. Ensuring that commitment to environmental protection is shared throughout the enterprise by all divisions and employees.
3. Developing clear-cut policies and programmes for purchasing good quality raw materials, employing superior technology, using scientific techniques of disposal and treatment of wastes and developing employee skills for the purpose of pollution control.
4. Complying with the laws and regulations enacted by the Government for prevention of pollution.
5. Participation in government programmes relating to management of hazardous substances, clearing up of polluted rivers, plantation of trees, and checking deforestation.
6. Periodical assessment of pollution control programmes in terms of costs and benefits so as to increase the progress with respect to environmental protection.
7. Arranging educational workshops and training materials to share technical information and experience with suppliers, dealers and customers to get them actively involved in pollution control programmes.

Environmental Protection in India (Steps taken by the Government)

1. **Laws:** Some of the laws enacted by the Government are as under:
   a. The Wildlife Protection Act, 1972
   b. The Water (Prevention and Control of Pollution) Act, 1974 amended in
   c. 1974 and 1988
   d. The Air (Prevention and Control of Pollution) Act, 1974 amended in 1974
   e. and 1988
   f. The Environment (Protection) Act, 1986
   g. The Forests (Conservation Act, 1980 amended in 1988
   h. The Hazardous Wastes Act, 1989
2. **Regulations:** Administrative orders/policy guidelines have been laid down by the government. A separate Department of Environment, Government of India was created in 1980.
3. **Certain regulatory bodies or quasi-judicial authorities have been established such as:**
   a. National Afforestation and Eco-development Board, and
   b. National Wastelands Development Board.

MCQs:

1. Which kind of social responsibility is purely voluntary obligation that an enterprise assumes
   a. Economic
   b. Discretionary
   c. Legal
   d. Ethical
2. What is the primary social responsibility of a business
   a. Economic
   b. Discretionary
   c. Legal
   d. Ethical
3. What is correct about ethical responsibility

a. It is codified by law
b. It is the behaviour of the firm that is expected by society
c. It arises due to economic benefit of business
d. None of the above

4. ………… Is a major generator of waste in terms of both its quantity and toxicity
   a. Vehicles
   b. Industry
   c. Agricultural waste
   d. Deforestation
5. ………… Gas emitted by automobiles contribute to air pollution.
   a. Carbon di oxide
   b. Nitrogen
   c. Carbon monoxide
   d. Oxygen
6. Which type of pollution does not contain toxicity pollutant
   a. Air pollution
   b. Water pollution
   c. Land pollution
   d. Noise pollution
7. A business should take lead in protecting environment because
   a. They are leading creators of wealth
   b. They command huge human resources
   c. They can not remain unaffected by environmental destruction
   d. All of these
8. Match the following

Stakeholders		responsibility
(i)	Shareholders	a.good quality products
(ii)	Workers	b.obey laws
(iii)	Customers	c.fair return
(iv)	Government	d.competitive salary

	(i)	(ii)	(iii)	(iv)
a.	a	b	c	d
b.	c	d	a	b
c.	a	d	c	b
d.	c	b	a	d

Answers: 1.b2.a 3.b 4.b 5.c 6.d 7.d 8.b

BUSINESS ETHICS

Q1-The word 'ethics' has its origin in the Greek word 'ethics' which means-
(a) Law,rules
(b) Policy, law
(c) Norms, ideals
(d) Rules, policy

Q. 2- Ethics are based on
(a) political values (b) moral values
(c) social values (d) none of these

Q. 3- The ethics may be written or unwritten codes governing a professional or human activity.
True / false

Q.4- The relationship between business objectives, practices and the good of society comprises-
(a) business law (b) business ethics
(c) business economics (d) none of these

Q. 5- which of the following is not an example of business ethics-
(a) royalty (b) honesty
(c) integrity (d) law abiding

Answers: 1(c); 2(b); 3(true); 4(b); 5(a)

Exercise:

1. In the recent case of Satyam Ltd. whereby its top official had put the interest of shareholders at stake. "In spite of dominant role of profit in the running of business today, there is a growing realisation all over the world that now it is very important for every business to assume Corporate Governance." Illustrate with reasons.
2. Strong Ltd., a cement manufacturing company earned a profit of Rs. 50 crores during the year 2013-14. The management decided to donate 10% of their profit to an orphanage in their locality.
   (a) Identify the concept behind this decision.
   (b) Explain any three kinds of the concept identified in (a) above.
3. Harsh and Company is the leading manufacturer in mobile phones. It provides different category of mobile phones. For this purpose they interact with different suppliers to get necessary raw material through internet to manufacture its products. Dinesh Ltd. is the leading supplier of battery to them. Harsh and company use network of computers to interact with their suppliers. Transactions like placing orders, delivery of components, making payments etc. are done electronically through internet. The company finds dealing through internet quite convenient. They are able to reduce their cost. Moreover, internet has enabled them to interact with many suppliers and select the one which offers them required raw material at low price.
   In addition to the above, they also adopt effective measures to protect the environment from the dangers of pollution.
   (a) Identify the scope of e-business highlighted above.
   (b) List any two benefits provided by e-business.
   (c) Write any two steps which a company should take to protect the environment from the dangers of pollution.
4. Mr. Nitin Kumar is working as a Public Relation Officer (PRO) with Coca-Cola India Ltd. The company along with NDTV India and Sachin Tendulkar (Brand Ambassador) is running 'Support My School' campaign. It is planning to support a Lucknow based NGO working for education of children in villages using modern methods of teaching like e-Choppals.
   (a) Name two other companies which are undertaking similar projects to discharge corporate social responsibility.
   (b) if the company finds it difficult to carry on this project as it does not permit the company to concentrate on core activities, then what is the remedy available to the company.
   (c) Explain any two arguments in favour of company undertaking its social responsibility.

UNIT - 7

Sources of Business Finance

Meaning of Business Finance

The requirement of funds by business to carry out its various activities is called business finance.
It also refers to the management of cash and credit in the organization not only to meet the day to day expenses of the organization but also for its growth expansion and diversification.

Nature and Significance of Business Finance

Finance is the life blood of a business as no business can start, run or expand without adequate finance. A business cannot function unless adequate funds are made available to it.

Finance is needed for the following purposes:

1. **Establishment Expenses:** Preliminary expenses, promotion expenses, fees paid to specialist for setting up of the business etc.
2. **Cost of Procuring Finance:** Underwriting commission, brokerage, issue of prospectus, commission etc.
3. **For procuring fixed assets:** Like land, building, plant and machinery etc.
4. **For procuring current assets:** Like cash, raw material, payment of expenses etc.
5. **For procuring intangible assets:** Like patents, goodwill, copyright, trademark etc. For procuring funds for growth, expansion and diversification.

Financial Requirements

Finance needed by a business can be categorized as follows:
1. Fixed Capital Requirement
2. Working Capital Requirement

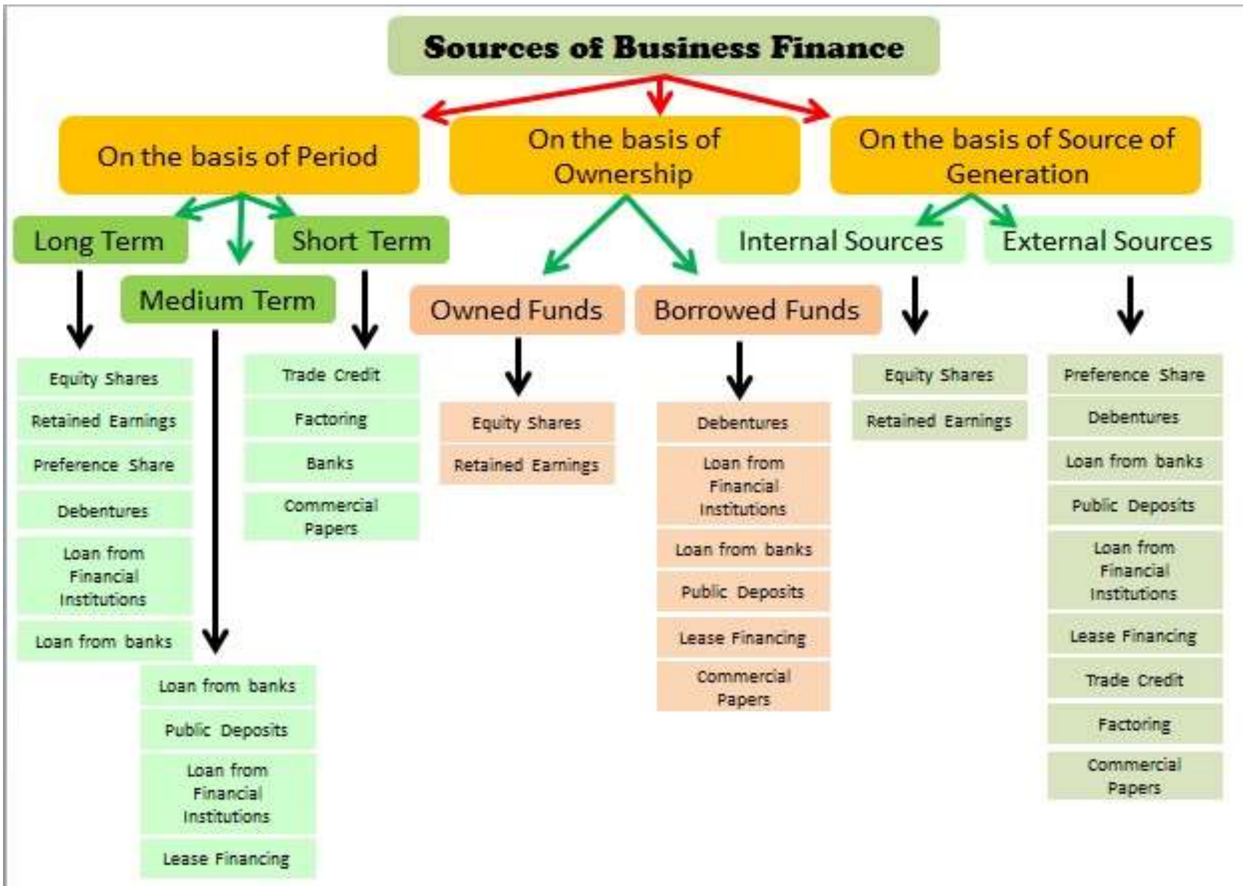
Fixed Capital Requirement

The capital required for buying fixed assets of the business is known as fixed capital requirement because the funds required for fixed assets are remain invested in the business for a long period of time.
Fixed assets means those assets which will remain in the business for a long period such as land, building, Machinery, Furniture etc.

Working Capital Requirement

The funds required for holding the current assets such as stock of material, debtors, cash bills receivables and for day-to-day expenses like salaries, rent, wages etc. are called as working capital of the business.

Classification of sources of Finance



Classification of sources of finance:
Sources of finance can be classified on the basis of:
1. Period
2. Ownership
3. Source of generation

Sources of finance on the basis of period

On the basis of period, the different sources of funds can be categorised into three parts. These are:
1. **Long-term sources:** The long-term sources fulfil the financial requirements of an enterprise for a period exceeding 5 years and include sources such as shares and debentures, long-term borrowings and loans from financial institutions. Such financing is generally required for the acquisition of fixed assets such as equipment, plant, etc.
2. **Medium-term sources:** Where the funds are required for a period of more than one year but less than five years, medium-term sources of finance are used. These sources include borrowings from commercial banks, public deposits, lease financing and loans from financial institutions.
3. **Short term sources:** Short-term funds are those which are required for a period not exceeding one year. Trade credit, loans from commercial banks and commercial papers are some of the examples of the sources that provide funds for short duration.

Sources of finance on the basis of ownership
On the basis of ownership, the sources can be classified into
1. **Owner's funds:** Owner's funds means funds that are provided by the owners of an enterprise, Apart from capital, it also includes profits reinvested in the business. Issue of equity shares and retained earnings are the two important sources from where owner's funds can be obtained.

2. **Borrowed funds:** Borrowed funds refer to the funds raised through loans or borrowings. The sources for raising borrowed funds include loans from commercial banks, loans from financial institutions, issue of debentures, public deposits and trade credit.

Sources of finance on the basis of source of generation

On the basis of source of generation, the sources can be classified into:

1. **Internal sources:** Internal sources of funds are those that are generated from within the business. A business, for example, can generate funds internally by accelerating collection of receivables, disposing of surplus inventories and ploughing back its profit.
2. **External sources:** External Sources of funds include those sources that are raised from outside an organisation. Issue of debentures, borrowing from commercial banks and financial institutions and accepting public deposits are some of the examples of external sources of funds commonly used by business organisations.

Retained Earnings/Ploughing back of Profit

The part of profits which is invested in business rather than distributing it as dividend to the shareholders is known as retained earnings. It is a source of internal financing or self-financing or 'ploughing back of profits'.

The profit available for ploughing back in an organisation depends on many factors like net profits, dividend policy and age of the organisation.

Merits of retained earnings

1. Retained earnings is a permanent source of funds available to an organisation;
2. It does not involve any explicit cost in the form of interest, dividend or floatation cost;
3. As the funds are generated internally, there is a greater degree of operational freedom and flexibility;
4. It enhances the capacity of the business to absorb unexpected losses;
5. It may lead to increase in the market price of the equity shares of a company.

Demerits of retained earnings

1. Excessive ploughing back may cause dissatisfaction amongst the shareholders as they would get lower dividends;
2. It is an uncertain source of funds as the profits of business are fluctuating;
3. The opportunity cost associated with these funds is not recognised by many firms. This may lead to sub-optimal use of the funds.

Trade Credit

It refers to the credit period offered by the supplier of the goods to the buyer of the goods. The trade credit normally ranges from 30 days to 90 days. Trade credit facilitates the purchase of supplies without immediate payment; they can make payment on some future date.

Merits of Trade Credit

The important merits of trade credit are as follows:

1. Trade credit is a convenient and continuous source of funds;
2. Trade credit may be readily available in case the credit worthiness of the customers is known to the seller;
3. Trade credit needs to promote the sales of an organisation;
4. If an organisation wants to increase its inventory level in order to meet expected rise in the sales volume in the near future, it may use trade credit to, finance the same;
5. It does not create any charge on the assets of the firm while providing funds.

Demerits of Trade Credit

Trade credit as a source of funds has certain limitations, which are given as follows:

1. Availability of easy and flexible trade credit facilities may induce a firm to indulge in overtrading, which may add to the risks of the firm;
2. Only limited amount of funds can be generated through trade credit;
3. It is generally a costly source of funds as compared to most other sources of raising money.

Public Deposits

The deposits that are raised by organisations directly from the public are known as public deposits. Rates of interest offered on public deposits are usually higher than that offered on bank deposits. This source of finance fulfils the short term and medium term capital requirements of the company.

Companies generally invite public deposits for a period upto three years. The acceptance of public deposits is regulated by the Reserve Bank of India.

Merits of public deposits

The merits of public deposits are:

1. The procedure of obtaining deposits is simple and does not contain restrictive conditions as are generally there in a loan agreement;
2. Cost of public deposits is generally lower than the cost of borrowings from banks and financial institutions;
3. Public deposits do not usually create any charge on the assets of the company. The assets can be used as security for raising loans from other sources;
4. As the depositors do not have voting rights, the control of the company is not diluted.

Demerits of public deposits

1. New companies generally find it difficult to raise funds through public deposit.
2. It is an unreliable source of finance as the public may not respond when the company needs money.
3. Collection of public deposits may prove difficult, particularly when the size of deposits required is large.

Shares

The capital of the company is divided into small indivisible unit known as share. Each share has its nominal value. For example, a company can issue 1,00,000 shares of Rs. 10 each for a total value of Rs. 10,00,000.

Company issues shares to raise the funds as capital. The persons who subscribe the shares are called shareholders. They are the owners of company and receive share of the profits every year which is known as dividend.

Types of Shares

There are two types of shares:

1. Equity Shares
2. Preference Shares

Equity Shares

These are those shares which do not impose any obligation on the company to pay fixed rate of dividend to their holders. However, equity shares carry voting rights in the company. It means equity shareholders have right to participate in the management of the company.

They are referred to as 'residual owners' since they receive what is left after all other claims on the company's income and assets have been settled. They enjoy the reward as well as bear the risk of ownership.

Merits of Equity Share

1. Equity shares are suitable for investors who are willing to assume risk for higher returns;
2. Payment of dividend to the equity shareholders is not compulsory. Therefore, there is no burden on the company in this respect;
3. Equity capital serves as permanent capital as it is to be repaid only at the time of liquidation of a company. As it stands last in the list of claims, it provides a cushion for creditors, in the event of winding up of a company;
4. Equity capital provides credit worthiness to the company and confidence to prospective loan providers;

5. Funds can be raised through equity issue without creating any charge on the assets of the company. The assets of a company are, therefore, free to be mortgaged for the purpose of borrowings, if the need be;
6. Voting right of equity shareholders facilitate democratic control and management of company matters.
7. With fluctuating returns shareholders enjoy higher returns in years of high profits.

Demerits of Equity Share

The major limitations of raising funds through issue of equity shares are as follows:

1. Investors who want steady income may not prefer equity shares as equity shares get fluctuating returns;
2. The cost of equity shares is generally more as compared to the cost of raising funds through other sources;
3. Issue of additional equity shares dilutes the voting power, and earnings of existing equity shareholders;
4. More formalities and procedural delays are involved while raising funds through issue of equity share.

Preference Shares

These are those shares which carry following two preferential rights over equity shares:

1. At the time of distribution of dividend, preference shareholders get dividend at fixed rate before any dividend paid to equity shareholders; and
2. At the time of liquidation of the company, preference shareholder is repaid before equity shareholders.

Merits of Preference Shares

1. Preference shares provide reasonably steady income in the form of fixed rate of return and safety of investment;
2. Preference shares are useful for those investors who want fixed rate of return with comparatively low risk;
3. It does not affect the control of equity shareholders over the management as preference shareholders don't have voting rights;
4. Payment of fixed rate of dividend to preference shares may enable a company to declare higher rates of dividend for the equity shareholders in good times;
5. Preference shareholders have a preferential right of repayment over equity shareholders in the event of liquidation of a company;
6. Preference capital does not create any sort of charge against the assets of a company.

Demerits of Preference Shares

Preference shares are not suitable for those investors who are willing to take risk and are interested in higher returns;

1. Preference capital dilutes the claims of equity shareholders over assets of the company;
2. The rate of dividend on preference shares is generally higher than the rate of interest on debentures;
3. As the dividend on these shares is to be paid only when the company earns profit, there is no assured return for the investors. Thus, these shares may not be very attractive to the investors;
4. The dividend paid is not deductible from profits as expense. Thus, there is no tax saving as in the case of interest on loans.

Types of Preference Shares

1. **Cumulative & Non-Cumulative Preference Shares:** In case of cumulative pref. shares, if dividend is not paid due to insufficient profits in the current year then they get accumulated and are paid in the subsequent years.

In case of non-cumulative pref. shares, the shareholder can receive the dividend only for that year in which the company has earned profits. The dividend is not accumulated and is not paid in subsequent years.

2. **Redeemable & Irredeemable Preference Shares:** Redeemable pref. shares are those shares which are redeemed (repaid) by the company after a specified period of time.
   Irredeemable pref. shares are those shares which are not redeemed (repaid) by the company during its lifetime and can only be redeemed at the time of liquidation of the company.
3. **Participating & Non-Participating Preference Shares:** Participating preference share are those shares, which has right to participate in the surplus profits of the company after dividend has been paid to equity shareholders at certain rate.
   Non-participating preference shares are those shares which do not have right to participate in the surplus profits of the company.
4. **Convertible & Non-Convertible Preference shares:** Convertible pref. shares are those shares which can be converted into equity shares after a particular period of time.
   Non-convertible pref. shares are those shares which cannot be converted into equity shares after a specified period of time.

Debentures

Debenture is an acknowledgement of the debt taken by a company which is to be repaid after a specified period along with interest.
The people who buy debentures of a company are called debenture holders and they are the creditors of the company.

Public issue of debentures requires that the issue be rated by a credit rating agency like CRISIL (Credit Rating and Information Services of India Ltd.) on aspects like track record of the company, its profitability, debt servicing capacity, credit worthiness and the perceived risk of lending.

Types of Debentures

1. **Registered Debentures:** These are those debentures where the name of the debenture holder is written in the register of the company. In case these debentures are to be transferred the transfer can only be valid when the name of transferee is written in the register of the company.
2. **Bearer Debentures:** These are those debentures where the debenture can be transferred by mere delivery. No registration of the transfer is necessary in this case.
3. **Convertible Debentures:** These debentures have the option that they can be converted into equity shares after a specified period of time.
4. **Non-convertible Debentures:** These debentures cannot be converted into equity shares after a specified period of time.
5. **Secured Debentures:** These are those debentures which create a charge upon some assets of the company i.e. some assets are kept mortgaged when these debentures are issued.
6. **Unsecured Debentures:** These debentures have no charge on the assets of the company. These are also called naked debentures or ordinary debentures.
7. **First Debentures:** These debenture holders are repaid before other debenture holders are paid anything.
8. **Second Debentures:** These debenture holders are repaid after the first debenture holder has been paid.

Merits of debentures

The merits of raising funds through debentures are given as follows:

1. It is preferred by investors who want fixed income at lesser risk;
2. Debentures are fixed charge funds and do not participate in profits of the company;
3. The issue of debentures is suitable in the situation when the sales and earnings are relatively stable;
4. As debentures do not carry voting rights, financing through debentures does not dilute control of equity shareholders on management;

5. Financing through debentures is less costly as compared to cost of preference or equity capital as the interest payment on debentures is tax deductible.

Demerits of debentures

Debentures as source of funds have certain limitations. These are given as follows:

1. As fixed charge instruments, debentures put a permanent burden on the earnings of a company. There is a greater risk when earnings of the company fluctuate;
2. In case of redeemable debentures, company has to make provisions for repayment on the specified date, even during periods of financial difficulty;
3. Each company has certain borrowing capacity. With the issue of debentures, the capacity of a company to further borrow funds reduces

Difference between Shares and Debentures

Basis	Shares	Debentures
(1) Nature of Capital	Share capital is the owned fund of the company.	Funds raised through Debentures are borrowed funds of the company.
(2) Return	The return on shares is known as dividend	The return on debentures is known as interest.
(3) Priority	Dividend is paid after paying interest on debentures and tax to the govt.	Interest is paid before dividend is paid to shareholders and tax to the govt.
(4) Security	Issue of shares does not create a charge on the assets of the company.	Company's assets are mortgaged for raising funds from debentures.
(5) Relation with Company	Shareholders are the owners of the company.	Debenture holders are the creditors of the company.
(6) Rate of return	No fixed rate of dividend is paid to equity shareholders.	Debentures are paid fixed rate of interest annually.
(7) Voting Rights	Equity shareholders have voting rights in the company.	Debentures holders do not have any voting right in the company.

Commercial Banks

Commercial banks extend loans to firms of all sizes and in many ways, like, cash credits, overdrafts, term loans, purchase/discounting of bills, and issue of letter of credit. The loan is repaid either in lump sum or in instalments.

Though banks have started extending loans for longer periods, generally such loans are used for medium to short periods. The borrower is required to provide some security or create a charge on the assets of the firm before a loan is sanctioned by a commercial bank.

Merits of loans from Commercial Banks

The merits of raising funds from a commercial bank are as follows:

1. Banks provide timely assistance to business by providing funds as and when needed by it.
2. Secrecy of business can be maintained as the information supplied to the bank by the borrowers is kept confidential;
3. Formalities such as issue of prospectus and underwriting are not required for raising loans from a bank. This, therefore, is an easier source of funds;
4. Loan from a bank is a flexible source of finance as the loan amount can be increased according to business needs and can be repaid in advance when funds are not needed.

Demerits of loans from Commercial Banks

The major limitations of commercial banks as a source of finance are as follows:

1. Funds are generally available for short periods and its extension or renewal is uncertain and difficult;

2. Banks make detailed investigation of the company's affairs, financial structure etc., and may also ask for security of assets and personal sureties. This makes the procedure of obtaining funds slightly difficult;
3. In some cases, difficult terms and conditions are imposed by banks. for the grant of loan. For example, restrictions may be imposed on the sale of mortgaged goods, thus making normal business working difficult.

Financial Institutions
Financial institutions provide both owned capital and loan capital for long and medium term requirements and supplement the traditional financial agencies like commercial banks.
As these institutions aim at promoting the industrial development of a country, these are also called '*development banks*'.
In addition to providing financial assistance, these institutions also conduct market surveys and provide technical assistance and managerial services to people who run the enterprises.

Merits of loans from financial institutions
The merits of raising funds through financial institutions are as follows:
1. Financial institutions provide long term finance, which are not provided by commercial banks;
2. Besides providing funds, many of these institutions provide financial, managerial and technical advice and consultancy to business firms;
3. Obtaining loan from financial institutions increases the goodwill of the borrowing company in the capital market. Consequently, such a company can raise funds easily from other sources as well;
4. As repayment of loan can be made in easy instalments, it does not prove to be much of a burden on the business;
5. The funds are made available even during periods of depression, when other sources of finance are not available.

Demerits of loans from financial institutions
The major limitations of raising funds from financial institutions are as given below:
1. Financial institutions follow rigid criteria for grant of loans. Too many formalities make the procedure time consuming and expensive;
2. Certain restrictions such as restriction on dividend payment are imposed on the powers of the borrowing company by the financial institutions;
3. Financial institutions may have their nominees on the Board of Directors of the borrowing company thereby restricting the powers of the company.

International Financing
In addition to the sources discussed above, there are various avenues for organisations to raise funds internationally. Various international sources from where funds may be generated include:

1. **Commercial Banks:** Commercial banks all over the world extend foreign currency loans for business purposes. They are an important source of financing non-trade international operations. The types of loans and services provided by banks vary from country to country. For example, Standard Chartered emerged as a major source of foreign currency loans to the Indian industry.
2. **International Agencies and Development Banks:** These bodies provide long and medium term loans and grants to promote the development of economically backward areas in the world. These bodies were set up by the Governments of developed countries of the world at national, regional and international levels for funding various projects. The more notable among them include International Finance Corporation (IFC), EXIM Bank and Asian Development Bank.
3. **International Capital Markets:** Modern organisations including multinational companies depend upon sizeable borrowings in rupees as well as in foreign currency. Prominent financial instruments used for this purpose are:

a. **Global Depository Receipts (GDR's):** In the Indian context, a GDR is a financial instrument issued by a depositary bank in foreign country on behalf of Indian company to raise funds in foreign currency. It is listed and traded on a foreign stock exchange.
The local currency shares of a company are delivered to the depository bank. The depository bank issues depository receipts against these shares. Such depository receipts denominated in US dollars are known as Global Depository Receipts (GDR). GDR is a negotiable instrument and can be traded freely like any other security.
A holder of GDR can at any time convert it into the number of shares it represents. The holders of GDRs do not carry any voting rights but only dividends and capital appreciation. Many Indian companies such as Infosys, Reliance, Wipro and ICICI have raised money through issue of GDRs.

b. **American Depository Receipts (ADRs):** The depository receipts issued by a company in the USA are known as American Depository Receipts. ADRs are bought and sold in American Stock Exchange (NASDAQ, AMEX, MTSE), like regular stocks. ADR is a dollar dominated instrument.
It is similar to a GDR except that it can be issued only to American citizens and can be listed and traded on a stock exchange of USA.

c. **Indian Depository Receipt (IDRs):** An Indian Depository Receipt is a financial instrument denominated in Indian Rupees in the form of a Depository Receipt. It is created by an Indian Depository to enable a foreign company to raise funds from the Indian securities market. The IDR is a specific Indian version of the similar global depository receipts.
The foreign company issuing IDR deposits shares to an Indian Depository (custodian of securities registered with the Securities and Exchange Board of India). In turn, the depository issues receipts to investors in India against these shares. The benefits of the underlying shares (like bonus, dividends, etc.) accrue to the IDR holders in India.
'Standard Chartered PLC' was the first company that issued Indian Depository Receipt in Indian securities market in June 2010.

d. **Foreign Currency Convertible Bonds (FCCBs):** Foreign currency convertible bonds are equity linked debt securities that are to be converted into equity or depository receipts after a specific period.
Thus, a holder of FCCB has the option of either converting them into equity shares at a predetermined price or exchange rate, or retaining the bonds. The FCCB's are issued in a foreign currency and carry a fixed interest rate which is lower than the rate of any other similar nonconvertible debt instrument.
FCCB's are listed and traded in foreign stock exchanges. FCCB's are very similar to the convertible debentures issued in India.

MCQs:

Q1. What is a source of internal financing or self-financing?
(a) Trade Credit (b) Factoring
(c) Retained Earnings (d) Lease Financing

Q2. Which one of the following is a short term source of finance?
(a) Debentures (b) Commercial Paper
(c) Equity Shares (d) Loans from financial Institutions

Q3. __________ is an unsecured promissory note issued by a firm to raise funds for a short period, varying from 90 days to 364 days.
(a) Bill of Exchange (b) Bond
(c) Debenture (d) Commercial Paper

Q4. Funds required to purchase fixed assets like Land and Building, Plant and Machinery and Furniture and Fixtures are called
(a) Business Finance (b) Working Capital
(c) Fixed Capital (d) Commercial Paper

Q5. Which one of the following is included in the category of Owner's Funds

a) Debentures b) Loans from Banks
c) Equity Shares d) Public Deposits

Q6. Long term sources fulfill the financial requirements of an enterprise for a period exceeding
a) 5 yrs b) 4 yrs
c) 3 yrs d) 2 yrs

Q7. Where the funds are required for a period of more than one year but less than five years, which sources are used
a) Long term sources b) Medium term sources
c) Short term sources d) Very short term sources

Q8. What are the important sources from where owner's funds can be obtained
a) Preference Shares b) Equity Shares
c) Retained Earnings d) Both b and c

Q9. Funds that are provided by the owners of an enterprise are known as
a) Debentures b) Deposits
c) Owner's Funds d) Borrowed Funds

Q10. Short term funds are those which are required for a period not exceeding
a) 1 year b) 6 months
c) 9 months d) 1 yr 6 months

Q11. Which of the following is/are the sources for raising borrowed funds?
a) Retained Earnings b) Issue of Debentures
c) Public Deposits d) Both b and c

Q12. A fixed rate of interest is paid by the borrowers on such funds......
a) Owner's Funds b) Borrowed Funds
c) Both a and b d) None of These

Q13. A business can generate funds internally by
a) Accelerating collection of receivables b) ploughing back its profits
c) Disposing of surplus inventories d) All of the above

Q14. External funds may be __________ as compared to those raised through internal sources
a) Cheap b) Costly
c) Large d) Small

Q15. A portion of the net earnings may be retained in the business for use in the future. This is known as
a) Interest b) Dividend
c) Retained Earnings d) None of these

Q16. Retained Earnings is a ___________ source of funds available to an organization
a) Temporary b Short-term
c) External d) Permanent

Q17. ADRs are issued in
a) Canada b) China
c) India d) USA

Q18. Which funds put a lot of burden on the business as payment of interest is to be made even when the earnings are low or when loss is incurred
a) Borrowed Funds b) Equity Shares
c) Retained Earnings d) Owner's Funds

Q19. Excessive ploughing back may cause dissatisfaction amongst the _____________ as they would get lower dividends
a) Debenture holders b) Shareholders
c) Lenders d) Suppliers

Q20. If the credit is extended by one trader to another for the purchase of goods and services it is called
a) Trade Credit b) Loan

c) Debt d) Asset

Answers:

1. C	9. B	17. D
2. B	10. A	18. A
3. D	11. D	19. B
4. C	12. B	20. A
5. C	13. D	
6. A	14. B	
7. B	15. C	
8. D	16. D	

Exercise:

1. Sarthak Ltd. has decided to expand its production capacity by modernising its plant and machinery at an estimated cost of Rs. 2 crores. It does not have sufficient reserves to finance the expansion. Suggest any four sources of finance for the company.
2. Agam has Rs. 60,000 for investment purposes. Should he invest in equity shares, preference shares, public deposits or debentures? Justify your answer.
3. The Directors of Meenakshi Ltd. have decided to modernise the plant and machinery at an estimated cost of Rs. 1 crore. As finance manager of the company, advise the directors whether to issue equity shares or debentures in the interest of the company.
4. The Directors of Shalini Ltd. have decided to expand the business activities by increasing the stock of raw materials and finished goods at an estimated cost of Rs. 50 lakh. As finance manager of the company, advise the directors about the various methods open to the company to raise necessary finance for this purpose.
5. Due to the 'festive season' (Diwali and Christmas) coming soon, Alisha decided to expand the business activities by building more inventories at an estimated cost of Rs. 20 lakh. As finance manager of the company, advise the directors about the various sources of raising necessary finance for this purpose.

UNIY - 8

Small Business and Entrepreneurship

Small Business

In India, the 'village and small industries sector' consists of both 'traditional' and 'modern' small industries. This sector has eight subgroups. They are:

1. Handlooms
2. Handicrafts
3. Coir
4. Sericulture
5. Khadi
6. Village industries
7. Small scale industries
8. Power looms.

The last two come under the modern small industries, while the others come under traditional industries. Village and small industries together provide the largest employment opportunities in India.

The definition used by the Government of India to describe small industries is based on the investment in plant and machinery.

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addresses these issues relating to definition, credit, marketing and technology up gradation. Medium scale enterprises and service related enterprises also come under the purview of this Act. The MSMED Act, 2006 came into force w.e.f., October, 2006.

Accordingly, enterprises are classified into two major categories viz.

1. Manufacturing and
2. Services.

Types of Business	**Investment in Plant and Machinery**	
	Manufacturing Enterprises	**Services Enterprises**
1. Micro Enterprise	Not exceeding Rs. 25 Lakhs	Not exceeding Rs. 10 Lakhs
2. Small Enterprise	More than Rs. 25 Lakhs but not exceeding Rs. 5 crores	More than 10 lakhs but not exceeding 2 cores
3. Medium Enterprise	More than 5 crores but not exceeding 10 cores	More than 2 crores but not exceeding 5 crores

Tiny enterprises

A business enterprise whose investment in plant and machinery does not exceed rupees 25 lakhs is known as tiny enterprises.

Village Industries

Village industry has been defined as any industry located in a rural area which produces any goods, renders any service with or without the use of power and in which the fixed capital investment per head or artisan or worker is specified by the central government, from time to time.

Cottage Industries

Cottage industries are also known as Rural Industries or Traditional Industries. They are not defined by capital investment criteria as in the case of other small scale industries. However, cottage industries are characterized by certain features like the following:

1. these are organised by individuals, with private resources;

2. normally use family labour and locally available talent;
3. the equipment used is simple;
4. capital investment is small;
5. produce simple products, normally in their own premises;
6. production of goods using indigenous technology
7. Located normally in rural areas.

Features of Small Business

1. **Personal Character:** It is generally owned by a single entrepreneur or partnership where everyone knows everybody.
2. **Independent Management:** It is generally managed by the owners only, without anybody's interference.
3. **Dominance of Labour:** These are labour intensive units with very little stress on mechanized techniques.
4. **Limited Investment:** These require less capital investment because they use labour intensive and indigenous technology.
5. **Limited area of operation:** Normally, they catered to local demand. However, sometimes their products are exported all over the world.
6. **Located in rural and semi urban areas:** They are normally located in rural and semi urban areas because of the easy availability of cheap labour.
7. **Engaged in light consumer goods:** They are mostly engaged in production of light consumer goods and processing activities.

Role of Small Business in India

The following points highlight the role played by small business in India.

1. **Contribution to economic development:** Small industries in India account for 95 per cent of the industrial units in the country. Do their contribution is remarkable in Indian economy.
2. **Employment generation:** Small industries are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries. They are, therefore, considered to be more labour intensive and less capital intensive.
3. **Variety of goods and products:** Small industries in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables.
4. **Balanced Regional Development:** Small industries which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country. They, thus, contribute significantly to the balanced development of the country.
5. **Develop entrepreneurship capabilities:** Small industries provide ample opportunity for entrepreneurship. The latent skills and talents of people can be channelled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business.
6. **Mobilization of local Resources:** Small industries use locally available human, physical and financial resources and helps in converting them into wealth.
7. **Contribution to Exports:** Small industries in India contribute to 45% of total exports (direct and indirect). 40% to gross industrial value added almost 95% of the industrial units fall in the category of small industries.

Role of Small Business in Rural India

1. **Prevent migration from rural areas:** Development of rural and village industries can also prevent migration of rural population to urban areas in search of employment.
2. **Absorption of surplus labour:** Village and small industries are significant as producers of consumer goods and absorbers of surplus labour, thereby addressing the problems of poverty and unemployment.

3. **Balanced development:** These industries contribute amply to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy.
4. **Contribute to economic growth:** In fact promotion of small scale industries and rural industrialisation has been considered by the Government of India as a powerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas.'

Problems of Small business

1. **Problems of Finance:** Since the small business does not have enough to keep as security, they are unable to raise loans from banks. A large number of small businesses still have to depend upon the local moneylenders.
2. **Problem of raw material:** The supply of raw material by these institutions has always been inadequate. Moreover, small scale industries do not buy in bulk thereby paying higher prices for the same raw material which is purchased by large enterprises at lower prices.
3. **Managerial skills**: Small business is generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business. At the same time they are not in a position to afford professional managers.
4. **Problem of Labour:** Small scale business units lack financial resources to hire professional managers and skilled and efficient employees. They rely on the personal judgement, vision & maturity of the owner. They also cannot afford to impart training to their personnel.
5. **Marketing Problems:** Small industries generally do not have resources or expertise to market their products effectively. There is limited access to markets of developed countries due to the stringent requirements of quality certification like ISO 9000.
6. **Problem of Quality:** Poor quality product is one of the reasons why small scale business cannot compete in the global market. The reason for poor quality is not adhering to quality standards as they have to focus on cost cutting to keep the prices low. Moreover, they do not have enough resources to invest in R & D of the product or to upgrade the technology.
7. **Capacity Utilization:** The small scale units operate in below full capacity levels. This increases their operation cost leading to increase in per unit cost of the product manufactured.
8. **Technology:** Small scale industries use obsolete indigenous technology which leads to inefficiency, wastage of scarce raw materials, low productivity and poor quality product.

Government assistance to Small Scale Industries

Keeping in view the contribution of SSI to various aspects of Indian economy, the Government of India has taken various measures for the promotion and protection of these industries is as follows:

1. Incentives offered by the government
2. Institutional support

Incentives offered by the Government

Some of the common incentives offered by the govt. are as follows.

1. **Land:** Land is offered for setting up of industries on various terms and conditions at concessional rates, payment on installment with relaxation in interest in the initial years.
2. **Power:** Power is supplied at concessional rates or some units might be exempted from payment in the initial years.
3. **Water:** Water can be provided at subsidized rate or on no profit no loss basis or water charges might be exempted in the initial years.
4. **Raw Materials:** Raw materials are provided at reasonable rates on priority basis. Quota allocations of scarce raw materials are secured for small scale Industries.
5. **Finance:** Credit is extended to SSI at concessional rates. Subsidy of 10-15% is given for building capital assets.
6. **Sales Tax:** Sales Tax is exempted for such industries in all union territories, though in some states exemption is for a period of 5 years.

7. **Tax Holiday:** Exemption from payment of tax for 5-10 years is given to industries established in backward, hilly and tribal areas.
8. **Octroi:** Octroi has been abolished in most of the states.

Institutional Support

NSIC (National small Industries Corporation Ltd.)

It is wholly owned government subsidiary meant exclusively for the development of SSI's. It was established in 1955 with its head office in Delhi and regional and sub-offices at several places. The main functions of NSIC are as follows:
- Serve as technology business incubators.
- Creating awareness on technological upgradation.
- Developing software technology parks and technology transfer centres.
- supply indigenous and imported machines on easy hire- purchase terms.
- Procure, supply and distribute indigenous and imported raw materials.
- Export the products of small business units and develop export-worthiness.
- Mentoring and advisory service.

DICs (District Industries Centre)

The District Industries Centre was launched on 1 May 1978, with a view to providing an integrated administrative framework at the district level, which would look at the problems of industrialisation in the district, in a composite manner.
Identification of suitable schemes, preparation of feasibility reports, arranging for credit, machinery and equipment, provision of raw materials and other extension services are the main activities undertaken by these centers.
DICs were set up in backward districts to promote small scale and cottage industries through all round assistance.

Entrepreneurship Development

Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practising some profession.
The person who set-up his business is called an **entrepreneur.** The output of the process, that is, the business unit is called an enterprise.
"Entrepreneur is a person who organizes the business, undertakes the risk and enjoys the profit"

– Richard Cantillon (French Economist).

Characteristics of Entrepreneurship
1. **Systematic Activity:** It is a systematic, step-by-step and purposeful activity. It has certain temperamental, skill and other knowledge and competency requirements that can be acquired, learnt and developed, both by formal educational and vocational training as well as by observation and work experience.
2. **Lawful and Purposeful Activity:** The object of entrepreneurship is lawful business. Purpose of entrepreneurship is creation of value for personal profit and social gain.
3. **Innovation:** Entrepreneurship is creative in the sense that it involves creation of value. By combining the various factors of production, entrepreneurs produce goods and services that meet the needs and wants of the society.
4. **Organisation of Production:** What lies at the core of organisation of production is the knowledge about availability and location of the resources as well as the optimum way to combine them. An entrepreneur needs negotiation skills to raise these in the best interests of the enterprise.

5. **Risk-taking:** It is generally believed that entrepreneurs take high risks. Yes, individuals opting for a career in entrepreneurship take a bigger risk that involved in a career in employment or practice of a profession as there is no "assured" payoff.

Start-up India Scheme
Start-up India Scheme is an important initiative by Govt. of India to promote a strong ecosystem for nurturing innovation and start up (new enterprises) in the country. As per the notification of the Ministry of Commerce and Industry, a start-up means:
1. An entity incorporated or registered in India.
2. Not older than 5 years.
3. Annual turnover does not exceed Rs.25 crores in any preceding year.
4. Working towards innovation, development or commercialization of products or services with the support of technology or Intellectual Property Rights (IPR) and Patents.

Popular Start-ups in India: Paytm, Flipcart, Snapdeal, Swiggy, Bigbasket, Byju's App, Ola Cabs, Make My Trips, ShopClues, OYO Rooms, Zomato, Redbus, Uber Eats etc.

Start-up India Initiative: Action Points
1. **Simplification and hand-holding**: Formalities simplified and extended support to the start-up ventures.
2. **Start-up India Hub**: To create a single point contact for the entire start-up system and to enable knowledge exchange and access to funding.
3. **Legal support and fast tracking Patent Examination**: To give protection for patents, trademark and designs of innovative start-ups through SIPP (Start-ups Intellectual Property Protections).
4. **Easy Exit**: In the event of failure and wind up of operations, procedures are adopted to reallocate capital and resources towards more productive avenues. Thus the entrepreneurs can easily exit from the business if required.
5. **Incubator setup**: The government envisages setting up of incubators across the country in PPP mode (Private Public Partnership).
6. **Tax exemption:** The profit of start-up initiatives are exempted from Income Tax for a period of 3 years.

Ways to fund start-up
1. **Boot Strapping**: Self-financing by the promoters from their personal savings and resources.
2. **Crowd Funding**: Pooling resources by a group of people for a common goal especially through internet platforms.
3. **Angel Investment**: Angel investors are the individuals with surplus cash who have keen interest to invest in start-ups. They also offer mentoring or advice along with capital.
4. **Venture Capital**: Venture capitalists provide professionally managed funds to companies and start-ups that have huge potential. It is also called risk capital as it is invested in new ventures. Eg: Accel Partners, Blume Ventures etc.
5. **Business Incubators and Accelerators**: Incubators provide funds for start-ups in the early stage of its business, whereas accelerators help the start-ups to run or to take a giant leap in business. Eg: Angel Prime, Khosla Labs, Start-up Village etc.
6. **Microfinance and NBFCs**: Microfinance is a category of financial services targeted at individuals and small business who lack access to conventional banking or who have not qualified for a bank loan. Eg: BSS Microfinance P Ltd., Asirvad Microfinance Pvt. Ltd. etc.

Intellectual Property Rights (IPR)
Intellectual Property is a category of property that includes intangible creations of human intellect. The most prominent types of intellectual properties are trade secrets, copyrights, patents, trademarks etc. All inventions begin with an idea. Once the idea becomes an actual product, that idea is treated as an intellectual property.
The legal rights conferred on such products (idea) are called IPR. Once it is allotted to a person by the Govt. authority, he/she can rent, give or sell it to others.

Intellectual property is divided into two broad categories:
1. **Industrial property**, which includes inventions (patents), trademarks, industrial designs and geographical indications.
2. **Copyrights**, which includes literary and artistic works, such as novels, poems, plays, films, musical works, artistic works, such as drawings, paintings, photographs and sculptures and architectural designs.

Importance of IPR
1. **Path-breaking inventions**: It encourages new inventions in all segments. Eg: Cancer cure medicines.
2. **Incentive:** It incentivizes inventors, authors, creators etc. for their work.
3. **Helps to prevent loss of income**: It allows the inventor to sell the rights to third parties and thus he/she can generate income.
4. **Recognition**: It helps authors, creators etc. to get recognition for their work.

Famous Legislations and Agreements on IPR
1. TRIPS – Trade-Related Intellectual Property Systems Agreement (a part of WTO).
2. Trade Mark Act 1999.
3. Geographical Indications of Goods (Registration and Protection) Act 1999.
4. Designs Act 2000.
5. Protection of Plant Varieties and Farmers' Rights Act 2001.
6. Patents Act 2005.
7. Copyright (Amendment) Act 2012.

Types of IPs
1. **Copy Right**: It is the right to "not copy" conferred upon the creators of literary, artistic, musical, sound recording, films etc.
2. **Trademark**: Any word, name, or symbol that gives an identity to goods or service made by an individual, company, organization etc.
3. **Geographical Indication**: GI is an identification which identifies agricultural, natural or manufactured products originating from a definite geographical territory. Eg: Banaras Brocades, Kashmiri Pashmina Woollen Shawl, Nagpur Orange etc.
4. **Patent**: It is an exclusive right granted by the government to prevent others from making, using, offering for sale, selling or importing the invention. For an invention to be patentable, it must be new, non-obvious (not easily discoverable) and having an industrial application.
5. **Design**: It includes shape, pattern etc. that is applied to any article. Eg: Design of a car, house, bottle etc. The term of protection of a design is valid for 10 years, which can be renewed for further 5 years. After that it will come under public domain.
6. **Plant Variety**: It is a type of variety which is bred and developed by farmers. Eg: hybrid versions of potatoes, rice, pepper etc. This lead to the growth of seed industry.
7. **Semiconductor Integrated Circuits Layout Design** – It is used to perform electronic circuitry function. Eg; Computer Chip.

MCQs:

1. In case of service enterprise, where investment in equipment is more than 10 lakhs rupees but does not exceed 2 crore rupees is
   [a] Micro enterprise [b]small enterprise [c] Medium enterprise [d]cottage industries
2. National small industries corporation was set up in the year
   [a]1956 [b] 1955 [c] 1953 [d] 1954
3. Literary work is protected under
   [a] copy right [b] Patent [c] trade mark [d] crowd funding
4. IPR stands for
   [a] Indian property rights [b] Important property rights
   [c] Intellectual property rights [d] Institutional property rights
5. As per notification issued by the ministry of commerce and industry, a start up means, with reference to period
   [a] not older than 5 years. [b] not older than 10 years

[c] not older than 12 years [d] not older than 13 years

6. Modern small industries include
   [a] Handloom [b] Power loom [c] sericulture [d] Handicrafts
7. Khadi and village industries are identified as
   [a] Large scale industries [b] Traditional small scale industries
   [c] Modern small scale industry [d] Medium scale industry
8. As per government of India size of small scale industry can be decided on the basis of
   [a]Number of employees working [b] Volume of output
   [c]power consumed for business [d Investment in plant and machinery
9. As per MSMED act which of the following issue is not addressed by it
   [a] credit [b] Technology up gradation
   [c] Marketing products [d] Global competition
10. MSMED act came into existence
   [a] October2007 [b] October2006 [c] October1991 [d] October2013
11. Mr.X is individual with surplus cash and interested to invest in upcoming start ups. Which method is suitable him
   [a] Crowd funding [b] Venture capital [c] boot strapping [d] Angel investment
12. A----------includes shape, pattern and arrangement of lines or color combination that is applied to any article
   [a] Design [b] Copy right [c] Patent [d] Trade mark
13. Agency works for the benefit of socially and economically disadvantaged groups and individuals
   [a] RWE [b] SFURTI [c] RSBDC [d] DIC
14. It is not a problem of small Business
   [a] Finance [b] Technology [c] Sickness [d] Regional balance
15. The limit for investment in plant and machinery in manufacturing unit Which does not exceed Rs.5 lakh? Company falls under which category
   [a] micro enterprise [b] small enterprise [c] medium enterprise [d] large enterprise
16. People who own, operate and take risk of a business venture
   [a] Aptitude [b] employee [c] Entrepreneur [d] Entrepreneurship
17. Who can register Geographical Indications?
   [a] individual [b] company [c] producers [d] consumers
18. Copyright protection is not available for
   [a] Literary work [b] Music work [c] Artistic work [d] Assembling
19. The total contribution of raw material and machinery is Rs.10 lakh
   [a] Micro enterprise [b] Small enterprise [c] Medium enterprise [d] Large enterprise
20. Small scale industries owned and managed by women entrepreneurs have share capital of not less than
   [a] 20% [b] 50% [c] 25% [d] 51%

Answer Key: 1(b), 2(b), 3(a), 4(c), 5(a), 6(b), 7(b), 8(d), 9(d), 10(b), 11(d), 12(a), 13(c), 14(d), 15(a), 16(c), 17(c), 18(d), 19(a), 20(d)

Exercise:

a. An Author wants that only he should get the profit of his creations. The Author's creation is his Intellectual Property. The right granted to keep such properties safe is known as the Intellectual Property Right. Identify the 'Intellectual Property Right' granted to an author.

b. Muskan, Pranjal and Prachi - all the three after completing their studies, Engineering, MBA and M.Com respectively, created a joint firm. Their objective was to do business in some such process/ commodity/services as might not be already in vogue. First of all, they established a strong 'Research and Development Department'. In no time, a new idea came into the minds. They decided to produce such a 'writing material' as was not already in vogue. They got their firm registered under the Government's new scheme, which had been announced to motivate the young Entrepreneurs. The Government granted them the necessary financial help. The production started, and their new product got the full co-operation from the market as quickly

as possible. As a result in the very first year, they got the turnover of Twenty Crores. Along with getting appropriate profit personally, they also provided employment to several people.
Related to the business discussed in the above paragraph answer the following questions.

a. Under which new scheme of the Government this business might have been registered
b. When was the New Scheme, identified in point (i), first announced?
c. When was the 'Mobile App' and Portal for registration under this scheme lunched?

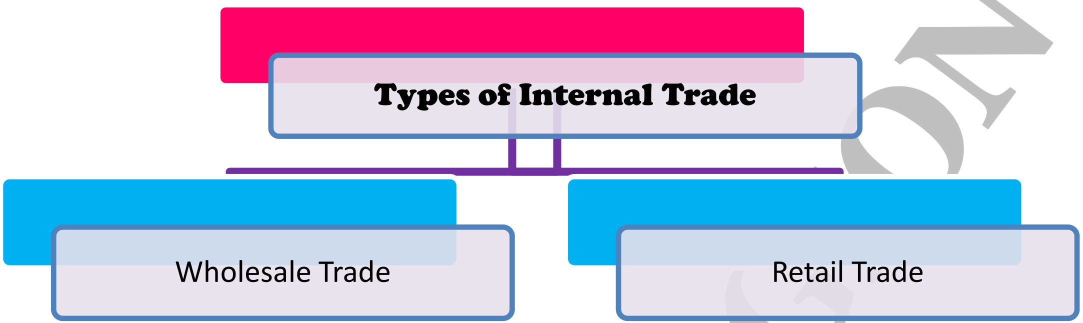
3. Hemant, Arpit and Sajal are three friends who belong to the same village. They have completed their MBA education from IIM, Ahmedabad. They want that the country should benefit from their education. With this aim they want to do such a business which will generate more employment and output, mobilise local resources, and contribute to balanced regional development. For this they set up a small- scale industrial unit in their own village. Do you think they will be able to contribute to the development of rural, backward areas of the country? Explain.
4. Aman wants to start a business unit manufacturing Khadhi items. His friend who makes craft items, suggests him to start a small-scale industrial unit in some rural, backward area since the government is offering various incentives to small-scale industries.
   a. State any four incentives offered by the government for small-scale industries.
   b. Name two institutions set up by the government of India to promote small-scale industries in rural India. Explain their role.
5. Neer, after completing his studies of Engineering and MBA worked in the position of Manager in her father's business for five years. Now she wants to establish a new and risky business of her own with the hope of earning more profit. She is fully confident that despite the new business being risky will yield her a huge profit. She integrated the resources of production with a view to establishing her business. Within a few days she established the unit, under the name of 'Bukhariya Easymade Foods'. For six months after starting her business she faced several problem. But afterwards the business proved to be a profit earning machine.
   Identify the Entrepreneur, Entrepreneurship and Enterprise in the above paragraph. And also explain any three characteristics of Entrepreneurship.

UNIT - 9

Internal Trade

Trade

Trade means buying and selling of goods, which involves the exchange of commodities for money or money's worth. On the basis of scale of operation, internal trade can be divided into Wholesale trade and Retail trade.



Wholesale Trade

Wholesale trade is the trade in which product is sold to retailers and other merchants (like industrial users) in significant amount for resale or intermediate use, and not to sell to ultimate consumers. Wholesalers serve as an important link between manufacturers and retailers.
Wholesale trade refers to the trade in which goods and services are bought in large quantities from the manufacturer for the purpose of resale to retailers and other merchants in comparatively smaller quantities. The trader who deals in wholesale trade is known as wholesaler.

Functions of Wholesalers

1. **Assembling the goods:** The wholesalers assemble different goods by purchasing them from different manufacturers.
2. **Grading:** The wholesaler is also engaged in grading the goods according to their quality.
3. **Storage:** They also store the goods purchased from manufacturers in their warehouses till they are sold to retailers.
4. **Distribution of goods:** They help the producers in sending their goods to different parts of the country.
5. **Transportation:** For buying the goods from manufacturers & selling them to the retailers, transportation is required. All these activities of transporting the goods are looked after by the wholesalers.
6. **Financing:** They provide financial assistance to the manufacturers in the form of loans or advances. They also provide credit facilities to the retailers.
7. **Risk taking:** As soon as the goods are ready for sale, the producers sell it to the wholesalers. The wholesaler keeps the goods in his warehouses till the time they are demanded by retailers. In the meantime if any loss arises due to natural calamities, change in fashion, level etc., and the maximum loss will be borne by the wholesalers.
8. **Pricing:** Wholesalers have complete knowledge of the cost and other expenses related to the distribution of the goods. That's why they are very helpful in determining the prices.

Services of Wholesalers

The various services of wholesalers to different sections are discussed below:

Services to the Manufacturers

1. **Facilitating large scale production/ Economies of Scale:** Wholesalers collect small orders from a number of retailers and pass on the pool of such orders to the manufacturers and make purchases in bulk quantities. This enables the producers to undertake production on a large scale and take advantage of the economies of scale.
2. **Bearing risk:** The wholesalers take possession of the goods from the producers and keep large stock in their warehouses. In the process, they bear variety of risks such as the risk of fall in prices, theft, pilferage, spoilage, fire, etc. To that extent, they relieve the manufacturers from bearing these risks.
3. **Financial assistance:** The wholesalers generally make cash payment or advance payment for the goods purchased by them. To that extent, the manufacturers need not block their capital in the stocks.
4. **Expert advice:** Since the wholesales are in touch with the retailers, who are in direct contact with the customers, they can collect information regarding the demand, choice, and preferences etc. of the customers and pass on the information to the manufacturers who can produce accordingly.
5. **Help in marketing function:** The wholesalers take care of the distribution of goods to a number of retailers who, in turn, sell these goods to a large number of customers spread over a large geographical area. This relieves the manufacturers from many of the marketing activities and enables them to concentrate on the production activity.
6. **Facilitate production continuity:** The wholesalers facilitate continuity of production activity throughout the year by purchasing the goods as and when these are produced and storing them till the time these are demanded by retailers or consumers in the market.
7. **Storage:** Wholesalers take delivery of goods when these are produced in factory and keep them in their godowns / warehouses. This reduces the burden of manufacturers of providing for storage facilities for the finished products. They thus provide time utility.

Services to Retailers

1. **Availability of goods:** The wholesalers make the products of various manufacturers readily available to the retailers. This relieves the retailers of the work of collecting goods from several producers and keeping big inventory of the same.
2. **Marketing support:** The wholesalers undertake advertising and other sales promotional activities to induce customers to purchase the goods. The retailers are benefitted as it helps them in increasing the demand for various new products.
3. **Grant of credit:** The wholesalers generally extend credit facilities to their regular customers. This enables the retailers to manage their business with relatively small amount of working capital.
4. **Specialised knowledge:** The wholesalers specialise in one line of products and know the pulse of the market. They pass on the benefit of their specialised knowledge to the retailers about the new products, their uses, quality, prices, etc. They may also advise them on the decor of the retail outlet, allocation of shelf space and demonstration of certain products.
5. **Risk sharing:** The wholesalers purchase in bulk and sell in relatively small quantities to the retailers. Being able to purchase merchandise in smaller quantities, retailers are in a position to avoid the risk of storage, pilferage, obsolescence, reduction in prices and demand fluctuations in respect of larger quantities of goods.
6. **Storage facilities:** The retailers neither have sufficient financial resources nor enough space to store the goods. As such, they can buy the goods in small quantities from the wholesalers, as and when the demand arises.
7. **Benefit of advertisement:** Wholesalers often advertise the goods of small manufacturers. Retailers also get the benefit of these advertisements in the form of increased demand.
8. **Transportation:** The wholesalers provide the facility of delivering goods to the retailers at their location, thus relieving them from bothering about transportation.

Retail Trade

A retail trade is a trade in which goods and services are sold directly to the ultimate consumers. The person who engaged in retail trade is known as retailer.

The retailer purchases goods in small quantities from the wholesalers/manufacturers and sell them to ultimate consumers as per their need for their personal use and non-business use.
The retails represent the final stage in the distribution where goods are transferred from the hands of the manufacturers or wholesalers to the final consumers or users.

Services of Retailers

Services to Manufacturers and wholesalers
1. **Help in distribution of goods:** A retailer's most important service to the wholesalers and manufacturers is to provide help in the distribution of their products by making these available to the final consumers, who may be scattered over a large geographic area. They thus provide place utility.
2. **Personal selling:** In the process of sale of most consumer goods, some amount of personal selling effort is necessary. By undertaking personal selling efforts, the retailers relieve the producers of this activity and greatly help them in the process of actualising the sale of the products.
3. **Enabling large-scale operations:** On account of retailer's services, the manufacturers and wholesalers are freed from the trouble of making individual sales to consumers in small quantities. This enables them to operate on, at relatively large scale, and thereby fully concentrate on their other activities.
4. **Collecting market information:** As retailers remain in direct and constant touch with the buyers, they serve as an important source of collecting market information about the tastes, preferences and attitudes of customers. Such information is considered very useful in taking important marketing decisions in an organisation.
5. **Help in promotion:** From time-to-time, manufacturers and distributors have to carry on various promotional activities in order to increase the sale of their products e.g. offer short-term incentives in the form of coupons, free gifts, sales contests etc. Retailers participate in these activities help in promoting the sale of the products.

Services to consumers
1. **Regular availability of products:** The most important service of a retailer to consumers is to maintain regular availability of various products produced by different manufacturers. This enables the buyers to buy products as and when needed.
2. **New products information:** By arranging for effective display of products and through their personal selling efforts, retailers provide important information about the arrival, special features, etc., of new products to the customers. This serves as an important factor in the buying decision making process of the purchase of such goods.
3. **Convenience in buying:** Retailers generally buy goods in large quantities and sell these in small quantities, according to the requirements of their customers. Also, they are normally situated very near to the residential areas and remain open for long hours. This offers great convenience to the customers in buying products of their requirements.
4. **Wide selection:** Retailers generally keep stock of a variety of products of different manufacturers. This enables the consumers to make their choice out of a wide selection of goods.
5. **After-sales services:** Retailers provide important after-sales services in the form of home delivery, supply of spare parts and attending to customers. This becomes an important factor in the buyers' decision for repeat purchase of the products.
6. **Provide credit facilities:** The retailers sometimes provide credit facilities to their regular buyers. This enables the latter to increase their level of consumption and, thereby, their standard of living.

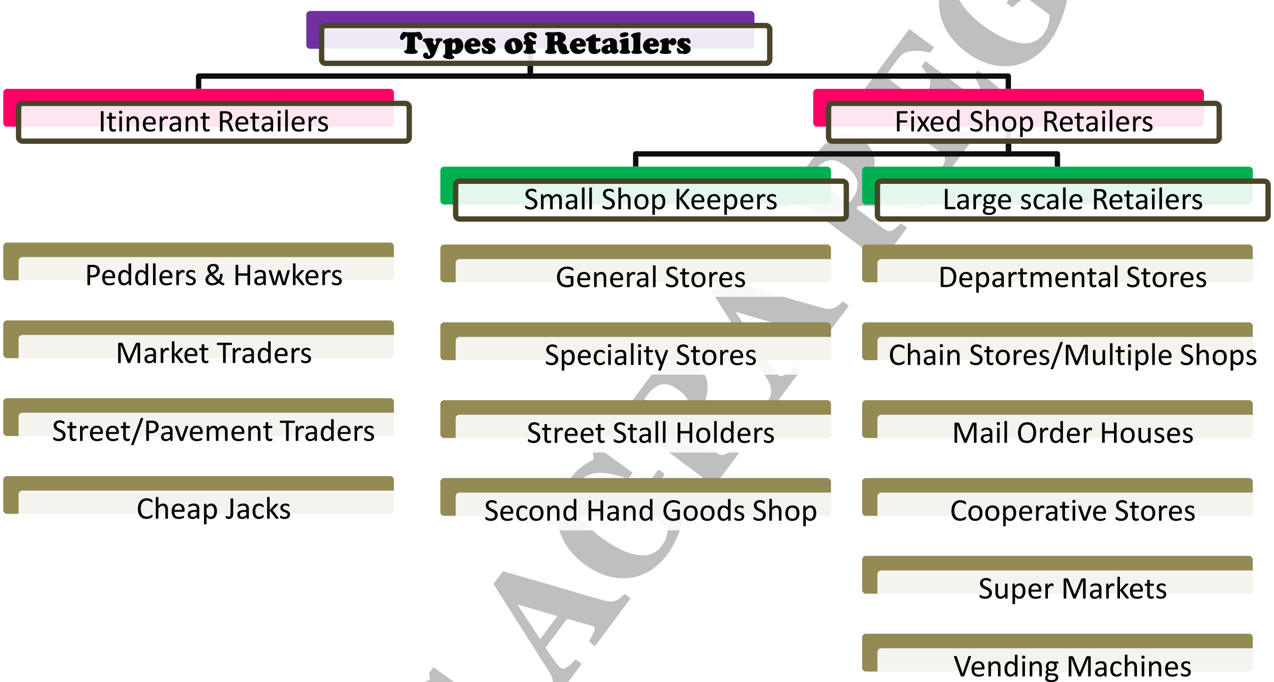
Terms of Trade
The following are the main terms used in the trade
1. **Cash on delivery (COD):** It refers to a type of transaction in which payment for goods or services is made at the time of delivery. If the buyer is unable to make payment when the goods or services are delivered then it will be returned to the seller.

2. **Free on Board or Free on Rail (FOB or FOR):** It refers to a contract between the seller and the buyer in which all the expenses up to the point of delivery to a carrier (it may be a ship, rail, lorry, etc.) are to be borne by seller.
3. **Cost, Insurance and Freight (CFF):** It is the price of goods which includes not only the cost of goods but also the insurance and freight charges payable on goods upto destination port.
4. **Errors and Omissions Excepted (E&OE):** It refers to that term which is used in trade documents to say that mistakes and things that have been forgotten should be taken into account.

Types of Retailing Trade

On the basis “whether or not they have a fixed place of business” this basis, there are two categories of retailers:

1. Itinerant retailers, and
2. Fixed shop retailers



Itinerant Retailers (Not in Syllabus for 2020-21)

Itinerant retailers are traders who do not have a fixed place of business to operate from. They keep on moving with their wares from street to street or place to place, in search of customers.

Features

1. They are small traders operating with limited resources.
2. They normally deal in consumer products of daily use such as toiletry products, fruits and vegetables, and so on.
3. The emphasis of such traders is on providing greater customer service by making the products available at the very doorstep of the customers.
4. As they do not have any fixed business establishment to operate from, these retailers have to keep their limited inventory of merchandise either at home or at some other place.
5. They generally deal in low price and low quality products. The goods are of low value like newspapers, fruits, cheap stationery etc.
6. The prices are normally settled through bargain between the buyer and the seller.
7. They mostly sell goods on cash basis.
8. They have low investment and the business is on a small scale.

Types of Itinerant Retailers
1. Peddlers and Hawkers
2. Market Traders
3. Street Traders/Pavement Vendors
4. Cheap Jacks

Peddlers and Hawkers
They are small producers or petty traders who carry the products on a bicycle, a hand cart, a cycle-rickshaw or on their heads, and move from place to place to sell their merchandise at the doorstep of the customers.

Market Traders
These retailers sell their goods in periodic markets on some selected days of the week at a particular location like Saturday Market, Sunday Market etc.
They are mainly catering to lower-income group of customers and deal in low-priced consumer items of daily use.

Street Traders/Pavement Vendors
Street traders are the small retailers who are commonly found at places where huge floating population gathers e.g. near railway stations and bus stands, and sell consumer items of common use, such as stationery items, eatables, readymade garments, newspapers and magazines.

Cheap Jacks
Cheap jacks are petty retailers who have independent shops of a temporary nature in a business locality. They keep on changing their business from one locality to another, depending upon the potentiality of the area.
However, the change of place is not as frequent as in the case of hawkers or market traders. When they feel that there is no demand for the product, they leave the area and set up their shop/business at some other location.

Fixed Shop Retailers
This is the most common type of retailing in the market place. These retailers have permanent establishments/shops through which they sell their merchandise.
They do not move from place to place to serve their customers.

Characteristics
1. Compared with the itinerant traders, normally they have greater resources and operate on a relatively large scale. However, there are different size groups of fixed shop retailers, varying from very small to very large.
2. These retailers may be dealing in different products, including consumer durables as well as nondurables.
3. This category of retailers has greater credibility in the minds of customers, and they are in a position to provide greater services to the customers such as home delivery, guarantees, repairs, credit facilities, availability of spares, etc.

Types
The fixed-shop retailers can be classified into two distinct types on the basis of the size of their operations. These are:
1. Small shop-keepers, and
2. Large retailers.

Small scale Retailers (Not in Syllabus for 2020-21)
Types of small scale retailers are:
1. General Stores

2. Single Line Stores
3. Speciality Shops
4. Street Stall Holders
5. Second Hand Goods Shop

General Stores
General stores carry stock of a variety of products required to satisfy the day-to-day needs of the consumers residing in nearby localities. General stores are most commonly found in a local market and residential areas. Such stores remain open for long hours at convenient timings and often provide credit facilities to some of their regular customers.

Single line stores
These stores deal in specific line of products like shoes, stationery items, readymade garments etc. They provide large variety of single line products. E.g. stationery shop, readymade garments shop, Chemist shops etc.

Specialty shops
These stores are one step ahead of single line stores. These stores specialize in the sale of specific line of products instead of selling a variety of products of different types. For example, shops selling children's garments only, men's wear, ladies shoes, school uniforms, religious books shop, aruyvedic medicines shop etc.

Street stall holders
These small vendors are commonly found at street crossings or other places where flow of traffic is heavy. They attract floating customers and deal mainly in goods of cheap variety like hosiery products, toys, cigarettes, soft drinks, etc.

Second-hand goods shop
These shops deal in second-hand or used goods, like books, clothes, automobiles, furniture and other household goods. The goods are sold at lower prices. Such shops may also stock rare objects of historical value and antique items which are sold at rather heavy prices to people who have special interest in such antique goods.

Large Scale Retailers
Types of large scale retailers are:
1. Departmental Stores
2. Chain Stores
3. Mail Order Houses
4. Cooperative Stores
5. Super Markets
6. Vending Machines

Departmental stores
A departmental store is a large retail establishment with different departments or sections dealing in different line of products, under one roof.
For example, there may be separate departments for toiletries, medicines, furniture, groceries, electronics, clothing and dress material within a store.
Thus, they satisfy diverse market segments with a wide variety of goods and services from 'needle to an aeroplane' or 'all shopping under one roof.' Everything from 'a pin to an elephant' is the spirit behind a typical department store.
The examples of departmental stores are 'Akberally' in Mumbai and 'Spencers' in Chennai, Wall mart, Big Bazaar, Vishal Mega Mart etc.

Features
1. **Personal Service:** Departmental stores provide numerous services and facilities to the customers like telephone booths, restrooms, restaurants and ATM etc.

2. **Central location:** Departmental stores are centrally located so that it is convenient for customers to reach the store.
3. **Centralized purchase, decentralized sales:** Departmental stores have centralized purchasing system which purchases goods for all the departments. However, sales for different departments are individually made by the department. The centralized purchase department purchases the goods directly from manufacturers, thus eliminating the middlemen and reducing the price.
4. **Many units in same shop:** One shop is divided into many units/departments. Each unit deals in a particular type of product.
5. **Centralized ownership, management and Control:** Although each department sells goods independently but all the departments are under the management control and ownership of one person or organization.
6. **Wide variety of goods:** Departmental stores provide maximum variety of goods to customers under one roof. As such there is no need for the customer to move from one shop to another to buy various goods.

Advantages of Departmental Stores

The major advantages of retailing through departmental stores may be listed as follows:

1. **Attract large number of customers:** As these stores are usually located at central places, they attract a large number of customers during the best part of the day.
2. **Convenience in buying:** By offering large variety of goods under one roof, the departmental stores provide great convenience to customers in buying almost all goods of their requirements at one place. As a result, customers do not have to run from one place to another to complete their shopping.
3. **Attractive services:** A departmental store aims at providing maximum services to the customers. Some of the services offered by it include home delivery of goods, execution of telephone orders, grant of credit facilities and provision for restrooms, telephone booths, restaurants, saloons, etc.
4. **Economy of large-scale operations:** As these stores are organised at a very large scale, the benefits of large scale operations, particularly, in respect of purchase of goods are available to them.
5. **Promotion of sales:** The departmental stores are in a position to spend considerable amount of money on advertising and other promotional activities, which help in boosting their sales.

Disadvantages of Departmental Stores

However, there are certain limitations of this type of retailing. These are described as follows:

1. **Lack of personal attention:** Because of the large-scale operations, it is very difficult to provide adequate personal attention to the customers in these stores.
2. **High operating cost:** As these stores give more emphasis on providing services, their operating costs tend to be on the higher side. These costs, in turn, make the prices of the goods high. They are, therefore, not attractive to the lower income group of people.
3. **High possibility of loss:** As a result of high operating costs and large-scale operations, the chances of incurring losses in a departmental store are high. For example, if there is any change in the tastes of customers or latest fashions, it necessitates selling of such out-of-fashion articles in clearance sale, to reduce the huge inventory of goods built up.
4. **Inconvenient location:** As a departmental store is generally situated at a central location, it is not convenient for the purchase of goods that are needed at short notice. In spite of some of these limitations the departmental stores have been popular in some of the western countries of the world because of their benefits to a certain class of customers.

Chain Stores/Multiple Shops

Chain stores or multiple shops are networks of retail shops established in localities, spread over different parts of the country, which is under a centralized management and control. These are normally operated by the manufacturers themselves to directly sell the goods to the customers. E.g. Bata Shoes Co., Mc Donald's, Adidas etc.

These shops are run by the same organisation and have identical merchandising strategies, with identical products and displays.

Features of Chain Stores

1. **Convenient Location:** These shops are located in fairly populous localities, where sufficient number of customers can be approached. The idea is to serve the customers at a point which is nearest to their residence or work place, rather than attracting them to a central place.
2. **Centralized purchasing:** The manufacturing/procurement of merchandise for all the retail units is centralised at the head office, from where the goods are despatched to each of these shops according to their requirements. This results in savings in the cost of operation of these stores.
3. **Decentralised sales:** Each retail shop is under the direct supervision of a Branch Manager, who is held responsible for its day-to- day management. The Branch Manager sends daily reports to the head office in respect of the sales, cash deposits, and the requirements of the stock.
4. **Centralized Management:** All the branches are controlled by the head office, which is concerned with formulating the policies and getting them implemented.
5. **Cash Sales:** The prices of goods in such shops are fixed and all sales are made on cash basis. The cash realised from the sales of merchandise is deposited daily into a local bank account on behalf of the head office, and a report is sent to the head office in this regard.
6. **Proper Supervision:** The head office normally appoints inspectors, who are concerned with day-to-day supervision of the shops, in respect of quality of customer service provided, adherence to the policies of the head office, and so on.

Advantages

Multiple shops are offering various advantages to the consumers, which are described as follows:

1. **Economies of scale:** As there is central procurement, the multipleshop organisation enjoys the economies of scale.
2. **Elimination of middlemen:** By selling directly to the consumers, the multiple-shop organisation is able to eliminate unnecessary middlemen in the sale of goods and services.
3. **No bad debts:** Since all the sales in these shops are made on cash basis, there are no losses on account of bad debts.
4. **Transfer of goods:** The goods not in demand in a particular locality may be transferred to another locality where it is in demand. This reduces the chances of dead stock in these shops.
5. **Diffusion of risk:** The losses incurred by one shop may be covered by profits in other shops, reducing the total risk of an organisation.
6. **Low cost:** Because of centralised purchasing, elimination of middlemen, centralised promotion of sales and increased sales, the multiple shops have lower cost of business.
7. **Flexibility:** Under this system, if a shop is not operating at a profit, the management may decide to close it or shift it to some other place without really affecting the profitability of the organisation as a whole.

Limitations

1. **Limited selection of goods:** Most of multiple shops deal only in limited range of products as these are operated by manufacturers, and as such mostly sell the products produced by them. This however is not the case with retailer owned chain stores such as Big Apple or Reliance Retail which sell products of a large number of manufacturers.
2. **Lack of initiative:** The personnel managing the multiple shops have to obey the instructions received from the head office. This makes them habitual of looking up to the head office for guidance on all matters, and takes away the initiative from them to use their creative skills to satisfy the customers.
3. **Lack of personal touch:** Lack of initiative in the employees sometimes leads to indifference and lack of personal touch in them.
4. **Difficult to change demand:** If the demand for the merchandise handled by multiple shops change rapidly, the management may have to sustain huge losses because of large stocks lying unsold at the central depot.

Difference between Departmental Stores and Chain Stores

Basis	Departmental Stores	Chain Stores
(1) **Variety/ Range of Products**	They keep wide variety of goods under one roof.	They keep only a few varieties of goods.
(2) **Location**	They are situated in central part of city.	They are scattered at different places.
(3) **Cash/Credit sale**	They offer both cash & credit facility to their regular customers.	They sell only on cash basis.
(4) **Risk**	Business risk is more because trading is done in only one place.	Business risk is divided as shops are situated in different places.
(5) **Services Offered**	Allied services, restaurants, reading rooms, restrooms etc. are provided to customer.	Allied services are not provided to customers.
(6) **Decoration**	Different departmental stores may have different decoration & display styles.	All chain stores have uniform decoration & display styles.
(7) **Pricing**	Different departmental stores may charge different prices.	All chain stores will charge same price.
(8) **Advertisement**	They advertise in local city where they are situated.	They advertise at national level.
(9) **Flexibility**	There is more flexibility in operation and changes in policy can be made according to local opportunities.	Little or no flexibility as policies are framed by head office.
(10) **Class of customers**	The departmental stores cater to the needs of relatively high income group of customers who care more for the services provided rather than the prices of the product.	The multiple shops, on the other hand, cater to different types of customers, including those belonging to the lower income groups, who are interested in buying quality goods at reasonable prices.

Mail Order Houses

Mail order houses are the retail outlets that sell their merchandise through mail. There is generally no direct personal contact between the buyers and the sellers in this type of trading.
For obtaining orders, potential customers are approached through advertisements in newspapers or magazines, circulars, catalogues, samples and bills, and price lists sent to them by post. All the relevant information about the products such as the price, features, delivery terms, terms of payment, etc., are described in the advertisement.
The payment can be received either in advance, through V.P.P (Value Payable Post) or through bank.

Goods suitable for Mail Order Houses

1. Goods should not be perishable in nature.
2. Goods should be standardized.
3. Goods should not be bulky.
4. Goods should be easy to handle.
5. It should be easily explained through pictures and description.
6. Goods should be branded.

Features
1. The sellers send circulars, catalogues etc. to the customers by post.
2. A detailed list containing the names, addresses and telephone numbers of potential customers are to be maintained.
3. The customers select the goods from the catalogue and place order by post.
4. Payment is received either in advance or V.P.P. or through bank.
5. Only standardized items, which are non-perishable in nature and are easy to handle are sold through this method.

Advantages
1. **Limited capital requirement:** Mail order business does not require heavy expenditure on building and other infrastructural facilities. Therefore, it can be started with relatively low amount of capital.
2. **Elimination of middle men:** The biggest advantage of mail-order business from the point of view of consumers is that unnecessary middlemen between the buyers and sellers are eliminated. This may result in lot of savings both to the buyers as well as to the sellers.
3. **Absence of bad debt:** Since the mail order houses do not extend credit facilities to the customers, there are no chances of any bad debt on account of non-payment of cash by the customers.
4. **Wide reach:** Under this system the goods can be sent to all the places having postal services. This opens wide scope for business as a large number of people throughout the country can be served through mail.
5. **Convenience:** Under this system goods are delivered at the doorstep of the customers. This results in great convenience to the customers in buying these products.

Limitations
1. **Lack of personal contact:** As there is no personal contact between the buyers and the sellers under the system of mail order selling, there are greater possibilities of misunderstanding and mistrust between the two.
2. **High promotion cost:** The mail order business has to rely heavily on advertisements and other methods of promotion in order to inform and persuade the potential buyers to buy their products. As a result, there is heavy expenditure on promotion of the products.
3. **No after sales service:** In mail order selling, the buyers and sellers may be located very far away from each other and there is no personal contact between the two. As a result, there is absence of after sales services which is so important for the satisfaction of the customers.
4. **No credit facilities:** The mail order houses do not provide credit facilities to the buyers. Thus, customers with limited means may not be interested in this type of trading.
5. **Delayed delivery:** There is no immediate delivery of goods to the customers, as receipt and execution of order through mail takes its own time.
6. **Possibility of abuse:** This type of business provides greater possibility of abuse to dishonest traders to cheat the customers by making false claims about the products or not honouring the commitments made through hand bills or advertisements.
7. **High dependence on postal services:** The success of mail order business depends heavily on the availability of efficient postal services at a place. But in a vast country like ours, where many places are still without postal facilities, this type of business has limited prospects.

Vending Machine
It is a coin/currency operated machine that dispenses goods when a customer deposits sufficient money into the slot to purchase the desired items. Vending machines can be useful for selling pre-packed, small and standardized products which have high turnover like food items, beverages, snacks, chocolates, newspapers, platform tickets can be sold through vending machines.
Automated Teller Machines (ATM) are also vending machines installed by banks to withdraw money anytime without visiting the bank.

Advantages Of AVM

(i) AVM can be placed anywhere, sells for 24x7 at practically zero selling cost.
(ii) Useful for selling pre- packed items with high turnover.
(iii) Provides standardized, good quality products at fixed price.

MCQs:

1. Which of the following is not the type of goods sold by specialty shops:
   a) Children's garment b) Ladies shoes c) Toys and gifts d) Used books
2. Small retailers who are commonly found at places with huge population are called _______
   a) Market traders b) Second hand goods shop c) Peddlers and hawkers d) Street retailers
3. Which of the following is not a type of itinerant retailers
   a) Market traders b) Street stall holders c) Cheap jacks d) Peddlers and hawkers
4. Wholesale trade refers to
   a) Exporting goods and services b) Importing goods and services
   c) Buying and selling of goods and services in large quantities
   d) Buying and selling of goods and services in small lots
5. Which type of service is not offered by retailers to manufacturers and wholesalers?
   a) New product information b) Personal selling
   c) Helps in promotion d) Helps in distribution of goods
6. Which type of retailers provides door to door services to their customers?
   a) Street traders b) Peddlers and hawkers
   c) General stores d) Street stall holders
7. Which of the following is not a service offered by wholesaler to manufacturer?
   a) Storage b) Bearing risk c) Grant of credit d) Financial assistance
8. Retailers who have no fixed place of sale are called_____
   a) Itinerant retailers b) Street traders c) Market traders d) Hawkers
9. How many types of itinerant retailers are there?
   a) One b) Four c) Three d) Two
10. Which of the following is a service offered by wholesaler to retailer
    a) Facilitate production continuity b) Facilitates large scale production
    c) Risk sharing d) Storage
11. Which one of the following is the fixed shop small retailers?
    (a) Departmental stores (b) Specialty shops. (c) Itinerant retailers (d) Market traders.
12. These vendors are found at street crossing where flow of traffic is heavy?
    (a) Market traders (b) Street stall holders (c) General Stores (d Specialty shops
13. Sale of specific line of products by these vendors.
    (a) Specialty shops (b) Mail Order Houses
    (c) Second hand goods shops (d) Departmental stores
14. Stores which is not coming under the category of fixed shops.
    (a) General stores (b) Street stall holders
    (c) Second hand goods shops (d) Mail Order House
15. Identify from the below which is not the characteristics of Fixed shop retailers?
    (a) Dealing in different products (b) Have greater resources
    (c) Independent shops of Temporary nature facilities (d) Mostly provides credit
16. The type of retail business acts as a supplier of a wide variety of products under one roof:
    (a) Departmental store b) Chain-store c) Mail-order house d) Multiple-shop
17. Which of the following is not a feature of departmental store
    a) 24x7 shopping b) Wide range of products c) Large in size d) Located at a central place
18. The main disadvantage of departmental store
    a) Centrally located b) Operating cost is too high
    c) Attractive services d) Promotion of sales
19. Which of the following come under fixed shop retailers?
    a) General stores b) Multiple shops c) Departmental stores d) Chain stores
20. The orders are received, goods are mailed directly to the buyers in which form-
    a) Departmental store b) Chain store c) Shopping mall d) Mail order house

Answers: 1(d), 2(d), 3(b), 4(c), 5(c), 6(b), 7(c), 8(a), 9(b), 10(c), 11(b), 12(b), 13(a), 14(d), 15(c), 16(a), 17(a), 18(b), 19(d), 20(d)

Exercise:

1. Ankita buys household goods from three different shopkeepers- Anil, Sunil and Krishan respectively. She received invoice from Anil, Bill from Sunil and Cash Memo from Krishan in the form of details of the goods purchased.
   Do you think there is any difference between the invoice, the Bill and the Cash Memo? Explain.
2. Jass in running an artificial jewellery business on the basis of advertisement only. She has not opened any shop and sends goods to her customers through VPP.
   Identify the type of retail trade highlighted above and write any four other features also.
3. Kharbanda Ltd. deals in a variety of consumer products like toiletries, groceries, electronics, clothing, etc. The work place has been divided into a number of departments and every department sells a particular commodity. In this way almost all the needs of customers are fulfilled under one roof, Manchanda Ltd. deals in footwears. The company has 200 shops at different places of the country. The speciality of the business of this company is that at all its shops the goods available are of the same type, and there prices are also the same. All sales are made strictly on cash basis.
   Identify the type of retail trade done by Kharbanda Ltd. and Manchanda Ltd. Also state any three features of each.
4. A commerce teacher, while going through the topic 'Internal trade' cites the examples of 'Bata Shoe Company', having its headquarters in Mumbai where it has its showrooms at different locations of the city as well as in various cities all over India. The products of the company carry the same price in all these showrooms.
   a. Identify the type of shop cited in the example.
   b. List any five features of such shops.

UNIT - 10

International Business

Meaning of International Business

International or external business can be defined as those business activities that take place cross national frontiers.

It involves not only the international movements of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, know-how and copyrights.

Reason for International Business

1. The countries cannot produce equally well or cheaply all that they need. This is because of the unequal distribution of natural resources among them or differences in their productivity levels.
2. Availability of various factors of production such as labour, capital and raw materials that are required for producing different goods and services differ among nations.
3. Labour productivity and production costs differ among nations due to various socio-economic, geographical and political reasons.

Difference between International Trade, Internal Trade or Domestic Trade

Basis	Internal Trade	International Trade
(1) **Nationality of buyers and sellers**	The buyers and sellers belong to same country.	The buyers and sellers belong to different country.
(2) **Nationality of Other stakeholders**	All stakeholders like employees, suppliers, shareholders etc. belong to one country.	All stakeholders like employees, suppliers, shareholders etc. belong to different country.
(3) **Mobility factors of production**	Factors of production like capital labour etc. are more mobile and can freely move from one place to another.	Factors of production are less mobile, especially labour.
(4) **Customer Heterogeneity**	Customers are more homogeneous in their taste, preferences, buying behavior etc.	Customers are heterogeneous in their taste, preferences language, custom etc.
(5) **Political System and risks**	The business firms are in a better position to understand political system and its impact on business.	The business firms have difficulty in understanding and coping up with political environment.
(6) **Business regulation & Policies**	The business is subject to regulations of one country only.	The business is subject to regulation of more than one country.
(7) **Currency used**	Domestic currency is used.	Currency of different countries is used.
(8) **Mode of transportation**	Road or Rail as the means of transport	Waterways or Airways as the mode of transport.
(9) **Effect on Foreign Reserve**	It has no effect on the foreign reserves of a country	It has direct impact on the foreign reserves of a country.
(10) **Procedure involved**	No long procedure or formalities have to be completed before starting the	Long procedures and many formalities have to be completed before starting.

	trade.	
(11) **Operating Cost**	Operating cost is lower.	It is higher due to long distance.

Scope of International Business

1. **Merchandise exports and imports:** *Merchandise* means goods that are tangible, i.e., those that can be seen and touched. Merchandise exports and imports, also known as trade in goods, include only tangible goods and exclude trade in services.

2. **Service exports and imports:** Service exports and imports involve trade in intangibles. It is because of the intangible aspect of services that trade in services is also known as *invisible trade*. A wide variety of services are traded internationally and these include: tourism and travel, boarding and lodging (hotel and restaurants), entertainment and recreation, transportation, professional services (such as training, recruitment, consultancy and research).

3. **Licensing and franchising:** Permitting another party in a foreign country to produce and sell goods under your trademarks, patents or copy rights in lieu of some fee is called *licensing.* It is under the licensing system that Pepsi and Coca Cola are produced and sold all over the world by local bottlers in foreign countries.
   Franchising is similar to licensing, but it is a term used in connection with the provision of services. McDonalds, for instance, operates fast food restaurants the world over through its franchising system.

4. **Foreign investments:** Foreign investment involves investments of funds abroad in exchange for financial return. Foreign investment can be of two types: *direct and portfolio investments. Direct investment* takes place when a company directly invests in properties such as plant and machinery in foreign countries with a view to undertaking production and marketing of goods and services in those countries.
   Direct investment provides the investor a controlling interest in a foreign company, known as Direct Investment, i.e., FDI. It can be in the form of joint venture on PPP. A company, if it so desires, can also set up a *wholly owned subsidiary* abroad by making 100 per cent investment in foreign ventures,
   A *portfolio investment,* on the other hand, is an investment that a company makes into another company by the way of acquiring shares or providing loans to the latter, and earns income by way of dividends or interest on loans.

Benefits of International Business

Benefits to Countries

1. **Earning of foreign exchange:** International business helps a country to earn foreign exchange which it can later use for meeting its imports of capital goods, technology, petroleum products and fertilisers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.
2. **More efficient use of resources:** By selling to deficient nations and utilising full capacity to generate more goods.
   The countries engaged in international business; end up producing much more than what they can when each of them attempts to produce all the goods and services on its own.
3. **Improving growth prospects and employment potentials:** Producing solely for the purpose of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, able to create employment for people because their domestic market was not large enough to absorb all that extra production.

4. **Increased standard of living:** In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and enjoy a higher standard of living.

Benefits to Firms

1. **Prospects for higher profits:** International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high.
2. **Increased capacity utilisation:** Many firms setup production capacities for their products which are in excess of demand in the domestic market. By planning overseas expansion and procuring orders from foreign customers, they can think of making use of their surplus production capacities and also improving the profitability of their operations.
3. **Prospects for growth:** Business firms find it quite frustrating when demand for their products starts getting saturated in the domestic market. Such firms can considerably improve prospects of their growth by plunging into overseas markets.
4. **Way out to intense competition in domestic market:** When competition in the domestic market is very intense, internationalisation seems to be the only way to achieve significant growth.
5. **Improved business vision:** The vision to become international comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation.

Modes of Entry into International Business
The phrase 'modes of entry into international business', therefore, means various ways in which a company can enter into international business.

Exporting and Importing
Exporting refers to sending of goods and services from the home country to a foreign country. Importing is purchase of foreign products and bringing them into one's home country.
There are two important ways in which a firm can export or import products: *direct and indirect exporting/ importing.*
Direct exporting/importing means a firm itself approaches the overseas buyers/ suppliers and looks after all the formalities related to exporting/ importing activities including those related to shipment and financing of goods and services.
Indirect exporting/ importing is one where the firm's participation in the export/import operations is minimum, and most of the tasks relating to export/import of the goods are carried out by some middle men such as export houses or buying offices of overseas customers located in the home country or wholesale importers in the case of import operations.

Advantages
Major advantages of exporting include:
1. As compared to other modes of entry, exporting/importing is the easiest way of gaining entry into international markets.
2. Exporting/importing is less involving in the sense that business firms are not required to invest that much time and money as is needed when they desire to enter into joint ventures or set up manufacturing plants and facilities in host countries.
3. Since exporting/importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower than that is present when firms opt for other modes of entry into international business.

Limitations
Major limitations of exporting/ importing as an entry mode of international business are as follows:

1. Since the goods physically move from one country to another, exporting/importing involves additional cost of packaging, transportation, insurance costs and custom duty etc. All these expenses substantially increase product costs and make them less competitive.
2. Exporting is not a feasible option when import restrictions exist in a foreign country. In such a situation, firms have no alternative but to opt for other entry modes such as licensing/franchising or joint venture.
3. Export firms basically operate from their home country. They produce in the home country and then ship the goods to foreign countries. This puts the export firms in a disadvantageous position vis-à-vis the local firms which are very near the customers and are able to better understand and serve them.

Contract Manufacturing

Contract manufacturing refers to a type of international business where a firm enters into a contract with one or a few local manufacturers in foreign countries to get certain components or goods produced as per its specifications.

Contract manufacturing, also known as *outsourcing*, can take three major forms:

1. Production of certain components such as automobile components or shoe uppers to be used later for producing final products such as cars and shoes;
2. Assembly of components into final products such as assembly of hard disk, mother board, floppy disk drive and modem chip into computers; and
3. Complete manufacture of the products such as garments.

Advantages

Contract manufacturing offers several advantages to both the international company and local producers in the foreign countries.

1. Contract manufacturing permits the international firms to get the goods produced on a large scale without requiring investment in setting up production facilities. These firms make use of the production facilities already existing in the foreign countries.
2. Since there is no or little investment in the foreign countries, there is hardly any investment risk involved in the foreign countries.
3. Contract manufacturing also gives an advantage to the international company of getting products manufactured or assembled at lower costs especially if the local producers happen to be situated in countries which have lower material and labour costs.
4. Local producers in foreign countries also gain from contract manufacturing. If they have any idle production capacities, manufacturing jobs obtained on contract basis in a way provide a ready market for their products and ensure greater utilisation of their production capacities.
5. The local manufacturer also gets the opportunity to get involved with international business and avail incentives, if any, available to the export firms in case the international firm desires goods so produced be delivered to its home country or to some other foreign countries.

Limitations

The major disadvantages of contract manufacturing to international firm and local producer in foreign countries are as follows:

1. Local firms might not adhere to production design and quality standards, thus causing serious product quality problems to the international firm.
2. Local manufacturer in the foreign country loses his control over them manufacturing process because goods are produced strictly as per the terms and specifications of the contract.
3. The local firm producing under contract manufacturing is not free to sell the contracted output as per its will. It has to sell the goods to the international company at predetermined prices. This results in lower profits for the local firm if the open market prices for such goods happen to be higher than the prices agreed upon under the contract.

Licensing and Franchising

Licensing is a contractual arrangement in which one firm grants access to its patents, trade secrets or technology to another firm in a foreign country for a fee called *royalty.* The firm that

grants such permission to the other firm is known as *licensor* and the other firm in the foreign country that acquires such rights to use technology or patents is called the *licensee*.
It may be mentioned here that it is not only technology that is licensed. In the fashion industry, a number of designers license the use of their names. In some cases, there is exchange of technology between the two firms. Sometimes there is mutual exchange of knowledge, technology and/or patents between the firms which is known as *cross-licensing*.

Franchising is a term very similar to licensing except following differences:
1. One major distinction between the two is that while the former is used in connection with production and marketing of goods, the term franchising applies to service business.
2. The other point of difference between the two is that franchising is relatively more stringent than licensing. Franchisers usually set strict rules and regulations as to how the franchisees should operate while running their business.

The parent company is called the *franchiser* and the other party to the agreement is called *franchisee*. The franchiser can be any service provider be it a restaurant, hotel, travel agency, bank wholesaler or even a retailer – who has developed a unique technique for creating and marketing of services under its own name and trade mark. It is the uniqueness of the technique that gives the franchiser an edge over its competitors in the field, and makes the would-be-service providers interested in joining the franchising system. McDonald, Pizza Hut and Wal-Mart are examples of some of the leading franchisers operating worldwide.

Advantages
1. Under the licensing/franchising system, it is the licensor/ franchiser who sets up the business unit and invests his/her own money in the business. As such, the licensor/franchiser has to virtually make no investments abroad. Licensing/franchising is, therefore, considered a less expensive mode of entering into international business.
2. Since no or very little foreign investment is involved, licensor/ franchiser is not a party to the losses, if any, that occur to foreign business.
3. Licensor/franchiser is paid by the licensee/franchisee by way of fees fixed in advance as a percentage of production or sales turnover. This royalty or fee keeps accruing to the licensor/franchiser so long as the production and sales keep on taking place in the licensee's/franchisee's business unit.
4. Since the business in the foreign country is managed by the licensee/franchisee who is a local person, there are lower risks of business takeovers or government interventions.
5. Licensee/franchisee being a local person has greater market knowledge and contacts which can prove quite helpful to the licensor/franchiser in successfully conducting its marketing operations.
6. As per the terms of the licensing/ franchising agreement, only the parties to the licensing/franchising agreement are legally entitled to make use of the licensor's/ franchiser's copyrights, patents and brand names in foreign countries. As a result, other firms in the foreign market cannot make use of such trademarks and patents.

Limitations
Licensing/franchising as a mode of international business suffers from the following weaknesses.
1. When a licensee/franchisee becomes skilled in the manufacture and marketing of the licensed/franchised products, there is a danger that the licensee can start marketing an identical product under a slightly different brand name. This can cause severe competition to the licenser/ franchiser.
2. If not maintained properly, trade secrets can get divulged to others in the foreign markets. Such lapses on the part of the licensee/ franchisee can cause severe losses to the licensor/franchiser.
3. Over time, conflicts often develop between the licensor/franchiser and licensee/franchisee over issues such as maintenance of accounts, payment of royalty and non-adherence to norms relating to production of quality products.

These differences often result in costly litigations, causing harm to both the parties.

Joint Ventures

Joint venture is a very common strategy for entering into foreign markets. A joint venture means establishing a firm that is jointly owned by two or more otherwise independent firms. In the widest sense of the term, it can also be described as any form of association which implies collaboration for more than a transitory period. A joint ownership venture may be brought about in three major ways:

(i) Foreign investor buying an interest in a local company
(ii) Local firm acquiring an interest in an existing foreign firm
(iii) Both the foreign and local entrepreneurs jointly forming a new enterprise.

Advantages

Major advantages of joint venture include:

1. Since the local partner also contributes to the equity capital of such a venture, the international firm finds it financially less burdensome to expand globally.
2. Joint ventures make it possible to execute large projects requiring huge capital outlays and manpower.
3. The foreign business firm benefits from a local partner's knowledge of the host countries regarding the competitive conditions, culture, language, political systems and business systems.
4. In many cases entering into a foreign market is very costly and risky. This can be avoided by sharing costs and/or risks with a local partner under joint venture agreements.

Limitations

Major limitations of a joint venture are discussed below:

1. Foreign firms entering into joint ventures share the technology and trade secrets with local firms in foreign countries, thus always running the risks of such a technology and secrets being disclosed to others.
2. The dual ownership arrangement may lead to conflicts, resulting in battle for control between the investing firms.

Wholly Owned Subsidiaries

This entry mode of international business is preferred by companies which want to exercise full control over their overseas operations. The parent company acquires full control over the foreign company by making *100 percent investment in its equity capital.* A wholly owned subsidiary in a foreign market can be established in either of the two ways:

1. Setting up a new firm altogether to start operations in a foreign country — also referred to as a green field venture, or
2. Acquiring an established firm in the foreign country and using that firm to manufacture and/or promote its products in the host nation.

Advantages

Major advantages of a wholly owned subsidiary in a foreign country are as follows:

1. The parent firm is able to exercise full control over its operations in foreign countries.
2. Since the parent company on its own looks after the entire operations of foreign subsidiary, it is not required to disclose its technology or trade secrets to others.

Limitations

The limitations of setting up a wholly owned subsidiary abroad include:

1. The parent company has to make 100 per cent equity investments in the foreign subsidiaries. This form of international business is, therefore, not suitable for small and medium size firms which do not have enough funds with them to invest abroad.
2. Since the parent company owns 100 per cent equity in the foreign company, it alone has to bear the entire losses resulting from failure of its foreign operations.

3. Some countries are averse to setting up of 100 per cent wholly owned subsidiaries by foreigners in their countries. This form of international business operations, therefore, becomes subject to higher political risks.

MCQs:

1. Labour productivity and production cost differ among nations due to --------- --
   a) Geographical reason b) Agricultural reason c) Personal reason d) Government policies
2. Which factor of production is not a part of domestic business?
   a) Land b) Labour c) Customer d) Capital
3. Goods that are tangible means ------
   a) Customized goods b) Merchandise c) Free goods d) Licensed goods
4. Intangible aspect of services in International business is known as
   a) Home trade b) Foreign trade c) Invisible trade d) Local trade
5. A company can acquire full control over subsidiary's operation in foreign market by owing—
   a) 85% b) 90% c) 100% d) 40%
6. Portfolio investment means-----
   a) Providing services in another country.
   b) Investment in research industry.
   c) A company makes investment into another by acquiring shares.
   d) Production and marketing of goods.
7. Permission for distribution of services in another country under a specific copyright is :-
   a) Merchandising 184 b) Licensing c) Franchising d) Marketing
8. Manufacturing and trade beyond the boundaries if one's own country is :-
   a) Foreign trade b) Local trade c) Retail trade d) Internal trade
9. Currency used in International business is –
   a) Domestic currency b) International currency c) crypto currency d) visual currency
10. The International business as it exists today is to a great extent the result of----
    a) Language specialization b) Geographical specialization
    c) Cultural differences d) Custom practices
11. "Rajiv an exporter sent complete information about the quality ,grade, size, weight, type of packing about the product on his enquiry" .Such an above quotation prepared is known as -
    (a) Performa invoice (b) intent (c) letter of information (d) enquiry performa
12. A particular number that an export firm needs to have is known as -
    (a) IEC Number (b) IFC Number (c) IIC Number (d) IFC Code
13. "The goods were not loaded on the ship as they did not get the custom clearance due to lack of one of the main document. "Identify the document which was required among the following:-
    (a) Bill of clearance (b) Custom bill (c) Shipping bill (d) Bill of exchange
14. Identify the first step in the export procedure-
    (a) Receipt of enquiry (b) export license 185 (c) intent (d) production of goods
15. Performa Invoice is issued by the-
    (a) Shipping company of importer (b) Exporter to importer
    (c) Importer to exporter (d) Exporter to the shipping company
16. Which of the following documents is not required in connection with an import transaction?
    (a) Bill of lading. (b) Shipping bill. (c) Certificate of origin. (d) Shipment advice.
17. Which of the following are not the objectives of import trade?
    (a) To meet consumer demand. (b) To improve the standard of living.
    (c) To speed up industrialization. (d) To earn foreign exchange.
18. Which of the following indicates the right procedure of import trade?
    (a) Procurement of import license, Placing order or indent, Trade Enquiry, Customs clearance and release of goods.
    (b) Trade enquiry, Procurement of import license, obtaining letter of credit, arrival of goods.
    (c) Arrival of goods, Retirement of import documents, obtaining foreign exchange, obtaining letter of credit.
    (d) Receipt of shipment advice, Trade enquiry, Arranging for finance, Customs clearance and release of goods.

19. Which of the following document is required in connection with an import transaction?
    (a) Certificate of origin. (b) Shipping Bill (c) Letter of credit. (d) Mate's receipt.
20. Having identified the countries and firms that export the product, the importing firm approaches the export firms with the help of?
    (a) Trade enquiry. (b) Proforma invoice. (c) Mate's receipt. 186 (d) Sight draft.

Answers: 1(a), 2(c), 3(b), 4(c), 5(c), 6(c), 7(c), 8(a), 9(b), 10(b), 11(a), 12(a), 13(c), 14(a), 15(b), 16(d), 17(c), 18(b), 19(c), 20(a)

Exercise:

1. Harish and Girish are two importers. Both of them ordered goods to their respective Exporters. Harish's Exporter sends all the documents to his bank and informs him to this effect. Harish deposits the money in the bank and gets all the documents from there and takes the delivery of goods from the transport. Girish's Exporter also sends all the documents to his bank and gives him the information about it. Girish does not deposit the money in the bank, but accepts the bills of Exchange and gets all the documents from the bank. In this way, he also takes the delivery of goods from the transport.
   State the names of systems according to which Harish and Girish obtain the Documents of Title for taking delivery of goods.
2. Mr. Naresh Bhardwaj ordered some goods to a foreign company. In the order he gave an account of the quantity of goods, their type, price and all other things related to It. Mr. Ramesh Singla also ordered some goods to a foreign company. In the order he did not give the account of all things related to the import of goods.
   State, what do we call the order in the language of Foreign Business? What shall we call the orders placed by Mr. Naresh and Mr. Ramesh in the language of Foreign Business?
3. Some people get together and are interested in starting an Export House. They will require a Long-term capital in a large quantity to do the business they want. They want to know from you:
   a. Which business organisation will be suitable for them and why? Give any three reasons.
   b. Which different sources are possible for long-term capital?
   c. Which documents to be used in Export Business will be needed? Make a list of any five of them.
4. Murari Lal Batra is wholesale dealer of cloth. He deals in cloth manufactured not only in his country but also in the foreign country. Making payment of the cloth imported from the foreign country is a big problem for him. His financial position was very good but the exporter was not satisfied with it. While exporting goods, he wanted the guarantee of a bank. Mr Batra did this very thing. He spoke to his own bank. The bank manager became ready to help him. The bank manager gave him a document in this connection. Mr Batra sent that document to the exporter along with the goods order. The exporter was now satisfied and he started making preparation for exporting the desired goods. He sends all the goods by ship. He sends all the documents concerned with the goods to Mr Batra's bank. On getting the information Mr Batra gets the documents released from the bank. The goods are delivered to him from the harbour. He makes payment for the goods by the end of settled period.
   a. Identify the document get by Murari Lal Batra from the bank and sent to the Exporter.
   b. How was the exporter satisfied on the basis of the document identified in (a)?
   c. Identify the type of document identified in (a).

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