

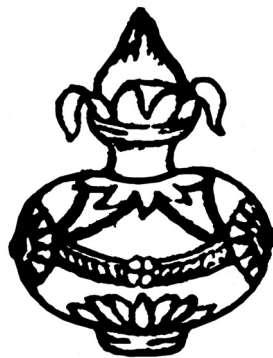
319

Senior Secondary Course
Intermediate (TOSS) Course

BUSINESS STUDIES

(English Medium)

STUDY MATERIAL



Telangana Open School Society (TOSS), Hyderabad

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FORE WORD

Education plays an important role in the modern society. Many innovations can be achieved through Education. Hence the Department of Education is giving equal importance to non-formal education through Open Distance Learning (ODL) mode on the lines of formal education. This is the first State Open School established in the country in the year 1991 offering courses up to Upper primary Level till 2008. From the academic year 2008-2009 SSC Course was introduced and Intermediate Course from the year 2010-2011. The qualified learners from the Open School are eligible for both higher studies and employment. So far 7,67,190 learners were enrolled in the Open Schools and 4,50,024 learners have successfully completed their courses.

With the aim of improving the administration at the grass-root level the Telangana Government re-organized the existing Districts and formed 31 new Districts. The formation of new Districts provide wide range of employment and Business opportunities besides self employment. Given the freedom and flexibilities available, the Open School system provides a second chance of learning for those who could not fulfill their dreams of formal education.

Government of Telangana is keen in providing quality education by supplying study materials along with the text books to enable the learners to take the exam with ease. Highly experienced professionals and subject experts are involved in preparing curriculum and study material based on subject wise blue prints. The study material for the academic year 2018-19 is being printed and supplied to all the learners throughout the state.

I wish the learners of Open School make best use of the study material to brighten their future opportunities and rise up to the occasion in building Bangaru Telangana.

With best wishes



S. Venkateshwara Sharma
DIRECTOR,
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319 BUSINESS STUDIES E.M

STUDY MATERIAL

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319 Business Studies

Study Material

CONTENTS

Lesson Name	Page. No.
1. Nature and scope of Business	1-9
2. Support Services to Business	10-27
3. Business Environment	28-34
4. Modern Modes of Business	35-42
5. Forms of Business Organisation	43-55
6. Company Form of Business Organisation	56-61
7. Formation of Joint Stock Company	62-67
8. Public Sector Enterprises	68-73
9. Entrepreneurship	74-78
10. Fundamentals of Management	79-87
11. Planning and Organising	88-97
12. Staffing	98-105
13. Directing	106-112
14. Co-ordination and Controlling	113-119
15. Financing of Business	120-134
16. Sources of Long term Finance	135-144
17. Financial Planning	145-159

18. Indian Financial Market	160-169
19. Introduction to Marketing	170-176
20. Marketing-mix	177-187
21. Advertising and Salesmanship	188-197
22. Internal Trade	198-207
23. External Trade	208-220
24. Consumer Protection	221-229
25. Self-employment	230-237
26. Setting up a Small Business	238-243
27. Agency services	244-248
28. Commercial Agency services	249-256
29. Wage employment	257-261
30. Office Set Up	262-270
31. Major Office Activities	271-281
32. Getting Ready for Employment	282-291
Model Question Paper	292-294

1

LESSON

Nature and Scope of Business

Introduction

In your day-to-day life you may be engaged in several activities. However, when someone asks you as to what you want to become in your life or what you want to do in future, your answer may be – “I want to join a suitable job or I want to become a doctor, an engineer, a dancer or a musician”, or you may say, “I want to do my own business”. But why do you want to do any of such activities? Obviously, it is mainly to earn your livelihood. Broadly speaking, every human activity in which one is engaged for the purpose of earning one’s livelihood is known as economic activity.

In this lesson we shall learn about all such activities, their categorization and some other related aspects.

Long Answer Type Questions

1. Describe the importance of business in modern society.

Ans: The term ‘business’ refers to human activities which involve production or exchange of goods and services regularly with the object of earning profit.

Business may be defined as an activity involving regular production or purchase of goods and services for sale, transfer and exchange with an object of earning profit.

Importance of Business

Business is an integral part of modern society. It is an organized and systematic activity for earning profit. It is concerned with activities of people working towards a common economic goal. Modern society cannot exist without business. The importance of business can be described as follows:

- i. Improves the standard of living:** Business improves the standard of living of the people by providing better quality and large variety of goods and services at the right time and at the right place.
- ii. Earn a livelihood:** It provides opportunities to work and earn a livelihood. Thus, it generates employment in the country, which in turn reduces poverty.
- iii. Utilization of scarce resources:** It utilizes the scarce resources of the nation and facilitates mass production of goods and services.
- iv. National image:** It improves national image by producing and exporting quality goods and services to foreign countries.
- v. Quality goods of international standard:** It enables the people of a country to use quality goods of international standard. This is possible by way of importing goods from foreign countries.
- vi. Better return to the investors:** It gives better return to the investors on their capital investment and also provides opportunities to grow and expand the business.
- vii. Promotes national integration:** It promotes social interest by providing tourist services, sponsoring cultural programmes, trade shows in the country, which enable people of different parts of the country to exchange their culture, traditions and practices. Thus, it promotes national integration.
- viii. Development of science and technology:** It helps in the development of science and technology. It spends large amount of money on research and development in search of new products and services.

1. Explain the various objectives of business.

Ans: Business objectives are something, which a business organization wants to achieve or accomplish over a specified period of time. It is generally believed that a business has a single objective, i.e. to make profit and safeguard the interests of its owners. However, no business can ignore the interests of its employees, customers as well as the interest of society as a whole. Thus, the objectives of business may be classified as-

- i. Economic objectives
- ii. Social objectives
- iii. Human objectives
- iv. National objectives
- v. Global objectives

Now let us discuss these objectives in detail.

i. Economic objectives: It refers to the objective of earning profit and those which have a direct

impact on the profit-earning objective of business. Some of the main economic objectives of business are:

- a) Earning of adequate profits;
- b) Exploring new markets and creation of more customers;
- c) Growth and expansion of business operation;
- d) Making innovations and improvements in goods and services; and
- e) Making use of available resources in the best possible manner.

ii. Social objectives: Social objectives of business are those, which are desired to be achieved for the benefit of the society. Some of the major social objectives are:

- a) Production and supply of quality goods and services to the society;
- b) Making goods available at reasonable prices;
- c) Avoidance of unfair practices;
- d) Contributing towards the general welfare and upliftment of the society; and
- e) Conserving natural resources and wild life and protecting the environment.

iii. Human objectives: It refers to the objectives aimed at safeguarding the interest of its employees and their welfare. Some of the major human objectives are:

- a) Providing fair remuneration and incentives to the employees;
- b) Arrangement of better working conditions and proper work environment for the employees;
- c) Providing the employees with more and more promotional opportunities; and
- d) Organizing training and development programmes for the growth of the employees.

iv. National objectives: National objectives of the business are the objectives of fulfilling goals and aspirations like:

- a) Creation of employment opportunities;
- b) Promotion of social justice;
- c) Produce and supply goods in accordance with the national interest and priorities;
- d) Payment of taxes and other dues honestly and regularly; and
- e) Implementing government's economic and financial policies framed from time to time.

v. Global objectives: Global objectives of business are the objectives of facing the challenges of global market. Some of the global objectives are:

a) Making available globally competitive goods and services; and

b) Reducing disparities among rich and poor nations by expanding its operations.

2. State the meaning of ‘industry’. Explain the various classifications of industry.

Ans: ‘Industry’ primarily refers to all such business activities concerned with production/raising or processing of goods and services. It processes raw materials or semi-finished goods into finished goods. Extracting raw materials from earth’s surface, manufacturing goods and commodities, producing crops, fish, flowers, constructing buildings, dams, and roads are all examples of industry. These activities are called industrial activities and the units engaged in these activities are known as ‘industrial enterprises.’

Classification of Industries: On the basis of nature of activity

- A. Primary industries
- B. Secondary industries
- C. Tertiary industries

Let us now discuss in detail about the classification of industry based on nature of activity involved.

A. Primary industries: Primary industries refer to the activities of extraction of natural resources. Primary industries can be categorized as extractive and genetic industries.

i. Extractive industries: It is an industry that extracts oil and natural gas from earth. Ex: Farmers growing crops, extracting material from forest for further processing, extracting items from sea/river.

ii. Genetic industries: The industries engaged in rearing and breeding animals and birds and growing plants or flowers for sale are known as genetic industries. Ex: Horticulture (growing fruits and vegetables), Floriculture (growing flowers), Pisciculture (breeding fish), Dairy farming, Poultry farming etc.

B. Secondary industries: The products of primary industries are normally used as raw materials to produce a variety of finished goods. And it is the secondary industry that uses the products of primary industry as its raw-materials. The activities of secondary industries may be classified as (i) Manufacturing, and (ii) Construction industries.

(i) Manufacturing industries: These are engaged in producing finished goods out of raw materials or semi-finished products. For example, cotton is used to produce textile, timber to produce furniture, bauxite to produce aluminum. Manufacturing industries may be divided further into the following categories:

- a) ‘**Analytical industries**’ manufacture different types of products by analyzing and separating different elements from the same product.
- b) ‘**Synthetic industries**’ put together various ingredients and manufacture a new product. For instance, soap is produced by combining potassium carbonate and vegetable oil.
- c) ‘**Processing industries**’ are those in which raw-materials are processed through successive stages to get the final products. Textiles, sugar are the examples.

d) ‘**Assembling industries**’ put together various manufactured products and make a new product as in the case of car, scooter, bicycle etc.

(ii) **Construction industries:** The industries engaged in erection of buildings, dams, bridges, roadways, railways, canals, tunnels, etc are known as construction industries. They make use of the products of other industries and construct different types of structures as per the requirements of the customers.

C. **Tertiary industries:** These industries are basically concerned with generating or processing of various services and facilitate the functioning of primary industries and secondary industries as well as activities of trade. These include service industries like banking, insurance, transport etc.

SHORT ANSWER TYPE QUESTIONS

1. How would you classify economic activities?

Ans: Economic activity can be a one-shot affair or a continuous one. So, the activities in which individuals engage themselves on a regular basis and earn their livelihood are known as their ‘occupations’. Infact, everyone is engaged in one occupation or the other, and these can be broadly categorized as:

A. Profession

B. Employment, and

C. Business

Let us know a few more details about these occupations.

A. Profession: Any activity, which requires special knowledge and skill to be applied by an individual to earn a living, is known as profession. Ex: Engineers, architects, film-stars, dancers.

B. Employment: The economic activity, rendered by one person to another, under a contract of service, for some remuneration, is called employment. Ex: Teachers, postman, clerk.

C. Business: The term ‘business’ refers to human activities which involve production or exchange of goods and services regularly with the object of earning profit. Ex: Transporters, bankers, traders, tailors.

2. Distinguish between economic and non-economic activities.

Ans: The human activities that are undertaken with an objective to earn money or livelihood are called economic activities. Whereas the other types of activities that are undertaken to derive self-satisfaction, are called non-economic activities. A farmer growing crops, a worker working in a factory for wage/salary, a businessman engaged in buying and selling of goods are examples of economic activities. While activities like meditation, engaging in sports for physical fitness, listening to music, providing relief to flood victims are examples of non-economic activities.

3. State the characteristics of business.

Ans: Business may be defined as an activity involving regular production or purchase of goods and services for sale, transfer and exchange with an object of earning profit.

Characteristics

- i. Goods and services:** It is an occupation where a person is engaged in manufacturing or buying and selling of goods and services. The goods may be consumer goods or capital goods. Similarly, the services may be in the form of transportation, banking, and insurance.
- ii. Continuous activity:** The activities must be carried on regularly. A single transaction is usually not treated as a business. For example, if a person sells his old car at a profit, it is not treated as a business activity.
- iii. Earning profit:** The sole objective of business is to earn profit. It is essential for the survival of business.
- iv. Investment:** Every business requires some investment in cash or kind or both. It is the life blood of the business. It is usually provided by the owner or is borrowed by him at his own risk.
- v. Risk and uncertainty:** The earnings are always uncertain, because the future is unpredictable. Thus, every business involves an element of risk and the same is borne by the businessman.

4. How would you classify business activities?

Ans: Business activities are concerned with production and/or processing of goods and services or distribution of goods and services. The former is known as 'industry' and latter as 'commerce'. So, we can classify business as industry and commerce. Let us now know details about these two categories.

- i. Industry:** 'Industry' primarily refers to all such business activities concerned with production/raising or processing of goods and services. It processes raw materials or semi-finished goods into finished goods. Extracting raw materials from earth's surface, manufacturing goods and commodities, producing crops, fish, flowers, etc., constructing buildings, dams, and roads are all examples of industry.
- ii. Commerce:** Commerce performs all functions, which are essential for maintaining a smooth and uninterrupted flow of goods and services to the customers. It provides the necessary link between producers and consumers of goods and services and facilitates the purchase and sale of goods and services.

Thus, Business = Industry + Commerce

5. Explain the different types of trade.

Ans: Trade is an integral part of commerce. It simply refers to sale, transfer or exchange of goods and services. It helps in making the goods and services available to ultimate consumers. On the basis of area of operation, trade can be classified as internal and external trade.

- i. Internal trade:** When trade takes place within the boundaries of a country, it is called internal trade. It means both buying and selling take place within the country. It can be of two types as follows:
 - a) Wholesale trade:** Buying from manufacturer and selling it to retailers in bulk known as wholesale trade.
 - b) Retail trade:** It can be buying from manufacturer or wholesaler and selling it to consumers known as retail trade.
- ii. External trade:** Trade that takes place between different countries is known as external trade. In other words, external trade refers to buying and/or selling of goods and services across national boundaries. This may take any of the following forms:
 - a) Import trade:** When goods are purchased from a foreign country, it is known as import trade. Ex: Firms of India purchase goods from firms of America to be sold in India is known as import trade.
 - b) Export trade:** It is the process of selling goods to a foreign country. Ex: Firms of India sell goods produced in their own country to firm of Singapore is known as export trade.
 - c) Entrepot trade:** When goods are bought from one foreign country to be sold in some other foreign country, it is known as entrepot trade. Ex: Firms of India purchase goods from firms of America to be sold to firms of Singapore is known as entrepot trade.

6. Describe auxiliaries to trade.

Ans: To facilitate buying and selling of goods a variety of other activities are required to be performed. These include, transport, storage, and insurance of goods etc. These activities are as follows:

- i. Transportation:** Carrying of goods physically from one place to other is called transportation.
- ii. Warehousing:** Systematic storage of goods once the goods are received is called warehousing.
- iii. Banking:** Arranging money and making payments to the seller through banks and other sources, called banking.
- iv. Insurance:** Covering of damage or loss of goods in transit while it is in store, called insurance.
- v. Communication:** Exchange of information with each other through postal and telecom services, called communication.

All the above activities help in facilitating the trading activities or providing support to the trading activities. That is why these are called auxiliaries to trade and also called support services of business.

7. What is meant by 'human activity'?

Ans: Human beings undertake various activities to satisfy their needs and wants. These activities are known as human activities. These may be of economic and non-economic activities.

8. What is economic activity?

Ans: Human activities that are undertaken with an objective to earn the livelihood are called economic activities. Ex: A farmer growing crops, a businessman engaged in trading activities.

9. What do you understand by the term non-economic activity?

Ans: Activities undertaken to derive mere satisfaction are known as non-economic activities. Ex: Providing relief to flood victims, listening to music etc.

10. Distinguish between consumer goods and capital goods.

Ans: Goods used by final consumers are called consumers' goods. Ex: Soaps, pens etc., Goods those used in the production of other goods are known as producers' goods or capital goods. Ex: Machines, coal etc.

11. A man who is working and controlled by others for his salary/wage is known as?

Ans: Employment

12. What are the activities done by human beings with their special knowledge and skills for their livelihood?

Ans: Profession

13. What is meant by the continuous activity of production and distribution of goods and services with a view to make profits?

Ans: Business

14. What is the process of producing and manufacturing the goods and services?

Ans: Industry

15. What benefits the products can avail from the industry?

Ans: Shape

16. What is the method of bringing the goods and services to the customers by eliminating problems in exchange and distribution of goods and services?

Ans: Commerce

17. What are the benefits to the goods with the transportation?

Ans: Place utility

18. What are benefits the goods with the warehousing?

Ans: Time

19. What is meant by buying and selling of goods and services?

Ans: Trade

20. What is the trade that takes place within the boundaries of the country?

Ans: Internal trade

21. What is the trade that takes place between two or more than two countries?

Ans: External trade

22. What is the trade that importing of goods from one country and exporting the same to other country?

Ans: Entrepot trade

23. What type of human activity the preparation of food by a housewife for her family?

Ans: Non-economic activity

24. What type of economic activity of a Lecturer working in a college?

Ans: Employment

25. What type of economic activity is fishing and selling fishes by a fisherman?

Ans: Profession

26. What type of business objective is earning profit?

Ans: Economic objective

27. What is the business activity of producing and distribution of quality goods and services?

Ans: Social objective

28. Which business objective is environmental protection?

Ans: Social objective

29. What is meant by producing new products by assembling the products which are already manufactured in some other company?

Ans: Assembling industries

30. What type of industry is agriculture?

Ans: Extractive industries

31. Dams come under which industry?

Ans: Construction industries

32. What is known as buying and selling of goods in large scale?

Ans: Wholesale trade

2

LESSON

Business Support Services

Introduction

Have you ever observed the various activities performed by a businessman while carrying out the business operations? Look at the grocery shop of your locality. What does the owner do? He arranges funds, buys goods from the main market, carries those goods to his shop, stores and sells to the customers as per their demand. While doing all these activities the owner or the businessman needs various help or support from others. For example, he may take loan from bank, hire a tempo or truck in carrying the goods and so on. Thus, to carry out any business activity successfully various support services are required. In this lesson we shall learn about the basic aspects like the meaning, importance and functioning of these support services.

Long Answer Type Questions

1. What is meant by a commercial bank? Explain the functions of a commercial bank.

Ans: Commercial Banks are banking institutions that accept deposits from the public and grant short-term loans and advances to their customers. The functions of a commercial bank are divided into two categories viz. (a) primary functions; and (b) secondary functions.

(a) Primary functions

The primary functions of a commercial bank include: (i) accepting deposits; and (ii) lending money.

- (i) **Accepting Deposits:** The most important activity of a commercial bank is to accept deposits from the public. For the convenience of the customers, banks provide different types of deposit accounts like Fixed Deposit Account, Recurring Deposit account, Current Account, Savings Bank Account, etc. with varying rates of interest. Public is also assured of the safety of funds deposited with the bank.

- (ii) **Lending Money:** The second important function of a commercial bank is lending of money to the public as well as to the business houses. It takes the form of loans and advances to the customers at the prescribed rates of interest. Loans are granted for a specific period. The borrower may be given the entire amount in lump sum or in installments. Loans and advances are generally granted against the security of certain assets.

(b) Secondary Functions

Besides the two primary functions outlined above, the commercial banks also render a number of ancillary services. These services supplement the main activities of the banks and may be termed as secondary functions of commercial banks. They are essentially non-banking in nature and broadly fall under two categories: (i) Agency services; and (ii) General utility services.

- (i) **Agency Services:** Agency services refer to those services which are provided by commercial banks as agents of their customers. These include:

- Ø Collection and payment of cheques and bills;
- Collection of dividends, interest and rent, etc.;
- Purchase and sale of securities (shares, debentures, bonds etc.);
- Payment of rent, interest, insurance premium, subscriptions etc.;
- Acting as a trustee or executor; and
- Acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad.

- (ii) **General Utility Services:** General utility services are those services which are rendered by commercial banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. These include:

- Issue of bank drafts, pay order (banker's cheque), travellers' cheques;
- Issue of letters of credit;
- Safe-keeping of valuables in safe deposit locker;
- ATM card, debit card and credit card facility;
- Internet banking and phone banking;
- Sale of prospectus and application forms of various competitive examinations;
- Accepting telephone bills, electricity bills;
- Underwriting loans floated by government and public bodies;
- Supplying trade information and statistical data useful to customers; and
- Acting as a referee regarding the financial status of customers.

2. Define bank and explain its importance.

Ans: Bank is an institution that deals in money and credit. It accepts deposits from those who have funds to spare and grants loans and advances to those who are in need of funds for various purposes. Thus, banking refers to the various services provided by banks, such as acceptance of deposits, grant of loans and advances, and other supplementary services.

Banking Regulation Act defines banking as “accepting, for the purpose of lending or investment of deposits of money from the public repayable on demand or/and withdrawable by cheque, draft or otherwise”

IMPORTANCE OF BANKING

- (a) **Capital Formation:** Deposits accepted by banks are channelised as loans and advances for industrial and trading activities to business organisations. Thus, banking indirectly converts savings into investment leading to capital formation and development of economy.
- (b) **Services to Business:** Banking helps business through a variety of services such as providing long-term and short-term finance, arranging remittance of money, collection of cheques and bills etc.
- (c) **Reduces Use of Currency:** Banks enable depositors to make payment by cheque, which is transferable by endorsement and delivery. Besides, travellers can carry travellers' cheques, credit cards etc. issued by banks instead of liquid money. Thus, use of currency is considerably reduced.
- (d) **Mobilization of Savings:** Banks allow savings to be deposited in different types of accounts such as Current Account, Savings Bank Account, Fixed Deposit Account, etc. The facilities of withdrawal as and when desired, and payment of interest on deposits encourage people to save money and put it in the banks.
- (e) **Benefits to Rural Economy:** Rural branches of banks play a useful role in mobilizing savings in rural areas and provide loans to farmers and artisans at concessional rates and on priority basis. This helps the rural economy in a big way.
- (f) **Balanced Development of Economy:** Banks identify areas that need special assistance for industrial development and provide them the necessary help. Similarly they also identify backward regions and help in their economic development by providing them adequate funds at reasonable rates. Banks thus, help backward areas in industry and balanced regional development.
- (g) **Development of Credit Policy:** Credit policy is a pre-requisite for economic development. The central bank of a country develops a proper monetary policy by determining the bank rate and regulates the money supply in the larger interest of the economy and the pace of its development.

3. What is the meaning of the term insurance? Explain its importance.

Ans: The term 'insurance' refers to a contract between two parties, one known as insured and the other insurer. The document containing the contract is known as 'Insurance Policy'. The person whose risk is insured is called 'insured' or 'assured' and the person or the company which insures is known as 'insurer', or 'assurer'. The consideration in return for which the insurer agrees to compensate the insured is known as 'premium'.

Thus, insurance can be defined as 'a contract between the insurer and insured whereby the insurer undertakes to pay the insured a fixed amount, in exchange for a fixed sum of money (premium), on the happening of a certain event (like attaining a certain age or on death), or pay the amount of actual loss when it takes place due to the risk insured.

IMPORTANCE OF INSURANCE

- (a) **Protection against Risk:** Insurance provides protection against various risks involved in business. The protection is in the form of a provision to compensate for the loss suffered by the insured.
- (b) **Pooling of Risk:** Insurance helps in sharing of risk. In practice, a large number of people seek insurance by paying the premium which results in the formation of insurance fund. This fund is used for compensating a few among them who may suffer a loss. Thus, in effect the loss is spread over a large number of people.
- (c) **Helps in Securing Loans:** Banks and financial institutions usually insist on the insurance of goods and properties before loans can be sanctioned on their security. So insurance makes it convenient to secure loans and advances from the financial institutions.
- (d) **Protection against Liabilities under various Labour Laws:** Insurance gives protection to businessmen in the event of compensation payable to employees for accidents leading to fatal injury, partial injury, disablement, as well as sickness and maternity.
- (e) **Contribute to Economic Development:** Funds with the insurance companies are invested in various types of securities and projects, which contribute to economic development of the country.
- (f) **Generation of Employment:** Insurance companies provide employment to a large number of people on regular basis. A number of people earn their livelihood working as insurance agents.
- (g) **Social Security:** Life insurance provides security against risks of old age and premature death of people. Besides, social security is provided to workers through the Employees State Insurance scheme whereby accidental risks are covered.

4. Describe the principles of insurance.

Ans: The validity of an insurance contract rests upon certain well established principles that apply to various types of insurance. These are briefly discussed hereunder.

- (a) **Principle of Utmost Good Faith:** Insurance contracts are the contracts of mutual trust and confidence. Both parties to the contract i.e., the insurer and the insured, must disclose all relevant information relating to the subject matter of insurance. In case of any concealment about the material facts, the contract will not be valid.
- (b) **Principle of Insurable Interest:** Insurable interest means financial or pecuniary interest in the subject matter of insurance. A person has insurable interest in the property or life insured if he stands to gain from its existence or lose from its damage or destruction.
- (c) **Principle of Indemnity:** The word indemnity means compensating somebody for the actual loss suffered by him; or restores someone to the same position that he/she was in before the insured event took place. The principle of indemnity implies that the insured is not allowed to make any profit from the insurance contract on the happening of the event that is insured against. Compensation is paid on the basis of amount of actual loss or the sum insured, whichever is less. This principle is applicable to the fire and marine and general insurance. It is not applicable to life insurance.
- (d) **Principle of Contribution:** The same subject matter may be insured with more than one insurer. In such a case, the insurance claim to be paid to the insured must be shared or contributed by all insurers in proportion to the amount of sum assured by each one of them. If one insurer has paid the full compensation to the insured, he has the right to ask other insurers to share the loss proportionately.
- (e) **Principle of Subrogation:** According to this principle, once the claim of the insured has been settled, the ownership right of the subject matter of insurance passes on to the insurer.
- (f) **Principle of Mitigation:** In case of a mishap the insured must take all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance. This principle ensures that the insured does not become negligent about the safety of the subject matter after taking an insurance policy.
- (g) **Principle of Causa-proxima (nearest cause):** According to this principle, the insured can claim compensation only if the loss is caused by the event insured against. In other words, unless the event insured is nearest cause (not a remote cause) for the loss occurred, the insured cannot claim the loss from the insurance company.

5. Discuss any four points of importance of communication.

Ans: Communication is the process of transmission of ideas, opinions, thoughts and information through speech, writing, gestures or symbols between two or more persons. Communication always contains a message which is transmitted between the parties. There are minimum numbers of two parties involved in communication - one is 'Sender', and the other is 'Receiver'.

Importance of Communication

- (a) **Promotion of Business:** Because of modern means of communication, businessmen sitting at different places can finalize their business deals without much difficulty. They can make

enquiries, settle terms and conditions, place orders and send confirmation. It has helped in the growth of national as well as international trade.

- (b) **Mobility of Labour:** People who have gone for employment to places away from their homes and families are able to keep in touch with their friends and relatives through the various means of communication. So they willingly go too far off places for employment.
- (c) **Socialization:** Through communication facilities like telephone, fax and e-mail etc. people are able to exchange messages, information etc. with their friends and relatives on a regular basis. This helps in maintaining and developing social relations among people.
- (d) **Coordination and Control:** Offices of big business houses and government departments may be situated at different places. There may be many departments in the same building. Effective communication between them helps in coordinating their activities and exercising control over them.
- (e) **Efficiency in Job Performance:** Effective communication contributes a great deal to higher in job performance as regular communication within a business unit ensures a willing cooperation of others due to the close understanding of ideas and instructions.
- (f) **Helpful to Professionals:** Lawyers are to attend courts situated at different places, doctors are to visit different nursing homes, chartered accountants have to go to different offices of companies. Mobile phones help these professionals in changing and adjusting their schedule as required without any difficulty.
- (g) **Meeting Emergencies:** In the event of accidents or incidents of fire, immediate help can be asked for and made available through modern means of communication.
- (h) **Sea and Air Navigation:** Means of communication are extremely important for the navigation of ships and aircrafts which need to be guided from control rooms at particular locations.
- (i) **Spread of Education:** Broadcasting of educational programmes radio and telecasting on televisions are popular means of educating students without the necessity of personal coaching.
- (j) **Advertisement:** Radio and television as means of mass communication have increasingly become important as media of advertisement for business firms as it is possible to reach the masses by such means.

6. Describe any four special services rendered by the post office for the benefit of business.

Ans: Post office offers some special services to the business firms. Let us learn in brief about those services.

- (i) **Business Post:** In this service, post office undertakes all the pre-mailing activities of the bulk senders. Pre-mailing activities include collection from sender's doorstep, insertion of goods in packet, pasting and addressing as well as franking of mails, etc.

- (ii) **Media Post:** The postal department offers a unique media to help the corporate and government organisations to reach the potential customers through media post. Under this facility, (a) advertisements are allowed on post cards, inland letter cards and in other postal stationeries, and (b) space sponsorship options on letter boxes.
- (iii) **Express Parcel Post:** Post office offers a reliable, speedy and economical parcel service to the corporate and business customers through its express post. It provides a time bound door-to-door delivery of parcels upto 35 kgs. in weight and VPP services upto Rs. 50,000.
- (iv) **Direct Post:** It allows the business houses to send the pamphlets, brochures and other advertising materials like CDs, floppies, cassettes, samples, etc. to the prospective customers at very low rates.
- (v) **Retail Post:** The post office offers the facility to collect public utility bills like telephone, electricity, and water bills, sale of application forms for government and other private organizations, survey through postmen, address verification through postmen are some of the activities undertaken under retail post.
- (vi) **Business Reply Post:** Under this facility post offices allow the customers to send their reply through business reply post, which does not require any postage from the sender. The post office recovers the postage from the addressee later on.
- (vii) **Post Shoppe:** Post shoppes are the small retail shops established for sale of postal stationery items, greeting cards and small gift items to the customers. These shops are found within the premises of some post offices.
- (viii) **Value Payable Post (VPP):** Under this service, post office receives the properly packed goods from the seller and carries those to the customers. After receiving the total amount (the price of the goods plus the VPP charges) from the customer, it delivers the goods to him/her. Later on, the post office sends the amount due to the seller.
- (ix) **Corporate Money Order:** Like individuals, business organisations can also transfer money through money order. For them, the post office offers Corporate Money Order Service. It enables business organisation to transfer upto Rs. 1 crore to any part of the country.
- (x) **Post-box and Post-bag Facility:** Under this facility, a particular number and a box or a bag is allotted to the receiver at the post office to receive all unregistered mails. Post office keeps all mails addressed to that number in those boxes or bags. The addressee makes necessary arrangement to collect the mails as per his convenience.
- (xi) **Bill Mail Service:** It provides cost effective solution for mailing of periodic communication with nature of annual report, bills, monthly account bills or other items of similar nature.
- (xii) **E-post:** E-post service launched on 30th January, 2004 this has enabled people to send and receive messages through e-mail in all post offices of the country. To make it more useful for business, a corporate version of e-mail was also launched on 18th October 2005.

Short Answer Type Questions

1. Describe any two types of banks?

Ans: There are various types of banks operate in our country to meet the diverse financial needs of customers. These can be categorised as per their functions.

(a) Commercial bank

(b) Co-operative bank

(c) Development bank

(d) Specialised bank

(e) Central bank

(a) **Commercial Bank:** Commercial Banks are banking institutions that accept deposits from the public and grant short-term loans and advances to their customers. Commercial banks may be (i) public sector banks, (ii) private sector banks, or (iii) foreign banks.

(i) **Public Sector Banks:** In public sector commercial banks, the majority stake is held by the Government of India or Reserve Bank of India. Examples of such banks are: State Bank of India, Syndicate Bank.

(ii) **Private Sectors Banks:** In case of private sector banks, the majority of share capital of the bank is held by private individuals. These banks are registered as public limited companies. Examples of such banks are ICICI Bank Ltd., HDFC Bank Ltd. etc.

(iii) **Foreign Banks:** These banks are incorporated in foreign countries and operate their branches in our country. Examples of such banks are American Express Bank, Standard & Chartered Bank.

(b) **Co-operative Bank:** When a co-operative society engages itself in banking business it is called a Co-operative Bank. . The co-operative banks generally grant loans for productive purposes as well as for other purposes. The rate of interest charged is usually low.

(c) **Development Bank:** Development banks are the financial institutions which provide medium and long-term loans to industry. Development banks assist the promotion, expansion and modernisation of industries.

(d) **Specialised Bank:** There are some banks which engage themselves in some specific area or activity and are thus, called specialised banks. Export Import Bank of India (EXIM Bank), Small Industries Development Bank of India (SIDBI), National Bank for Agricultural and Rural Development (NABARD) are examples of such banks.

(e) **Central Bank:** In every country a bank which is entrusted with the responsibility of guiding and regulating the banking system is known as the Central Bank. Such bank is an apex bank and acts as the highest financial authority. In India, the central banking authority is the Reserve Bank of India. It does not deal directly with the members of public.

2. Briefly discuss any two types of insurance.

Ans: Based on the subject matter of insurance or the nature of risk covered insurance can be broadly classified as under:

- (a) Life Insurance
- (b) Fire Insurance
- (c) Marine Insurance
- (d) Other types of Insurance

Let us discuss in brief about all these types of insurance.

(a) Life Insurance

Life insurance policy was introduced as a protection against the uncertainty of life. But gradually its scope has been extended to other areas like health insurance, disability insurance, pension plan, etc. There are two basic types of life insurance policies viz., whole-life policy, and endowment policy.

(b) Fire Insurance

Fire insurance is a contract whereby the insurer, in consideration of premium, undertakes to compensate the insured for the loss or damage suffered due to fire. The premium is payable in single installment. The fire insurance contracts are generally taken up for one year.

(c) Marine Insurance

Marine insurance is an agreement by which the insurance company agrees to indemnify the owner of a ship or cargo against risks which are incidental to marine adventures. During an ocean journey, a ship is exposed to a variety of risks such as collision with other ship, collision of ship with hidden rocks, fire, storm, and so on.

Marine insurance that covers the risk of loss of cargo is known as 'cargo insurance.' And when the owner of a ship is insured against loss on account of perils of the sea, it is known as 'ship or hull insurance.'

Further, the freight is usually payable by the owner of cargo on its safe delivery at the port of destination. So, the shipping company may also seek insurance of the risk of loss of freight. Such a marine insurance is known as 'freight insurance.'

(d) Other types of Insurance

Apart from life, fire and marine insurance, general insurance companies insure a variety of other risks through various policies. Some of these risks and the different policies are outlined below.

- (i) Motor Vehicles Insurance
- (ii) Health Insurance

- (iii) Crop Insurance
- (iv) Cash Insurance
- (v) Cattle Insurance
- (vi) Rajeswari Mahila Kalyan Bima Yojana
- (vii) Amartya Siksha Yojana Insurance Policy
- (viii) Burglary Insurance
- (ix) Fidelity Guarantee Insurance

3. Define life insurance? State the different types of life insurance policies?

Ans: Life insurance is a contract whereby the insurer undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a specified period of time in consideration of a certain amount (premium) paid by the insured either in lump sum or in installments. Since the risk insured is certain to happen and the sum assured is bound to be paid sooner or later, the contract of life insurance is also referred to as life assurance.

Types of Life Insurance Policies

There are two basic types of life insurance policies (a) Whole-life policy, and (b) Endowment policy.

In case of '**whole life policy**' the premium is payable regularly throughout the life of the insured or for a fixed period. The sum assured becomes payable to the heirs of the insured after his death. Such a policy is taken up by a person who wishes to provide financial support to his/her dependents after the death.

An '**endowment policy**', on the other hand, runs for a limited period or upto a certain age of the insured, and the sum assured becomes due for payment at the end of the specified period or on the death of the insured if it occurs earlier. This is the most common form of life insurance policy taken up by the people.

In addition to the types of policies discussed above, the insurance companies offer many other types of policies to attract the customers. Let us have a brief idea about some of these policies.

- (i) **Joint Life Policy:** Under this policy, the lives of two or more persons are insured jointly. The sum assured becomes payable on the death of any one, to the survivor. Usually, this policy is taken up by husband and wife jointly or by two partners of the firm.
- (ii) **Money Back Policy:** This scheme provides periodic payment to the policyholder unlike ordinary endowment insurance plans where the survival benefits are payable only at the maturity of the policy.
- (iii) **Pension Plan:** Under this plan the sum assured is payable to the policyholder on his survival beyond the term of the policy. The sum assured or policy money becomes payable in monthly,

quarterly, half yearly or annual installments. This is useful for those who prefer regular income after a certain age.

- (iv) **Unit Plans:** These plans offer twin benefits of investment and insurance cover. The premium paid by the policyholder is applied to purchase the shares and debentures of different companies. The maturity amount is largely depending upon the market value of the investment.
- (v) **Group Insurance Scheme:** Group Insurance schemes are meant to provide life insurance protection to the group of people at a low cost. These schemes are suitable for group of employees of any business house or any office.

4. What is meant by transportation? State any two points of importance of transportation for the business.

Ans: The process of carrying goods and passengers from one place to another is termed as 'transportation'. In fact, transportation facilitates trading activities to create place utility to goods by removing the barriers of distance (hindrance of place) between production and consumption.

Importance of Transportation

- (a) Transport plays a very important role in distribution of goods both within a country and across the borders.
- (b) Transport helps in bringing about stable and uniform prices in different markets as traders are able to adjust the supply of goods at different places according to the changing demand.
- (c) Consumers have the benefit of getting goods at their door step and have a wider choice of goods at competitive prices.
- (d) It ensures continuous supply of raw materials to the industry.
- (e) It contributes to growth of large scale industries by facilitating the inflow of materials and outflow of finished goods.
- (f) International competition is encouraged with the improved transport system. This makes global markets accessible to sellers and buyers of different countries.

5. State any two different modes of transport?

Ans: The modes of transport can be classified as (a) road transport, (b) rail transport, (c) water transport, and (d) air transport. Let us have a brief idea about these modes of transport.

- (a) **Road Transport:** Transport by road is undertaken through animals (horses, camels, donkeys), vehicles drawn by animals (bullock-carts), and by motor vehicles (vans, trucks, etc.). Use of animals and vehicles drawn by animals has limited use only in rural areas. Vans are limited to local transports within the city. Most goods traffic moves through trucks which are considered convenient, economical and safe.
- (b) **Rail Transport:** Rail transport refers to movement of passengers and goods by trains which are on railway tracks laid for the purpose. In terms of carrying capacity over long distances

rails transport is economical and safe. In India, railways are owned by government of India and most commonly used mode of goods transport

- (c) **Water Transport:** Water transport refers to movement of goods and passengers on waterways by using various means like boats, steamers, launches, ships, etc. This movement may takes place inside the country or from one country to another.
- (d) **Air Transport:** Movement of goods and passengers by using aircrafts is termed as air transport. It is the speediest mode of transport and is mostly used for carrying passengers. As for goods, air transport is mostly used for goods of high value and low volume such as medicines, spare parts for machinery, electronic components etc.

6. Briefly state the different types of communication?

Ans: Communication is the process of transmission of ideas, opinions, thoughts and information through speech, writing, gestures or symbols between two or more persons. Communication always contains a message which is transmitted between the parties.

Types of Communication:

Based on the method used, communication may be oral, written or non-verbal. These are explained in brief hereunder.

- (a) **Oral Communication:** When a message is transmitted orally i.e., through spoken words it is called oral communication. It may be in the form of lectures, meetings, group discussions, conferences, telephonic conversations, radio message and so on. The major drawback with verbal communication is that it cannot be verified as normally it is not put on record.
- (b) **Written Communication:** When a message is transmitted through written words (in writing in the form of letters, telegram, memos, circulars, notices, reports etc. it is called written communication. It provides a record of the message and feedback which is available for verification as and when required.
- (c) **Non-verbal Communication:** Communication without any use of words is called non-verbal communication. Sometimes when you look at some pictures, graphs, symbols, diagrams etc. some message is conveyed to you. All these are different forms of visual communication. Bells, whistles, buzzers, horns etc. are also the instruments through which we can communicate our message. Communication with the help of these types of sounds is called 'aural' communication. Similarly, communication is also made through some physical gestures through the use of various parts of the human body through body language. This is termed as 'gestural' communication.

7. What are the different types of warehouses?

Ans: Warehousing means holding or preserving goods in huge quantities from the time of their purchase or production till their actual use or sale. In order to meet their storage requirement effectively, various types of warehouses came into existence. These are as follows.

- (a) **Private Warehouses:** The warehouses which are owned and operated by the manufacturers or traders to store exclusively their own stock of goods are known as private warehouses.
- (b) **Public Warehouses:** The public warehouse is an independent unit which stores goods of other firms. Anyone can store his goods in these warehouses on payment of rent.
- (c) **Government Warehouses:** These warehouses are owned, managed and controlled by the government. Central Warehousing Corporation of India, State Warehousing Corporation and Food Corporation of India are examples of government warehouses. Both government and private enterprises may use these warehouses to store their goods.
- (d) **Bonded Warehouses:** Bonded warehouses to store imported goods for which import duty is yet to be paid. These warehouses are generally owned by dock authorities and found near the ports.
- (e) **Co-operative Warehouses:** These warehouses are set up by the cooperative societies for the benefits of their members. They provide warehousing facilities at the most economical rates.

8. Explain any two functions of warehousing.

Ans: The warehouses preserve goods on a large-scale in a systematic and orderly manner. They provide protection to goods against heat, wind, storm, moisture, etc. and also minimize losses due to spoilage, wastage etc. In addition to this, warehouses now-a-days also perform a variety of other functions as stated below:

- (a) **Storage of Goods:** The basic functions of warehouses are to store goods properly till they are required for use, consumption or sale.
- (b) **Protection of Goods:** A warehouse provides protection to goods from loss or damage due to heat, dust, wind and moisture, etc. It makes special arrangements for different products according to their nature.
- (c) **Risk Bearing:** The risk of loss or damage to goods in storage is borne by the warehouse keeper. So, he takes all precautions to ensure their safety.
- (d) **Financing:** When goods are deposited in any warehouse, the depositor gets a receipt which acts as a proof of the goods in store. This receipt can be used as a security to obtain loans and advances from the banks and other financial institutions.
- (e) **Processing:** Certain commodities are not consumed in the form they are produced. Processing is required to make them consumable. For example, paddy is polished, timber is seasoned, and fruits are ripened, etc. Sometimes warehouses also undertake these activities on behalf of the owners.
- (f) **Value Added Services:** The warehouse keeper may also undertake to perform the functions of grading and branding of goods on behalf of the manufacturer, wholesaler or the importer of

goods. He may provide facilities for mixing, blending and packaging of goods for convenience in handling and sale.

- g) **Transportation:** In some cases warehouses provide transport arrangement to the bulk depositors. It collects goods from the place of production and also sends goods to the place of delivery on request of the depositors.

9. Explain any two points of importance of warehousing?

Ans: Warehousing bridges the time gap between production of goods and their consumption, and thus, serves useful purpose particularly for large-scale business operations. Based on its uses, its importance can be briefly described as follows.

- (a) **Storage of Raw Materials:** To maintain continuity in production, a good quantity of raw materials is to be kept in stock. Not only that, some raw materials are only available in specific period of the year (cotton, oilseeds etc.) while these are used for production throughout the year. So, these have to be kept in stock for use as and when required.
- (b) **Storage in Anticipation of Rise in Price:** In case the manufacturer anticipates a rise in prices of raw materials in future he/she likes to purchase it in advance and stock it. It equally applies to traders of goods if they expect price rise.
- (c) **Storage of Finished Goods:** Since goods are generally produced in anticipation of demand, these need to be stored till sales take place. Not only that, some goods are produced round the year but purchased/used during a specified part of the year e.g. electric fans, woollen clothes.
- (d) **Storage of Goods by the Wholesalers:** Wholesalers buy goods in bulk and maintain stock of goods in warehouses for sale in small quantities to retailers from time to time.
- (e) **Packaging and Grading:** Goods in warehouses are divided into grades according to size or quality and packaging is done for convenient handling and sales.
- (f) **Use for Importers:** Warehouses (known as bonded warehouse) are used for storage of imported goods till the importer is able to pay the customs duty and take delivery.

10. State the meaning of 'Business Support Services'.

Ans: Business support service refers to those business activities that act as auxiliaries to trade and facilitate smooth flow of goods from producers to consumers.

11. What is central bank?

Ans: In every country a bank which is entrusted with the responsibility of guiding and regulating the banking system is known as the Central Bank. Such bank is an apex bank and acts as the highest financial authority. In India, the central banking authority is the Reserve Bank of India.

12. What do you mean by health insurance?

Ans: Health Insurance provides protection against the medical expenses incurred on treatment of illness or injury suffered by the policyholder. It is also termed as mediclaim insurance, and is one of the most popular types of insurance now-a-days.

13. What is the meaning of the term fidelity guarantee insurance?

Ans: As a protection against the risk of loss caused by embezzlement or defalcation of cash or misappropriation of goods by employees, the businessmen may seek insurance covering the risks of loss on account of fraud and dishonesty on the part of the employees handling cash or in charge of stores. This is called fidelity guarantee insurance.

14. What is motor vehicle insurance?

Ans: Insurance of passenger cars, vans, commercial vehicles, motor cycles, scooters, etc., covers the risks of damage of the vehicle by accident, loss by theft, and so also the liability arising out of injury to, or death of a third party involved in the accident. Infact, vehicle insurance in respect of third party is compulsory.

15. What do you understand by the term telex?

Ans: Telex provides a means of printed communication using teleprinter. The teleprinter is a tele-typewriter having a standard keyboard and connected through telephone.

16. What is the meaning of fax?

Ans: Fax or facsimile is an electronic device that enables instant transmission of handwritten or printed matters to distant places. By using telephone lines, this machine sends the exact copy of the document to another fax machine at the receiving end. This is the most commonly used means of written communication in business now-a-days.

17. What is e-mail?

Ans: Electronic mail, popularly known as e-mail is a modern means of communication that transmits the written message, pictures or sounds etc. from one computer to the others connected through internet facility.

18. Write about tele-conference?

Ans: Teleconferencing is a system through which people can interact without physically sitting in front of each other. People can hear the voice and see the picture of others and also respond to their queries while sitting in different countries. It makes the use of modern electronic devices like telephone, computers, television etc.

19. Which are the institutions that collect money in the form of deposits from the public and lend money to public?

Ans: Commercial banks

20. Which bank is established to regulate and control the banks within the country?

Ans: Central bank (RBI)

21. Which bank is called a government bank?

Ans: RBI

22. Which bank prints currency notes?

Ans: RBI

23. What is the name of central bank in India?

Ans: RBI

24. Which bank is acting as a banker's bank?

Ans: RBI

25. Name the person/organization that insures the losses?

Ans: Insured

26. The organization which agreed to compensate the losses is known as?

Ans: Insurer

27. Who are the parties in insurance?

Ans: Insured, insurer

28. What is the insurance that compensates the losses arising out of ships?

Ans: Hull/ship insurance

29. What is the insurance that compensates the loss of goods in ship?

Ans: Cargo insurance

30. What is the insurance made for rent of the ship?

Ans: Freight insurance

31. What is the life insurance that pays compensation to the nominees after his death?

Ans: Whole life policy

32. What is the name of insurance taken by both wife and husband?

Ans: Joint life insurance

33. What are the benefits to the goods with the transportation?

Ans: Place

34. What is the service which removes hindrance of place?

Ans: Transportation

35. Which is the oldest method of transportation?

Ans: Marine insurance

36. Which is the suitable transport for perishable goods?

Ans: Air transport

37. Which is the fastest transport system?

Ans: Air transportation

38. Which transport system is suitable for valuable and less space occupied goods?

Ans; Air transportation

39. Which is the suitable transport method for far-away places within the country?

Ans: Rail transport

40. Which transport system is suitable for village and remote areas?

Ans: Road transport

41. Which type of communication the telephonic conversation is?

Ans: Oral communication

42. Which type of communication is a circular?

Ans: Written communication

43. Which type of communication are the signals, drawings and acting?

Ans: Non-verbal communication

44. Which type of communication the red light provides in traffic signals?

Ans: Non-verbal communication

45. Which type of communication is saluting the national flag?

Ans: Non-verbal communication

46. Which is the postal service used when correct address of the receiver is unknown?

Ans: Post restante

47. Which type of postal service is selling of greeting cards and gift articles?

Ans: Post shoppe

48. Which instrument sends the written information immediately?

Ans: Fax

49. Which information is sent through tele printer?

Ans: Telex

50. Which instrument replies the telephone calls with the help of computer?

Ans: Voice mail

51. What is known as sending of information through internet?

Ans: e-mail

52. Which business service gives time benefit to the products?

Ans: Warehousing

53. Which is the place where the goods are kept safely?

Ans: Warehouse

54. What are the various warehouses under the ownership of the government?

Ans: Government warehouses

55. Which are the warehouses used to keep the imported good till import duties are paid?

Ans: Bonded warehouses

56. Which warehouses are nearer to shipyards?

Ans: Bonded warehouses

57. Which warehouses are established for the benefit of members?

Ans: Co-operative warehouses

58. Which are the warehouses that store the goods for rent?

Ans: Public warehouses.

3

LESSON

Business Environment

Introduction

Understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. Because, the environmental factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies. Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects etc. In this chapter, we shall learn about the concept of business environment, its nature and significance and the various components of the environment. In addition, we shall also acquaint ourselves with the concept of social responsibility of business and business ethics.

Long Answer Type Questions

- 1. What is business environment? Describe the importance of business environment for the business firm.**

Ans: The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. The business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- (a) Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

- (b) **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- (c) **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- (d) **Image Building:** Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.
- (e) **Meeting Competition:** It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.
- (f) **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

2. Describe in brief the economic environment of business?

Ans: The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

- (a) **Economic Conditions:** The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.
- (b) **Economic Policies:** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:
 - (i) Industrial policy
 - (ii) Fiscal policy
 - (iii) Monetary policy
 - (iv) Foreign investment policy
 - (v) Export –Import policy (Exim policy)

The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein.

- (c) **Economic System:** The world economy is primarily governed by three types of economic systems, viz., (i) Capitalist economy; (ii) Socialist economy; and (iii) Mixed economy. India has adopted the mixed economy system which implies co-existence of public sector and private sector.

3. Explain any two non-economic environment of business.

Ans: Non-economic environment comprises social, political, legal, technological, demographic and natural environment. All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations. The various elements of non-economic environment are as follows:

(a) Social Environment

The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc.

(b) Political Environment

This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations.

(c) Legal Environment

This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include, Companies Act, 1956, Foreign Exchange Management Act, 1999, Factories Act, 1948 etc.

(d) Technological Environment

Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time.

(e) Demographic Environment

This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skill labour in certain areas motivates the firms to set up their units in such area. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

(f) Natural Environment

The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown.

4. Explain the social responsibility of business towards different groups.

Ans: Every business enterprise is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of business is injurious to the long run interests of the society.

Meaning of Social Responsibility

Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society.

Social Responsibilities Towards Different Groups

Let us now look at the responsibilities of the business towards different groups.

- (a) Responsibility towards the shareholders or owners:** The shareholders or owners are those who invest their money in the business. They should be provided with a fair return on their investment. It has to be ensured that the rate of dividend is commensurable with the risk involved and the earnings made. Besides dividends, the shareholders also expect an appreciation in the value of shares. This is governed primarily by company's performance.
- (b) Responsibility towards the Employees:** A business enterprise must ensure a fair wage or salary to the workers based on the nature of work involved and the prevailing rates in the market. The working conditions must be good in respect of safety, medical facilities, canteen, housing, leave and retirement benefits etc.
- (c) Responsibility towards the Consumers:** A business enterprise must supply quality goods and services to the consumers at reasonable prices. It should avoid adulteration, poor packaging, misleading and dishonest advertising, and ensure proper arrangement for attending to customer complaints and grievances.

- (d) **Responsibility towards the Government:** A business enterprise must follow the guidelines of the government while setting up the business. It should conduct the business in lawful manner, pay the taxes honestly and on time. It should not indulge in any corrupt practices or unlawful activities.
- (e) **Responsibility towards the Community:** Every business is a part and parcel of our community. So it should contribute towards the general welfare of the community. It should preserve and promote social and cultural values, generate employment opportunity and contribute towards the upliftment of weaker sections of the society. It must take every step to protect the physical and ecological environment of the society. It should contribute to the community development programmes like public health care, sports, cultural programmes.

5. Discuss the recent development in Indian economy?

Ans: The economic environment of business in India has been changing at a fast rate mainly due to the changes in the economic policies of the government. At the time of independence, the Indian economy was basically agrarian with a weak industrial base. To speed up the industrial growth and solve various economic problems, the government took several steps like state ownership on certain categories of industries, economic planning, reduced role of private sector, etc. The Government adopted several control measures on the functioning of private sector enterprises. As a result, the government of India introduced a radical change in economic policies in 1991. Let us discuss the developments under three heads, viz., (a) Liberalisation, (b) Privatisation, and (c) Globalisation.

(A) Liberalisation

Liberalisation refers to the process of eliminating unnecessary controls and restrictions on the smooth functioning of business enterprises. It includes:

- (i) Abolishing industrial licensing requirement in most of the industries;
- (ii) Freedom in deciding the scale of business activities;
- (iii) Freedom in fixing prices of goods and services;
- (iv) Simplifying the procedure for imports and exports;
- (v) Reduction in tax rates; and
- (vi) Simplified policies to attract foreign capital and technology to India.

Through this liberalisation process, Indian Economy has opened up and started interacting with the world in a big way. This has resulted in easy entry of foreign business organizations in India. Ultimately, liberalization has helped us in achieving a high growth rate, easy availability of goods at competitive rates, a healthy and flourishing stock market, high foreign exchange reserve, low inflation rate, strong rupee, good industrial relations, etc.

(B) Privatisation

Privatisation refers to reducing the role of public sector by involving the private sectors in most activities. Due to the policy reforms announced in 1991, the expansion of public sector has literally come to a halt and the private sector registered fast growth in the postliberalised period. The issues of privatisation include:

- (i) reduction in the number of industries reserved for the public sector from 17 to 8 (reduced further to 3 later on) and the introduction of selective competition in the reserved area;
- (ii) disinvestment of shares of selected public sector industrial enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership in business;
- (iii) improvement in performance through an MoU system by which managements are to be granted greater autonomy but held accountable for specified results.

(C) Globalisation

Globalisation means ‘integrating’ the economy of a country with the world economy. This implies free flow of goods and services, capital, technology and labour across national boundaries. To achieve these objectives of globalisation, the government has adopted various measures such as reduction in custom duties, removal of quantitative restrictions or quotas on exports and imports, facilitating foreign investment and encouragement of foreign technology. These measures are expected to achieve a higher rate of growth, enlargement of employment potential, and reduction of regional disparities.

Short Answer Type Questions

1. How does demographic environment of business influence the business activities?

Ans: Features of Business Environment:

The features of business environment can be summarised as follows.

- (a) Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.
- (b) It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
- (c) The business environment is dynamic in nature, which means, it keeps on changing.
- (d) The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.
- (e) Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

3. What is meant by mixed economy?

Ans: Co-existence of public and private sectors.

4. What is meant by EXIM policy?

Ans: It aims at increasing exports and bridges the gap between export and import. Through this policy, the government announces various duties/ levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties

5. What is meant by the term ethics?

Ans: The word 'ethics' originated from the Greek word 'ethos' meaning character, conduct and activities of the people based on moral principles. It is concerned with what is right and what is wrong in human behaviour on the basis of standard behaviour or conduct accepted by the society. Honesty, truthfulness, compassion, sympathy, feeling of brotherhood etc. are considered ethical.

6. What is known as the loss of value of asset due to technological changes?

Ans: Depletion/Obsolescence

7. What type of business environment is the increased demand for new cloths during the festival season?

Ans: Social business environment

8. What is meant by encouraging the role of private sector by reducing the role of government sector in economic activities?

Ans: Privatisation

9. What is meant by reduction of government's share in public sector enterprises?

Ans: Dis-investment

10. What is meant by mixing one country's economy with world economy?

Ans: Globalization

11. What is the name of economic system in India?

Ans: Mixed economy.

4

LESSON

Modern Modes of Business

Introduction

You know that normally, to buy goods and services we visit the nearby market, to book the train tickets we go to the rail reservation counters, to make deposits and withdrawals of money we visit banks personally, and so on. But, now-a-days all these facilities are available at our doorstep. The Information and Communication Technology (ICT) has made it a reality. One of the major advantages that India gained due to globalisation has been our introduction to the world of technology. The Multinational Corporations (MNCs) got an opportunity to explode the Indian market with its modern science and technology. However, India took no time to adapt to the changing technology and emerged as a successful player in the world market. In addition to the technological revolution, another concept successfully introduced in the Indian market has been the 'Outsourcing of Services' or 'Business Process Outsourcing' (BPO). It has helped the business firms to concentrate on their core competencies. In this lesson we shall learn in details about all these modern modes of business.

Long Answer Type Questions

1. Define e-commerce and briefly discusses any four of its merits?

Ans: Commerce involves buying and selling and support services like transport, insurance, banking, communication etc. When all these activities are undertaken using information and communication technologies, it is termed as electronic commerce or e-commerce.

In other words, e-Commerce refers to the process of conducting business with the help of electronic devices using the computer and interconnected telecommunication network. Here, offer for sale and its acceptance are made electronically through internet. It does not require physical interaction between the parties concerned. It is also known as 'on-line trading', 'on-line shopping' and 'e-shopping'.

Benefits of E-commerce/E-business

The merits of e-Commerce/e-Business can be summarised as follows:

- (a) **Wider Accessibility:** With the help of a well-developed computerised networking system, the business units can operate at the national as well as the global level. The buyers and sellers from any part of the world can interact with each other. This helps in gaining exposure to new markets.
- (b) **Improved Customers Service:** E-Commerce enables a company to be open for business whenever a customer needs it. Up-to-date information about products can be offered on the web, making it easier and convenient for customers to select the best product. It also enables suppliers of goods and services to offer a wide range of services to the customers, before as well as after sale, and respond to customers' queries without any delay.
- (c) **Shortened Transaction Time:** An e-Business transaction takes much less time as compared to the normal process of buying and selling because the producers are able to cut short the distribution channels and establish direct contact with the consumers. It also enables a company to introduce a new product into the market, gain customers' reaction quickly, effect the necessary changes without incurring heavy cost and loss of time.
- (d) **Cost Saving and Low Prices:** There is a substantial cost saving in business transactions through e-commerce as there is hardly any display of goods involved and need for large stocks in godowns. The number of employees required is also limited. This helps in substantial savings in operational costs and offers products at lower prices to customers.
- (e) **Enlarge Business and Profits:** With e-commerce, the companies are able to approach a larger number and variety of customers and gain exposure to new markets. This enables them to enlarge their business volume and earn more profits.
- (f) **Convenience to Customers:** The customers also stand to gain by e-commerce in various ways. They have access to a large number of suppliers, enjoy a wider choice, and acquire quality products and services at competitive prices. They also receive prompt and efficient service and gain information about new products easily.

2. Explain any four new trends of banking services under the e-Banking mode.

Ans: The new trends in banking sector are as follows:

- (a) **Telebanking:** A customer is given a password number (known as T-PIN i.e., Telephonic personal identification number) through which he can have access to his/ her account over telephone and give instruction regarding withdrawal, issue of demand draft etc. The customer can also access his account and give instructions by using the mobile phone. Similarly, the bank can also keep on informing the customer regarding the various schemes, opportunities, last dates, etc. and attend to balance enquiries by the customers.

- (b) **Internet Banking:** This is another way a customer can have access to his account and give instructions. It makes the task of the customer easy as he can access his account anywhere, any time and any number of times. The customer simply uses a password number and gets the details of transactions sitting at home.
- (c) **ATM:** ATM, the acronym for Automated Teller Machine, is increasingly becoming popular in banking industry. ATM is a computerised machine used for most of the routine jobs of a bank. It is operated by a magnetic plastic card popularly known as ATM card. By inserting the ATM card in the machine and entering the PIN (Personal Identification Number) the customer can use it for withdrawals and deposits of money. The first ATM was installed in London by Barclays Bank in the year 1967. In India, HSBC installed its first ATM in 1987
- (d) **Debit Card:** A debit card is an electronic card that can be used conveniently while making payments. This card is issued to the customers of the bank having current or savings deposit account. The holder of this card can use this card at several outlets for purchase of goods and services. This card allows the holder to spend upto the balance available in his/her bank account.
- (e) **Credit Card:** Some banks issue credit cards to individuals who may or may not have an account with them. The cards are issued to individuals after verifying their credit worthiness. The individual can use those cards at various outlets to make payments. The customers get a credit period ranging from 10 to 55 days which varies from bank to bank and the nature of transactions made. The cardholder can also use his/her card to withdraw cash from ATMs.

3. What is meant by outsourcing of services? Explain its merits and demerits?

Ans: Outsourcing is a management strategy by which an organisation contracts out its major non-core functions to specialised service providers with a view to benefit from their expertise, efficiency and cost effectiveness, and allow managers to concentrate on their core activities.

Merits of Outsourcing of Services

- (a) It provides an opportunity to the organisation to concentrate on areas in which it has core competency or strength.
- (b) It helps better utilisation of its resources as the management can focus its attention on select activities and attain higher efficiency.
- (c) It helps the organisation to get an expert and specialised service at competitive prices leading to provision of improved service and reduction in costs.
- (d) It enables expansion of business as resources saved from outsourcing can be used for expanding the production capacity and the product line and seek new markets.
- (e) Apart from financial returns, it facilitates inter-organisational knowledge sharing and collaborative learning.

Limitations of Outsourcing of Services

- (a) It may be opposed by labour unions who feel threatened by possible reduction in their strength and prospects.
- (b) It reduces confidentiality as outsourcing involves sharing a lot of information with others. This implies a possibility of its communication to the competitors by such persons.
- (c) Globalised outsourcing at times causes resentment in the manpower of the home countries who feel threatened by increased competition.
- (d) The organisation hiring others may face the problem of loss of managerial control because it is more difficult to manage outside service providers than managing one's own employees.

In view of the above limitations of outsourcing, it becomes necessary for the outsourcing company to take the necessary preventive steps, remain in constant touch with the service provider, and maintain control of the outsourced operations.

Short Answer Type Questions

1. State any four uses of internet in our daily life.

Ans: The Internet, sometimes called simply the 'net', is a worldwide system of computer network through which the users at any computer can access the information from other computers. It provides information regarding science and technology, history, politics, sports, business, current events, music, entertainment, news and many more topics. It helps the users in the following ways:

- (a) Browse the information on any topic through the World Wide Web (www).
- (b) Read news available from leading newspapers and television channels.
- (c) Exchange messages using e-mail.
- (d) Search databases of government, individuals and private organisations.
- (e) Transfer files, pictures, animations etc.
- (f) Communicate with others by chatting or talking to them personally when both of them are connected to the internet.
- (g) Browse and search the catalogues of goods and services and purchase items on-line.
- (h) Set up a website with information about products and services of your organisation.

2. Describe the different types of e-commerce

Ans: e-Commerce takes place between companies i.e., business to business (B2B), between companies and their customers (B2C), and customer to customer (C2C).

i. Business to Business

B2B refers to interactions between a manufacturer and a supplier of materials and services, or between a manufacturer and a wholesaler, or between a wholesaler and a retailer. A network of computers is used for making enquiries seeking or placing orders, communicating supply of goods, making payments, and so on.

ii. Business to Customer

B2C, as the name implies, have business firms (manufacturer or retailers) at one end and its consumers on the other. It enables a business firm to be in touch with its customers on round the clock basis. It involves a wide range of marketing activities including promotion, seeking orders, intimating supply and so on.

iii. Costumer to Customer

C2C usually involves consumers at both ends dealing in goods for which there is no established market mechanism as is the case with used books and household equipments.

3. Mention any four limitations of ‘e-commerce’.

Ans: A few limitations of e-Business/e-Commerce are:

- (a) It lacks personal touch with customers, which makes it unsuitable for items such as clothes, jewellery, etc.
- (b) The web can provide a good picture, a detailed description of the product, but the customer cannot actually see, feel or try on the goods he/she is buying.
- (c) The transaction can be finalized quickly, but physical delivery of goods often takes long time and be delayed. This leads to a lot of inconvenience for the customers.
- (d) Return of faulty goods bought on-line may often be more problematic and a time consuming exercise.
- (e) Shopping through internet is not the same experience as a shopping expedition with family or friends. It is not suitable for non-routine buying where one is usually guided by advice of friends and family members.
- (f) Online transactions are prone to a number of risks that can result into financial, reputational or psychological losses to the parties involved in a transaction. Moreover, the privacy of personal details and security of financial transactions are a concern for many users.

4. Describe the transaction process of ‘e-commerce’.

Ans: As with any trading processes, the on-line transactions involve the following stages:

- (a) **Search:** For making a purchase, the prospective customer has to find an appropriate vender by using various web sites, either directly or through a search engine.

- (b) **Order:** Once the vendor has been found and goods are identified, the customer makes contact and negotiates the terms. When satisfied, the customer proceeds to the checkout that involves filling up a registration form to have an account with a password. Thereafter, he can place the order for the items put by him in his virtual shopping cart, an on-line record of what has been picked up while browsing the on-line store.
- (c) **Payment:** The normal way for paying on-line purchases is by the credit card. The customer enters the credit card numbers, expiry date and billing address on the order form, and the vendor can verify the details. Debit cards, or store's value cards can also be used for the purpose. Alternatively, payments can be made by cheques sent by post.
- (d) **Delivery:** Once the payment is made or is assured, the vendor arranges for delivery of goods as per instructions of the buyer.
- (e) **After Sales Service:** In any transaction, there can be problems like damaged or faulty goods. The e-vendors have to make the necessary arrangements for attending to such complaints and services.

5. State any two precautions one should take while making on-line transactions.

Ans: There are numerous threats to the security of e-commerce from the customer's side as well as the vendor's side. The following steps are usually taken to ensure security in online transactions.

- (a) **Passwords:** In on-line shopping, one has to register with the on-line vendor to have an account with him. This provides for a password to avoid login by an unauthorized person.
- (b) **Authentication:** Sender of the message must be identified precisely using the off-line validation, if necessary. This avoids any possibility of fraud or misuse of the password.
- (c) **Encryption:** It refers to the conversion of data into a code so that it cannot be read by other users. The data is converted into the code by the sender and then decoded by the receiver. For this purpose, they use an encryption algorithm and binary numbers. The other alternative is the private (secret) key system.
- (d) **Digital Signatures:** A digital signature may be used to authenticate the sender of the message and check the integrity of the message so that no alteration takes place in transit.
- (e) **Trusted Third Parties:** Another way to ensure security is to transmit a copy of the transaction to a third party trusted by both sides and where the record of the transaction could be used to settle any dispute.

6. Mention any two features of outsourcing of services?

Ans: The information technology (IT) is one area in which this approach is growing fast, and in recent years, outsourcing the operation of IT systems has been supplemented by a move to outsourcing the whole business processes such as payroll processing, cheque processing, etc. This is known as Business Process Outsourcing (BPO).

Features of Outsourcing of Services

The basic features of outsourcing of services are:

- (a) It involves contracting out an activity to an outside specialised agency which takes complete responsibility to handle it effectively using its own manpower.
- (b) Normally outsourcing is done in case of non-core activities such as housekeeping, security, etc. But, of late, it has been extended even to some of the core activities.
- (c) There are two main forms of outsourcing the business processes;
 - (i) Outsourcing to a third party, and
 - (ii) Outsourcing to its own subsidiary company specially formed to handle a specific activity.

7. What is e-Business?

Ans: Normally, one may use the terms 'e-Commerce' and 'e-Business' interchangeably. But, in practice, the term e-Business is used in a broader sense. The e-Business covers not only the interaction with its customers and suppliers but also interactions and dealings among various departments and persons within the firm. Thus, e-Business is a wider term which includes e-commerce and other electronically conducted business functions like production, accounting, finance, personnel, administration etc. In other words, e-Business includes not only B2B, B2C, and C2C but also Intra-B Commerce i.e., interaction and dealings among various departments and persons within the firm.

8. What is the meaning of e-Post?

Ans: e-Post is a service under which printed or even handwritten messages are transmitted as email on internet. At the destination post offices, these messages are printed, enveloped and delivered through the postman like other letters. For this purpose, e-Post centres have been set up in the post offices in all districts and major towns.

9. What do you understand by the term e-ticketing?

Ans: Purchasing tickets has become so easy now that you can make railway reservations sitting at home or even while you are on the move. If you have access to internet you can have all the details of railway information and accordingly you can book a ticket. You have to make payment through credit cards/debit cards for on-line booking of tickets. You can also buy air tickets through similar methods.

10. When do you called the internet as internet?

Ans: 1979

11. What is the other name of e-commerce?

Ans: e-shopping, or online-shopping

12. What is known as “Translating into code language in order to avoid others to read”?

Ans: Encryption

13. What is ATM?

Ans: Automated teller machine

14. When and where the ATM was started first?

Ans: Barclay’s road, London in 1967

15. Which card is used to make payments?

Ans: Debit card

16. Which card is issued by the banks based on economic status of individuals/customers?

Ans: Credit card

17. Which card is used to spend money even though there is no balance in the bank account?

Ans: Credit card

18. Which machine is used to withdraw the money from our bank account whenever it is needed?

Ans: ATM

19. What is the facility that can be used by the customer to book through telephone?

Ans: Tele banking

20. Which is the convenient method to link the bank accounts whenever and wherever it is needed?

Ans: Internet banking

21. What is known as sending of written or printed material over internet through e-mail?

Ans: E-posting

5

LESSON

Forms of Business Organization

Introduction

You have studied in the first lesson about the business, its significance and the classification of business activities. You are also aware that these activities are carried out by individuals in an organised form of a business house having different patterns of ownership and management. A single individual may own the business or a number of individuals may come together to own the business jointly. So, based on ownership, we have different forms of business organisation like a proprietary concern, a partnership firm or a company. In this lesson, you will learn about the various forms of business organization (excluding a joint stock company), their characteristics, merits and limitations, suitability and the steps involved in their formation.

Long Answer Type Questions

1. What is meant by sole proprietorship? State its merits and demerits.

Ans: Sole Proprietorship' form of business organization refers to a business enterprise exclusively owned, managed and controlled by a single person with all authority, responsibility and risk.

“A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business.”- J.L. Hanson.

Merits of Sole Proprietorship form of Business Organisation

- (a) **Easy to Form and Wind-up:** It is very easy and simple to form a sole proprietorship form of business organisation. No legal formalities are required to be observed. Similarly, the business can be wind up any time if the proprietor so decides.
- (b) **Quick Decision and Prompt Action:** Nobody interferes in the affairs of the sole proprietary organisation. So he/she can take quick decisions on the various issues relating to business and accordingly prompt action can be taken.

- (c) **Direct Motivation:** In sole proprietorship form of business organizations, the entire profit of the business goes to the owner. This motivates the proprietor to work hard and run the business efficiently.
- (d) **Flexibility in Operation:** It is very easy to effect changes as per the requirements of the business. The expansion or curtailment of business activities does not require many formalities as in the case of other forms of business organisation.
- (e) **Maintenance of Business Secrets:** The business secrets are known only to the proprietor. He is not required to disclose any information to others unless and until he himself so decides. He is also not bound to publish his business accounts.
- (f) **Personal Touch:** Since the proprietor himself handles everything relating to business, it is easy to maintain a good personal contact with the customers and employees. By knowing the likes, dislikes and tastes of the customers, the proprietor can adjust his operations accordingly. Similarly, as the employees are few and work directly under the proprietor, it helps in maintaining a harmonious relationship with them, and run the business smoothly.

Limitations of Sole Proprietorship

- (a) **Limited Resources:** The resources of a sole proprietor are always limited. Being the single owner it is not always possible to arrange sufficient funds from his own sources. Again borrowing funds from friends and relatives or from banks has its own implications. So, the proprietor has a limited capacity to raise funds for his business.
- (b) **Lack of Continuity:** The continuity of the business is linked with the life of the proprietor. Illness, death or insolvency of the proprietor can lead to closure of the business. Thus, the continuity of business is uncertain.
- (c) **Unlimited Liability:** There is no separate entity of the business from its owner. In the eyes of law the proprietor and the business are one and the same. So personal properties of the owner can also be used to meet the business obligations and debts.
- (d) **Not Suitable for Large Scale Operations:** Since the resources and the managerial ability is limited, sole proprietorship form of business organisation is not suitable for large-scale business.
- (e) **Limited Managerial Expertise:** A sole proprietorship form of business organization always suffers from lack of managerial expertise. A single person may not be an expert in all fields like, purchasing, selling, financing etc.

2. Define partnership and state any three of its features?

Ans: 'Partnership' is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business, and share its profit. The persons who form a partnership are individually known as partners and collectively a firm or partnership firm.

The Indian Partnership Act, 1932 which defines partnership as “the relation between persons who have agreed to share the profits of the business carried on by all or any of them acting for all”.

Characteristics of Partnership Form of Business Organisation

Based on the definition of partnership as given above, the various characteristics of partnership form of business organisation, can be summarised as follows:

- (a) **Two or More Persons:** To form a partnership firm atleast two persons are required. The maximum limit on the number of persons is ten for banking business and 20 for other businesses. If the number exceeds the above limit, the partnership becomes illegal and the relationship among them cannot be called partnership.
- (b) **Contractual Relationship:** Partnership is created by an agreement among the persons who have agreed to join hands. Such persons must be competent to contract. Thus, minors, lunatics and insolvent persons are not eligible to become the partners. However, a minor can be admitted to the benefits of partnership firm i.e., he can have share in the profits without any obligation for losses.
- (c) **Sharing Profits and Business:** There must be an agreement among the partners to share the profits and losses of the business of the partnership firm.
- (d) **Existence of Lawful Business:** The business of which the persons have agreed to share the profit must be lawful. Any agreement to indulge in smuggling, black marketing etc. cannot be called partnership business in the eyes of law.
- (e) **Principal Agent Relationship:** There must be an agency relationship between the partners. Every partner is the principal as well as the agent of the firm. When a partner deals with other parties he/she acts as an agent of other partners, and at the same time the other partners become the principal.
- (f) **Unlimited Liability:** The partners of the firm have unlimited liability. They are jointly as well as individually liable for the debts and obligations of the firms. If the assets of the firm are insufficient to meet the firm’s liabilities, the personal properties of the partners can also be utilized for this purpose. However, the liability of a minor partner is limited to the extent of his share in the profits.
- (g) **Voluntary Registration:** The registration of partnership firm is not compulsory. But an unregistered firm suffers from some limitations which makes it virtually compulsory to be registered.

3. Discuss any three merits and demerits of partnership firm of business organization?

Ans: **Merits of Partnership**

- (a) **Easy to Form:** A partnership can be formed easily without many legal formalities. Since it is not compulsory to get the firm registered, a simple agreement, either in oral, writing or implied is sufficient to create a partnership firm.

- (b) **Availability of Larger Resources:** Since two or more partners join hands to start partnership firm it may be possible to pool more resources as compared to sole proprietorship form of business organisation.
- (c) **Better Decisions:** In partnership firm each partner has a right to take part in the management of the business. All major decisions are taken in consultation with the consent of all partners. Thus, collective wisdom prevails and there is less scope for reckless and hasty decisions.
- (d) **Flexibility:** The partnership firm is a flexible organisation. At any time the partners can decide to change the size or nature of business or area of its operation after taking the necessary consent of all the partners.
- (e) **Sharing of Risks:** The losses of the firm are shared by all the partners equally or as per the agreed ratio.
- (f) **Keen Interest:** Since partners share the profit and bear the losses, they take keen interest in the affairs of the business.
- (g) **Benefits of Specialisation:** All partners actively participate in the business as per their specialisation and knowledge. In a partnership firm providing legal consultancy to people, one partner may deal with civil cases, one in criminal cases, another in labour cases and so on as per their area of specialisation.
- (h) **Protection of Interest:** In partnership form of business organisation, the rights of each partner and his/her interests are fully protected. If a partner is dissatisfied with any decision, he can ask for dissolution of the firm or can withdraw from the partnership.
- (i) **Secrecy:** Business secrets of the firm are only known to the partners. It is not required to disclose any information to the outsiders. It is also not mandatory to publish the annual accounts of the firm.

Limitations of Partnership Form of Business Organisation

A partnership firm also suffers from certain limitations. These are as follows:

- (a) **Unlimited Liability:** The most important drawback of partnership firm is that the liability of the partners is unlimited i.e., the partners are personally liable for the debt and obligations of the firm. In other words, their personal property can also be utilized for payment of firm's liabilities.
- (b) **Instability:** Every partnership firm has uncertain life. The death, insolvency, incapacity or the retirement of any partner brings the firm to an end. Not only that any dissenting partner can give notice at any time for dissolution of partnership.
- (c) **Limited Capital:** Since the total number of partners cannot exceed 20, the capacity to raise funds remains limited as compared to a joint stock company where there is no limit on the number of share holders.

- (d) **Non-transferability of share:** The share of interest of any partner cannot be transferred to other partners or to the outsiders. So it creates inconvenience for the partner who wants to transfer his share to others fully and partly.
- (e) **Possibility of Conflicts:** In partnership firm every partner has an equal right to participate in the management. Also every partner can place his or her opinion or viewpoint before the management regarding any matter at any time. Because of this, sometimes there is friction and quarrel among the partners.

4. What is a Joint Hindu Family (HUF) business? Describe its main characteristics?

Ans: HUF is a unique form of business organisation that prevails only in India and that too among the Hindus. The Joint Hindu Family (JHF) business is a form of business organisation run by HUF, where the family members of three successive generations own the business jointly. The head of the family known as Karta manages the business. The other members are called co-parceners.

Characteristics of JHF Form of Business Organisation

The Joint Hindu family business has certain special characteristics which are as follows:

- (a) **Formation:** In JHF business there must be at least two members in the family, and family should have some ancestral property. It is not created by an agreement but by operation of law.
- (b) **Legal Status:** The JHF business is a jointly owned business. It is governed by the Hindu Succession Act, 1956.
- (c) **Membership:** In JHF business outsiders are not allowed to become the coparcener. Only the members of undivided family acquire co-parcenership rights by birth.
- (d) **Profit Sharing:** All coparceners have equal share in the profits of the business.
- (e) **Management:** The business is managed by the senior most member of the family known as Karta. Other members do not have the right to participate in the management.
- (f) **Liability:** The liability of coparceners is limited to the extent of their share in the business. But the Karta has an unlimited liability. His personal property can also be utilised to meet the business liability.
- (g) **Continuity:** Death of any coparceners does not affect the continuity of business. Even on the death of the Karta, it continues to exist as the eldest of the coparceners takes position of Karta.

5. Explain the various merits and demerits of a Joint Hindu Family form of business organisation.

Ans: Joint Hindu Family business has the following merits.

- (a) **Assured Shares in Profits:** Every coparcener is assured of an equal share in the profits irrespective of his participation in the running of the business. This safeguards the interest of minor, sick, physically and mentally challenged coparceners.

- (b) **Quick Decision:** The Karta enjoys full freedom in managing the business. It enables him to take quick decisions without any interference.
- (c) **Sharing of Knowledge and Experience:** A JHF business provides opportunity for the young members of the family to get the benefits of knowledge and experience of the elder members. It also helps in inculcating virtues like discipline, self-sacrifice, tolerance etc.
- (d) **Limited Liability of Members:** The liability of the coparceners except the Karta is limited to the extent of his share in the business. This enables the members to run the business freely just by following the instructions or direction of the Karta.
- (e) **Unlimited Liability of the Karta:** Because of the unlimited liability of the Karta, his personal properties are at stake in case the business fails to pay the creditors. This clause of JHF business makes the Karta to manage business most carefully and efficiently.
- (f) **Continued Existence:** The death or insolvency of any member does not affect the continuity of the business. So it can continue for a long period of time.
- (g) **Tax Benefits:** HUF is regarded as an independent assessee for tax purposes. The share of coparceners is not to be included in their individual income for tax purposes.

Limitation of JHF Form of Business Organisation

- (a) **Limited Resources:** JHF business has generally limited financial and managerial resource. Therefore, it is not considered suitable for large business.
- (b) **Lack of Motivation:** The coparceners get equal share in the profits of the business irrespective of their participation. So generally they are not motivated to put in their best.
- (c) **Scope for Misuse of Power:** Since the Karta has absolute freedom to manage the business, there is scope for him to misuse it for his personal gains. Moreover, he may have his own limitations.
- (d) **Instability:** The continuity of JHF business is always under threat. A small rift within the family may lead to seeking partition.

6. Give the definition of cooperative society as per the Indian Cooperative Societies Act 1912. State any three characteristics of cooperative society form of business organisation?

Ans: The term cooperation is derived from the Latin word 'co-operari', where the word 'Co' means 'with' and 'operari' mean 'to work'. Thus, the term cooperation means working together. So those who want to work together with some common economic objectives can form a society, which is termed as cooperative society.

The Section 4 of the Indian Cooperative Societies Act 1912 defines Cooperative Society as "a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles."

Characteristics of Cooperative Society

Based on the above definition we can identify the following characteristics of cooperative society form of business organisation:

- (a) **Voluntary Association:** Members join the cooperative society voluntarily i.e., by their own choice. Persons having common economic objective can join the society as and when they like, continue as long as they like and leave the society and when they want.
- (b) **Open Membership:** The membership is open to all those having a common economic interest. Any person can become a member irrespective of his/her caste, creed, religion, colour, sex etc.
- (c) **Number of Members:** A minimum of 10 members are required to form a cooperative society. In case of multi-state cooperative societies the minimum number of members should be 50 from each state in case the members are individuals.
- (d) **Registration of the Society:** In India, cooperative societies are registered under the Cooperative Societies Act 1912 or under the State Cooperative Societies Act. The Multi-state Cooperative Societies are registered under the Multi-state Cooperative Societies Act 2002. Once registered, the society becomes a separate legal entity.
- (e) **State Control:** Since registration of cooperative societies is compulsory, every cooperative society comes under the control and supervision of the government. The cooperative department keeps a watch on the functioning of the societies. Every society has to get its accounts audited from the cooperative department of the government.
- (f) **Capital:** The capital of the cooperative society is contributed by its members. Since, the members' contribution is very limited, it often depends on the loan from government and apex cooperative institutions or by way of grants and assistance from State and Central Government.
- (g) **Democratic Set Up:** The cooperative societies are managed in a democratic manner. Every member has a right to take part in the management of the society. The members of the managing committee are elected on the basis of one-man one-vote irrespective of the number of shares held by any member.
- (h) **Service Motive:** The primary objective of all cooperative societies is to provide services to its members.
- (i) **Return on Capital Investment:** The members get return on their capital investment in the form of dividend.
- (j) **Distribution of Surplus:** After giving a limited dividend to the members of the society, the surplus profit is distributed in the form of bonus, keeping aside a certain percentage as reserve and for general welfare of the society.

7. Discuss the merits of co-operative society?

Ans: The cooperative society is the only form of business organisation which gives utmost importance to its members rather than maximising its own profits. The merits of this form of business organization are summarized below.

- (a) **Easy to Form:** Any 10 adult members can voluntarily form an association get it registered with the Registrar of Cooperative Societies. The registration is very simple and it does not require much legal formalities.
- (b) **Limited Liability:** The liability of the members of the cooperative societies is limited upto their capital contribution. They are not personally liable for the debt of the society.
- (c) **Open Membership:** Any competent like-minded person can join the cooperative society any time he likes. There is no restriction on the grounds of caste, creed, gender, colour etc. The time of entry and exit is also generally kept open.
- (d) **State Assistance:** The need for country's growth has necessitated the growth of the economic status of the weaker sections. Therefore, cooperative societies always get assistance in the forms of loans, grants, subsidies etc. from the state as well as Central Government.
- (e) **Stable Life:** The cooperative society enjoys the benefit of perpetual succession. The death, resignation, insolvency of any member does not affect the existence of the society because of its separate legal entity.
- (f) **Tax Concession:** To encourage people to form co-operative societies the government generally provides tax concessions and exemptions, which keep on changing from time to time.
- (g) **Democratic Management:** The cooperative societies are managed by the Managing Committee, which is elected by the members. The members decide their own rules and regulations within the limits set by the law.

Short Answer Type Questions

1. State the features of sole-proprietorship form of business organization?

Ans: The main characteristics of sole-trading concern are as follows:

- (a) **Single Ownership:** The sole proprietorship form of business organisation has a single owner who himself/herself starts the business by bringing together all the resources.
- (b) **No Separation of Ownership and Management:** The owner himself/herself manages the business as per his/her own skill and intelligence. There is no separation of ownership and management as is the case with company form of business organisation.
- (c) **Less Legal Formalities:** The formation and operation of a sole proprietorship form of business organisation does not involve any legal formalities. Thus, its formation is quite easy and simple.

- (d) **No Separate Entity:** The business unit does not have an entity separate from the owner. The businessman and the business enterprise are one and the same, and the businessman is responsible for everything that happens in his business unit.
- (e) **No Sharing of Profit and Loss:** The sole proprietor enjoys the profits alone. At the same time, the entire loss is also borne by him. No other person is there to share the profits and losses of the business. He alone bears the risks and reaps the profits.
- (f) **Unlimited Liability:** The liability of the sole proprietor is unlimited. In case of loss, if his business assets are not enough to pay the business liabilities, his personal property can also be utilised to pay off the liabilities of the business.
- (g) **One-man Control:** The controlling power of the sole proprietorship business always remains with the owner. He/she runs the business as per his/her own will.

2. Mention the different types of partners?

Ans: 'Partnership' is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business, and share its profit. The persons who form a partnership are individually known as partners and collectively a firm or partnership firm. Thus, depending upon the extent of participation and the sharing of profits, liability etc., partners can be classified into various categories. These are summarised here under.

- i. **Active partners:** The partners who actively participate in the day-to-day operations of the business are known as active partners or working partners.
- ii. **Sleeping partners:** The partners who do not participate in the day-to-day activities of the business are known as sleeping or dormant partners.
- iii. **Nominal partners:** Nominal partners allow the firm to use their name as partner. They neither invest any capital nor participate in the day-to-day operations. They are not entitled to share the profits of the firm. However, they are liable to third parties for all the acts of the firm.
- iv. **Partner by Estoppel:** A person, who behaves in the public in such a way as to give an impression that he/she is a partner of the firm, is called 'partner by estoppel'. Such partners are not entitled to share the profits of the firm, but are fully liable if somebody suffers because of his/her false representation.
- v. **Partner by Holding out:** If a partner or partnership firm declares that a particular person is a partner of their firm, and such a person does not disclaim it, then he/she is known as 'Partner by Holding out'. Such partners are not entitled to profits but are fully liable as regards the firm's debts.

3. What is meant by 'partnership deed'?

Ans: There must be an agreement among the partners to carry on the business and share the profits and losses. The agreement may be oral, written or implied. When is in writing and duly signed by

the all the partners, it is known as partnership deed. The agreement, i.e., the partnership deed must contain the following:

- (i) Name of the firm
- (ii) Nature of the business
- (iii) Names and addresses of partners
- (iv) Location of business
- (v) Duration of partnership, if decided
- (vi) Amount of capital to be contributed by each partner
- (vii) Profit and loss sharing ratio
- (viii) Duties, powers and obligations of partners.
- (ix) Salaries and withdrawals of the partners
- (x) Preparation of accounts and their auditing.
- (xi) Procedure for dissolution of the firm etc.
- (xii) Procedure for settlement of disputes

However, in the absence of an agreement, the provisions of the Indian Partnership Act, 1932 shall apply.

4. State the different types of cooperative societies that exist in India?

Ans: The cooperative organizations are set up in different fields to promote the economic well-being of different sections of the society. So, according to the needs of the people, we find different types of cooperative societies in India. Some of the important types are given below.

- (a) **Consumers' Cooperative Societies:** These societies are formed to protect the interest of consumers by making available consumer goods of high quality at reasonable price.
- (b) **Producer's Cooperative Societies:** These societies are formed to protect the interest of small producers and artisans by making available items of their need for production, like raw materials, tools and equipments etc.
- (c) **Marketing Cooperative Societies:** To solve the problem of marketing the products, small producers join hand to form marketing cooperative societies.
- (d) **Housing Cooperative Societies:** To provide residential houses to the members, housing cooperative societies are formed generally in urban areas.
- (e) **Farming Cooperative Societies:** These societies are formed by the small farmers to get the benefit of large-scale farming.
- (f) **Credit Cooperative Societies:** These societies are started by persons who are in need of credit. They accept deposits from the members and grant them loans at reasonable rate of interest.

5. State the necessity of the formation of the co-operative society?

Ans: A cooperative society can be formed as per the provisions of the Cooperative Societies Act, 1912, or under the Cooperative Societies Acts of the respective states. The various common requirements prescribed for registration of a cooperative society are as follows:

- (a) There must be at least 10 persons having common economic interest and must be capable of entering into contract. For multi-state cooperative societies at least 50 individual members from each state should be present.
- (b) A suitable name should be proposed for the society.
- (c) The draft bye-laws of the society should be prepared.
- (d) After completing the above formalities, the society should go for its registration.
- (e) For registration, application in prescribed form should be made to the Registrar of Cooperative Societies of the State in which the society is to be formed.
- (f) The application for registration shall be accompanied by four copies of the proposed bye-laws of the society.
- (g) The application must be signed by every member of the society.
- (h) After scrutinizing of the application and the bye-laws, the registrar issues the registration certificate.
- (i) The society can start its operation after getting the certificate of registration.

6. What is meant by business organization?

Ans: To carry out any business and achieve its objective of earning profit it is required to bring together all the resources and put them into action in a systematic way, and coordinate and control these activities properly. This arrangement is known as business organization.

7. Write the business activities suitable under partnership firm?

Ans: Business activities like construction, providing legal services, medical services etc. can be successfully run under this form of business organization. It is also considered suitable where capital requirement is of a medium size. Thus, business like a wholesale trade, professional services, mercantile houses and small manufacturing units can be successfully run by partnership firms.

8. Why should the liability of Karta be unlimited?

Ans: Because of the unlimited liability of the Karta, his personal properties are at stake in case the business fails to pay the creditors. This clause of JHF business makes the Karta to manage business most carefully and efficiently.

9. What is the liability of a sole trader?

Ans: Unlimited

10. How many numbers of partners will be there in a partnership firm?

Ans: 10

11. What kind of relation exists among the partners in partnership firm?

Ans: Principal-agent

12. What is needed among the partners to start partnership business?

Ans: Partnership deed

13. What is the liability of a minor partner in the partnership firm?

Ans: To the extent of his capital

14. State the partner who doesn't share the losses in partnership firm?

Ans: Minor partner

15. Who is head in Joint Hindu family?

Ans: Karta

16. Who are the other members of Joint Hindu family?

Ans: Co-parceners

17. How to procure membership in a Joint Hindu family?

Ans: By virtue of birth

18. What is the method of getting membership only by male members in a Joint Hindu family?

Ans: Mitakashara system of Hindu Law

19. In which states the Dayabhaga method is existed?

Ans: West Bengal, Assam

20. How many generations get the membership in a Joint Hindu family?

Ans: 3

21. How the profits are shared in a Joint Hindu family?

Ans: Equally

22. What is the liability of the head of Joint Hindu family?

Ans: Un-limited

23. What is the minimum and maximum number of members in a co-operative society?

Ans: Minimum-10, Maximum-unlimited

24. State the minimum number of members in a multiple state co-operative society?

Ans: 50

25. What is the liability of a member in a co-operative society?

Ans: Un-limited

26. Who organizes the co-operative societies?

Ans: Managing Committees

27. What type of co-operative societies is to be established to cater the needs of public?

Ans: Co-operative credit society

28. Under which Act the co-operative societies are to be registered in India?

Ans: Co-operative Societies Act, 1912.

6

LESSON

Company form of Business Organization

Introduction

You must be aware that during the second five-year plan period five steel plants were established in India's underdeveloped areas to give a boost to the industrialization of the country. Do you know who owns these steel plants? It is the Government of India. It has set up a Joint Stock Company known as Steel Authority of India Limited (SAIL) for this purpose. You must have also heard the names of State Bank of India (SBI), National Thermal Power Corporation (NTPC), Grasim Industries Limited (GIL), Reliance Industries Limited (RIL) and Tata Steel Limited. These are all big business units and organized in the form of Joint Stock Companies. In this lesson we shall learn in detail about the Joint Stock Company form of business organization.

Long Answer Type Questions

1. Explain any five advantages and limitations of Joint Stock Company.

Ans: A company is an artificial person created by a process of law, it has a perpetual succession and a common seal.

Merits:

A company form of business organization is very popular for undertaking big business. It has the following merits -

- (a) **Large Resources:** A joint stock company can raise large financial resources because of its large number of members and it can raise funds through debentures, public deposits, loans from financial institutions without much difficulty.
- (b) **Limited Liability:** In a joint stock company the liability of its members is limited to the extent of shares held by them.

- (c) **Continuity of Existence:** A company is an artificial person created by law and possesses independent legal status. It is not affected by the death, insolvency etc. of its members. Thus, it has a perpetual existence.
- (d) **Benefits of Large-scale Operation:** The joint stock company is the only form of business organisation which can provide capital for large-scale operations. It results in large-scale production consequently leading to increase in efficiency and reduction in the cost of operation. It further opens the scope for expansion.
- (e) **Liquidity:** The transferability of shares acts as an added incentive to investors as the shares of a public company can be traded easily in the stock exchange. The public can buy shares when they have money to invest and convert shares into cash when they need money.
- (f) **Professional Management:** Companies, because of the complex nature of their activities and large volume of business, require professional managers at every level of organisation. Because of the size of their business and the financial strength they can afford to appoint such managers. This leads to efficiency in management of their affairs.
- (g) **Research and Development:** A company generally invests a lot of money on research and development for improved processes of production, designing and innovating new products, improving quality of product, new ways of training its staff, etc.
- (h) **Tax Benefits:** Although the companies are required to pay tax at a high rate, in effect their tax burden is low as they enjoy many tax exemptions under Income Tax Act.

Limitations:

In spite of several merits of a joint stock company as discussed above, this form of business organization also suffers from many limitations. The important limitations are given below:

- (a) **Difficult to Form:** The formation of a company involves compliance with a number of legal formalities under the Companies Act and compliance with several other rules and regulations framed by the government from time to time.
- (b) **Control by a Group:** Theoretically a company is supposed to be managed by trained and experienced Directors. But practically this is not so in many cases.
- (c) **Excessive Government Control:** A company is expected to comply with the provisions of several Acts. Non-compliance with these, invites heavy penalty. This affects the smooth functioning of the companies.
- (d) **Delay in Decision Making:** A company has to fulfill certain procedural formalities before making certain decisions, as they require the approval of the Board of Directors and /or the General Body of shareholders. Such formalities are time consuming and therefore, some important decisions may be delayed.
- (e) **Lack of Secrecy:** It is difficult to maintain secrecy in many matters as they may require approval of board of directors and/or general body whose proceedings are usually open to public.

- (f) **Social abuses:** A joint stock company is a large-scale business organization having huge resources. This provides a lot of power to them. Any misuse of such power creates unhealthy conditions in the society e.g. influencing politicians and government in getting their work done; exploiting workers, consumers and investors, etc.

Short Answer Type Questions

1. Describe any five characteristics of Joint Stock Company.

Ans: The main features of a joint stock company are as follows:

- (a) **Artificial Person:** A joint stock company is an artificial person in the sense that it is created by law and does not possess physical attributes of a natural person. It cannot eat or walk, smile or marry, read or write. However, it has a legal status like a natural person.
- (b) **Common Seal:** Since a company has no physical existence, it must act through its Board of Directors. But all contracts entered by them shall have to be under the common seal of the company. This common seal is the official signature of the company. Any document with the common seal and duly signed by an officer of the company is binding on the company.
- (c) **Perpetual Existence:** The company enjoys continuous existence. Death, lunacy, insolvency or retirement of the members does not affect the life of the company. It goes on forever. Since it is created by law, it can only be dissolved by law.
- (d) **Limited Liability of Members:** The company form of business is able to attract large number of people to invest their money in shares because it offers them the facility of limited risk and liability. The liability of a member is limited to the extent of the amount of shares he holds. For example, if 'A' holds one share of Rs. 100 and has paid Rs. 75 on that share, his liability would be limited only upto Rs. 25.
- (e) **Transferability of Shares:** The members of the company (Public company) are free to transfer the shares held by them to others as and when they like. They do not need the consent of other shareholders to transfer their shares.

2. Explain any five advantages of Multinational Corporation for the host country?

Ans: A company registered in one country but carries on business in a number of other countries is known as multi-national company.

The Multinational Corporations enjoy several advantages by way of huge earnings due to large-scale production and distribution activities across national borders. Besides, the host countries in which the Multinational Corporations operate also derive a number of advantages. These are:

- (a) **Investment of Foreign Capital:** Direct investment of capital by Multinational Corporation helps under-developed countries to speed up their economic development.

- (b) **Generation of Employment:** Expansion of industrial and trading activities by Multinational Corporation leads to creation of employment opportunities and raising the standard of living in host countries.
- (c) **Use of Advanced Technology:** With substantial resources Multinational Corporation undertake Research and Development activities which contribute to improved methods and processes of production and thus, increase the quality of products. Gradually, other countries also acquire these technologies.
- (d) **Growth of Ancillary Units:** Suppliers of materials and services and ancillary industries often grow in host countries as a result of the operation of Multinational Corporation.
- (e) **Increase in Exports and Inflow of Foreign Exchange:** Goods produced in the host countries are sometimes exported by Multinational Corporation. Foreign exchange thus earned contributes to the foreign exchange reserves of host countries.
- (f) **Healthy Competition:** Efficient production of quality goods by multinational corporations prompt the domestic producers to improve their performance in order to survive in the market.

3. State the difference between partnership and Joint Stock Company.?

Ans:

Basis	Partnership	Joint Stock Company
Formation	It is easy to form, as registration is not compulsory.	It requires many legal formalities to be completed before the company comes into existence.
Operation	Governed by the Partnership Act, 1932.	Governed by the Companies Act, 1956.
Legal status	No separate legal entity	Separate legal entity from its members
Liability	Joint and several to an unlimited extent.	Limited to the face value of shares held.
Finance	Relatively limited scope for raising finance.	Vast and unlimited scope for raising finance.

4. State any five factors required to be considered while choosing the right form of business organization?

Ans: While selecting a form of business organisation, we analyse different factors and try to choose the most suitable form according to our financial and managerial capabilities. The following factors may be considered in selecting the right form of business organisation.

- (a) **Ease of formation:** A sole trader can commence and withdraw from business at any time at his own option. In partnership, mutual trust and faith is very much required. Company requires

many legal formalities for its formation. Sole proprietorship is therefore the easiest to form.

- (b) **Availability of Large Resources:** One-man business is the best in the world if the owner has enough resources and ability to manage. This statement shows that a single person is unable to undertake big business mainly because of limited resources and managerial ability. In partnership also the financial resources of partners are limited. Therefore, only a company can raise enough capital and hire expert knowledge required for the management of a big business.
- (c) **Liability or Risk:** The liability of members is unlimited both in sole proprietorship and partnership and limited in case of a company and cooperative societies. Since members hesitate to undertake big risk they prefer to invest in a company.
- (d) **Stability:** Stability is essential for the success of any business. The existence of a company and cooperative society does not depend on the health and wealth of its members. Sole proprietorship and partnership forms are dissolved but company form of an organisation continues irrespective of the death or insolvency of any of its members.
- (e) **Flexibility:** An ideal form of business must have flexibility in operations. Decisions must be taken quickly and implemented promptly for its functioning. Any rigidity in its functioning will not be beneficial for the survival and growth of a business.

5. Distinguish between a private and public company.?

Ans:

Basis	Private company	Public company
Minimum number of members	A minimum of two members is required for a private company.	A minimum of seven members is required for a public company.
Maximum number of members	The maximum number of members is 50.	There is no limit on maximum number of members.
Paid-up capital	It must have a minimum paid-up capital of Rs.100000/-	It must have a minimum paid-up capital of Rs.500000/-

6. State the suitability of joint stock company form of business organization?

Ans: A joint stock company is suitable where the volume of business is large, the area of operation is widespread, the risk involved is high and there is a need for huge financial resources and manpower. It is also preferred when there is need for professional management in its operations. In certain businesses like banking and insurance, joint stock company form is the most suitable.

7. Write the features of a private company?

Ans: Under the Companies Act, 1956, by 'Private Company' we mean a company, which has the following features –

- (a) It cannot have more than 50 members. Employees of the company are not included in this.
- (b) It cannot invite the public to purchase its shares and debentures through open invitation.
- (c) It restricts the rights of the members to sell or transfer their shares.
- (d) It must have a minimum paid up share capital of Rs.1,00,000.

8. What is meant by a share in a joint stock company?

Ans: The total capital of a company is divided into small parts, each part is known as a share.

9. What is meant by a company as per Companies Act 1956?

Ans: A company is an artificial person created by a process of law, it has a perpetual succession and a common seal.

10. What is meant by multinational companies?

Ans: A company registered in one country but carries on business in a number of other countries.

11. What is the difference between a public and private company in respect of commencement of business?

Ans: A private company can start its business immediately upon its incorporation. But, a public company can start its business only after obtaining a certificate from the Registrar of Companies.

12. How to determine the public company and a private company based on their names?

Ans: A private company must suffix 'Private Limited' to its name. But, a public company must suffix words 'Limited' to its name.

13. How can you say that a company is an artificial person?

Ans: It is created by a process of law. It does not have a physical existence.

14. State the features of a public company.

Ans: Artificial person, common seal, perpetual succession, limited liability, transferability of shares.

7

LESSON

Formation of Joint Stock Company

Introduction

Formation of a joint stock company involves a lengthy legal procedure. Its registration with the Registrar of Companies is obligatory, before it can commence its business. In this lesson you shall learn about the various stages involved in the formation of a Joint Stock Company and have an idea about the important documents that regulate its functioning.

Long Answer Type Questions

1. State the steps involved in promotion of a company.

Ans: The task of promotion usually involves the following four steps or phases.

1. Discovery of a business idea
2. Investigation and Verification
3. Assembling
4. Financing the Proposition

Let us know in detail about these steps.

1. Discovery of a Business Idea

The process of business promotion begins with conception of an idea of business opportunity. The idea may come from non-availability of any product to satisfy the existing need of people or inability of an existing product to satisfy the changing need of the people or a new invention that can create a new product.

2. Investigation and Verification

Once the idea has been conceived, a thorough investigation is made to establish the soundness of the proposition, taking into consideration its technical feasibility and commercial viability.

3. Assembling

Once the promoter is convinced of the feasibility and profitability of the proposition, he takes steps in assembling or making arrangements for all the necessary requirements such as land, building, machinery, tools, capital, etc. Decision is also to be made regarding size, location and layout etc. for the plant, and make contracts with suppliers for raw materials, enter into agreement with the dealers to purchase equipments, make agreement with bankers to finance and take initial steps for the setting up of a Company.

4. Financing the Proposition

At this stage, financial plans are prepared with respect to the amount of capital required, the nature of capital structure i.e., the proportion of capital to be raised from owners fund and that from borrowing from banks and others, and how and when to raise the share capital from the general public. Agreements are made with merchant bankers, underwriters and stock brokers who are to assist the capital issue and so on.

2. What is meant by Articles of Association? State its contents.

Ans: The Articles of Association (AoA) of a company contains the various rules and regulations for the day to day management of the company. These rules are also called the bye-laws. It covers various rights and powers of its members, duties of the management and the manner in which they can be changed. It defines the relationship between the company and its members and also among the members themselves. The rules given in the AoA must be in conformity with the Memorandum of Association.

Articles of Association of a company generally contain rules and regulations with regard to the following matters:

- (a) Preliminary contracts
- (b) Use and custody of common seal
- (c) Allotment, calls and lien on shares
- (d) Transfer and transmission of shares
- (e) Forfeiture and re-issue of shares
- (f) Alteration of share capital
- (g) Issue of share certificates and share warrants
- (h) Conversion of shares into stock
- (i) Procedure of holding and conducting company meetings
- (j) Voting rights and proxies of members

- (k) Qualification, appointment, remuneration and power of Directors
- (l) Borrowing powers and methods of raising loans
- (m) Payment of dividends and creation of reserves
- (n) Accounts and audit
- (o) Winding up.

A company can register its own Articles of Association or adopt Table A, which contains a model set of rules as given in the Schedule I of the Companies Act.

3. What is meant by Memorandum of Association? State its clauses.

Ans: The Memorandum of Association (MoA) is the principal document in the formation of a company. It is called the 'charter' of the company. It contains the fundamental conditions upon which the company is allowed to be incorporated or registered. It defines the limitations of the powers of the company. The purpose of memorandum is to enable the shareholders, creditors and those who deal with the company to know what its permitted range of activities or operations is. It defines the relationship of the company with the outside world.

Clauses

The Memorandum of Association usually contains the following six clauses:

- (a) **Name Clause:** It contains the name by which the company will be established.
- (b) **Situation Clause:** It contains the name of the state in which the registered office of the company is or will be situated.
- (c) **Objects Clause:** It contains detailed description of the objects and rights of the company, for which it is being established.
- (d) **Liability Clause:** It contains financial limit upto which the shareholders are liable to pay off to the outsiders on the event of the company being dissolved or closed down.
- (e) **Capital Clause:** It contains the proposed authorized capital of the company. It gives the classification of the authorized capital into various types of shares, (like equity and preference shares) with their numbers and nominal value.
- (f) **Subscription Clause:** It contains a declaration by persons who are desirous of being formed into and agree to subscribe to the number of shares mentioned against their names.

4. Define a prospectus and state its contents.

Ans: After getting the Certificate of Incorporation or Registration a public limited company invites the public to subscribe to its shares. This is done by issuing a document called 'prospectus.'

Under the Companies Act, a prospectus has been defined as "any document described or issued as a prospectus and includes any notice, circular, advertisement or other document, inviting

deposits from the public or inviting offers from the public for the subscription or purchase of shares or debentures of a company or body corporate”.

The prospectus usually contains the following information which is considered important for the prospective investors of shares and debentures of the company.

- (a) General information regarding the name, office of the company, stock exchange where shares are to be listed, date of opening and closing of the issue, credit rating information, name of underwriters, brokers and bankers.
- (b) Capital structure of the company.
- (c) Terms of payment and application procedure.
- (d) Company management and details of the project and project report.
- (e) Other listed companies under the same management.
- (f) Outstanding litigations and defaults.
- (g) Management perception of risk factors.

The prospectus must be prepared with great care because on the basis of its details the public subscribes to the capital of the company. No facts should be withheld in this. It must not contain even an idea of falsehood. It should contain only truth, complete truth and nothing but truth. The future schemes and bright futures of the company are presented through this.

5. Give the differences between memorandum of association and articles of association.?

Ans:

Basis	Memorandum of Association	Articles of Association
Subject matter	It contains aims and objectives of the company.	It contains rules for implementation of the aims and objectives contained in the Memorandum of Association
Relationship	It defines the relationship between the company and outsiders	Articles define the relationship between the company and its members.
Amendment	It is very difficult to amend the aims and other provisions.	The rules given in the Articles can be easily amended by a special resolution.
Limitations	The provision given in the Memorandum of Association cannot be outside the scope of the Companies Act.	The rules given in the Articles of Association can neither be outside the scope of the Companies Act nor of the Memorandum of Association.
Obligation	It is obligatory for a company to prepare and submit this document to the Registrar of Companies.	It is not obligatory to submit this document to the Registrar of Companies.

Short Answer Type Questions

1. As a promoter, how will you obtain certificate of commencement of business? Explain in brief?

Ans: In case of a private limited company, it can immediately start its business as soon as it is registered. However, in case of public limited company a certificate, known as 'certificate of commencement of business', must be obtained from the Registrar of Companies before starting its operation. For this purpose it has to file a statement with the following declarations to the Registrar of Companies.

- (a) That a prospectus has been filed with the Registrar of Companies.
- (b) That the shares have been allotted upto the amount of the minimum subscription.
- (c) That the Directors have taken up or purchased the minimum number of shares required to qualify them to be Director.
- (d) That no money is liable to become refundable to the applicants by reason of failure to obtain permission for shares to be traded in a recognised stock exchange.
- (e) A statutory declaration by a Director or the Secretary of the company stating that the requirements relating to the commencement of business have been duly complied with.

The Registrar of Companies will scrutinize all these documents and if he is satisfied that the process of securing the minimum prescribed capital has been done honestly and efficiently and the minimum prescribed capital has been obtained from the public, then he shall issue a Certificate of Commencement of Business.

2. Write about the important documents prepared while forming a company?

Ans: There are three basic documents, which are prepared and filed with the Registrar during the formation of a company. These are:

- 1. Memorandum of Association (MoA)
- 2. Articles of Association (AoA)
- 3. Prospectus

Out of these three documents, MoA and AoA are filed with the Registrar of Companies before the registration along with other supporting documents while asking for certificate of incorporation. The prospectus is issued to the public at the time of subscription to capital.

3. State the objectives of issue a prospectus.

Ans: The main objectives of issue of a prospectus are:

- (a) To inform the public about the company;
- (b) To induce people to invest in the shares or debentures of the company; and

(c) To provide an authentic information about the company and the terms and conditions of issue of shares and debentures.

4. What is meant by authorized capital of a company?

Ans: It contains the proposed authorised capital of the company. It gives the classification of the authorised capital into various types of shares, (like equity and preference shares) with their numbers and nominal value.

5. What are the stages in the formation of a joint stock company?

Ans: The formation of a company, right from the origin of idea to establish a company goes through four different stages, like:

Stage –I Promotion

Stage- II Incorporation

Stage- III Raising of Capital

Stage- IV Commencement of Business

6. Who is a promoter?

Ans: A promoter is a person or a group of persons who think of forming a company and take necessary steps for the same.

7. State the meaning of an entrepreneurial promoter?

Ans: Entrepreneurial promoter is people, who conceive new ideas of business, take necessary steps to set-up the business unit to give it a shape and ultimately control and manage it.

8

LESSON

PUBLIC SECTOR ENTERPRISES

Introduction

You have learnt about various forms of business organizations, which primarily relate to private enterprises. Traditionally, business activities were left mainly to individual and private organizations, and the government was taking care of only the essential services such as railways, electricity supply, postal services etc. But, it was observed that private sector did not take interest in areas where the gestation period was long, investment was heavy and the profit margin was low; such as machine building, infrastructure, oil exploration, etc. Not only that, industries were also concentrated in some regions that had certain natural advantages like availability of raw materials, skilled labour, nearness to market. This led to regional imbalances. Hence, the government while regulating the business activities of private enterprises went in for direct participation in business and set up public enterprises. In this chapter, you will learn about the nature and characteristics of public enterprises and the forms of their organization.

Long Answer Type Questions

1. What is meant by public sector enterprises? State in brief its features?

Ans: The business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings.

A public sector enterprise may be defined as any commercial or industrial undertaking owned and managed by the government with a view to maximize social welfare and uphold the public interest.

Public enterprises consist of nationalized private sector enterprises, such as, banks, life insurance corporation of India and the new enterprises set up by the government such as Hindustan Machine Tools (HMT), Gas Authority of India (GAIL), State Trading Corporation (STC) etc.

Features

Looking at the nature of the public enterprises their basic characteristics can be summarized as follows:

- (a) **Government Ownership and Management:** The government may either wholly own the public enterprises or the ownership may partly be with the government and partly with the private industrialists and the public. In any case the control, management and ownership remains primarily with the government. For example, National Thermal Power Corporation (NTPC), Oil and Natural Gas Corporation Ltd. (ONGC).
- (b) **Financed from Government Funds:** The public enterprises get their capital from Government Funds and the government has to make provision for their capital in its budget.
- (c) **Public Welfare:** Public enterprises are not guided by profit motive. Their major focus is on providing the service or commodity at reasonable prices. Take the case of Indian Oil Corporation or Gas Authority of India Limited (GAIL). They provide petroleum and gas at subsidised prices to the public.
- (d) **Public Utility Services:** Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication etc.
- (e) **Public Accountability:** Public enterprises are governed by public policies formulated by the government and are accountable to the legislature.
- (f) **Excessive Formalities:** The government rules and regulations force the public enterprises to observe excessive formalities in their operations. This makes the task of management very sensitive and cumbersome.

2. How are the public sector enterprises helping in the balanced development of the Indian economy and promoting public welfare in the country?

Ans: All enterprises in our country are not public enterprises. There is mixed economy in our country and the private as well as the public sector contribute to the development of our economy. However, there are only some selected areas in which the government establishes its enterprises for a balanced development of the economy and promote public welfare. There are several areas where huge investment of capital is necessary but the margin of profit is either meager or it can be obtained only after a long period as in case of generation and supply of electricity, machine building, construction of dams, etc. The private businessmen hesitate to establish their enterprises in these areas but they cannot be neglected in public interest. As such these enterprises are established and run by the government.

Industrial progress is of utmost importance for the development of the country and for this, it is necessary that some basic industries like oil, coal, gas, iron, steel, production of heavy electrical goods, etc., are to be fully developed. Public enterprises give impetus to the development of these basic industries and also help in the development of the private sector with their products and services.

The development of public enterprises also prevents concentration of economic power in the hands of an individual, or a group of individuals. Not only are that, in our country economic inequalities increasing. Poor are becoming poorer and the rich more rich. The public enterprises can help in reducing inequalities with the help of various policies like utilizing the earned profits in public welfare activities and by selling raw material to the small scale industries at lower prices.

It is also necessary for the economic progress of the country that industries which can decrease imports and increase exports are only promoted. Public enterprises also ensure promotion of such industries.

There is an old belief that the benefits derived from the nature should be made available to all without any distinction. The public enterprises ensure that land, oil, coal, gas, water, electricity and other necessary resources are made available to all at fair prices.

The security of the country is supreme. There should be no compromise in ensuring this. The production of fighter aeroplanes, arms and ammunition etc, connected with the security of the country is put under the domain of Public Enterprises for the purpose. Thus, public welfare planned economic development of the country, regional balance, import substitution and checking concentration of economic powers are the major goals achieved through public enterprises.

3. What is a Government Company? How is it different from Statutory Corporation? Give any five such distinctions?

Ans: Statutory Corporation (or public corporation) refers to a corporate body created by the Parliament or State Legislature by a special Act which defines its powers, functions and pattern of management. Statutory corporation is also known as public corporation. Its capital is wholly provided by the government. Examples of such organisations are Life Insurance Corporation of India, State Trading Corporation etc.

Government Company refers to the company in which 51 percent or more of the paid up capital is held by the government. It is registered under the Companies Act and is fully governed by the provisions of the Act. Most business units owned and managed by government fall in this category.

The differences between Statutory and Government Company are shown in the following table

Difference	Public/Statutory companies	Government companies
Establishment	By the Parliament under a special Act.	By a Ministry with or without private participation.
Legal status	Separate entity to sue and be sued.	Separate corporate existence.
Capital	Provided wholly by the government.	Part of it may be provided by private entrepreneurs.
Management	Board of Directors	Board of Directors may include private individuals.
Control and accountability	Parliament	Government (concerned Ministry)

4. Explain the merits of a Statutory Corporation over a Departmental Undertaking?

Ans: Statutory Corporation as a form of organisation for public enterprises has certain advantages that can be summarised as follows:

- (a) **Expert Management:** It has the advantages of both the departmental and private undertakings. These enterprises are run on business principles under the guidance of expert and experienced Directors.
- (b) **Internal Autonomy:** Government has no direct interference in the day-to-day management of these corporations. Decisions can be taken promptly without any hindrance. Questions may be asked about the working of departmental undertaking in the Parliament and the concerned Minister has to satisfy the public with his replies. As such they cannot take any step, which may harm the interest of any particular group of public.
- (c) **Responsible to Parliament:** Statutory organisations are responsible to Parliament. Their activities are watched by the press and the public. As such they have to maintain a high level of efficiency and accountability. Departmental undertakings are responsible to the public through Parliament.
- (d) **Flexibility:** As these are independent in matters of management and finance, they enjoy adequate flexibility in their operation. But departmental undertakings lack flexibility because its policies cannot be changed instantly.

5. Describe the role of public sector in Indian economy?

Ans: Public sector enterprises occupy an important place in the Indian economy. At the time of independence, the Indian economy was basically agrarian with a weak industrial base. There were very few public sector enterprises in our country. The Indian Railways, the Posts and Telegraphs, the Port Trust, Government Salt Factories were the prominent public sector enterprises. After getting independence, the government felt that if the country needs to speed up its economic growth, then state's intervention in all sectors of the economy is inevitable.

There is no doubt that public enterprises have played a significant role in the Indian economy. But the overall performance of most of the public sector enterprises is not satisfactory. The rate of return on capital investment is very low. To improve the performance of the public enterprise, Government of India has taken several measures. On 24 July 1991 the Government of India announced its Industrial policy to improve the performance and portfolio of public sector enterprises. The new economic policies also emphasised on liberalisation, privatisation and globalisation of Indian economy. The role of public sector was redefined. In July 1997, Government identified nine central public sector enterprises as 'Navaratnas'. They are BHEL, BPCL, GAIL, HPCL, IOC, MTNL, NTPC, ONGC, SAIL. These public sector enterprises have been given

autonomy for capital investment, to enter into joint ventures, to raise capital from domestic and international market etc. In October 1997, the Government granted enhanced autonomy and delegation of financial power to some other profit making public sector enterprises and categorised them as 'Miniratnas'. Presently there are 45 Miniratna Public Sector Enterprises functioning in India.

Short Answer Type Questions

1. Explain (a) Fulfillment of social objectives and (b) Control over economic activities as merits of Departmental Undertakings.

Ans:

- (a) **Fulfillment of Social Objectives:** The government has total control over these undertakings. As such it can fulfill its social and economic objectives. For example, opening of post offices in far off places, broadcasting and telecasting programmes, which may lead to the social, economic and intellectual development of the people, are the social objectives that the departmental undertakings try to fulfill.
- (b) **Control over Economic Activities:** It helps the government to exercise control over the specialised economic activities and can act as instrument of making social and economic policy.

2. Explain any two limitations of Statutory Corporations?

Ans:

- (a) **Government Interference:** It is true that the greatest advantage of statutory corporation is its independence and flexibility, but it is found only on paper. In reality, there is excessive government interference in most of the matters.
- (b) **Rigidity:** The amendments to their activities and rights can be made only by the Parliament. This results in several impediments in business of the corporations to respond to the changing conditions and take bold decisions.
- (c) **Ignoring Commercial Approach:** The statutory corporations usually face little competition and lack of motivation for good performance. Hence, they suffer from ignorance of commercial principles in managing their affairs.

3. Define public sector enterprises?

Ans: Any commercial or industrial undertaking owned and managed by the government with a view to maximize social welfare and uphold the public interest.

4. What is meant by statutory/public corporation?

Ans: It refers to a corporate body created by the Parliament or State Legislature by a special Act which defines its powers, functions and pattern of management. Statutory corporation is also known as public corporation.

5. What is the meaning of departmental organizations?

Ans: Departmental undertaking form of organization is primarily used for provision of essential services such as railways, postal services, broadcasting etc. Such organizations function under the overall control of a Ministry of the Government.

6. What is meant by a government company?

Ans: It refers to the company in which 51 per cent or more of the paid-up capital is held by the government. It is registered under the Companies Act.

7. Mention two important goals achieved by the government enterprises?

Ans: Balanced regional development, boost the basic industries of an economy.

8. State any four features of departmental stores?

Ans: The main features of departmental undertakings are as follows:

- (a) It is established by the government and its overall control rests with the Minister.
- (b) It is a part of the government and is managed like any other government department.
- (c) It is financed through government funds.
- (d) It is subject to budgetary, accounting and audit control.
- (e) Its policy is laid down by the government and it is accountable to the legislature.

9. Write any two differences between private sector and public sector

Ans:

Basis	Private sector	Public sector
Objective	Maximization of profit	Maximise social welfare and ensure balanced economic development
Ownership	Owned by individuals.	Owned by government.

9

LESSON

Entrepreneurship

Introduction

You learnt about the nature and scope of business and the various forms of business organizations. Having complete idea about these aspects if you plan to enter into the world of business you have to identify a suitable line, arrange the resources and utilize them in the best possible manner for the business. Of course this involves risk at every step in your venture. The person who takes the risk and organizes the resources is called as entrepreneur and what he does is termed as entrepreneurship.

Long Answer Type Questions

1. Write about different types of entrepreneurs.

Ans: 'Entrepreneur' is the person who establishes the business with necessary capital and labour and organizes the same in an efficient manner.

Types of Entrepreneurs

Trading entrepreneurs: These are the entrepreneurs who bring products from the production place and sells in the market. They find the customer needs and wants and inform to the producer. Similarly they also inform about the changes that have been taken place in the market.

Industrial entrepreneur: He is a successful entrepreneur who succeeds in business by manufacturing the products with innovative methods based on his ideas, by facing risks and uncertainties.

Agriculture Entrepreneurs: In India there are so many agricultural scientists such as Sri J.P. Kurian, Dr. Swaminathan who are highly appreciable for their contribution towards new innovations in cultivation and high yielding crops.

Service Entrepreneurs: There are so many service entrepreneurs are there in our country. They are inspiring the people through their services.

Technology Sector: Satish Davan, Abdul Kalam, Infosys Narayana Murthy, Siva Nadar etc. are the persons who have contributed a lot for the technology development in the country.

In addition to the above, there are many people who have served for the development of certain geographical areas. Politicians, social leaders who have done a lot for the development of these areas in India. These people are called urban entrepreneurs or rural entrepreneurs. There are also gender entrepreneurs. That means there are male and female entrepreneurs in all the sectors in India.

2. **Describe any five qualities that a person should possess to be a successful entrepreneur. (OR) Padmavamsee comes from a family of weavers who have been working on a small scale on their handloom. She dreams of turning the family vocation into a world-wide business. To start and set up a business enterprise in this field what are the factors she should consider?**

Ans: The Indian business has seen great successful entrepreneurs like Tatas, Birlas, Modi, Dalmia and many more who came up recently such as Ambanis, Mittals, Jindals, etc. The question is what makes an entrepreneur successful? Did they all have certain common qualities?

The answer is, they all had certain prominent qualities which can be summarised as follows.

- (a) **Initiative:** An entrepreneur must have an innovative aptitude, pick the right opportunity, and initiate action. Hence, the ability of an entrepreneur to take initiative is the key to the success of the venture to a great extent.
- (b) **Wide Knowledge:** An entrepreneur should have wide knowledge of the economic and non-economic environment of business like the market, consumer attitudes, technology, etc.
- (c) **Willingness to assume risk:** Entering any venture is full of risks and uncertainties. In order to deal with various kinds of risks and uncertainties efficiently, the entrepreneur should have willingness and necessary foresightedness to assume risks.
- (d) **Open mind and optimistic outlook:** An entrepreneur should have an open mind. He/she must possess a dynamic and optimistic outlook so as to predict changes in the business environment and respond effectively without delay.
- (e) **Adaptability:** The entrepreneur must understand the ground realities of the business environment. He/she should be prepared to adapt to the changes taking place in the system. Any resistance to change and delay in responding thereto shall lead to losing the opportunity of taking advantage thereof.
- (f) **Self-confidence:** For achieving success in life, one should have confidence in himself/herself. A person who lacks confidence can neither do any work himself/herself nor inspire others to work. Self-confidence is reflected in courage, enthusiasm and the ability to lead.
- (g) **Leadership Qualities:** An entrepreneur should possess the qualities of a good leader. He/she should have the traits of self-discipline, presence of mind, sense of justice, honour and dignity and above all, a high moral character.

3. What are the important functions performed by entrepreneurs, after conception of a business idea?

Ans: The functions of an entrepreneur can be summarized as follows.

- (a) **Conception of an idea:** An entrepreneur is the person with a creative mind who can identify business opportunities and take steps for the conversion of ideas into successful business ventures, and give them a concrete shape.
- (b) **Promotion:** In fact, promotion may be undertaken for setting up a new business, small or large expansion of an existing business or for combining two or more business firms. As a promoter, the entrepreneur has to conduct feasibility studies, decide to the form of organisation, assemble the required funds and people, and give a concrete shape to the business proposition.
- (c) **Innovation:** An entrepreneur is also seen as an innovator who tries to develop new technology, products and markets. The entrepreneur uses his creative abilities to do new things and exploit opportunities in the market.
- (d) **Bearer of risks and uncertainty:** Starting of a new business venture involves good amount of risk and uncertainty. To start with, it is the entrepreneur who assumes risks and is prepared for the losses that may arise because of unforeseen situations in future. In fact, it is his willingness to take risks that helps him to take initiatives in doing new things or trying new methods of production.
- (e) **Arranging necessary capital:** Arranging funds is one of the biggest hurdles in setting up a new entrepreneur. It is he who has to provide the initial capital (otherwise known as 'risk capital' or 'seed capital') for starting the ventures and then make the necessary arrangements for raising additional funds required to carry on and expand the business.
- (f) **Staffing:** An entrepreneur has to design the organisational structure and recruit suitable persons for various positions. He also makes an estimate for skilled and unskilled workers required and makes arrangements for their recruitment.

4. "A person who is having sufficient money can become a successful entrepreneur" – Do you agree with this statement? Give reason in support of your answer.

Ans: Entrepreneurship is creative and innovative process which builds new businesses. But a person who is having money can become a successful entrepreneur is a doubtful statement. Because many entrepreneurs were not having money or property.

For example, Mr. Chaterjee is an ordinary graduate from Kolkata University. Actually the residents of Kolkata are very busy with their day-to-day work, they do not have even time to clean their houses. By taking this as an opportunity, Mr. Chaterjee purchased a vacume cleaner by investing Rs. 3000. With that he started cleaning houses in Kolkata by taking money. Now he became big business man in Kolkata.

Dr. Karsan Bhai Patel is the owner of Nirma Limited. In 1980s he used to sell surf by going into the streets. Now he became owner of the Nirma Company Limited.

If you take another example Late Sri G. Pulla Reddy was selling sweets on the roads on his bicycle. Now the quality sweets are “G. Pulla Reddy Sweets”.

Sri N. R. Narayana Murthy was an ordinary job holder. With the efforts of his wife and by himself he became a famous personality in the field of information technology. Mr. Steve Jobs who passed away recently established Apple Company in America. With his continuous efforts he created revolution in information technology.

Short Answer Type Questions

1. Explain about the three roles played by an entrepreneur.

Ans: Broadly speaking the entrepreneur plays three roles effectively.

Innovator: As an innovator entrepreneur introduces new products in the market, opening of new market and creates demand for the products.

Good Organiser: Entrepreneur is one who organizes and co-ordinates the factors of production i.e. land, labour and capital to develop the business.

Risk Bearer: By bearing the risks and uncertainties the entrepreneur successfully runs the business.

2. State the importance of Entrepreneurship in the economic development of a country.

Ans: It has been said that entrepreneurship is essential for economic development. In capitalistic economies, the entrepreneurs played an important role in their development. In socialist economies, the state played the role of the entrepreneur. But in a developing country like India which followed the path of mixed economy, both the government and the private entrepreneurs played an equally important role. Thus, entrepreneurship:

- (a) helps the formation of capital by bringing together the savings and investments of people;
- (b) provides large-scale employment opportunities and increases the purchasing power of the people;
- (c) promotes balanced regional development in the country;
- (d) helps in reducing concentration of economic power (power to own the factor of production in a few hands).

3. What are the objectives of Entrepreneurship Development Programmes (EDPs)?

Ans: The important objectives of EDPs are to:

- (a) develop and strengthen the quality of entrepreneurship;

- (b) select suitable products and formulate various feasible projects;
- (c) acquaint people with the process and procedure involved in setting and running a small enterprises;
- (d) train and prepare the entrepreneurs to face the challenges of business risk;
- (e) broaden the vision about business and help its growth within the parameters of law.

4. What problems do entrepreneurs face in ‘Selection of Business’ (OR) State the meaning of feasibility study or project report?

Ans: The entrepreneur might be having a very good business idea. However, successful implementation of the idea into business activity involves a painstaking exercise. First of all, he/she has to study the market to know whether the idea of products or services could be accepted by the market. For the purpose, the entrepreneur has to determine the market demands of the intended products/ services and carry out exercises to find out the projected costs of the product or services. In this way, the entrepreneur shall be able to know as to whether the venture is profitable or not. This systematic exercise is known as a ‘feasibility study’ and presented in the form of a report known as ‘Feasibility Report’ or ‘Project Report’.

5. Give a brief outline of entrepreneurial practices in India.

Ans: Financial institutions have helped towards proliferation of entrepreneurship in our country. Some of these financial institutions have also started providing venture capital to young and upcoming entrepreneurs. The sustained efforts of the government and financial institutions have started yielding results. The results are more prominent in the post liberalisation period (1990). Mr. N.R. Narayana Murthy of Infosys technologies and Mr. Shiv Nadar of HCL technologies are the best examples. However, a vast majority of entrepreneurs are engaged in tiny and small-scale units. The usual problems faced by such business establishments include shortage of material, capital and power, lack of training facilities, lack of quality control, inadequate marketing faculties and so on. The government has to address these problems permanently so that entrepreneurship in India could reach new heights.

6. Distinguish between entrepreneur and promoter

Ans: An entrepreneur is also known as the promoter as he also assembles the requisite funds and people undertakes the risk and gives a shape to the business proposition. However, in theory, there exists a fine distinction between the two. Those who visualize a business opportunity and are ready to bear the risk are termed as ‘entrepreneurs’ while those who take steps to set up the business and make it operational are known as promoter.

7. What is meant by entrepreneurship?

Ans: The term ‘entrepreneurship’ refers to the functions performed by an entrepreneur. It is the process involving various actions to be undertaken by the entrepreneur in establishing a new enterprise. In fact, what an entrepreneur does is regarded as entrepreneurship.

10

LESSON

Fundamentals of Management

Introduction

Let us take the example of a housewife. She is the person who manages all the household work. She decides upon a number of things like – how to decorate the house in terms of furniture, curtains, bed sheets, sofa covers, crockery, cooking utensils etc.; what type of food is to be served to family members, what shall be the timing of breakfast, lunch, dinner, etc.; and then arranges the requisite materials to prepare the food, hires a maid/ servant to assist household work on a part time or full time basis and looks after many other such work. She not only decides all these but ensures that all this work is carried out properly. For this purpose she does some work herself and may distribute certain work among the family members so that work is carried on smoothly. For example, she may assign the task of dropping the children to the school to her husband, the task of clearing the bed to the eldest child, the task of cleaning utensils to the part time maid and so on. Every housewife does all this work in her own way depending upon her understanding, interest and commitment and so also the resources available.

Similarly, take the case of a school teacher who is given the task of taking school children on a picnic. The teacher also decides upon a number of things like – where to go, when to go, how many students and other teacher shall go, how much money is required where to get such money, by what time students must come back, how to collect them from home and drop them and so on. Consider any two such shops owned by individuals as sole-proprietors. Both of them do a number of activities like procuring goods from manufacturers / wholesalers and selling them to consumers, maintaining records of transactions, paying taxes, supervising the staff, and making efforts to improve sales, etc.

On analyzing the above examples we find one thing common among the housewife, the school teacher as well as the grocery owner i.e., they are all involved in managing an important activity namely the household, the school picnic and the business respectively. Thus, we find management everywhere, every housewife manages her household work, every professional manages his tasks and every businessman manages his business. In this lesson we shall learn about the concept of management in the context of managing a business, and its characteristics, nature, importance, functions and the general principles guiding managerial actions in the management process.

Long Answer Type Questions

1. Define the term 'management'? State its nature.

Ans: Management refers to the process of using men, money, machines, material and processes through proper direction, coordination and integration of several activities so as to produce desired results and attain predetermined goals. In other words, management consists of a series of activities classified into various functions like planning, organising, staffing, directing and controlling.

Nature of Management

The nature of management can be better appreciated by looking at it

- as a process
- as a discipline
- as a group of individuals
- as a profession, and
- as a science as well as an art.

(a) Management as a Process

Management consists of a series of inter-related activities of planning, organising and controlling. All activities are undertaken in a proper sequence with a systematic approach so as to ensure that all actions are directed towards achievement of common goals. Thus, it is regarded as a process of organising and employing resources to accomplish the predetermined objectives.

(b) Management as a Discipline

Management is a systematised body of knowledge that has developed, grown and evolved over the years through practice and research. The knowledge so cumulated is disseminated to successive generations of managers and used by them in performing their jobs. Thus, it has become a separate field of study with its own principles and practices and thus, evolved as an independent discipline with its own techniques and approaches.

(c) Management as a Group

Management normally refers to a group of managers working in an organisation. It includes the top executive as well as the first line supervisors. These managers perform their functions jointly as a group. The success of business does not depend on the efficiency of one, but of all managers taken together. Managers work as a team so that objectives of the business are fully achieved.

(d) Management as a Science as well as an Art

Management is regarded as a science as well as an art. Science refers to a systematic body of knowledge with reference to understanding of some phenomenon or subject or object of study. Any subject of study to be called a science should have the following characteristics:

- (i) There must be a systematized body of knowledge that includes concepts, people and theories.
- (ii) We should be able to establish a cause and effect relationship.
- (iii) Its principles should be verifiable.
- (iv) It should ensure predictable results.
- (v) It should have universal application.

Management as a subject of study fulfils almost all the above characteristics. Theories and techniques like scientific management, PERT and CPM, break even analysis, budgeting etc. are all scientific in nature.

As for the art, it refers to bringing about the desired result through application of skill. It is a personalised process and states that there is no best way of doing a thing. Thus, it is creative and it improves by practice.

Thus, management is a combination of both science and art.

(e) Management as Profession

Any occupation that satisfies the following requirements is called a profession.

- i. It must be an organised and systematised body of knowledge.
- ii. There is always a formal method of acquisition of such knowledge.
- iii. There exists an association to devise certain code of conduct for the professionals.
- iv. A profession is no doubt an occupation to earn one's livelihood but the financial reward is not the main measure of their success.

2. State the various functions of management.

Ans: In every organisation, the managers perform certain basic functions. These are broadly divided into six categories viz., planning, organising, staffing, directing, coordinating and controlling. These are discussed as follows:

(a) Planning

Planning is deciding in advance what is to be done, when it is to be done, how it is to be done. This involves forecasting, establishing targets, developing the policies and programming and scheduling the action, procedure, etc., Thus, planning requires decisions to be made on what should be done, how it should be done, who will do it, where it will be done, and why it is to be done.

(b) Organising

After the plans have been drawn, management has to organise the activities, and physical resources of the firm to carry out the selected programmes successfully. It also involves

determining the authority and responsibility relationships among functions, departments and personnel at various levels to ensure smooth and effective function together in accomplishing the objective.

(c) Staffing

Staffing is concerned with employing people for the various activities to be performed. The objective of staffing is to ensure that suitable people have been appointed for different positions. It includes the functions of recruitment, training and development, placement and remuneration, and performance appraisal of the employees.

(d) Directing

The directing function of management includes guiding the subordinates, supervising their performance, communicating effectively and motivating them. A manager should be a good leader. He should be able to command and issue instruction without arousing any resentment among the subordinates. He should keep a watch on the performance of his subordinates and help them out whenever they come across any difficulty.

(e) Controlling

This function of management consists of the steps taken to ensure that the performance of work is in accordance with the plans. It involves establishing performance standards and measuring the actual performance with the standards set. If differences are noticed, corrective steps are taken which may include revision of standards, regulate operations, remove deficiencies and improve performance.

(f) Co-ordinating

As the proper functioning of every organ of a human body is important for a healthy body, the work of every department is important for the organisation as a whole. Managers should, therefore, see that everybody in the organisation understands its objectives and works in co-operation with others to achieve these objectives. This function of management is called co-ordination. It consists of harmonising group effort so as to achieve common objectives.

3. State the fourteen principles of management given by Henry Fayol.

Ans: Henry Foyal, Director of a coal mining company in France made a systematic analysis of the process of management. He strongly felt that managers should be guided by certain principles, and evolved 14 general principles of management which are known as principles of management. These are discussed below:

1. **Division of Work:** This principle suggests that work should be assigned to a person for which he is best suited. Work should be divided into compact jobs to be assigned to individuals. This facilitates specialisation and improves efficiency.
2. **Authority and Responsibility:** Responsibility means the work assigned to any person, and authority means rights that are given to him to manage people and things to ensure performance. In other words, authority should go hand in hand with the responsibility for effective results.

3. **Discipline:** This principle emphasises that subordinates should respect their superiors and obey their orders. On the other hand, superiors' behaviour should be such that they make subordinates obedient. If such discipline is observed, there will be no problem of industrial disputes.
4. **Unity of Command:** A subordinate should work under the supervision of one superior only from whom he gets instructions and to whom he is accountable. It avoids confusion in authority and instructions.
5. **Unity of Direction:** Each group of activities having the same objective must have one head and one plan of action. Otherwise, there may be wastage, over expenditure and useless rivalry among the managers.
6. **Subordination of Individual Interest to General Interest:** While taking any decision, the collective good and collective interest of the organisation as a whole should be preferred to individual interests. The individual's interest should be subordinated to the overall interest of the organisation. This ensures welfare of the organisation as well as its individual members.
7. **Remuneration:** Management should try to give fair wages to the employees so as to ensure reasonable satisfaction of workers and productivity for the organisation.
8. **Centralisation:** When a single person controls the affairs of an organisation, it is said to be complete centralisation. In small concerns, a single manager can supervise the work of the subordinates easily, while in a big organisation, control is divided among a number of persons to facilitate operational decision making at various levels. Fayol's opinion was that there should be a proper balance between centralisation and delegation of authority in an organisation.
9. **Scalar Chain:** This is the chain of authority relationship from the highest to the lowest ranks. This implies that subordinates report to their immediate supervisors who, in turn, report directly to their own boss. The order of this chain should be maintained when some instructions are to be passed on or enquiries are to be made.
10. **Order:** Placement of men and materials should be properly made. Proper space should be made available where materials can be kept safely. Each man should be provided the work for which he is best suited.
11. **Equity:** This principle requires the managers to be kind and just to workers. This promotes a friendly atmosphere between superiors and subordinates and motivates them to perform their duties efficiently.
12. **Stability of Tenure:** Employees should be provided stability and continuity of their tenure of employment. There should not be frequent termination of employees. This could be achieved through attractive remuneration and honourable treatment of personnel.

13. **Initiative:** This implies encouraging initiative among its personnel to chalking out and execution of a plan to achieve the desired results.
14. **Esprit de Corps:** These French words mean team spirit. Managers should infuse the spirit of team work and cooperation among the employees. It helps in developing an atmosphere of mutual trust and a sense of unity.

Fayol made it clear that these principles can be applied to most organisations, but these are not absolute principles. Organisations are at liberty to adopt those which suit them or to delete a few according to their needs.

4. Mention the different characteristics of management.

Ans: The various characteristics of management are:

- (a) **Management is universal:** It means that management is required for every type of organisation. It may be a business organisation or social or political. It is a universal phenomenon and is common and essential element in all organisations.
- (b) **Management is goal directed:** Every organisation is created to achieve certain goals. Management of an organisation is always aimed at achievement of the organisational goals.
- (c) **Management is a continuous process:** Management is an ongoing process. It continues as long as the organisation exists. No activity can take place without management.
- (d) **Management is an integrating process:** All the functions, activities, processes and operations are intermixed among themselves. It is the task of management to bring them together and proceed in a coordinated manner to achieve desired result.
- (e) **Management is intangible:** Management is not a place like a graphic showing Board meeting or a graphic showing a school Principal at her office desk which can be seen. It is an unseen force and you can feel its presence in the form of rules, regulation, output, work climate, etc.
- (f) **Management is multi-disciplinary:** Management of an organisation requires wide knowledge about various disciplines as it covers handling of man, machine, material and looking after production, distribution, accounting and many other functions.
- (g) **Management is a social process:** The most important aspect of management is handling people organized in work groups. This involves developing and motivating people at work and taking care of their satisfaction as social beings. All managerial actions are primarily concerned with relations between people and so it is treated as a social process.
- (h) **Management is situational:** The success of management depends on, and varies from, situation to situation. There is no best way of managing. The techniques and principles of management are relative, and do not hold good for all situations to come.

Short Answer Type Questions

1. Describe any two points of importance of management.

Ans: In today's scenario with globalisation, job specialisation, changing technologies, new responsibilities of business, consumerism, competition and emphasis on research and development, the role of management has grown multifold. Its importance is reflected in the positive result that the organisation can get in respect of the following.

(a) Attainment of Goals

Every organisation has a goal to achieve and each employee in the organisation also has his own goals that he wants to achieve. Even at operational level each department, each unit or even each group has a goal that it wants to achieve. It is only through proper management.

(b) Stability and Growth

Management strives to utilise the available resources of the organisation effectively and efficiently. It controls the activities and operations, integrates the functions, motivates the employees, and maintains the health of the organisation in the ever changing environment. It thus, ensures stability to the working of the organisation and contributes to its growth.

(c) Change and Development

Management keeps itself in touch with the changes in the environment and foresees development in the future. Accordingly, plans are made to keep the organisation ready to meet the challenges. The technologies, operations, process as human factors are developed on a continuous basis keeping an eye on the future.

(d) Efficiency and Effectiveness

By proper planning, staffing, organising, coordinating, directing, and its controlling activities, the management helps in achieving efficiency and effectiveness to human efforts and operations.

3. Write about the different levels of management. (OR) Describe the hierarchy of management.

Ans: There are certain levels of management with varying degree of authority and responsibilities. Some managers decide about the objectives of the business as a whole; some managers perform functions to achieve these objectives in different departments and some of the managers are concerned with the supervision of day-to-day activities of workers. Managers performing different types of duties may, thus, be divided into three categories:

i. Top-Level Management

The top level management includes Board of Directors and the Chief Executive. The chief executive may have the designation of Chairman, Managing Director, President, Executive Director or General Manager. This level determines the objectives of the business as a whole

and lays down policies to achieve these objectives. The top management also exercises an overall control over the organisation.

ii. Middle-Level Management

The middle-level management includes heads of various departments, e.g., production, sales, etc., and other departmental managers. The objectives of the business as a whole are translated into departmental objectives for the middle level management. Middlelevel managers are particularly concerned with the activities of their respective departments.

iii. Lower-Level Management

The lower-level management consists of foremen and supervisors who look after the operative workers, and ensure that the work is carried out properly and on time. Thus, they have the primary responsibility for the actual production of goods and services in the organisation.

These three levels of management taken together form the 'hierarchy of management.'

4. Can management be treated as a profession? Give reasons in support of your answer.

Ans: Any occupation that satisfies the following requirements is called a profession.

- (i) It must be an organised and systematised body of knowledge.
- ii) There is always a formal method of acquisition of such knowledge. In other words, individuals, to pursue a specific profession, must acquire the specialised knowledge through some formal institutions.
- (iii) There exists an association to devise certain code of conduct for the professionals. This code of conduct lays down norms to be observed by the professionals while doing their job.
- (iv) A profession is no doubt an occupation to earn one's livelihood but the financial reward is not the main measure of their success.

Though management may not meet all the requirements of a profession in strict sense of the term, but it meets most of the above requirements and is, now a days, regarded a fullfledged profession.

5. What is meant by scientific management?

Ans: F.W. Taylor, well-known management expert or the Father of Scientific Management, worked as an apprentice, machinist, foreman and ultimately as the chief engineer of a steel company in U.S.A. Taylor suggested a new approach to management early in the 20th century. This is known as 'Scientific Management'. The basic principles developed by Taylor as principles of scientific management were:

1. Development of a true scientific approach to management replacing the old rule of thumb method, which would enable managers, among other things, to determine the best method of performing each task;

2. Scientific selection and placement of workers so that each worker could be assigned the task for which he is best suited;
3. Scientific training and development of workers so as to achieve the highest level of efficiency; and
4. Close co-operation between management and labour to ensure that work is carried out in accordance with the scientific principles which are developed.

A number of techniques like time study, motion study, standardization of equipment and working conditions, and differential piece rate of wages were also developed to facilitate scientific management.

6. What is management?

Ans: Management consists of a series of activities classified into various functions like planning, organizing, staffing, directing and controlling.

7. What is planning?

Ans: Planning is deciding in advance what is to be done, when it is to be done, how it is to be done.

8. What is organizing?

Ans: After the plans have been drawn, management has to organize the activities, and physical resources of the firm to carry out the selected programmes successfully.

9. What is staffing?

Ans: It is concerned with employing people for the various activities to be performed.

10. What is directing?

Ans: Directing includes guiding the subordinates, supervising their performance, communicating effectively and motivating them.

11. What is controlling?

Ans: It consists of the steps taken to ensure that the performance of work is in accordance with the plans.

12. What is co-ordination?

Ans: It consists of harmonizing group effort so as to achieve common objectives.

13. What is division of work?

Ans: The work should be assigned to a person for whom he is best suited. Work should be divided into compact jobs to be assigned to individuals.

11

LESSON

Planning and Organizing

Introduction

In the previous lesson, you learnt about the various functions of management, viz., planning, organizing, staffing, directing, coordinating and controlling. In this lesson we shall discuss the first two functions i.e., planning and organizing emphasizing the nature, importance and process of planning, and the basic concepts of organizing including process of organizing, the organization structure, delegation and decentralization of authority.

Long Answer Type Questions

1. Discuss any four steps in planning process.

Ans: Planning is a primary function of management. Planning is deciding in advance what is to be done and how it is to be done.

PLANNING PROCESS/STEPS IN PLANNING

Planning in organization follows a step-by-step process without which it may be difficult to build up proper plans and ensure their implementation. Such steps are as follows.

1. Establishment of objectives

Every organization has some goals that it wants to achieve. Planning actually starts with defining these goals in more concrete, clear and unambiguous terms. This enables the management in gaining clarity on what they have to achieve and then plan all activities accordingly. Hence, establishing organizational objective is a pre-requisite for good and meaningful planning.

2. Making assumptions (establishing premises) about the external and internal conditions

Making assumptions about the future environment of business is the second step in planning. These assumptions about the future environment of the business are known as planning

premises. These premises may be external or internal. External planning premises relate to conditions outside the business. Internal planning premises relate to conditions prevailing within the organization.

3. Development of alternative courses of action

The next step in planning is to identify the alternative courses of action to achieve the objectives set. For example, to achieve the objective of increasing the profits of a business unit, any one or more of the following alternatives can be used:

- Increase the sale of its existing products
- Improve product quality
- Add new products/product lines
- Increase the prices of products
- Reduce costs

4. Evaluation of Alternatives

Evaluation of alternatives is the fourth step in planning. When alternative courses of action are there before a manager, he has to examine the feasibility and the possible results of each course of action before selecting the best course.

5. Selecting the appropriate course of action

After evaluating the alternatives the manager will select that alternative which gives maximum benefit at minimum cost. In selecting the best course from among the alternatives, managers should also keep in mind their own limitations of resources. So in making the final selection from among the alternative courses of action, the management will ultimately be guided by:

- (a) the opportunities provided by the external environment; and
- (b) the ability of the business unit to take advantage of these opportunities.

6. Arranging for implementation

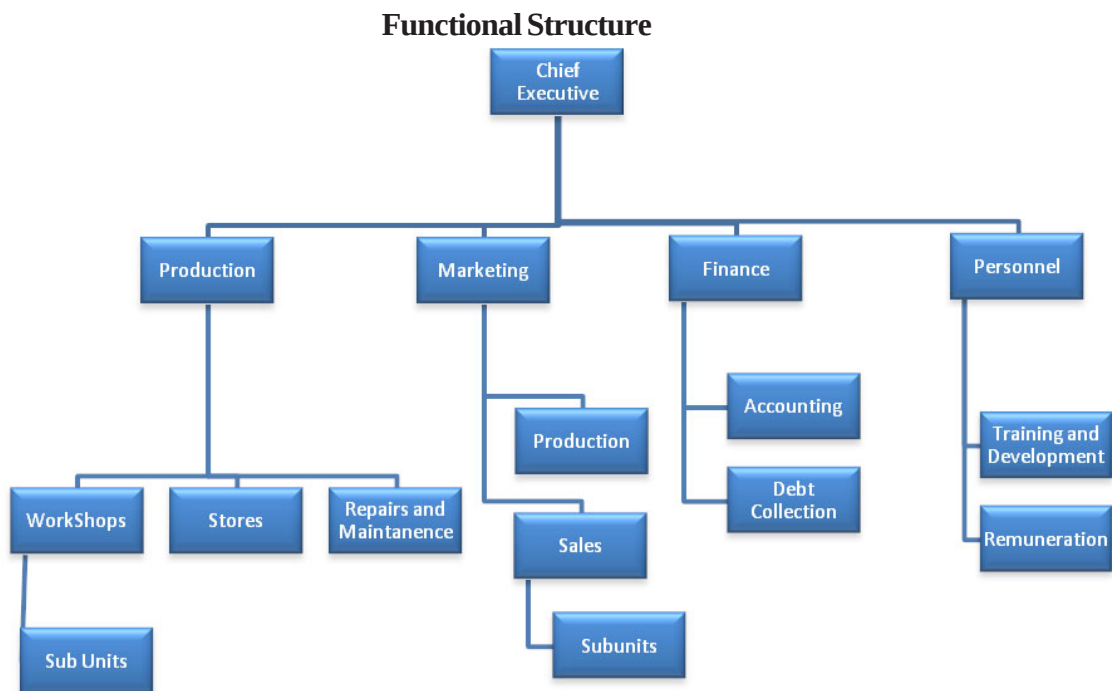
After the management has finalised their choice, it should build up the necessary strategies and action plan for its implementation in due consultation with all key personnel who are to implement it.

2. Describe the organization structure?

Ans: The process of organisation culminates into an organisation structure which constitutes a network of job positions and the authority relationships among the various positions. Based on the arrangement of activities, two most commonly used forms of organisation structure are (1) functional structure, and (2) divisional structure. These are discussed hereunder.

1. Functional Structure

An organisation structure formed by grouping together all activities into functional departments and putting each department under one coordinating head is called functional structure. Thus, in any industrial enterprise the functions like manufacturing, marketing, finance, and personnel may constitute the major separate units (departments) of the enterprise. It may be noted that the major units use are further divided into sub-units (see the following chart). For example, the manufacturing department may be sub-divided into stores, repairs, maintenance, production, etc.

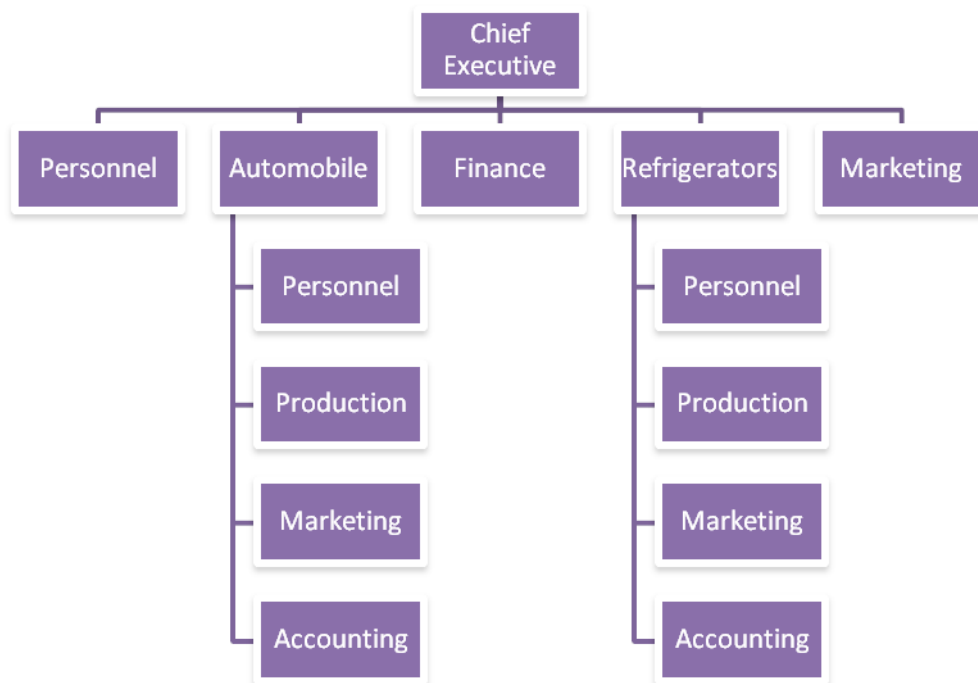


This form of organisation structure helps in developing functional specialisation in each unit duly headed by an expert in that functional area. This facilitates the coordination within the department since all are fully familiar with the various activities involved. However, this type of structure is considered suitable for small and medium size organisations.

2. Divisional Structure

In large organisations dealing in multiple products and serving a number of distinctive markets, the divisional structure is considered more suitable. Under such structure the organisation is divided into units entrusted with all activities related to different products on different territories (markets). Each divisional head is required to look after all functions related to the product or market territory. It is shown below.

Divisional Structure (Product Based)



Under divisional structure, most activities associated with a product or product group can be well coordinated and its profitability easily ascertained. Moreover, it provides opportunity to divisional managers to take prompt decisions and resolve all sorts of problems without much difficulty. However, this structure is expensive and gives rise to duplication of efforts.

3. Discuss the delegation of authority and state its importance.

Ans: In organisations, it is difficult on the part of a manager to complete all the jobs assigned to him. He thus, can take help from others by asking them to do some of the work in a formal way. It means, he can assign some of the work to his subordinate and give them authority to carry on the work and at the same time make them accountable.

This active process of entrustment of a part of work or responsibility and authority to another and the creation of accountability for performance is known as delegation. Thus, there are three elements of delegation as follows.

1. **Assignment of Responsibility:** This is also known as entrustment of duties. Duties can be divided into two parts: one part, which the individual can perform himself and the other part, which he can assign to his subordinates to perform.
2. **Granting Authority:** Authority here simply refers to the official powers and position required to carry on any task. When duties are assigned to subordinates then the required authority must also be conferred on him.

3. **Creating Accountability:** This refers to the obligation on the part of the subordinates, to whom responsibility and authority are granted to see to it that the work is done. In other words, the delegatee is fully answerable to his superior for performance of the task assigned to him. Thus, the superior ensures performance through accountability by his subordinate.

Importance of Delegation

- Delegation is considered as one of the most important elements in the process of organization because, it reduces the load on managers as work is successfully shared by the subordinates.
- This improves the managerial effectiveness because by delegating a good part of work to the subordinate the managers are able to concentrate on important matters which require them personal attention.
- The delegation of responsibility with commensurate authority offers a good workable solution.
- It also provides an opportunity for subordinates to develop, and motivates and prepares them for taking up higher responsibilities in future.
- It leads to creating a healthy work environment and harmony among the employees. Thus, delegation facilitates organizational growth and prosperity.

4. Explain the meaning of formal and informal organisations. What are the differences between these two?

Ans: Formal organisation refers to the officially established pattern of relationship among departments, divisions and individuals to achieve well-defined goals and is a consciously designed structure of roles.

Informal organisations on the other hand, refers to relationship between individuals in the organisation based on personal attitudes, likes and dislikes and originates to meet their social and emotional needs and develops spontaneously. However, they differ in respect of their origin, purpose, structure, and authority, channels of communication and behaviour of members.

The differences between formal and informal organizations are shown in the following table.

Formal Organisations	Informal Organisations
1. It is created by the top management.	1. It is not created by top management. It arises out of the natural desire of the people to associate.
2. It is created to get the jobs of an organisation performed in a planned and systematic manner.	2. It is formed to satisfy those needs of members which cannot be satisfied through formal organisation.
3. It is managed by officially appointed managers.	3. Members of the informal group select someone as their leader to take care of the interests of the group members.

- | | |
|---|--|
| 4. Managers of formal organization have formal authority. | 4. The authority of the leader of the informal group depends upon the combined support of group members. |
| 5. Formal organisation is permanent and stable. | 5. Informal organisation is of temporary nature. It changes its size and membership from time to time. |

Short Answer Type Questions

1. What is meant by planning? Explain any three features of planning.

Ans: Planning is deciding in advance what is to be done in future. It involves the selection of objectives, policies, procedures and programmes from among the alternatives.

Features

The basic features of planning can be summarized as follows:

- Planning is the primary function of management as every activity needs to be planned before it is actually performed.
- Planning is always goal directed. A manager cannot plan anything unless he knows what he wants to achieve. Thus, planning is taking such steps so as to achieve the desired goal.
- Planning is pervasive at all levels of management and so also for all functional area.
- Planning is always futuristic. It is deciding in advance what to do, how to do, etc.
- Planning is an intellectual activity and requires certain conceptual skills to look ahead into the future. It needs good foresight and sound judgment to anticipate future events, develop alternative courses of action and make the right choice.
- Planning is a continuous process.
- Planning basically involves making choices.
- Planning is flexible. Planning is done on the basis of some forecasts which may not materialise. Hence, plans have to be changed in accordance with the changed conditions.

2. Describe any four points of importance of planning.

Ans: Planning is the most importance of all the management functions. Some of the importances are as follows:

- Planning reduces uncertainty, risk and confusion in operation. Through planning, the future course of action is known to all and so, everybody knows exactly what needs to be done. This gives a sense of direction resulting in efficiency in operations.
- Planning guides the decision making by the managers. Planning of goals to be achieved and the course of action to be followed to achieve the goal act as a guide in their own decision making and action plans.

- (c) Planning helps in achieving coordination and facilitates control. Proper planning integrates the tasks at the operational level, thereby making coordination more effective. It also helps in identifying deviations and taking the corrective action.
- (d) Planning with an element of flexibility makes the organisation adaptable. In other words, planning makes the organisation capable of coping with the changing environment and facing challenges.
- (e) Planning leads to economy and efficiency in operations. Best methods are selected out of available choices, thus, reducing overlapping and wasteful activities.
- (f) Planning begins with the determination of objectives and directed towards their achievement. It keeps the executive alive and alert. Managers have to review the progress periodically and recast their strategies to meet the objectives.

It should be noted that planning also has certain limitations, as the plans are based on certain assumptions and incomplete information. Hence, the management has to be vigilant and provide for necessary flexibility to take care of changed situations.

3. Describe the steps in the organising process.

Ans: The process of organising consists of the following steps –

1. **Identification of activities:** Every enterprise is created with a specific purpose. Based on this, the activities involved can be identified.
2. **Grouping of activities:** Once activities are identified, then they need to be grouped. They are grouped in different ways. The activities which are similar in nature can be grouped as one and a separate department can be created.
3. **Assignment of responsibilities:** Having completed the exercise of identifying, grouping and classifying all activities into specific jobs, they can be assigned to individuals to take care of.
4. **Granting authority:** On the basis of responsibilities given to specific individuals, they are also to be given the necessary authority to ensure effective performance.
5. **Establishing relationship:** This is a very important job of management as everybody in the organisation should know as to who he/she is to report, thereby establishing a structure of relationships. By doing so, relationships become clear and delegation is facilitated.

4. Distinguish between delegation and decentralization.

Ans: Decentralisation is not same as delegation. The points of differences are -

- While delegation is the process of assigning responsibility and authority and thereby creating accountability; decentralisation is the ultimate outcome of planned delegation.
- Delegation of authority takes place between the manager and his subordinates while decentralisation involves the entire organisation, and is between top management and divisions/ departments.

- Delegation is done to speed up the work and is essential in trace; while decentralization is optional and is usually done in large scale organisations.
- In case of delegation the responsibility and authority delegated may be withdrawn by the delegator; which is not so easy in case of decentralisation.

5. What is decentralization? State its benefits.

Ans: Decentralisation refers to a systematic effort to delegate authority at all levels of management and in all departments. This shifts the power of decision making to lower level under a well considered plan.

Benefits

Decentralisation has number of benefits.

- i. It reduces the workload of the top level management.
- ii. It motivates the employees and gives them more autonomy.
- iii. It promotes initiative and creativity.
- iv. It also helps employees to take quick and appropriate decisions.
- v. In the process the top management is freed from the routine jobs and it enables them to concentrate on crucial areas and plan for growth.

6. Discuss the authority relationship among staff members in an organization.

Ans: When a person is given certain duties to perform, he must be given necessary authority to carry on the activity successfully. Otherwise, he will not able to do the work. Similarly, in an organisation every member must have some sort of authority while performing individual job. In other words, there must be an authority relationship among the staff members. Thus, on the basis of nature, authority may be of three types.

- (a) Line authority;
- (b) Staff authority; and
- (c) Functional authority.

Let us have a brief idea about all these types.

(a) Line Authority

Line authority is the authority of a manager over his immediate subordinates. Line authority is the right of a manager to issue order and to see that these orders are carried out. A line manager gets the authority from his supervisor and shares it with his subordinates. So it flows from top to bottom.

(b) Staff Authority

When the work of line managers increases, staff officers are appointed to help them. The job of staff officers is to give advice, information, suggestion and guidance. Staff people can only give advice. Their advice can be accepted or rejected by line managers. So, staff authority refers to the responsibility and authority of providing advice and services to the line managers.

(c) Functional Authority

Functional authority is similar to line authority, but it is exercised over a person who is not the immediate subordinate of a manager.

7. State the importance of organizing.

Ans:

1. Organizing is essential because it facilitates administration as well as operation of enterprise. By grouping work and people properly, production increases, overload of work is checked, wastage is reduced, duplication of work is restricted and effective delegation becomes possible.
2. Organizing facilitates growth and diversification of activities through clear division of work. It helps in developing a proper organization structure and the extent and nature of decentralization can be determined.
3. In addition to the above, organizing also provides for the optimum use of technical and human resources.
4. It also encourages creativity and enhances interaction among different levels of management which leads to unification of efforts of all.

8. What are the objectives of business?

Ans: The main objective of business is to earn profit.

9. State any two advantages of planning?

- Ans:
- i. It reduces uncertainty, risk and confusion in operation.
 - ii. It guides the decision making by the managers.
 - iii. It helps in achieving co-ordination and facilitates control.

10. What is meant by planning premises?

Ans: Making assumptions about the future environment of business.

11. What are the various types in premises?

Ans: Planning premises may be internal and external premises, controllable and non controllable planning premises.

12. What is strategic planning?

Ans: The process of setting future objectives and deciding on the ways and means of achieving them.

13. What is formal organization?

Ans: It refers to the officially established pattern of relationship among departments, divisions and individuals to achieve well-defined goals and consciously designed structure of roles.

14. What is informal organization?

Ans: It refers to relationship between individuals in the organization based on personal attitudes, likes and dislikes.

15. What is authority?

Ans: When a person is given certain duties to perform, he must be given necessary authority to carry on the activity successfully.

12

LESSON

Staffing

Introduction

In a small business unit, like a grocery shop, the owner may not need others to help him in running the shop, as he may himself be able to look after all the activities. But as the business grows in size he may find it difficult to manage all the activities alone and may have to find out suitable persons and employ them. It is quite possible that you may start your own business and face such a situation and employ people to assist you in running the business. Alternatively, you yourself may be a job seeker. In both the situations, you may find it useful if you know how employees are recruited, selected and trained for the various positions in an organisation. In this lesson, you will learn in detail about the staffing function including the sources of recruitment, the process of selecting the employees and the various methods of their training and development.

Long Answer Type Questions

1. Briefly describe any four steps involved in the selection process.

Ans: The process of staffing starts with ascertaining the required number of various categories of employees for the organisation. This is known as manpower planning. It decides the kinds of staff and the number of staff required for the organisation. This is done through several methods like job analysis, workload analysis, etc. The next thing to be done in the staffing process is the recruitment exercise, i.e., finding out the available manpower from internal and external sources. The next step is to select the right person from the available manpower through tests and interviews and make appointments. This is followed by their placement on the jobs and necessary introduction of the work environment and the rules of compensation, promotion, transfer etc. Thus, the various steps involved in the process of staffing are as follows.

- (a) Manpower Planning
- (b) Job Analysis

- (c) Recruitment
- (d) Selection
- (e) Placement
- (f) Induction
- (g) Training and Development
- (h) Performance Appraisal
- (i) Compensation
- (j) Promotion and Transfer

Let us now discuss these aspects briefly to gain more clarity.

a. MANPOWER PLANNING

Manpower planning refers to the process of estimating the manpower requirement of an organisation.

While estimating the manpower requirement, the management generally keeps in mind the available infrastructure including the technology, production schedule, market fluctuation, demand forecasts, government's policies and so on.

b. JOB ANALYSIS

In the context of recruitment, one must be conversant with another important aspect of manpower planning viz, job analysis, which is a pre-requisite for any recruitment exercise. The job analysis helps in determining the qualifications, skills and experience required for various categories of employees.

c. RECRUITMENT

The term recruitment is often used to signify employment. It just refers to one of the initial steps in employment of people i.e., searching for suitable candidates for the various job positions to be filled up from time to time in the organisation. Thus, recruitment is the process of finding and attracting suitable applicants for employment.

d. SELECTION

Selection refers to the process of choosing the most suitable person from among the list of interested candidates. It involves going through the qualification and experience of all candidates and matching them with the expectation for the job so as to decide on the most suitable ones for the job. The entire process goes through a number of steps which may be called as selection procedure.

e. PLACEMENT

If the selected candidate decides to join the organisation, he/she has to report to the concerned authority and formally joins the organisation by giving his consent in writing. Then he/she is placed to perform specific job. Thus, placement refers to selected candidate's joining the positions in the organisation for which they have been selected.

f. INDUCTION

Induction is the process of introducing new employees to the organisation. Usually the immediate supervisor of the new employee introduces him to his work environment. A proper induction programme is likely to reduce his anxiety on how to cope with the work and how to become part of the organisation and helps in development of a favourable attitude towards the organisation and the job.

g. TRAINING AND DEVELOPMENT

Helping the employees to improve their knowledge and skill so as to be able to perform their tasks more efficiently is known as training. It is an organised activity for increasing the knowledge and skills of people for a specific purpose. The term 'development' refers to the process of not only building up the skill and abilities for specific purpose but also the overall competence of employees to undertake more difficult and challenging tasks.

h. PERFORMANCE APPRAISAL

In simple words, performance appraisal means judging the performance of employees. Specifically, it means judging the relative abilities of employees at work in a systematic manner. This enables managers to identify employees who are performing the assigned work satisfactorily.

i. COMPENSATION

The term 'compensation' refers to a wide range of financial and non financial rewards to the employees for services rendered to the organisation. It includes wages, salaries, allowances and other benefits which an employer pays to his employees in consideration for their services. Compensation may be divided into two categories:

- (a) Base/primary compensation.
- (b) Supplementary compensation.

'Base or primary compensation' is a fixed amount paid every month to an employee. It includes wages, salary and allowances paid to an employee irrespective of his performance.

'Supplementary compensation' refers to the compensation paid to the employees to motivate them to work more efficiently. It is also known as incentive compensation. The incentives may be monetary or non-monetary.

j. PROMOTION AND TRANSFER

When an employee is assigned a job involving greater responsibilities, more pay, higher status and prestige than his/her present job, it is known as 'promotion.' Thus, promotion refers to the advancement of an employee to a higher level or position.

'Transfer' refers to a type of job change where any employee is assigned a different job of the same rank and pay, or when an employee is assigned a similar job in another unit of the firm.

2. Briefly explain the various sources of recruitment? (OR) Explain any four external sources of recruitment?

Ans: One must be aware of the sources of recruitment before publicizing the specific staffing needs and induce the suitable persons to apply for the job positions involved. These sources can be internal and external.

(A) **Internal Sources:** In any business, existing employees expect that they will have chances of promotion and will be considered for higher positions before outsiders are considered. Managers therefore may promote and transfer some of the existing employees to fill the vacant positions.

(B) **External Sources:** Under this, the managers have to recruit some persons from outside the organisation. The various external sources of recruitment are as follows:

- (a) **Media Advertisements:** This is a very popular medium of advertising. The advertisement contains details about the job, its nature, the qualification required to do the job, how to apply, etc. The job advertisements are also given in magazines, specialized employment magazines like Employment News, Rozgar Samachar, etc. Now-a-days we also commonly find such advertisements in various electronic media like television and internet.
- (b) **Employment Exchanges:** In India, employment exchanges have been set up by the government. The employer informs about the vacancies to the nearest Employment Exchange. The Employment Exchange, in turn, identifies the names of the qualified employment seekers already registered with it, and forwards them to the employer for consideration.
- (c) **Educational Institutions:** As and when the need arises, the companies send one or more of their senior executives to the institutions of repute imparting professional/technical education to students. These executives take the interview of the interested candidates and select the suitable candidates as per their requirement. This process is popularly known as campus interview.
- (d) **Unsolicited Application:** Those looking for jobs often apply on their own initiative. They assume that certain vacancies are likely to arise, and apply without references to any job advertisement. Managers keep a record of such applications and contact the suitable candidates when they need them.
- (e) **Recruitment at the Factory Gate:** This is found mainly in case of factory workers to be recruited on daily wages. Such workers gather in the morning at the factory gate to serve as casual workers. These casual workers having served in the factory for some time may be considered for regular employment at some stage.
- (f) **Referrals:** Quite often the management gets references about interested workers from different sources like workers unions, previous employees, existing employees, clients of the organisation etc. These sources are important because their recommendations are

made by people who are associated with the organisation and are fully conversant with its requirements. But one should be very much cautious while considering such recommendations.

- (g) **Private Employment Agencies:** In urban areas, a number private organization has started functioning as employment agencies. These agencies register with them the names of the individuals who are seeking employment and try to arrange job interviews for such candidates. Companies often get in touch with such agencies to provide them the details of suitable candidates for various jobs.

3. Briefly discuss the selection procedure.

Ans: The selection procedure consists of a number of steps in logical order to identify the candidates who are to be finally appointed. These steps are:

- (a) Screening the applications
- (b) Holding tests
- (c) Selection interview
- (d) Checking references
- (e) Medical examination
- (f) Issue of appointment letter

Let us discuss all the steps in brief.

(a) Screening the Applications

Screening exercise involves checking the contents of the applications so as to ascertain whether or not the minimum eligibility conditions are fulfilled by the candidates who have applied for the job. The purpose of screening is to prepare a list of eligible candidates. Candidates not eligible are thereby excluded from further consideration.

(b) Holding Tests

After screening the applications, eligible candidates are asked to appear for selection tests. These tests are made to discover and measure the skill and abilities of the candidates in terms of the requirements of the job. All those who have passed the test are qualified for further processing and those who have failed are not to be considered.

(c) Conducting Interview

Interview is the most important part of the selection procedure. In an interview, the candidate has a face-to-face interaction with the employer or representatives of the employer, where they try to judge the ability of the candidate. They also get an opportunity to go into the details of the candidate's background which helps a lot in assessing the candidates' suitability.

(d) Checking of References

In addition to the requisite educational qualification, skill and experience, it is expected that the candidates who are to be considered for employment must have other qualities like balanced temperament, honesty, loyalty, etc. These qualities cannot be judged on the basis of any test. Therefore, information is obtained and verified from the heads of educational institutions where the candidates have studied, or from the persons whose names are given by the candidates as referee, or from their previous employers. For certain jobs, like the job of a cashier or a security guard, reliability is a very important job requirement.

(e) Medical Examination

Candidates finally selected for the job are asked to undergo medical examination to see whether the selected candidates are physically fit for the job. A proper medical examination ensures higher standard of health of the employees and their physical fitness which, in turn, reduces the labour turnover, absenteeism and accidents. Medical test is essential for certain types of jobs as in the case of police and army, where physical fitness is very important.

(f) Issue of Appointment Letter

Candidates finally selected are offered to join the organization for which a formal appointment letter is issued containing the nature of job, the remuneration, pay scale, and other terms and conditions relating to employment.

Short Answer Type Questions

1. Describe the importance of staffing.

Ans: The benefits of good staffing are as follows.

- (a) It helps in getting right people for the right job at the right time. The function of staffing enables the manager to find out as to how many workers are required and with what qualifications and experience.
- (b) Through proper selection the organization gets quality workers, and through proper training the performance level of the workers can be improved.
- (c) It helps in providing job satisfaction to the employees keeping their morale high. With proper training and development programmes their efficiency improves and they feel assured of their career advancements.
- (d) Through proper staffing, individuals are not just recruited and selected but their performance is regularly appraised and promotions made on merit. For all these, certain rules are made and are duly communicated to all concerned. This fosters harmony and peace in the organization.

2. What is meant by training? Explain the different methods of training.

Ans: Training is necessary for new employees as well as the existing employees for improving their performance at work. For new employees, training is necessary to help them get acquainted with the method of operation and skill requirement of the job. For existing employees, training at periodical intervals is helpful for learning better ways of doing the work, and also as and when they have to undertake new jobs. Thus, training helps employees to improve their knowledge and skill and make them perform their tasks more efficiently. It also helps them in promotion and improves their attitudes and confidence levels.

Methods of Training

There are different methods of giving training to the employees which can be divided into two broad categories.

1. On-the-Job methods, and
2. Off-the-Job methods.

1. **On-the-Job Training:** In these methods, the employees learn about their jobs while doing the work duly assisted by their supervisors or seniors. These methods encourage self-learning through practice. Job instruction or coaching, and job rotation, learning while working as an assistant to a senior, understudy positions, temporary promotions are some of the common methods of on-the-job training.

2. **Off-the-Job Training:** These methods involve training employees away from the work place. Lectures with demonstration, conferences, case discussions, video shows and films are some of the common methods used as off-the-job training methods. Then, there is another off the job method of training called vestibule training. The '*vestibule training*' refers to the training in specially designed workshops in which an attempt is made to duplicate as closely as possible the actual condition of the work place.

3. Explain performance appraisal?

Ans: In simple words, performance appraisal means judging the performance of employees. Specifically, it means judging the relative abilities of employees at work in a systematic manner. This enables managers to identify employees who are performing the assigned work satisfactorily, and those who are not able to do so, and why. To be fair, performance appraisal needs to be carried out using the same methods and keeping in view uniform standards of work. Generally it is the responsibility of supervisors to carry out performance appraisal of their subordinates, and report it to their own superiors. He may also have to identify the causes of the performance especially if it has fallen short of the expected performance.

The standard of performance or the expected level of performance of an employee on a job forms the basis of judging how well the employee has performed, and whether one employee is more efficient than the other in doing a similar job. The yardstick placed may be the desired quantity of output, the quality of work done, minimization of wastage of materials caused in the process of work etc. The choice depends upon the type of job involved.

4. On which aspect the success of business depends?

Ans: Staffing

5. How the development of staff takes place in an organization?

Ans: Helping the employees to improve their knowledge and skill so as to be able to perform their tasks more efficiently.

6. What is human resource planning?

Ans: Man power or human resource planning refers to the process of estimating the manpower requirement of an organisation

7. What is job analysis?

Ans: Determining the qualifications, skills and experience required for various categories of employees.

8. What is recruitment?

Ans: Searching for suitable candidates for the various job positions to be filled up from time to time in the organization.

9. What are the sources of recruitment?

Ans: Internal and external sources.

10. What are the internal sources of recruitment of the staff?

Ans: Promotions given to the existing staff.

11. What are the external sources of recruitment of the staff?

Ans: Media and advertisement, employment exchanges.

12. What is reference consideration?

Ans: Quite often the management gets references about interested workers from different sources like workers union, previous employees, existing employees etc.

13

LESSON

Directing

Introduction

The managerial function of directing is like the activities of a teacher in a classroom. In order to teach, a teacher has to guide his students, maintain discipline, inspire them and lead them to the desired goal. It is a very important function in the management of any enterprise. It helps the managers in ensuring quality performance of jobs by the employees and achievement of organizational goals. It involves supervision, communication and providing leadership to the subordinates and motivating them to contribute to their best of capability. In this lesson we shall learn about this function in detail.

Long Answer Type Questions

- 1. What is communication? Explain how communication is an important element of directing functions of management.**

Ans: Communication is a basic organizational function, which refers to the process by which a person (known as sender) transmits information or messages to another person (known as receiver). The purpose of communication in organizations is to convey orders, instructions, or information so as to bring desired changes in the performance and or the attitude of employees. Proper communication results in clarity and securing the cooperation of subordinates. Faulty communication may create problems due to misunderstanding between the superior and subordinates. The subordinates must correctly understand the message conveyed to them. Thus, in communication:

- there are two parties, one is known as the sender and the other is known as receiver;
- there is a message sent by the sender to the receiver; and
- the receiver receives the message and understands it.

Communication does not always flow from supervisor to subordinate. It can also be from a subordinate to a supervisor.

Importance of Communication

Communication in organisations is so important that it is said to be the lifeblood of the organisation. Success of direction largely depends on how effectively the manager can communicate with his subordinates. Proper communication in organisations at all levels and between all levels can improve both the quantity and quality of output. Some of the benefits of communication are as follows:

- Communication helps employees to understand their role clearly and perform effectively.
- It helps in achieving co-ordination and mutual understanding which in turn, leads to industrial harmony and increased productivity.
- Communication improves managerial efficiency and ensures cooperation of the staff.
- Effective communication helps in moulding attitudes and building up employees' morale.
- Communication is the means through which delegation and decentralisation of authority is successfully accomplished in an organisation.

2. State the different types of communication on the basis of direction.

Ans: Communication can be done orally or in writing or even through gestures. Communication may be made through formal or informal channels. Thus, the various types of communication are as follows.

On the basis of channel used	On the basis of direction	On the basis of mode used
(i) Formal (ii) Informal	(i) Upward (ii) Downward (iii) Horizontal (iv) Diagonal	(i) verbal - (a) oral, (b) written (ii) Non-verbal (gestural)

The path through which information flows is called '*channel of communication*'. Let us now discuss these briefly.

(a) Formal and Informal Communication

In every organisation we have both formal and informal channels. The paths of communication which are based on relationship established formally by management are the formal channels. Communication, which takes place on the basis of informal or social relations among staff, is called informal communication. In fact, it may be purely personal or related to organisational matters.

(b) Upward, Downward, Horizontal and Diagonal Communication

On the basis of the flow or direction of communication in organisations, it can be classified as upward, downward, horizontal or diagonal.

When employees make any request, appeal, report, suggest or communicate ideas to the superior, the flow of communication is upward i.e., from bottom to top.

Upward communication encourages employees to participate actively in the operations of their department. They get encouraged and their sense of responsibility increases when they are heard by their supervisors about problems affecting the jobs.

When communication is made from superiors down the hierarchy it is called a downward communication. Communication of work assignments, notices, requests for performance, etc. through bulletin boards, memos, reports, speeches, meetings, etc, are all forms of downward communication.

Communication can also be amongst members at the same level in the organisation. This is known as horizontal flow of communication. Here, the communication is among people of the same rank and status. Such communication facilitates coordination of activities that are interdependent.

When communication is made between people who are neither in the same department nor at the same level of organizational hierarchy, it is called diagonal communication. This type of communication does take place under special circumstances.

(c) Verbal and Non-verbal Communication

On the basis of the mode used, communication may be verbal or non-verbal. While communicating, managers may talk to their subordinates either face to face or on telephone or they may send letters, issue notices, or memos. These are all verbal communication. Thus, the verbal modes of communication may be oral and written.

Sometimes verbal communication is supported by non-verbal communication such as facial expressions and body gestures. For example – wave of hand, a smile or a frown etc. This is also termed as the gestural communication.

3. What is meant by the term supervision in management? Explain briefly the functions and importance of a supervisor.

Ans: After the employees have been instructed regarding what they have to do and how to do, it is the duty of the manager to see that they perform the work as per instructions. This is known as supervision. Supervisors solve most of the routine job-related problems of subordinates. Supervisor, thus, performs the following functions:

- clarifies orders and instructions issued to subordinates and ensures that they have understood and follow these fully;
- ensures that subordinates have the required facilities to perform their jobs;
- keeps a watch and guides the activities of subordinates in performing their jobs;

- broadens the horizon of his subordinates by making them aware of the wider aspects of their day-to-day work;
- coordinates the work of different subordinates under him; and
- detects errors and omissions and ensures their rectification.

Importance of Supervision

It must be clear that supervision is of great significance in getting the work done as per plans and as scheduled. On the basis of the influence on the work at operational level and human approach to the problems of workers, the supervision can ensure workers cooperation and support in achieving organizational objectives.

Supervisors are the key people among managers at different levels. They are the link between the top and middle management and the workers. They are the mouthpiece of management for communicating its ideas, plans and policies to the workers and employees. Thus, it is only the supervisor who, as a member of the management team, is capable of developing links to workers. Supervisors are expected to maintain the best and friendly relations with their seniors as well as with the workers and enjoy the trust and confidence of both management and operatives.

4. **Explain the term leadership and state the qualities of a good leader. (OR) “Leadership is considered as the most important element of the directing function of management”. In the light of this statement, explain the importance of leadership.**

Ans: A person who is able to influence others and make them follow his instructions is called a leader. Leadership is the process, which influences the people and inspires them to willingly accomplish the organisational objectives. The main purpose of managerial leadership is to get willing cooperation of the workgroup in pursuit of the goals.

Importance of Leadership

Leadership is essential in functioning of any organisation and its importance and benefits are varied. Some of these importances are:

- leadership improves the performance of the employees. Leaders can motivate the followers to work and thereby increase their performance level.
- with continuous support and guidance, leaders are able to build confidence among the followers, thereby increasing speed and accuracy and decreasing wastage.
- with friendly and cooperative efforts the leader is able to build employees’ morale which in turn contribute to higher productivity.

Leadership Qualities

In order to be successful, a leader must possess certain qualities.

- A good leader should be professionally competent, intelligent, analytical and he/she should have a sense of fair play, including honesty, sincerity, integrity, and sense of responsibility.

- ii. He must possess initiative, perseverance, be diligent and realistic in his outlook. He must also be able to communicate his subordinates effectively.
- iii. Human relation skills are a must for any leader.
- iv. The success or effectiveness of a person as a leader depends upon his behaviour pattern or leadership style in relation to the followers.
- v. To get things done, managers have to influence their subordinates and seek their voluntary co-operation.

When leaders involve people in determining goals, and build up team spirit, chances are that people will follow them voluntarily.

Short Answer Type Questions

1. What is meant by directing? Explain in brief the importance of directing.

Ans: Directing is concerned with instructing, guiding, supervising and inspiring people in the organisation to achieve its objectives. It is the process of telling people what to do and seeing that they do it in the best possible manner.

IMPORTANCE OF DIRECTING

Plans remain mere plans unless they are put into action. In the absence of direction, subordinates will have no idea as to what to do. They will probably not be inspired to complete the job satisfactorily. Implementation of plans is, thus, largely the concern of directing function. As a function of management, directing is useful in many ways.

- It guides and helps the subordinates to complete the given task properly and as per schedule.
- It provides the necessary motivation to subordinates to complete the work satisfactorily and strive to do them best.
- It helps in maintaining discipline and rewarding those who do well.
- Directing involves supervision, which is essential to make sure that work is performed according to the orders and instructions.
- Different people perform different activities in the organisation. All the activities are interrelated. In order to co-ordinate the activities carried out in different parts and to ensure that they are performed well, directing is important. It thus, helps to integrate the various activities and so also the individual goals with organisational goals.
- Directing involves leadership that essentially helps in creating appropriate work environment and build up team spirit.

2. What is the meaning of the term motivation? Describe the importance of motivation.

Ans: Motivation is one of the important elements of directing. Issuance of proper instructions or orders does not necessarily ensure that they will be properly carried out. It requires manager to inspire or induce the employees to act and get the expected result. This is called motivation.

Importance of Motivation

While performing a job two things are required, the ability to work and the willingness to work. Without willingness to work, ability to work cannot produce results. The importance of motivation lies in converting this ability to work into willingness to work. Performance depends on ability as well as willingness; and willingness depends on motivation. Thus, motivation is a key element in directing people to do the job. Some of the other benefits or importance of motivation are:

- with proper motivation there can be maximum utilisation of the factors of production like men, money, material etc.;
- if employees are motivated it will reduce employee turnover and absenteeism;
- motivation fosters a sense of belongingness among the employees towards the organisation and also improves their morale;
- motivation helps in reducing the number of complaints and grievances. The wastage and accident rate also come down; and
- with proper motivational techniques management can attract competent and best quality employees.

3. State the essential elements of the managerial function of directing. (OR) State the functions of directing.

Ans: Directing is concerned with instructing, guiding, supervising and inspiring people in the organisation to achieve its objectives. It is the process of telling people what to do and seeing that they do it in the best possible manner. The directing function thus, involves:

- telling people what is to be done and explaining to them how to do it;
- issuing instructions and orders to subordinates to carryout their assignments as scheduled;
- supervising their activities;
- inspiring them to meet the managers expectation and contribute towards the achievement of organizational objectives; and
- providing leadership.

4. Who involves in directing?

Ans: Directors/organisers

5. What are the activities involved in directing? (or) Name the different elements of directing.

Ans: Communication, supervision, motivation and leadership are the four essential elements of directing.

6. What the directing does?

Ans: It is concerned with instructing, guiding, supervising and inspiring people in the organization to achieve its objectives.

7. What is the process of execution of plans laid down by the managers?

Ans: Directing

8. What is meant by communication?

Ans: It refers to the process by which a person transmits information or messages to another person.

9. What is meant by body language?

Ans: Communication through facial expression and body gestures. For example, wave of hand, a smile. This is also termed as the gestural communication

10. What do you meant by supervision?

Ans: Keeps a watch and guides the activities of subordinates in performing their jobs.

11. What is motivation?

Ans: It is a force that inspires a person at work to intensify his willingness to use the best of his capability for achievement of specific objectives.

12. What is leadership?

Ans: It is the ability to persuade and motivate others to work in a desired way for achieving the goal.

13. Who is a leader?

Ans: A person who persuades others and makes them follow his instructions willingly is called a leader.

14

LESSON

Co-ordination & Controlling

Introduction

You have learnt about the various functions of management and gone through the details of planning, organising, staffing and directing functions. In this chapter we shall learn the details of coordinating and controlling functions. You know that the various business activities of an organisation are grouped and carried out by different departments and within each department there is division and sub-division. In order to achieve the organisational goals effectively, there is need to ensure that activities of such divisions, sub-divisions and departments are harmonised and duly monitored so that the performance of the organisation conforms to the plans and the prescribed time schedule. This is achieved through proper coordination and control of the activities of all groups. Let us now learn about the concepts of coordination and control and the various steps involved in the control process.

Long Answer Type Questions

1. What is meant by control? Explain various steps of the process of control.

Ans: Managerial planning results in the framing of objectives and laying down of targets. Controlling as a function of management refers to the evaluation of actual performance of work against planned or standard performance and taking the corrective action, if necessary.

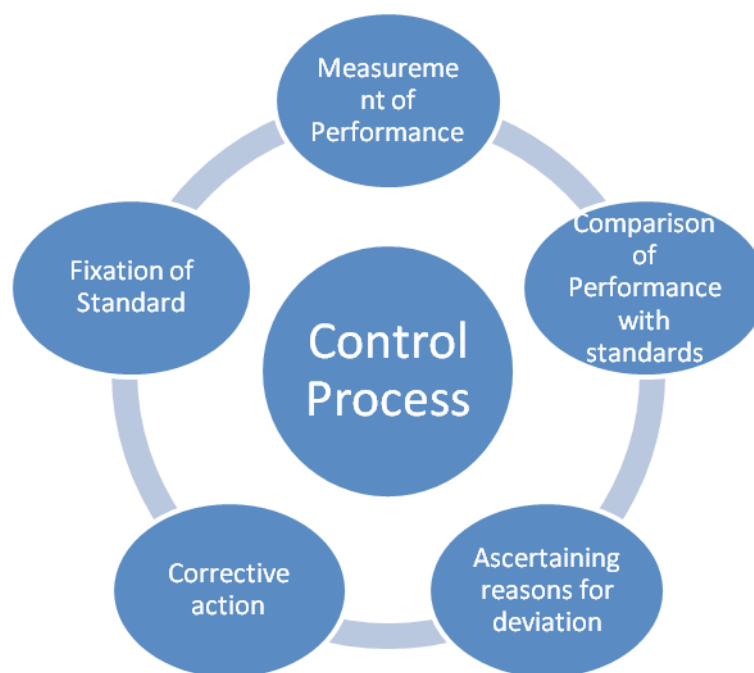
According to Henri Fayol, “Control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established.”

According to Brech, “Control is checking current performance against predetermined standards contained in the plans, with a view to ensure adequate progress and satisfactory performance, and also recording the experience gained from the working of these plans as guide to possible future needs.

Process of Control

The process of control consists of various steps. Look at the following example.

Ram is employed in a garments manufacturing company. His job is that of sewing trousers. His supervisor specifies that he should sew 20 trousers in a day. This is the first step of the control process, i.e., fixation of standards. At the end of the day, the supervisor counts and finds that Ram has completed only 18 trousers. Thus, the “measurement of performance” is the second step in the control process. Then he compares it with the standards. This is the third step of the control process called “comparison of performance with standards”. While comparing the performance of the other workers he finds that the two workers have produced less than the standard. When the supervisor tries to ascertain the reasons for the poor performance, he finds that machines on which the other two workers were working had developed some fault. This is the fourth step in controlling and is known as “ascertaining reasons for deviation”. Then, in order to avoid such unexpected defects in machinery in future, the supervisor decides that everyday there will be an inspection of all tools and equipments. This is “corrective action”, which is the fifth and last step in controlling.



Let us now discuss these steps in detail.

1. Establishment of Standards

Setting standard is the first requirement of control. Standards arise out of plans and provide the basis of comparison. There can be different types of standards.

2. Measurement of Performance

When standards are established, the next step is to measure the performance at regular intervals.

Performance should be measured as early as possible so that if a corrective action is called for it may be taken in time.

3. Comparison of Performance with standards

The next step in the control process is comparison of actual performance against the standards. In case the standards set are well defined and can be measured objectively, comparison becomes very simple. Comparison of actual and standard performance may lead to three possible outcomes: actual performance may be (a) equal to, (b) more than, or (c) less than the standard. If actual performance is equal to the standard, managers need not take any action but where deviations are noticed, corrective action becomes necessary. The managers should ascertain whether these deviations are within the permissible range or outside it. Corrective action becomes necessary only for deviations which fall outside the permissible range.

4. Detecting the reasons for deviations

Before taking any corrective action, managers should try to ascertain the reasons for the occurrence of deviations. The fault may be that standards fixed were unattainable rather than the subordinate's inefficiency. Hence, it is essential that the reasons, which caused the deviation, be ascertained to determine the appropriate corrective action.

5. Taking corrective action

Once the causes for deviations become known, the next step is to go in for a corrective action which may involve revision of standards, changing the methods of selection and training of workers or providing better motivation. The rectification of deviations from the standards should be undertaken promptly so that further losses are avoided.

2. Co-ordination is needed at all levels and in all functional areas of management. Comment. (OR) Explain briefly why coordination is called essence of management?

Ans: **Meaning**

In every organization, different types of work are performed by various groups and no single group can be expected to achieve the goals of the organization as a whole. Hence, it becomes essential that the activities of different work groups and departments should be harmonized. This function of management is known as 'co-ordination'. It ensures unity of action among individuals, work groups and departments, and brings harmony in carrying out the different activities and functions so as to achieve the organizational goals efficiently.

Definition

"According to Brech, Coordination is balancing and keeping together the team by ensuring suitable allocation of tasks to the various members and seeing that the tasks are performed with the harmony among the members themselves."

Significance

The significance of co-ordination as a function of management mainly arises from the fact that work performed by different groups, units or departments form integral part of the total work for which an organization is established. Without harmonized effort or unity of action, achievement of goals in some departments may run counter to that of the other departments, or the timing of achievements may not fit in properly. This has to be avoided and the managers have to prevent overlapping and conflict so as to achieve unity of action. With increasing size and scale of operations, the significance of co-ordination becomes more important. This is because of the following reasons

- (a) When there is growth in size and the volume of work, there will be more people and work groups. So there is greater possibility of people working at cross purposes as the unit and sub-unit goals may be considered more important by them than the organizational goals. Hence coordinating the activities in a large concern becomes a major task for the managers.
- (b) Large organizations generally tend to have activities located at different places, which may not permit frequent and close interaction among people. Hence, the need for coordination becomes greater and it becomes a major responsibility for the managers.
- (c) Growth in size of an organization is often combined with diversification of business activities. This may be due to new unrelated products being added to the existing products. As a result, there may be more division and sub-division of activities. At the same time, there is an increase in the number of managerial levels and vertical division of responsibilities. All these make coordination more difficult as well as important.

In view of the importance of coordination in an organization, it is sometimes called the 'essence of management'. It is a function of managers in all departments and branches of an organization, and applies at all levels of management. It ultimately helps in reconciliation of goals, total accomplishment of business objectives, and maintenance of harmonious relationship between different groups and ensuring economy and efficiency in the organization.

Short Answer Type Questions

1. Planning and control are inseparable. Discuss in brief.

Ans: Planning and controlling are closely related and depend upon each other. Controlling depends upon planning because planning provides the targets or standards against which actual performance can be compared. Controlling, on the other hand, appraises planning. It brings out the shortcomings of planning and helps to improve upon the plans. The manager revises the plan because the control exercise indicated that standard he had fixed was unreasonably high and beyond the reach of the workers. It may be noted that in order to exercise effective control, managers should not only have the standards but also see that information on the gaps between actual and standard performance is made available and action taken to rectify the deviations, if any. This is essential because, without such information, managers will not be able to measure the deviations and,

without corrective action, the entire control process would be a meaningless exercise. Thus, controlling involves

- (i) knowing the nature, quantum and time frame of the work;
- (ii) comparing the performance with the plan;
- (iii) analysing deviation, if any;
- (iv) taking corrective steps; and
- (v) suggesting revision of plans, if necessary.

2. State any two reasons of importance of control.

Ans: Controlling is one of the important functions of management. It pinpoints the deviations on the basis of which managers can take corrective steps. If no control is exercised, work may not be done as desired and inefficiencies may remain undetected. The importance of control has considerably increased now-a-days due to several reasons. Business units have grown in size and include a large variety of operations. There is greater competition in the market among different producers and sellers. Hence, the managers have to maintain and continuously improve the efficiency of operations. For this purpose, regular checking of the work done is required. This may also help in minimizing the cost and wastage. It is also necessary that targets of achievement are raised from time to time and employees duly rewarded for better performance of work. This is possible only through the process of control. Thus, controlling

- (a) helps in achieving the targets;
- (b) helps in taking corrective action on time;
- (c) helps in monitoring and improving employees performance;
- (d) helps in achieving better coordination;
- (e) helps in better planning;
- (f) helps in minimising errors;
- (g) facilitates decision making; and
- (h) simplifies supervision.

3. State any four characteristics of control.

Ans: The following are the basic characteristics of control.

- 1. Planning is the basis of control:** Control is said to be checking performance as per what has been planned. So planning precedes controlling and sets the standards and targets of performance.
- 2. Control is a continuous process:** It is an ongoing and dynamic function of management. It involves a continuous review of performance and is not a one-time exercise. The period of

control normally depends upon the nature of work, the amount of work and the policies of management.

3. **Control is all pervasive:** Control is exercised at all levels of management, and is done in every functional area and at each unit or department. Thus, control is all pervasive.
 4. **Action is the essence of control:** Control is an action-oriented process. The very purpose of control is defeated if corrective action is not taken for improvement of performance or the revision of plans.
 5. **Control is forward looking:** Control is futuristic in nature. It measures current performance and provides guidelines for the corrective action. This ensures future performance as per plans. Thus, it is forward looking.
4. **A good control system is one which is effective and serves its purpose. Explain giving essentials of good control system.**

Ans: In order to ensure that the control system is effective and serves its purpose, it must meet the following requirements.

- (a) **Simple:** It should be simple and easily understandable.
- (b) **Clear objectives:** Objectives should be clearly and specifically laid down and expressed in quantitative terms leaving no scope for subjective interpretation.
- (c) **Appropriate:** It should be appropriate to suit the requirements of the organisation. Control system for a manufacturing concern is to be different from that of a trading or service organisation.
- (d) **Flexible:** It should be flexible and responsive to changing requirements of the organisation and be adaptable to the new developments.
- (e) **Forward looking:** The control system should be directed towards future. It should indicate the steps to be taken in future so that the deviations do not continue and reduced to the minimum.
- (f) **Concentrate on exceptions:** An effective and economical control system must focus attention on factors critical to performance. If we try to control every small aspect, the system is likely to create problems rather than ensuring planned performance, and may prove costly.
- (g) **Efficient control techniques:** The control techniques are considered efficient if they help in detecting the derivations at an early stage and help in achieving the desired results. There are various techniques or methods that are used for the purpose of control. Some of these techniques are Break Even Analysis, Programme Evaluation and Review Technique (PERT), Critical Path Method (CPM), Statistical Quality Control (SQC) and Management Audit etc.

5. **What is meant by establishment of standards in controlling?**

Ans: Setting standard is the first requirement of control. Standards arise out of plans and provide the basis of comparison. There can be different types of standards. For example, number of units to

be produced per hour, cost of production per unit, permissible quantity of scrap and waste per day, quality of products etc.

6. What is co-ordination?

Ans: Co-ordination means orderly arrangement of group efforts to provide unity of action in the pursuit of a common goal.

7. What is controlling?

Ans: Control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established.

8. State any two aspects of controlling.

Ans: i. Knowing the nature, quantum and time frame of the work,
ii. Comparing the performance with the plan, and
iii. Suggesting revision of plans, if necessary.

9. State any two needs of controlling.

Ans: i. Helps in achieving the targets,
ii. Helps in achieving better co-ordination,
iii. Helps in taking corrective action on time.

10. State the advantages of co-ordination.

Ans: It helps in reconciliation of goals, total accomplishment of business objectives, maintenance of harmonious relationship between different groups and ensuring economy and efficiency in the organization.

15

LESSON

Financing of Business

Introduction

You must have seen a doctor busy in running his clinic, a shopkeeper selling groceries, or a tailor busy in stitching clothes. They all are pursuing their occupations or doing business to earn their livelihood. To become successful in their occupation or business all of them need some amount of funds (money) to buy the required materials, tools and equipments. The doctor has to purchase medical equipments and furniture to run his clinic, the shopkeeper has to buy groceries, the tailor has to purchase sewing machine, threads and other stitching materials for his work. Thus, any type of business or occupation requires money at every stages of its operation. Now, the question arises from where do the businessmen gather the required amount of money? Are they able to manage with their own money to start and run their business? Obviously, it is difficult and in case of large business, it is ruled out. So we have to know what are the various options available to them to arrange the required amount of funds (also called capital). In this lesson, we shall try to find out the answer to such questions.

Long Answer Type Questions

1. **What are 'Debentures'? Describe three merits and three limitations of debentures as a source of long-term finance for a company.**

Ans: The companies can raise long term funds by issuing debentures that carry assured rate of return for investors in the form of a fixed rate of interest. It is known as debt capital or borrowed capital of the company. The debenture is a written acknowledgement of money borrowed. It specifies the terms and conditions, such as rate of interest, time of repayment, security offered, etc. These are offered to the public to subscribe in the same manner as is done in the case of shares.

The debenture holders are the creditors of the company and are entitled to get interest irrespective of profit earned by the company. They do not have any voting right. So they do not interfere in the day-to-day management of the business. Ordinarily, debentures are fully secured.

Merits of Debentures

- (a) Debentures are secured loans. On winding up of the company, they are repayable before making any payment to the equity and preference shareholders.
- (b) The debenture holders get assured return irrespective of profit.
- (c) Issue of debentures enables the company to provide high return to equity shareholders when the earnings of the company are good. This is called Trading on Equity.
- (d) Debenture holders have no right either to vote or take part in the management of the company. So by issuing debentures the company raises the additional capital without diluting the control over its management.
- (e) Interest paid on debentures is treated as an expense and is charged to the profits of the company. The company thus, saves income tax.

Limitations of Debentures

- (a) If the earnings of the company are uncertain and unpredictable, issue of debentures may pose serious problems due to fixed obligation to pay interest and repay the principal. So, when the company expects good and stable income, then only it should issue debentures.
- (b) The company, which issues debentures, creates a charge on its assets in favour of debentureholders. So a company not having enough fixed assets cannot borrow money by issuing debentures.
- (c) The assets of the company once mortgaged cannot be used for further borrowing. So, issue of debentures reduces the borrowing capacity of the company.

2. Differentiate any four points between 'Shares' and 'Debentures' as sources of long-term finance.

Ans:

Difference between Shares and Debentures

Basis	Shares	Debentures
1. Status	Shareholders are the owners of the company. They provide ownership capital which is not refundable unless the company is liquidated.	Debentureholders are the creditors of the company. They provide loans generally for a fixed period, which are to be paid back.
2. Nature of return on investment	Shareholders get dividends. Its amount is not fixed as it depends on the profit of the company.	Interest is paid on debentures at a fixed rate. Interest is payable even if the company is running at a loss.
3. Rights	Shareholders are the real owners of the company. They have the right to vote and determine the policies of the company.	Debentureholders do not have the right to attend meetings of the company. So they have no say in the management of the company.

4. Security	No security is required to issue shares.	Generally debentures are secured. So, sufficient fixed assets are required when debentures are to be issued.
5. Order of repayment	Share capital is paid back only after paying the debentureholders and creditors.	Debentureholders have the priority of repayment over shareholders.
6. Risk	Risk is high due to uncertainty of returns.	Little risk due to certainty of return.
7. Control	Shareholders have a control over the affairs of the business	Debentureholders holders have no control on the affairs of the business

3. Explain the main purposes for which business needs funds.

Ans: Every business requires some amount of money to start and run the business. Whether it is a small business or large, manufacturing or trading or transportation business, money is an essential requirement for every activity. Money required for any activity is known as finance. So the term 'business finance' refers to the money required for business purposes and the ways by which it is raised. Thus, it involves procurement and utilization of funds so that business firms will be able to carry out their operations effectively and efficiently.

A business unit cannot move a single step without sufficient amount of finance. Hence, let us learn in detail as to why do the business need funds.

Every business needs funds mainly for the following purposes:

- 1. To purchase fixed assets:** Every type of business needs some fixed assets like land and building, furniture, machinery etc. A large amount of money is required for purchase of these assets.
- 2. To meet day-to-day expenses:** After establishment of a business, funds are needed to carry out day-to-day operations e.g., purchase of raw materials, payment of rent and taxes, telephone and electricity bills, wages and salaries, etc.
- 3. To fund business growth:** Growth of business may include expansion of existing line of business as well as adding new lines. To finance such growth, one needs more funds.
- 4. To bridge the time gap between production and sales:** The amount spent on production is realised only when sales are made. Normally, there is a time gap between production and sales and also between sales and realisation of cash. Hence during this interval, expenses continue to be incurred, for which funds are required.
- 5. To meet contingencies:** Funds are always required to meet the ups and downs of business and for some unforeseen problems. Suppose, a manufacturer anticipates shortage of raw materials after a period, then he would like to stock the raw materials in large quantity. But he will be able to do so only if sufficient money is available with him.

- 6. To avail of business opportunities:** Funds are also required to avail of business opportunities. Suppose a company wants to submit a tender for which some amount of money is required to be deposited along with the application. When a stockist offers special discount on large amount of purchase of any particular material then a manufacturer can avail of such offer, only if he has adequate funds to buy it.

4. Write explanatory notes on:

(a) Retention of Profits; and (b) Public Deposits, as methods of long-term finance.

Ans: (a) **Retention of Profit**

Like an individual, companies also set aside a part of their profits to meet future requirements of capital. The portion of the profits, which is not distributed among the shareholders but is retained and reinvested in business, is called retained earnings or ploughing back of profits. As per Indian Companies Act 1956, companies are required to transfer a part of their profits in reserves like General Reserve, Debenture Redemption Reserve and Dividend Equalisation Reserve etc. These reserves can be used to meet long-term financial requirements like purchase of fixed assets, renovation and modernisations etc. This method of financing long-term financial requirement is also called as Retention of Profit.

Merits

Following are the benefits of retention of profit.

- 1. Cheap source of capital:** No expenses are incurred when capital is available from this source. There is no obligation on the part of the company either to pay interest or pay back the money. It can safely be used for expansion and modernisation of business.
- 2. Financial stability:** A company which has enough reserves can face ups and downs in business. Such companies can continue with their business even in depression, thus building up its goodwill.
- 3. Benefits to the shareholders:** Shareholders are assured of a stable dividend. When the company does not earn enough profit it can draw upon its reserves for payment of dividends. Not only that their holding size can improve with issue of bonus shares. Due to reserves, there is capital appreciation, i.e., the value of shares may go up in the share market.

Limitations

Following are the limitations of retention of profit:

- 1. High Profit required:** This method of financing is possible only when the company earns huge profits and that too for many years.
- 2. Dissatisfaction among shareholders:** Accumulation of profits often leads to low dividend payment by companies. Not only that, the companies may not utilise it for issue

of bonus shares to avoid higher dividend payment. This may create dissatisfaction among the shareholders.

3. **Mis-management of funds:** Capital accumulated through retained earnings encourages management to be less careful with utilisation of funds which may lead to low profitability. It is not in the long run interest of the shareholders.

(b) Public Deposits

Under this method companies can raise funds by inviting their shareholders, employees and the general public to deposit their savings with the company. To attract the public, the company usually offers a higher rate of interest than the interest on bank deposit. The period for which companies accept public deposits ranges between six months to 36 months.

Procedure of raising funds through Public Deposits

- i. When an organisation wants to raise funds through public deposits it give an advertisement in the newspapers.
- ii. It declares the rate of interest, which may vary depending upon the period for which money is deposited.
- iii. It also declares the time and mode of payment of interest and the repayment of deposits.
- iv. The amount of deposit should not exceed 25% of the paid up capital and general reserves.
- v. The company is also required to maintain a Register of Depositors containing all particulars as to public deposits.

Merits

Following are the merits of public deposits.

1. **Simple and easy:** The method of borrowing money through public deposit is very simple. It does not require many legal formalities. It has to be advertised in the newspapers and a receipt is to be issued.
2. **No charge on assets:** Public deposits are not secured. They do not have any charge on the fixed assets of the company.
3. **Economical:** Expenses incurred on borrowing through public deposits are much less than expenses of other methods like issue of shares and debentures.
4. **Flexibility:** Public deposits bring flexibility in the capital structure of the company. These can be raised when needed and refunded when not required.

Limitations

Following are the limitations of public deposits.

1. **Uncertainty:** A concern should be of high repute and have a high credit rating to attract public to deposit their savings. There may be sudden withdrawals of deposits, which may create financial problems. Depositors are regarded as fair weather friends.

2. **Insecurity:** Public deposits do not have any charge on the assets of the concern. It may not always be safe to deposit savings with companies particularly those, which are not very sound financially.
3. **Limits on the amount raised:** There are limits on the amount that can be raised through public deposits.

5. Discuss briefly any four methods of raising short-term finance.

Ans: There are a number of methods used for raising short-term finance. These are:

1. Trade credit
2. Bank credit
3. Factoring
4. Customers' Advances
5. Installment Credit
6. Loans from Unorganised sectors

Let us know in details about them.

1. Trade Credit

Trade credit refers to credit granted to manufacturers and traders by the suppliers of raw material, finished goods, components, etc. Usually business enterprises buy goods on 30 to 90 days credit. This means that the goods are delivered but payments are not made until the expiry of the period of credit. This type of credit does not make the funds available in cash but it facilitates purchases without making immediate payment which amounts to funding it by suppliers. This is a very popular source of short term finance.

2. Bank Credit

Commercial banks usually provide short-term finance to business firms, which is known as bank credit. When bank credit is granted, the borrower gets a right to draw the amount of credit as and when needed. Bank credit may be granted in any of the following ways:

- (a) Loans and Advances
- (b) Cash Credit
- (c) Bank Overdraft
- (d) Discounting of Bill

3. Factoring

Factoring is a method of raising short-term finance for the business in which the business can take advance money from the bank against the amount to be realised from the debtors. By this method, the firm shifts the responsibility of collecting the outstanding amount from the

debtors on payment of a specified charge. Here the business gets the money in advance without waiting for due date. Also it saves the effort of collecting the debts.

4. Customers' Advances

Sometimes businessmen insist to their customers to make some advance payment. It is generally asked when the value of order is quite large or goods ordered are very costly. Customers' advance represents a part of the payment towards sale price of the product(s), which will be delivered at a later date. Customers generally agree to make advance payment when such goods are not easily available in the market or there is an urgent need of any goods. A firm can meet its short-term requirements with the help of customers' advances.

5. Loans from Unorganised Sectors

In addition to the above methods of raising funds, the businessmen always have the option to take the money from the unorganised sector like loans from the moneylender (called indigenous bankers), friends and relatives. To meet the short-term and urgent need of business, money can be obtained from them either on personal security or on security of tangible assets and personal properties. Since the interest charged on loans from unorganized sector is normally very high, the businessmen are not very keen to avail of loan from this source.

6. State the differences between equity shares and preference shares.

Ans:

Basis of difference	Equity shares	Preference Shares
(i) Choice	It is compulsory to issue these shares.	It is not compulsory to issue these shares.
(ii) Payment of dividend	Dividend is paid on these shares only after paying dividend on preference shares.	Dividend is paid on these shares in preference to the equity shares.
(iii) Return of capital	In case of winding up of the company the equity share capital is refunded only after the refund of preference share capital.	In case of winding up of the company the capital is refunded in preference over the equity shares.
(iv) Voting Right	The equity shareholders enjoy voting rights.	The preference shareholders do not have voting rights.
(v) Accumulation of Dividend	The dividends on equity shares are not accumulated and therefore can not be carried forward.	The unpaid dividends are accumulated and are carried forward to the future years in case of cumulative preference shares.

7. Explain the different types of financial requirements in a business.

Ans: In every business activity money is an important as well as essential component. Now let us see the nature and type of financial requirement of the business enterprises.

The type and amount of funds required usually differs from one business to another. For instance, if the size of business is large, the amount of funds required will also be large. Likewise, the financial requirements are more in manufacturing business as compared to trading business. The business need funds for longer period to be invested in fixed assets like land and building, machinery etc. Sometimes, the business also needs fund to be invested in shorter period. So based on the period for which the funds are required, the business finance is classified into three categories.

(a) Short-term Finance;

(b) Medium-term Finance; and

(c) Long-term Finance;

Let us now learn about each of them in detail.

Short-term Finance

Funds required to meet day-to-day expenses are known as short-term finance. This is required for purchase of raw materials, payment of wages, rent, insurance, electricity and water bills, etc. The short-term finance is required for a period of one year or less. This financial requirement for short period is also known as working capital requirement or circulating capital requirement. It may be noted that a part of the working capital requirement is of a long-term nature, as certain minimum amount of funds are always kept to meet the requirement of stock and regular day-to-day expenses.

Medium-term Finance

Medium-term finance is utilised for all such purposes where investments are required for more than one year but less than five years. Amount required to fund modernisation and renovation, special promotional programmes etc. fall in this category.

Long-term Finance

The amount of funds required by a business for more than five years is called long-term finance. Generally this type of finance is required for the purchase of fixed assets like land and building, plant and machinery furniture etc. The long-term finance is also known as fixed capital as such need in fact is, of a permanent nature.

Short Answer Type Questions

- 1. 'Finance is considered as the life-line of the business, especially in the modern day'. Give reasons for the same. (OR) State the importance of business finance.**

Ans: Finance is the most important requirement of every business and it is considered as lifeline of the business. Inadequate finance poses many problems and may bring an end to the life of the business.

The importance of finance has considerably increased in modern days due to following reasons in addition to the usual need:

- (a) **Need for Large Scale Operation:** Now-a-days business activities are generally undertaken on a large scale. The products of any country are now freely and easily available in other countries. The entire world has become a big market. So to survive in the business world the businessman has to expand the horizon of his activities and function on large scale. This expansion of business always demands more funds.
- (b) **Use of Modern Technology:** Use of latest technology in the process of production as well as distribution has become imperative for every business now-a-days. To meet the competition, production process now demands use of modern machinery, equipments and tools. Hence, there is a greater need for finance to meet the challenge of the world's markets successfully.
- (c) **Promotion of sales:** In this era of competition lot of money is to be spent on activities for promoting sales. This involves advertisement, personal selling, use of sales promotional schemes, providing after sales service and free home delivery, etc. which need huge amount of funds.

2. Explain any two ways in which a business enterprise can obtain bank credit.

Ans: **Bank Credit**

Commercial banks usually provide short-term finance to business firms, which are known as bank credit. When bank credit is granted, the borrower gets a right to draw the amount of credit as and when needed. Bank credit may be granted in any of the following ways:

- (a) **Loans and Advances :** When a certain amount of money is advanced by a bank repayable after a specified period, it is known as bank loan. Such advance is credited to a separate loan account and the borrower has to pay interest on the whole amount of loan irrespective of the amount of loan actually drawn. Usually loans are granted against security of assets.
- (b) **Cash Credit :** It is an arrangement whereby banks allow the borrower to withdraw money upto a specified limit. This limit is known as cash credit limit. This facility is granted against the security of goods in stock or promissory notes or other marketable securities like government bonds. Under this arrangement, the borrower can draw, repay and again draw the amount within the sanctioned limit. Interest is charged only on the amount actually withdrawn and not on the amount of entire limit.
- (c) **Bank Overdraft :** When a bank allows its depositors or accountholders to withdraw money in excess of the balance in his current deposit account upto a specified limit, it is known as overdraft facility. This limit is granted purely on the basis of credit worthiness of the borrower. Interest is charged only on the overdrawn money. Rate of interest in case of bank overdraft is less than the rate charged under cash credit.
- (d) **Discounting of Bill :** Banks also give advance money by discounting bill of exchange. When a bill of exchange is presented before the bank for encashment, bank credits the amount to

customer's account after deducting some discount. The amount of discount is charged on the basis of the interest for the period of bill. On maturity of the bill, the payment is received by the bank from the drawee.

3. Give two merits and two limitations of equity shares, from the point of view of the management.

Ans: **Merits of Equity Shares (From Management point of view)**

- A company can raise capital by issuing equity shares without creating any charge on its fixed assets.
- The capital raised by issuing equity shares is not required to be paid back during the lifetime of the company. It will be paid back only when the company is winding up.
- There is no binding on the company to pay dividend on equity shares. The company may declare dividends only if there are enough profits.
- If a company raises more capital by issuing equity shares, it leads to greater confidence among the creditors.

Limitations of Equity Shares (From Management point of view)

- It requires more formalities and procedural delay to raise funds by issuing equity shares. Also the cost of raising capital through equity share is more as compared to debt.
- As the equity shareholders carry voting rights, groups are formed to garner the votes and grab the control of the company. This may lead to conflict of interests, which is harmful for the smooth functioning of a company.

4. State the meaning of 'Preference shares'. Explain any two types of preference shares a company can issue.

Ans: Preference Shares are those shares, which carry preferential rights in respect of dividend and return of capital. Before any dividend is paid to the equity shares, the dividend at a fixed rate must be paid on the preference shares. Again at the time of winding up, the holder of the preference shares will get the return of their capital before anything is paid to the equity shareholders.

Types of Preference Shares

A company has the option to issue different types of preference share. Let us see what are the different types of preference share a company can issue.

(i) Convertible and Non-convertible Preference Share

The preference shares which can be converted into equity shares after a specified period of time are known as convertible preference share. Otherwise, it is known as non-convertible preference share.

(ii) Cumulative and Non-cumulative Preference Share

In cumulative preference shares, the unpaid dividends are accumulated and carried forward for payment in future years. On the other hand, in non-cumulative preference share, the dividend is not accumulated if it is not paid out of the current year's profit.

(iii) Participating and Non-participating Preference Share

Participating preference shares have a right to share the profit after making payment to the equity shares. The non-participating preference shares do not enjoy such a right.

(iv) Redeemable and Irredeemable Preference Share

Preference shares having a fixed date of maturity is called as redeemable preference share. Here, the company undertakes to return the amount to the preference shareholders immediately after the expiry of a fixed period. Where the amount of the preference shares is refunded only at the time of liquidation, are known as irredeemable preference shares.

5. State the distinction between cash credit and bank overdraft.

- Ans: (i) Cash credit is an arrangement of credit granted by a bank to a firm. The firm may or may not have an account with the bank. Overdraft is granted to an account holder purely on the basis of his credit-worthiness. Credit worthiness is decided by the financial soundness of past dealings of the customer with the bank.
- (ii) In case of cash credit, the amount of credit is placed in a separate account of the borrower. Overdraft limit is generally granted to an existing account of the customer.
- (iii) The amount of credit in case of cash credit depends upon the value of securities offered. But overdraft limit is decided on the average balance in the customer's account.
- (iv) Overdraft is granted without the security of any assets. But for cash credit, security of tangible assets is an essential requirement.

6. Distinguish between GDR and ADR.

- Ans: The issue of Global Depository Receipts (GDRs) and American Depository Receipts (ADRs) are different methods of raising funds from foreign sources. Under this method the shares of Indian companies are issued in the forms of depository receipts (Global or American) that are traded on the foreign markets.

Under GDR, shares of the company are first converted into depository receipts by international banks. These depository receipts are denominated in US dollars. Then these depository receipts are offered for sale globally through foreign stock exchanges. The holders of GDRs are entitled for dividend just like shareholders. But they do not enjoy the voting rights. Many Indian companies like ICICI, Wipro etc. have raised foreign capital through issue of GDRs.

The depository receipts which are issued by a USA Bank for trading only in American Stock markets are known as American Depository Receipts (ADR). The ADRs are issued only to the American citizens.

7. List the various needs of the business for which funds are required.

- Ans: (a) To purchase fixed assets
(b) To meet day-to-day expenses
(c) To fund business growth
(d) To bridge time gap between production and sales.
(e) To meet contingencies
(f) To avail of business opportunities.

8. Give examples of specific expenditures for which funds will be required for (a) Short-term, (b) Medium term, and (c) Long-term.

- Ans: (a) (i) Purchase of raw material
(ii) Payment of electricity bill (or any other suitable example)
(b) (i) Modernization and renovation
(ii) Special promotional programmes (or any other suitable example)
(c) (i) Purchase of land and building
(b) Purchase of furniture (or any other suitable example)

9. What is meant by discounting of bills?

- Ans: Banks also give advance money by discounting bill of exchange. When a bill of exchange is presented before the bank for encashment, bank credits the amount to customer's account after deducting some discount. On maturity of the bill, the payment is received by the bank from the drawee.

10. What is trading on equity?

- Ans: Trading on equity refers to the use of high debt for ensuring higher returns for the equity shareholders.

11. What is lease agreement?

- Ans: Lease is a contract whereby one can use the assets of the other with due permission of the owner on payment of rent without purchasing them

12. What is lease finance?

- Ans: It is a system, which helps the business to use the plants and machinery and other fixed assets for a long period of time without investing a large amount of money in purchasing them.

13. Who is lessor?

- Ans: The owner of the asset.

14. Who is lessee?

Ans: The user of the asset.

15. What is meant by leasing?

Ans: Leasing is an arrangement that enables a business enterprise to use and exercise complete control over the assets without owning it.

16. What is meant by sale and lease back?

Ans: The user of the assets may request the leasing company to purchase its existing assets and allow them to use the same assets on lease basis. This enables the user company to save the long-term funds that can be utilized for other purposes. This is known as 'sale and lease back'.

17. What is meant by preferential shares?

Ans: Preferential shares are those shares which carry preferential rights over equity shares with regard to the payment of dividend and repayment of capital.

18. What is debenture?

Ans: Document/ instrument issued by a company in acknowledgement of debt.

19. What is bond?

Ans: An instrument issued as acknowledgement of debt by an organisation.

20. Finance is considered as what of the business, especially in the modern day?

Ans: Life blood/line of the business.

21. The short-term loans which are given by commercial banks to business organizations is known as?

Ans: Bank credit

22. Name the loan sanctioned by a bank payable after certain time.

Ans: Advances

23. What is cash credit?

Ans: It is an arrangement whereby banks allow the borrower to withdraw money upto a specified limit.

24. Give the full form of the following abbreviations:

(a) IFCI, (b) SFC, (c) SIDC, (d) GDR, (e) FDI, (f) ADRs

Ans: (a) Industrial Finance Corporation of India

(b) State Financial Corporation

- (c) State Industrial Development Corporation
- (d) Global Depository Receipt
- (e) Foreign Direct Investment
- (f) American Depository Receipt

25. Which method of long-term financing, Public Deposit or Retention of Profits, are being referred to, in each of the following statements:

- (a) Management is less careful about funds utilization by this method.**
- (b) To raise funds through this method, an advertisement is generally given through the newspapers.**
- (c) They offers flexibility and the funds can be refunded when not required.**
- (d) They offer benefit to shareholders as company may draw upon its reserves to pay dividend to them.**
- (e) No obligation on the company to pay interest on it or repay the money.**

Ans: (a) Retention of Profits

- (b) Public Deposit
- (c) Public Deposit
- (d) Retention of Profits
- (e) Retention of Profits

26. Give specific examples of the following kinds of assets that may be given as security for obtaining bank credit:

- (a) Document of title to goods (b) Moveable goods (c) Jewellery or precious metals**

Ans: (a) Bill of Lading, Railway Receipts, Warehouse Warrant etc.

- (b) Stock of raw material like leather, chemicals etc. or finished goods like industrial machinery, leather shoes etc. (or any other suitable examples).
- (c) Gold Bangles, Diamond Necklace, Silver ware (or any other suitable examples).

27. Which type of bank credit is being referred to here:

- (a) Accountholder is allowed to withdraw an amount in excess of the balance in his current account in the bank.**
- (b) The bank advances money against a document, after deducting some discount.**
- (c) Interest is charged on the amount actually withdrawn, and not on the entire amount sanctioned.**
- (d) The amount is credited to a separate account by the bank and interest is paid by the borrower on the whole of this amount, irrespective of the amount actually drawn.**

Ans: (a) Bank Overdraft

(b) Discounting of Bill

(c) Cash Credit

(d) Loans and Advances.

28. Some of the features of the different methods of raising long-term capital are given below. Identify the features that relate to equity shares, preference shares and debentures.

(i) In case of winding up of the company, the capital is refunded after payment of debentures but before payment to equity shareholders.

(ii) Their holders are creditors of the company for a fixed period.

(iii) Their holders are the owners of the company and enjoy voting rights.

(iv) They bear high degree of risk-in case of losses they do not get dividend and in case of winding up of the company, they are the last to get refund of their invested money.

(v) Their holders have no say in the management of the company and they do not have the right to attend the company's meetings.

Ans: (i) Preference shares

(ii) Debentures

(iii) Equity shares

(iv) Equity shares

(v) Debentures

29. Which type of shares is not issued by the companies in India?

Ans: Irredeemable preference shares.

30. Who are the debenture holders for a company?

Ans: Creditors

31. Who are the shareholders for a company?

Ans: Owners

16

LESSON

Sources of Long-term Finance

Introduction

In the previous lesson you learnt about the various methods of raising long-term finance. Normally the methods of raising finance are also termed as the sources of finance. But, as a matter of fact, the methods refer only to the forms in which the funds are raised, and hence may or may not include the sources from, or through which the funds are raised. Hence, we must also have an idea about the sources of finance. You will recall that the various sources of long-term finance had been duly identified in the previous lesson. We shall now learn in detail about those sources.

Long Answer Type Questions

1. Explain 'Capital Market' as a source of long-term finance.

Ans: 'Capital market' refers to the organization and the mechanism through which the companies, other institutions and the government raise long-term funds. So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issuing various securities such as shares, debentures, bonds, etc. For trading of securities, there are two different segments in capital market. One is primary market and the other is secondary market.

i. Primary Market

The primary market deals with new/fresh issue of securities and is, therefore, known as new issue market. The new issue market primarily consists of the arrangements, which facilitates the procurement of long-term finance by the companies in the form of shares, debentures and bonds.

ii. Secondary Market

The secondary market on the other hand, provides a place for purchase and sale of existing securities and is known as stock market or stock exchange. The secondary market (stock exchange) is an association or organization or a body of individuals established for the purpose of assisting, regulating and controlling the business of buying, selling and dealing in securities. It may be noted that it is called a secondary market because only the securities already issued can be traded on the floor of the stock exchange.

2. What is the meant by development banks or development financial institutions? Name any three special financial institutions and state their objectives.

Ans: A number of special financial institutions have been set-up by the central and state governments to provide long-term finance to the business organizations. They also offer support services in launching of the new enterprises and also for expansion and modernization of existing enterprises. Some of the important ones are Industrial Finance Corporation of India (IFCI), Industrial Investment Bank of India (IIBI), Industrial Credit and Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI), Infrastructure Development Finance Company Ltd. (IDFC), Small Industries Development Bank of India (SIDBI), State Industrial Development Corporations (SIDCs), and State Financial Corporation's (SFCs), etc. Since these institutions provide developmental finance, they are also known as Development Banks or Development Financial Institutions (DFI). Besides these development banks there are a few other financial institutions such as life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and Unit Trust of India (UTI) which provide long-term finance to companies and subscribe to their share and debentures.

Let us have a brief idea about some of the Special Financial Institutions.

- 1. Industrial Finance Corporation of India (IFCI):** It is the oldest SFI set up in 1948 with the primary objective of providing long-term and medium-term finance to large industrial enterprises. It provides financial assistance for setting up of new industrial enterprises and for expansion or diversification of activities. It also provides support to modernization and renovation of plant and equipment in existing industrial units. It can grant loan or subscribe to debentures issued by companies repayable in not more than 25 years. It can also guarantee loans raised from other sources or debentures issued to the public, and take up underwriting of the public issue of shares and debentures by companies. For ensuring greater flexibility to meet the needs of the changing financial system IFCI now stands transformed to IFCI Ltd. with effect from 1 June 1993.
- 2. Industrial Credit and Investment Corporation of India (ICICI):** It was set up in 1955 for providing long-term loans to companies for a period up to 15 years and subscribe to their shares and debentures. However, the proprietary and partnership firms were also entitled to secure loans from ICICI. Like IFCI, the ICICI also guarantees loans raised by companies from other sources besides underwriting their issue of shares and debentures. Foreign currency

loans can also be secured by companies from ICICI. In the context of the emerging competitive scenario in the finance sector, ICICI has merged with ICICI Bank Ltd., with effect from 3 May 2002. Consequent upon the merger, the ICICI group's financing and banking operations have been integrated into a single full service banking company.

3. **Industrial Development Bank of India (IDBI):** It was set up in 1964 as a subsidiary of Reserve Bank of India for providing financial assistance to all types of industrial enterprises without any restriction on the type of finance and the amount of funds. It could also refinance loans granted by other financial institutions and offer guarantees for the loans raised from the capital market or scheduled banks. It also discounts and rediscounts the commercial bills of exchange and undertakes underwriting of the public issues. IDBI, like ICICI, has also transformed into a commercial bank and has been retitled as IDBI Ltd. with effect from 1 October 2004 with IDBI Bank merged into it.
4. **Industrial Investment Bank of India (IIBI):** The erstwhile Industrial Reconstruction Bank of India (IRBI), an institution which was set up for rehabilitation of small units has been reconstituted in 1997 as Industrial Investment Bank of India. It is a full fledged all purpose development bank with adequate operational flexibility and autonomy. After the reconstruction its focus has changed from rehabilitation finance to development banking.
5. **Small Industries Development Bank of India (SIDBI):** It was set up in 1990 as a principal financial institution for the promotion, financing and development of small-scale industrial enterprises. It is an apex institution of all the banks providing credit facility to small-scale industries in our country. It offers refinancing of bills, rediscounting of bills, and several other support services to Small Scale Industries (SSI). It undertakes a wide range of promotional and development activities for improving the inherent strength of SSI units and creating avenues for the economic development of the rural poor.
6. **State Financial Corporation's (SFCs):** In order to provide financial assistance to all types of industrial enterprises (proprietary and partnership firms as well as companies) most of the states of our country have set up SFCs. The primary objective of these corporations is to accelerate the pace of Industrial development in their respective states. SFCs provide finance in the form of long-term loans or through subscription of debentures, offer guarantee to loans raised from other sources and take up underwriting of public issues of shares and debentures made by companies. However, they cannot directly subscribe to the shares issued by the companies. The SFC (Amendment) Act, 2000 has provided greater flexibility to SFCs to cope with the changing economic and financial environment of the country.
7. **State Industrial Development Corporations (SIDCs):** These corporations were set up in 1960s and early 1970s by most state governments for promotions and development of medium and large-scale industries in their respective states. In addition to providing financial assistance to industrial units, they also undertake a variety of promotional activities. They also implement the various incentive schemes of the central and state governments.

3. What is meant by 'Mutual Funds'? Explain its features in brief.

Ans: Mutual fund refers to a fund established in the form of a trust by a sponsor to raise money through one or more schemes for investing in securities. It is a special type of investment institution, which acts as an investment intermediary that collects or pools the savings of a large number of investors and invests them in a fairly large and well diversified portfolio of sound investments. This minimizes their risk and ensures good returns to the investors. Thus, they act as an investment agency for small investors and a good source for long-term finance for the business.

Features of Mutual Funds

The essential features of mutual funds are as follows:

1. It is a trust into which a number of investors invest their money in the form of units to form a large pool of funds.
2. The amount is invested in securities by the managers of the fund.
3. The amount is invested in different securities of reputed companies to ensure definite and regular income. Thus, it helps in minimizing the risk.
4. The mutual fund schemes often have the advantages of high return, easy liquidity, safety and tax benefits to the investors.
5. The net income received on the investments of the fund is distributed over the units held.
6. The managers of the fund are obliged to redeem the units on demand or on the expiry of a specified period.

4. Describe 'external borrowings' as a form of getting funds from foreign sources.

Ans: Foreign Sources also play an important part in meeting the long-term financial needs of the business in India. These usually take the form of (1) external borrowings; (2) foreign investments and; (3) deposits from NRIs. Let us have a brief idea about these sources.

1. **External Borrowings:** These include loans obtained at concessional rates of interest with long maturity period and commercial borrowings. The major sources of concessional loans have been the International Monetary Fund (IMF), Aid India Consortium (AIC), Asian Development Bank (ADB), World Bank (International Bank for Reconstruction and Development) and International Financial Corporation. The World Bank grants loans for specific industrial projects of high priority and given either directly to an industrial concern or through a government agency. The International Finance Corporation, an affiliate of the World Bank, grants loans to industrial units for a period of 8 to 10 years. Such loans do not require government guarantee. As for the external commercial borrowings, their major sources has been the export credit agencies like US EXIM Bank, the Japanese EXIM Bank, Export Credit and Guarantee Corporation of U.K. and other government and multilateral agencies. The external commercial borrowings are permitted by the government as an important source of finance for Indian firms for the expansion investments.

2. **Foreign Investments:** The foreign investments in our country are generally done in the form of foreign direct investment (FDI) or through foreign collaborations. The foreign direct investment usually refers to the subscription by the foreigners to shares and debentures of the Indian Companies. This is also known as portfolio investment and covers their subscription to ADRs, GDRs and FCCBs (Foreign Currency Convertible Bonds). Alternatively, some companies are formed with the specified purpose of operating in India or the multinationals can set up their subsidiary or branch in India. As for the foreign collaborations, these can be of financial collaborations involving foreign company's participation in equity capital of an existing or new undertaking. The technical collaborations are by way of supply of technical knowledge, patents and machineries. To start with, the technical collaborations had been the more popular form in the past. But during the post liberalization phase, shift from technical collaborations to financial collaborations is noticed in our country.

It may be noted that the government has been very successful in attracting more foreign investment in the post liberalisation era. It is because the Government of India now permits automatic approval of foreign investment upto 51% equity in 34 industries and a special board (Foreign Investment Promotion Board) has been set up to process cases not covered by automatic approvals. The main advantage of foreign investment is that generally the foreign investor also brings with him the technical expertise and the modern machinery. The disadvantage, however, is that a large part of profits are transferred to the foreign investors.

3. **Non-resident Indians (NRIs):** You are aware that the persons of Indian origin (PIO) living abroad commonly known as Non-Resident Indians (NRIs) constitute an important source of long-term finance for industries in India. The most common form of their contribution is in the form of deposits under Foreign Currency Non-Resident Account (FCNRA) and Non-Resident (External) Rupee Account (NRERA).

Short Answer Type Questions

1. **Describe the role of venture capital institutions in providing long term finance to business.**

Ans: Venture Capital is a form of equity finance designed especially for funding high risk and high reward projects of young entrepreneurs. It helps them to turn their research and development projects into commercial ventures by providing them the initial capital and managerial assistance. The initial capital is provided in the form of equity participation through direct purchase of the share and debentures of the enterprise set up for the purpose. The institutions providing venture capital also actively participate in the management of the entrepreneurs' business.

The development of venture capital institutions is of recent origin in India. The concept was formally introduced in 1986-87 when the Government announced the creation of a venture fund to be operated by IDBI. It was followed by ICICI, IFCI and two public sector banks (State Bank of India and Canara Bank) that set up separate companies for the purpose. Some state

government controlled development financial institutions viz., Gujarat Industrial Investment Corporation and Andhra Pradesh State Corporation also promoted their venture capital companies.

2. Distinguish between Open ended and close ended categories of Mutual Funds.

Ans: Keeping in view the investment objectives of the investors the mutual funds usually have a large variety of schemes such as equity fund, debt fund, balanced fund, growth fund, income fund, liquid fund, tax saver fund, index fund and so on. These schemes are broadly classified into two categories as follows:

- (a) **Open Ended Funds:** These funds have no fixed corpus and period. Such fund continuously offer units for sale and is ready to buy back the units surrendered. In other words, investors are free to buy from, or sell to, the trust any number of units at any point of time at prices which are linked to the net asset value (NAV) of the units.
- (b) **Close Ended Funds:** In case of these funds, subscriptions from the investors are collected during a specified time period and have a fixed corpus. Not only that, the investors cannot redeem their units till the specified maturity date. However, to provide liquidity, these are listed on the stock exchange and the investors can purchase and sell through the brokers at the market price without any difficulty.

3. Explain the rule of NBFCs in providing long-term finance.

Ans: Non-Banking Financial Companies perform the twin functions of accepting deposits from the public and providing loans. However they are not regarded as banking companies as they do not carry on the normal banking activities. They raise funds from the public by offering attractive rate of interest and give loans mainly to the wholesale and retail traders, small-scale industries and self-employed persons. The loans granted by these finance companies are generally unsecured and the interest charged by them ranges between 24 to 36 percent per annum. Besides giving loans and advances, the NBFCs also have purchase and discount hundis, undertaken merchant banking, housing finance, lease financing, hire purchase business etc. In our country, NBFCs have emerged as an important financial intermediary due to simplified loan sanction procedure, attractive rate of return on deposits, flexibility and timeliness in meeting the credit needs of the customers.

4. Mention the merits and demerits of 'retained earnings' as a source of long-term finance.

Ans: Retained earnings refer to the undistributed profits of companies which are usually kept in the form of general reserve. Primarily, it is a hedge against low profits in future and is used for the issue of bonus shares by the company. But, in effect, it acts as an import source of long-term finance for the companies with Zero cost of capital. The retained profits can be used for expansion and modernization programmes by the companies. The amount of retained earnings is determined by the quantum of profits, the dividend payout policy followed by the management, the legal provisions for dividend payment, and the rate of corporate taxes etc.

It is an internal source, which does not involve any cost of floatation and the uncertainties of external financing. In fact, it is regarded as the most dependable source of long-term finance. It also strengthens the firm's equity base, which enables to borrow at better terms and conditions. The main drawbacks of this source are (a) it is fully dependent on the accuracy of profits; and (b) possibility of reckless use of funds by the management.

5. State any two functions of EXIM bank.

Ans: The Export and Import Bank of India was set up on January, 1982 to take over the operations of international finance wing of the IDBI and act as an apex institution in the field of financing foreign trade. The main functions of the Bank are:

- (i) Financing of export and import of goods and services;
- (ii) Granting deferred payment credit for medium and long term duration;
- (iii) Providing loans to Indian parties to enable them to contribute to share capital of joint ventures in foreign countries and;
- (iv) Extending refinance facilities to commercial banks in respect of export credit.

Recently it has introduced production equipment finance programme under which it provides rupee term finance to export oriented units for acquisition of equipment. Apart from these, the Exim Bank also undertakes merchant banking and development banking functions as considered necessary to finance promotional activities and providing counseling services to persons engaged in export-import business.

6. What are the main functions of special financial institutions?

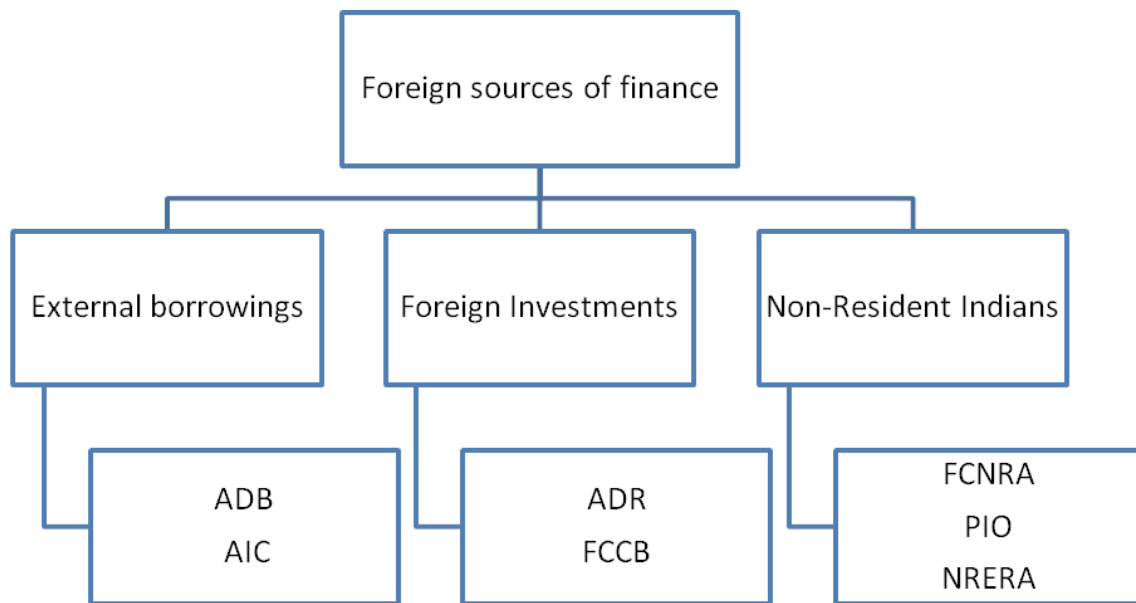
Ans: The main functions special financial institutions are:

- (i) To grant loans for a longer period to industrial establishment;
- (ii) To help the establishment of business units that require large amount of funds and have long gestation period;
- (iii) To provide support for the speedy development of the economy in general and backward regions in particular;
- (iv) To offer specialized services operating in the areas of promotion, project assistance, technical assistance services and training and development of entrepreneurs;
- (v) To provide technical and professional management services and help in identification, evaluation and execution of new projects.

7. Categorise the following under three headings of foreign sources of finance.

- | | | | |
|-----------|----------|-----------|----------------|
| (a) ADB | (b) ADR | (c) FCNRA | (d) AIC(e) PIO |
| (f) NRERA | (g) FCCB | | |

Ans:



8. Explain, how LIC of India provides support to business sectors in solving long-term requirement of funds.

Ans: It was set up in 1956 on nationalization of life insurance business in India. Primarily it carries on the business of life insurance and deploys the funds in accordance with national priorities and objectives. It invests mainly in government securities and shares, debentures and bonds of companies. It also extends financial assistance to banks and other institutions for social development and infrastructure facilities. It also underwrites new issues of shares and grant loans to the corporate sectors. Its performance with regard to assistance to corporate sector has been significant both in terms of sanctions and disbursements.

9. What is stock market?

Ans: It is a place for purchase and sale of existing securities and is known as stock market or stock exchange. Or it is an association or organization or a body of individuals established for the purpose of assisting, regulating and controlling the business of buying, selling and dealing in securities.

10. What is meant by foreign direct investment?

Ans: The foreign direct investment usually refers to the subscription by the foreigners to shares and debentures of the Indian Companies. This is also known as portfolio investment and covers their subscription to ADRs, GDRs and FCCBs (Foreign Currency Convertible Bonds).

11. State the different types of Mutual Funds?

Ans: Open ended funds and close ended funds.

12. State the long term sources of foreign funds to Indian companies.

Ans: External sources, Internal sources, and Non-resident Indians (NRIs)

13. In which year a leasing company was established first time in India?

Ans: Chidambaram Group in 1973 in Chennai.

14. Explain the difference between the new issue of share market and stock exchange market in one sentence.

Ans: Primary market deals with new or fresh issue of securities while secondary market deals with purchase and sale of existing (already issued) securities.

15. Give the full form of the following abbreviation.

(a) DFI, (b) IIBI, (c) SIDBI, (d) SFI, (e) IFCI

Ans: (a) Development Financial Institutions

(b) Industrial Investment Bank of India

(c) Small Industries Development Bank of India

(d) Special Financial Institutions

(e) Industrial Finance Corporation of India

16. Give the examples of equity and debt funds?

Ans: Keeping in view the investment objectives of the investors the mutual funds usually have a large variety of schemes such as equity fund (e.g. growth fund, income fund, liquid fund), and debt funds (e.g. debentures, government bonds, municipal bonds, international bonds).

17. State the meaning of venture capital.

Ans: Venture capital is a form of equity finance designed especially for funding high risk and high reward projects of young entrepreneurs.

18. Mention the year in which following financial institutions were established.

(a) IIBI, (b) LIC, (c) EXIM Bank, (d) GIC, (e) SIDBI

Ans: (a) 1997, (b) 1956, (c) 1982, (d) 1973, (e) 1990

19. Name the two parties of lease agreement?

Ans: Lessor and lessee

20. What do you mean by grants?

Ans: The World Bank grants loans for specific industrial projects of high priority and given either directly to an industrial concern or through a government agency.

21. What is meant by foreign collaboration?

Ans: Some companies are formed with the specified purpose of operating in India or the multinationals can set up their subsidiary or branch in India. As for the foreign collaborations, these can be of financial collaborations involving foreign companies' participation in equity capital of an existing or new undertaking.

22. Who are called as non-resident Indians?

Ans: The persons of Indian origin living abroad commonly known as NRIs.

23. Mention the sources of finance for NBFCs?

Ans: Public deposits

24. What is meant by net asset value?

Ans: The Net Asset Value (NAV) is the price at which a unit of the mutual fund is bought and sold. It is calculated by dividing its net assets with the number of outstanding units.

17

LESSON

Financial Planning

Introduction

You know that every business unit whether it is an industrial establishment, a trading concern or a construction company needs funds for carrying on its activities successfully. It requires funds to acquire fixed assets like machines, equipments, furniture etc. and to purchase raw materials or finished goods, to pay its creditors, to meet its day-to-day expenses, and so on. In fact, availability of adequate finance is one of the most important factors for success in any business. However, the requirement of finance, now-a-days, is so large that no individual is in a position to provide the whole amount from his personal sources. So the businessman has to depend on other sources and use various ways to raise the necessary amount of funds. In the previous lessons you learnt about the sources and methods of raising funds. You know that the process of raising funds require considerable amount of time and cost. This has its own costs. Hence, every businessman has to be very careful not only in assessing the firm's requirement of finance but also in deciding on the forms in which funds are raised and utilized. In this lesson, you will learn about the process of estimating the firm's financial requirement and deciding on the pattern of finance.

Long Answer Type Questions

- 1. Explain any two factors that are taken into consideration while determining the fixed capital requirement of a company.**

Ans: Fixed capital represents the requirement of capital for meeting the permanent or long-term financial needs of the business. It is primarily used for acquiring the fixed assets like land and buildings, plant and machinery, office equipment, furniture and fixtures etc.

Factors determining fixed capital requirements

In order to assess the fixed capital requirement for any business enterprise, one must be fully conversant with the factors that influence such requirement. These factors are summarised as follows:

- (a) **Nature of business:** The amount of fixed capital requirement is determined primarily by the nature of business the firm is engaged in. Such requirement, for example, is very large in case of industrial establishments, shipping companies, public utilities, etc. which involve heavy investment in plant and machinery. The trading concerns (wholesalers and retailers) do not require much investment in the fixed assets.
- (b) **Type of products:** It is not only the nature of business which determines the requirement of fixed capital but also the type of product involved. A firm manufacturing simple products like soap, toothpaste, stationery, etc. requires small amount of fixed capital as against the firms producing items like steel, cement, automobiles, etc.
- (c) **Size of business:** A firm working on a large scale requires heavy investment in fixed assets as it has to establish large production capacity. Hence, its fixed capital requirement is larger than a firm which is operating on a small scale.
- (d) **Process of Production:** A firm which goes in for an automatic plant requires larger amount of fixed capital as compared to the firm which selects semi-automatic plant or depends more on manual labour for production of goods. Similarly, if a firm decides to buy most of the components needed for its products from the market rather than producing these in its own factory, it would need less fixed capital as compared to the one which manufactures each component (part) on its own. This is especially true of those automobile and machinery producers who simply act as assembling units.
- (e) **Method of acquiring fixed assets:** The fixed assets, especially machinery and equipment, can be acquired either on cash basis (instant payment) or on installments or leasing basis. Apparently, a firm which acquires such assets on cash basis needs larger amount of fixed capital as compared to the firm which decides to acquire it on installment or lease basis.

2. What is capital structure? Describe any two determinants of capital structure.

Ans: The financial requirement of a firm can be met through ownership capital (equity) and/or borrowed capital (debt). The firms normally use a judicious mix of debt and equity in order to ensure a higher return on owners' funds. Such a mix is termed as the 'capital structure' of the firm. Following are the factors that should be kept in view while deciding on the choice of an appropriate capital structure.

1. **Expected earnings and their stability:** If the expected earnings, in terms of rate of return on the amount to be invested are sufficiently large, use of debt is considered quite desirable. If there is an element of uncertainty about the expected earnings it is considered better to rely more on equity share capital.

2. **Cost of debt:** If the rate of interest on borrowings is lower than the expected rate of return on capital employed, and then debt may be preferred. With lower cost of debt financing, the overall cost of financing is reduced and the return on equity capital will be higher.
3. **Right to manage the business:** The debenture holders and preference shareholders do not have much say in management of the company. This authority lies primarily with the equity shareholders who have the voting rights. In order to retain their right to control the affairs of the company, they may prefer to raise additional funds mainly through debentures and preference shares.
4. **Capital market conditions:** The conditions in the capital market also influence the capital structure decision. At times capital market is so depressed that the investors are unwilling to subscribe to shares. In such a situation, it is considered better to rely on debt or defer the decision till a favourable market condition is restored.
5. **Regulatory norms:** While deciding on the capital structure, the legal constraints like the limit on debt-equity ratio should also be kept in view. At present, such limit is 2:1 in most cases. This implies that at any point of time, the debt should not be more than twice the amount of share capital.
6. **Flexibility:** Flexibility means the firm's ability to adopt its capital structure to the requirements of changing conditions. As and when the funds required, the debt may be raised and it can be paid-off when desired. But, once the funds are raised through issue of equity and it cannot be paid-off except with the permission of the Court and compliance with lot of legal provisions. Hence, debt capital has got the characteristic of greater flexibility than equity capital, which influences the capital structure decisions.
7. **Investors' attitude towards investment:** While planning the capital structure of a company one must bear in mind that all investors do not have the same attitude towards their investment. Some are highly conservative who prefer safety to return. For such investors, debentures are considered most suitable. As against this, there are some who are interested in high return on their investments and are ready to take the risk involved. Such investors prefer equity shares.

3. What is meant by 'Financial Planning'? Explain any three requisites of a sound financial plan.

Ans: Planning is a systematic way of deciding about and doing things in a purposeful manner. When this approach is applied exclusively for financial matter, it is termed as financial planning. In connection with any business enterprise, it refers to the process of estimating a firm's financial requirements and determining pattern of financing. It includes determining the objectives, policies, procedures and programmes to deal with financial activities.

Essentials of A Sound Financial Plan

While preparing a financial plan for any business unit, the following aspects should be kept in view so as to ensure the success of such exercise in meeting the organizational objectives.

- (a) The plan must be simple. Now-a-days you have a large variety of securities that can be issued to raise capital from the market. But it is considered better to confine to equity shares and simple fixed interest debentures.
- (b) It must take a long term view. While estimating the capital needs of a firm and raising the required funds, a long-term view is necessary. It ensures that the plan fully provides for meeting the capital requirement on long term basis and takes care of the changes in capital requirement from year to year.
- (c) It must be flexible. While the financial plan is based on long term view, one may not be able to properly visualize the possible developments in future. Not only that, the firm may also change its plans of expansion for various reasons. Hence, it is very necessary that the financial plan is capable of being adjusted and revised without any difficulty and delay so as to meet the requirements of the changed circumstances.
- (d) It must ensure optimal use of funds. The plan should provide for raising reasonable amount of funds. As stated earlier, the business should neither be starved of funds nor have surplus funds. It must be strictly need based and every rupee raised should be effectively utilised. There should be no idle funds.
- (e) The cost of funds raised should be fully taken into account and kept at the lowest possible level. It must be ensured that the cost of funds raised is reasonable. The plan should provide for a financial mix (combination of debt and equity) that is most economical in terms of cost of capital, otherwise it will adversely affect the return on shareholders' funds.
- (f) Adequate liquidity must be ensured. Liquidity refers to the ability of a firm to make available the necessary amount of cash as and when required. It has to be ensured in order to avoid any embarrassment to the management and the loss of goodwill among the investors. In other words, the investment of funds should be so planned that some of these can be converted into cash to meet all possible eventualities.

4. How do you ascertain that a firm is over-capitalised? Explain with an example and state the main causes of over-capitalisation.

Ans: A company is said to be over-capitalised if its capital employed is more than its proper capitalisation. For example, if a company's average annual earnings is Rs.2,00,000 and the normal rate of return is 10%. Then its proper capitalisation is Rs.20,00,000. Now, if the actual capital employed (total long term funds) is Rs.25,00,000 it will be treated as over-capitalised. You can also put it in another simpler way i.e, if a company's actual rate of earnings is less than the normal rate of return, it is treated as a case of over-capitalisation.

In the above example, the company's actual rate of earnings works out as 8%, which is less than the normal rate of return i.e., 10%. So, it is considered as over-capitalised and the company is

not in a position to pay interest and dividends at a fair rate. Such a situation may be caused by the following factors:

- (a) Excessively high price paid for the purchase of goodwill and other fixed assets.
- (b) Underutilisation of production capacity.
- (c) Raising more capital in the form of shares and debentures than required.
- (d) Liberal dividend policy.
- (e) Higher rate of corporate taxation.
- (f) Underestimation of capitalisation rate or overestimation of earnings while deciding on the amount of capital to be raised.

Over-capitalisation is not desirable in the long run interest of the shareholders and the company. It leads to lower rate of dividend, reduction in the market value of shares and difficulty in raising more funds. Hence, there is need to rectify such situation as quickly as possible by reducing debt, efficient utilisation of assets, and by following a conservative dividend policy.

Effects of over-capitalization	Remedies of over-capitalization
Lower rate of dividend	Debts may be redeemed
Reduction in market value of share	Efficient utilization of resources
Difficulty in raising additional funds	Conservative dividend policy

5. How does raising of long term funds through debt affect the return on shareholders' funds? Explain with an example.

Ans: The financial requirement of a firm can be met through ownership capital and/or by the owners. In case of a company, it refers to the amount of funds raised by issuing shares. The main characteristic of the ownership capital is that its contributors are entitled to get dividend out of earnings after the payment of interest and taxes. Hence, the rate of return on such capital depends upon the level of profits earned, and, if there are no profits, no dividend may be paid.

Borrowed capital, on the other hand, refers to the amount of funds raised through long term loans and debentures on which its contributors are entitled to a fixed rate of interest which has to be paid at regular intervals (half-yearly or yearly) irrespective of the profits earned. There is also a commitment that the principal amount shall be repaid on maturity. However, it is still considered advantageous to finance business activities through borrowed capital because if the rate of earnings from the planned business investment is expected to be better than the rate of interest on the borrowed funds, it shall ensure higher returns on owners' funds. Let us take an example and understand this concept more clearly.

Capital Structure

Particulars	Illustration-A Total capital Rs. 50 lakhs (Rs.20 lakhs equity + Rs.30 lakhs debt)	Illustration-B Total capital Rs.50 lakhs (Rs.50 lakhs equity + No debt)
Earnings before interest and tax (EBIT)	10,00,000	10,00,000
LESS: Interest on debt (30,00,000x10%)	3,00,000	Nil
Earnings before tax (EBT)	7,00,000	10,00,000
LESS: Tax @ 40 % on EBT	2,80,000	4,00,000
Earnings after tax (EAT)	4,20,000	6,00,000
Return on owner's funds = (PAT / Owners funds x 100)	(4,20,000/20,00,000 x 100) = 21%	(6,00,000/50,00,000 x 100) = 12%

Illustration-A: Suppose the total investment in a business is Rs. 50 lakh, to which owners contribute Rs.20 lakh and the remaining amount of Rs.30 lakh is funded through loans at 10% interest per annum. Assuming expected annual earnings before interest and tax are Rs. 10 lakh (20% on total investment) the profit after payment of interest but before tax will be Rs.7 lakh (Rs.10 lakh –Rs.3 lakh). Let us assume that the tax is payable on profits at the rate of 40%, the profit after tax will be Rs.4.20 lakh (Rs.7 lakh Rs.2.80 lakh tax) and the return on owners' funds will be 21% .

Illustration-B: Now, suppose the whole amount of required investment of Rs.50 lakh is contributed by the owners and no loan is taken. Since no interest is payable, the amount of tax will be Rs.4 lakh (40% on Rs.10 lakh) and the profit after tax Rs.6 lakh (Rs.10 lakh – Rs.4 lakh tax). This shall result in 12% return on owner's funds.

Thus, you observe that owners get higher return when a part of capital required is funded by borrowings. This is called 'Trading on Equity or Leverage Effect'.

6. How do you assess the amount of working capital required by a business unit? Describe in brief. (OR) What is meant by working capital? Describe any four factors influencing/ determining working capital.

Ans: Working capital represents the amount of funds invested in current assets like debtors, stock-in-trade and cash required for meeting day-to-day expenses, paying wages/salaries to its work-force and clearing dues of its creditors. It is also known as circulating capital because most of the amount invested in current assets is continuously recovered through realizations of debtors and

cash sale of goods, and is re-invested in current assets. It keeps on revolving from cash to current assets and back again to cash.

It should be noted that a part of working capital is of a permanent nature because depending on the volume of business certain amount of cash, debtors and stock-in-trade shall always be maintained by every firm. This part of working capital is known as permanent or fixed working capital and must always be financed through long-term sources.

The remaining part of the working capital requirement varies from period to period on account of fluctuations in the volume of business and is called fluctuating or variable working capital. This part of working capital is usually financed through short-term sources like bank overdraft, trade creditors, bills payable, etc.

Factors determining Working Capital requirement

Adequate working capital is very necessary for maintenance of liquidity and running the business smoothly and efficiently. However, the amount of working capital required varies from business to business and from period to period. The various factors that influence such requirement are as follows:

- (a) **Nature of business:** The working capital requirement of the manufacturing companies is usually high, because of the credit sales involved. As against this, the public utilities like electricity and telephone companies and the concerns like hotels, restaurants, etc. can manage with small amount of working capital as most of their transactions are undertaken on cash basis.
- (b) **Size of business:** The size or volume of business plays a major role in determining the amount of working capital requirement of every firm. Obviously, larger the volume of business, larger would be the amount of working capital need. This is because, as their inventory requirement will be large and so also the amount of their debtors.
- (c) **Length of production cycle:** Length of production cycle refers to the time period involved in converting raw-material into finished goods. Longer the length of such period, larger will be the requirement of working capital and vice versa.
- (d) **Inventory turnover rate:** Inventory turnover rate refers to the speed at, or the time period within which finished stock is converted into sales. A firm having high inventory turnover rate needs less working capital as against a firm which has low inventory turnover rate.
- (e) **Credit policy:** The firms which provide liberal credit facility to their customers need more working capital as compared to those firms which observe strict credit terms and are efficient in realisation of their debts. It is so because when customers enjoy longer period of credit, a larger amount of firm's funds get tied up with debtors. This results in higher requirement of working capital. However, if such a firm also enjoys liberal credit facility from its suppliers, it can manage with lower amount of working capital.
- (f) **Seasonal fluctuations:** The firms that are engaged in manufacturing products like ceiling fans or woollen garments, the demand of which is limited to a specific period of the year,

require higher amount of working capital not only during the peak period but also during off season. This is so because they may be left with a good amount of unsold goods which is kept in stock for sale during the next season.

7. What is meant by under-capitalisation? Mention any two remedies of under-capitalisation.

Ans: Under-capitalisation is just the reverse of over-capitalisation. In other words, a company is said to be under-capitalised if its capital employed is less than its proper capitalization i.e., the amount of capital invested is not justified by its annual earnings. In the earlier case, for example, if the company's actual capital employed is Rs. 16,00,000 it shall be treated as under-capitalised as it is less than Rs. 20,00,000, the proper capitalisation. Alternatively, if a company's actual rate of earnings is more than the normal rate of return, it is treated as a case of under-capitalisation.

Effects of Under-capitalisation	Remedies of Under-capitalisation
Market value of shares goes up since earning are high	Issue of bonus shares
Workers may demand higher wages	Splitting up of shares
The high rate of earnings may encourage outsiders to start similar business and thus competition is increased.	Higher earnings attract competition which ultimately reduces earnings. So the market forces also automatically correct the situation of undercapitalisation.

8. What is meant by 'dividend'? State any three factors that affect dividend decision.

Ans: As a matter of practice and financial prudence, the whole amount of profit earned by the company is never distributed to the shareholders. A substantial part of it, is retained for meeting company's future financial needs. The amount of profits so retained is called 'retained earnings' and the amount profit distributed to the shareholders is called as 'dividend'. It may be noted that the dividend paid to preference shareholders is called 'preference dividend' and the dividend paid to equity shareholders is called 'equity dividend'.

Factors affecting Dividend Decisions

The dividend to preference shareholders is paid at fixed rate and paid on priority basis i.e., before making payment to equity shareholders. The dividend to be paid to equity shareholders is the real issue involved in dividend decision by the management of any company. Such a decision is guided by the following factors:

- 1. Financial needs of the company:** While deciding the amount of dividend to be paid, the management must take into account the financial needs for normal growth of its business, the expansion activities, the repayment of long term debt, etc. Even otherwise, the company must retain a part of profits for long term solvency and meeting future contingencies.

2. **Liquidity requirement:** The payment of dividend involves out flow of cash. At times, a company may have high profits but not much cash. In such a situation, it may not declare high rate of dividend. Even otherwise, liquidity requirement for ensuring timely payment of all dues and debts has to be kept in view while determining the rate of dividend.
3. **Access to capital market:** A company which, by virtue of its record of profitability and timely repayment of debt, has better access to capital market i.e., it can successfully raise funds by issuing shares and debentures through the capital market, may pay higher dividends. But, if a company does not have easy access to capital markets because of its weak financial position or low profitability record, it cannot afford to pay high dividends. However, when capital market condition is unfavourable most companies shall adopt a conservative dividend policy.
4. **Expectations of shareholders:** The equity shareholders normally look forward to appreciation to their capital rather than higher rate of dividend. But, some shareholders like retired persons or employees do look forward to dividend as a source of their regular income. So, the companies cannot ignore such segment and pay low dividend or skip it even when there are high profits. A reasonable payout is always welcome.
5. **Tax policy:** In our country, dividends have been taxable in the hands of shareholders. Hence, the companies prefer to pay low amount of dividend and issue bonus shares to the shareholders from time to time as these are not taxable until these are sold. The dividends are not taxable in the hands of shareholders.
6. **Investment opportunities and growth prospects:** When a company has adequate profitable investment opportunities and growth prospects, it may prefer to retain more profits and pay low rate of dividends so as to serve the shareholders in a better way in long run. Of course, in the absence of such possibilities, companies prefer payment of higher dividend and avoid idle cash with them.
7. **Legal constraints:** Sometimes, the government prescribes certain limits on the dividend payout which has to be kept in view while deciding on the rate of dividend to be paid. Similarly, at times the long term fund providers may put some restrictions on the dividend payout as part of their agreement. The companies have to adhere to such limits.

Short Answer Type Questions

1. **What is the meaning of the term ‘capitalization’? Discuss any one of its theory with an example.**

Ans: The term capitalisation has various connotations. In common parlance, it refers to the amount at which a company is valued based on its capital employed. Some of the experts on finance used this concept in a narrower sense and defined it as the par value of a company's shares and debentures, while some of them interpreted it as the par value of its total long-term funds which

includes owners fund, borrowed funds, reserves and surplus earnings. In the context of financial planning however, it refers to the process of determining the amount of capital required by a company. The capital estimation is arrived at by using the following two theories.

- (a) Cost theory; and
- (b) Earning theory.

Let us have a brief about these two theories.

- (a) **Cost Theory:** According to the cost theory of capitalisation, the amount of capital required by the company is calculated by adding up the cost of its fixed assets, the amount of its working capital and the cost of establishing the business. This approach is simple and used widely in case of new companies. For example, if the average annual earning of a company is Rs. 5 lakh and the normal rate of return on the capital employed in case of companies in the same industry is 10%, then the amount of capitalisation is Rs. 50 lakh. For a new company the amount of capitalisation is calculated on the basis of its estimated earnings.
- (b) **Earning Theory:** According to earning theory, the capital requirement of a company is calculated on the basis of the capitalised value of its earning. For example, if a new company expects to earn an average annual income of Rs. 3 lakh and the normal rate of return of the industry is 5%, then the amount of capitalisation or the quantum of fund it would require to run the business is Rs. 60 lakh.

2. Do you advocate distribution of whole amount of profits earned by a company as dividends? Support your view with reasons.

Ans: In every business unit the amount of profit earned (or loss incurred) during a financial year is ascertained and distributed among its owners. In case of a proprietary concern, the whole amount of profit or loss so ascertained is added to proprietor's capital and whatever amount is withdrawn by him is termed as drawings and is deducted from his capital.

Similarly, in case of a partnership firm the profit or loss is distributed among the partners in their agreed profit sharing ratio and included in their capital. Whatever amount is withdrawn by the partners is deducted from their respective capitals as drawings.

In case of a company, however, it is dealt with differently. First of all we work out the operating profits (called PBIT – Profit before interest and tax). Then deduct the amount of interest on loans there from and arrive at the amount of profits before tax (PBT). Then we deduct the amount of tax on the company's profits as per rules and ascertain the profit after tax (PAT). This is the amount of profit which is available for distribution among the shareholders.

As a matter of practice and financial prudence, the whole amount of profit earned by the company is never distributed to the shareholders. Sometimes, the government prescribes certain limits on the dividend payout which has to be kept in view while deciding on the rate of dividend to be paid. Similarly, at times the long term fund providers may put some restrictions on the dividend

payout as part of their agreement. The companies have to adhere to such limits. In any case, the Company Law has provided certain rules to be followed while deciding on the amount to be distributed as dividend. For example, capital profits are not to be used for distribution of dividend normally; a banking company has to transfer certain percentage of profit to a statutory reserve which is not available for payment of dividend, and so on.

3. The balance sheet of AB Ltd., as on March 31, 2008 is as follows;

Liabilities	Amount	Assets	Amount
6,000 equity shares of Rs.10 each	60,000	Fixed assets	1,00,000
Reserves & surplus	40,000	Current assets	80,000
8% Debentures	50,000		
Current liabilities	30,000		
	1,80,000		1,80,000

The earnings of the company from the year 2007-08 were Rs. 18,000 while the normal rate of earnings on capital employed in similar companies is 15%. Compute

- its proper or fair capitalisation as justified by the company's earnings, and
- state whether it is over-capitalised or under-capitalised.

Ans: (a) $18000 \times 100 / 15 = \text{Rs.}1,20,000$

- Over capitalised as its actual capital employed is Rs.1,50,000 which is more than the proper (fair) capitalisation (Rs.1,20,000) and that the actual rate of earnings is 12% as against the normal rate of earnings which is 15%.

4. State any four objectives of financial planning.

Ans: The main objectives of financial planning are:

- To ascertain the amount of fixed capital as well as the working capital required in a given period;
- To determine the amount to be raised through various sources using a judicious debt-equity mix;
- To ensure that the required amount is raised on time at the lowest possible cost;
- To ensure adequate liquidity so that there are no defaults in payments and all contingencies (any unforeseen expenditure) are met without difficulty; and
- To ensure optimal use of funds so that the business is neither starved of funds nor has unnecessary surplus funds at any point of time.

5. What is operating cycle?

Ans: It refers to the stages through which the raw-materials are converted into finished products. It can be shown in the following diagram.



WORKING CAPITAL CYCLE

6. What is meant by over-capitalisation?

Ans: A company is said to be over-capitalised if its capital employed is more than its proper capitalisation. In another simpler way i.e, if a company's actual rate of earnings is less than the normal rate of return, it is treated as a case of over-capitalisation.

7. Define dividend?

Ans: The amount of profits distributed by a company to its shareholders is called dividend.

8. What is meant by optimum capital structure?

Ans: The optimum capital structure may be defined as the combination of equity and debt capital that leads to the maximum value of the firm. At optimum capital structure, the value of an equity share will be maximum, while the average cost of capital is minimum.

9. State any two fixed assets?

Ans: Land & buildings, plant & machinery.

10. Mention any two current assets?

Ans: Cash, stock, debtors

11. Give two examples for current liabilities?

Ans: Creditors, bills payables

12. If the actual rate of return is equal to cost of capital in the company is known as?

Ans: Proper capitalisation

13. Who gets fixed dividend irrespective of profits of the company?

Ans: Preference shareholders

14. Who gets fixed interest irrespective of the profits of the company?

Ans: Debentureholders

15. Name the theories of capitalization?

Ans: Cost theory, equity theory

16. What is known as the excess income earned by the owners due to inclusion of debt in the capital?

Ans: Trading on equity or leverage effect.

17. The combination of ownership capital and debt capital is known as?

Ans: Capital structure

18. State the need of long term resources of finance?

Ans: Purchase of land and buildings, plant, machinery, furniture.

19. What is under-capitalisation?

Ans: Under-capitalisation is just the reverse of over-capitalisation. In other words, a company is said to be under-capitalised if its capital employed is less than its proper capitalization i.e., the amount of capital invested is not justified by its annual earnings.

20. State any four features of financial plan?

Ans: (a) The plan must be simple, (b) Adequate liquidity must be ensured, (c) It must be flexible, (d) It must ensure optimal use of funds.

21. State whether the following are objectives of financial planning, by writing 'Yes' or 'No'.

- (a) Determining the requirement of fixed and working capital
- (b) Determining the sales output.
- (c) To ensure the timely availability of funds.
- (d) To determine the quantity of production.

(e) To raise funds at the lowest possible cost.

Ans: (a) Yes, (b) No, (c) Yes, (d) No, (e) Yes

22. State whether we require 'more' or 'less' working capital in the following cases:

- (a) A company manufacturing iron & steel.
- (b) A bread manufacturing company having high inventory turnover.
- (c) A large size business enterprise making toys.
- (d) A company manufacturing furniture against orders only.
- (e) A company manufacturing of coolers/refrigerators.

Ans: (a) More, (b) Less, (c) More, (d) Less, (e) More

23. Match the items in column A with column B.

- | | |
|---------------------------------|----------------------------------|
| (a) Fixed capital | (i) Short term finance |
| (b) Public utilities | (ii) Working capital requirement |
| (c) Permanent working capital | (iii) Long-term finance |
| (d) Goodwill | (iv) Telephone company |
| (e) Fluctuating working capital | (v) Intangible fixed asset |
| (f) Length of production cycle | (vi) Fixed working capital |

Ans: (a) (iii), (b) (iv), (c) (vi), (e) (i), (f) (ii)

24. Correct and rewrite the following statements if found incorrect.

- (a) Under-capitalisation may lead to an increase in the price of company's equity shares in the market.
- (b) Over-capitalisation may be caused by underestimation of capitalization rate.
- (c) Under-capitalisation refers to a situation when the actual rate of earnings is lower than the normal rate of return.
- (d) Over-capitalisation refers to a situation when the amount of capital employed in a company is more than what is justified by its earnings.
- (e) Over-capitalisation is less harmful than under-capitalisation.

Ans: (a) Correct, (b) Correct, (c) In-correct (Under-capitalisation refers to a situation when the actual rate of earnings is more than the normal rate of return). (d) Correct, (e) In-correct (Over-capitalisation is more harmful than undercapitalisation).

25. Which of the following are characteristics of an appropriate capital structure? Indicate, by writing YES or NO. Rewrite the statements where your answers is NO.

- (a) It involves a judicious mix of different types of securities.
- (b) It involves dilution of control of existing shareholders.

- (c) It caters to exclusively to the wealthy investors.**
- (d) It ensures minimum return on equity.**
- (e) It keeps in view the legal constraints.**
- (f) It has rigidity and firmness and does not change with changed conditions.**

Ans: (a) Yes

- (b) No – It involves minimum risk of dilution in control by existing shareholders.
- (c) No – It caters to all types of investors
- (d) No – It ensures maximum return on equity
- (e) Yes
- (f) No – It has the necessary flexibility to make required reduction or addition to funds, according to changed conditions.

26. Give the full form of the following abbreviations.

- (a) PAT (b) PBT (c) PBIT**

Ans: (a) Profit After Tax

- (b) Profits Before Tax
- (c) Profit Before Interest and Tax

27. List any five factors affecting the dividend decision of a company:

Ans: (a) Financial needs of the company

- (b) Liquidity
- (c) Access to capital market
- (d) Tax policy
- (e) Legal constraints

28. State the meaning of the following terms?

- (a) Dividend (b) Retained Earnings (c) Preference Dividend (d) Equity Dividend**

Ans: (a) Amount of profit distributed to shareholders.

- (b) The part of profit retained in the company to meet the company's future financial needs.
- (c) Dividend paid to preference shareholders.
- (d) Dividend paid to equity shareholders.

18

LESSON

Indian Financial Market

Introduction

You are fully aware that business units have to raise short-term as well as long-term funds to meet their working and fixed capital requirements from time to time. This necessitates not only the ready availability of such funds but also a transmission mechanism with the help of which the providers of funds (investors/ lenders) can interact with the borrowers/users (business units) and transfer the funds to them as and when required. This aspect is taken care of by the financial markets which provide a place where or a system through which, the transfer of funds by investors/lenders to the business units is adequately facilitated.

Long Answer Type Questions

1. What do you mean by 'Money Market'? Give four examples of credit instruments of the money market.

Ans: The money market is a market for short-term funds, which deals in financial assets whose period of maturity is upto one year. It should be noted that money market does not deal in cash or money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc.

Money Market Instruments

Following are some of the important money market instruments or securities.

- (a) **Call Money:** Call money is mainly used by the banks to meet their temporary requirement of cash. They borrow and lend money from each other normally on a daily basis. It is repayable on demand and its maturity period varies in between one day to a fortnight. The rate of interest paid on call money loan is known as 'call rate.'

- (b) **Treasury Bill:** A treasury bill is a promissory note issued by the RBI to meet the short-term requirement of funds. Treasury bills are highly liquid instruments that mean, at any time the holder of treasury bills can transfer or get it discounted from RBI. These bills are normally issued at a price less than their face value; and redeemed at face value. So the difference between the issue price and the face value of the treasury bill represents the interest on the investment. These bills are secured instruments and are issued for a period of not exceeding 364 days. Banks, Financial institutions and corporations normally play major role in the Treasury bill market.
- (c) **Commercial Paper:** Commercial paper (CP) is a popular instrument for financing working capital requirements of companies. The CP is an unsecured instrument issued in the form of promissory note. This instrument was introduced in 1990 to enable the corporate borrowers to raise short-term funds. It can be issued for period ranging from 15 days to one year. Commercial papers are transferable by endorsement and delivery. The highly reputed companies (Blue Chip companies) are the major player of commercial paper market.
- (d) **Certificate of Deposit:** Certificates Of Deposit (CDs) are short-term instruments issued by Commercial Banks and Special Financial Institutions (SFIs), which are freely transferable from one party to another. The maturity period of CDs ranges from 91 days to one year. These can be issued to individuals, co-operatives and companies.
- (e) **Trade Bill:** Normally the traders buy goods from the wholesalers or manufactures on credit. The sellers get payment after the end of the credit period. But if any seller does not want to wait or in immediate need of money he/she can draw a bill of exchange in favour of the buyer. When buyer accepts the bill it becomes a negotiable instrument and is termed as bill of exchange or trade bill.

2. Distinguish between primary market and secondary market.

Ans: The main points of distinction between the primary market and secondary market are as follows:

1. **Function :** While the main function of primary market is to raise long-term funds through fresh issue of securities, the main function of secondary market is to provide continuous and ready market for the existing long-term securities.
2. **Participants:** While the major players in the primary market are financial institutions, mutual funds, underwriters and individual investors, the major players in secondary market are all of these and the stockbrokers who are members of the stock exchange.
3. **Listing requirement:** While only those securities can be dealt with in the secondary market, which have been approved for the purpose (listed), there is no such requirement in case of primary market.
4. **Determination of prices:** In case of primary market, the prices are determined by the management with due compliance with SEBI requirement for new issue of securities. But in

case of secondary market, the price of the securities is determined by forces of demand and supply of the market and keeps on fluctuating.

3. Define stock exchange and explain any two of its functions.

Ans: Stock exchange is the term commonly used for a secondary market, which provide a place where different types of existing securities such as shares, debentures and bonds, government securities can be bought and sold on a regular basis. A stock exchange is generally organised as an association, a society or a company with a limited number of members. It is open only to these members who act as brokers for the buyers and sellers.

The Securities Contract (Regulation) Act has defined stock exchange as an “association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in securities”.

Functions of A Stock Exchange

The functions of stock exchange can be enumerated as follows:

- 1. Provides ready and continuous market:** By providing a place where listed securities can be bought and sold regularly and conveniently, a stock exchange ensures a ready and continuous market for various shares, debentures, bonds and government securities. This lends a high degree of liquidity to holdings in these securities as the investor can encash their holdings as and when they want.
- 2. Provides information about prices and sales:** A stock exchange maintains complete record of all transactions taking place in different securities every day and supplies regular information on their prices and sales volumes to press and other media.
- 3. Provides safety to dealings and investment:** Transactions on the stock exchange are conducted only amongst its members with adequate transparency and in strict conformity to its rules and regulations which include the procedure and timings of delivery and payment to be followed. This provides a high degree of safety to dealings at the stock exchange.
- 4. Helps in mobilisation of savings and capital formation:** Efficient functioning of stock market creates a conducive climate for an active and growing primary market. Good performance and outlook for shares in the stock exchanges imparts buoyancy to the new issue market, which helps in mobilising savings for investment in industrial and commercial establishments. Not only that, the stock exchanges provides liquidity and profitability to dealings and investments in shares and debentures.
- 5. Barometer of economic and business conditions:** Stock exchanges reflect the changing conditions of economic health of a country, as the shares prices are highly sensitive to changing economic, social and political conditions. It is observed that during the periods of economic prosperity, the share prices tend to rise. Conversely, prices tend to fall when there is economic stagnation and the business activities slow down as a result of depressions. Thus, the intensity

of trading at stock exchanges and the corresponding rise or fall in the prices of securities reflects the investors' assessment of the economic and business conditions in a country, and acts as the barometer which indicates the general conditions of the atmosphere of business.

6. Better allocation of funds: As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises and they avail of the greater potential for growth. Financial resources of the economy are thus better allocated.

4. Explain the role played by SEBI in protecting investors' interests and controlling the business at stock exchange.

Ans: As part of its efforts to protect investors' interests, SEBI has initiated many primary market reforms, which include improved disclosure standards in public issue documents, introduction of prudential norms and simplification of issue procedures. Companies are now required to disclose all material facts and risk factors associated with their projects while making public issue. All issue documents are to be vetted by SEBI to ensure that the disclosures are not only adequate but also authentic and accurate.

SEBI has also introduced a code of advertisement for public issues for ensuring fair and truthful disclosures. Merchant bankers and all mutual funds including UTI have been brought under the regulatory framework of SEBI. A code of conduct has been issued specifying a high degree of responsibility towards investors in respect of pricing and premium fixation of issues. To reduce cost of issue, underwriting of issues has been made optional subject to the condition that the issue is not under-subscribed.

In case the issue is under-subscribed i.e., it was not able to collect 90% of the amount offered to the public, the entire amount would be refunded to the investors. The practice of preferential allotment of shares to promoters at prices unrelated to the prevailing market prices has been stopped and private placements have been made more restrictive. All primary issues have now to be made through depository mode. The initial public offers (IPOs) can go for book building for which the price band and issue size have to be disclosed. Companies with dematerialised shares can alter the par value as and when they so desire.

5. Describe the measures taken by SEBI to regulate the secondary market.

Ans: As for measures in the secondary market, it should be noted that all statutory powers to regulate stock exchanges under the Securities Contracts (Regulation) Act have now been vested with SEBI through the passage of securities law (Amendment) Act in 1995. SEBI has duly notified rules and a code of conduct to regulate the activities of intermediaries in the securities market and then registration in the securities market and then registration with SEBI is made compulsory.

It has issued guidelines for composition of the governing bodies of stock exchanges so as to include more public representatives. Corporate membership has also been introduced at the stock exchanges. It has notified the regulations on insider trading to protect and preserve the

integrity of stock markets and issued guidelines for mergers and acquisitions. SEBI has constantly reviewed the traditional trading systems of Indian stock exchanges and tried to simplify the procedure, achieve transparency in transactions and reduce their costs.

To prevent excessive speculations and volatility in the market, it has done away with badla system, and introduced rolling settlement and trading in derivatives. All stock exchanges have been advised to set-up clearing corporation/settlement guarantee fund to ensure timely settlements. SEBI organises training programmes for intermediaries in the securities market and conferences for investor education all over the country from time to time.

6. Explain the importance of stock exchanges from the points of view of companies, investors and to the society.

Ans: The advantages of stock exchanges can be outlined from the point of view of (a) Companies, (b) Investors, and (c) the Society as a whole.

(a) To the Companies

- (i) The companies whose securities have been listed on a stock exchange enjoy a better goodwill and credit-standing than other companies because they are supposed to be financially sound.
- (ii) The market for their securities is enlarged as the investors all over the world become aware of such securities and have an opportunity to invest
- (iii) As a result of enhanced goodwill and higher demand, the value of their securities increases and their bargaining power in collective ventures, mergers, etc. is enhanced.
- (iv) The companies have the convenience to decide upon the size, price and timing of the issue.

(b) To the Investors

- (i) The investors enjoy the ready availability of facility and convenience of buying and selling the securities at will and at an opportune time.
- (ii) Because of the assured safety in dealings at the stock exchange the investors are free from any anxiety about the delivery and payment problems.
- (iii) Availability of regular information on prices of securities traded at the stock exchanges helps them in deciding on the timing of their purchase and sale.
- (iv) It becomes easier for them to raise loans from banks against their holdings in securities traded at the stock exchange because banks prefer them as collateral on account of their liquidity and convenient valuation.

(c) To the Society

- (i) The availability of lucrative avenues of investment and the liquidity thereof induces people to save and invest in long-term securities. This leads to increased capital formation in the country.

- (ii) The facility for convenient purchase and sale of securities at the stock exchange provides support to new issue market. This helps in promotion and expansion of industrial activity, which in turn contributes, to increase in the rate of industrial growth.
- (iii) The Stock exchanges facilitate realisation of financial resources to more profitable and growing industrial units where investors can easily increase their investment substantially.
- (iv) The volume of activity at the stock exchanges and the movement of share prices reflect the changing economic health.
- (v) Since government securities are also traded at the stock exchanges, the government borrowing is highly facilitated. The bonds issued by governments, electricity boards, municipal corporations and public sector undertakings (PSUs) are found to be on offer quite frequently and are generally successful.

Short Answer Type Questions

1. Differentiate between money market and capital market.

Ans: Capital Market differs from money market in many ways.

- While money market is related to short-term funds, the capital market related to long term funds.
- While money market deals in securities like treasury bills, commercial paper, trade bills, deposit certificates, etc., the capital market deals in shares, debentures, bonds and government securities.
- While the participants in money market are Reserve Bank of India, commercial banks, non-banking financial companies, etc., the participants in capital market are stockbrokers, underwriters, mutual funds, financial institutions, and individual investors.
- While the money market is regulated by Reserve Bank of India, the capital market is regulated by Securities Exchange Board of India (SEBI).

2. What do you mean by 'Financial Market'? Explain any two of its functions.

Ans: Financial market may be defined as 'a transmission mechanism between investors (or lenders) and the borrowers (or users) through which transfer of funds is facilitated'. It consists of individual investors, financial institutions and other intermediaries who are linked by a formal trading rules and communication network for trading the various financial assets and credit instruments.

Functions

Let us now see the main functions of financial market.

- (a) It provides facilities for interaction between the investors and the borrowers.
- (b) It provides pricing information resulting from the interaction between buyers and sellers in the market when they trade the financial assets.
- (c) It provides security to dealings in financial assets.

- (d) It ensures liquidity by providing a mechanism for an investor to sell the financial assets.
- (e) It ensures low cost of transactions and information.

3. State the limitations of stock exchanges.

Ans: Like any other institutions, the stock exchanges too have their limitations. One of the common evils associated with stock exchange operations is the excessive speculation. Speculation implies buying or selling securities to take advantage of price differential at different times. The speculators generally do not take or give delivery and pay or receive full payment. They settle their transactions just by paying the difference in prices. Normally, speculation is considered a healthy practice and is necessary for successful operation of stock exchange activity. But, when it becomes excessive, it leads to wide fluctuations in prices and various malpractices by the vested interests. In the process, genuine investors suffer and are driven out of the market.

Another shortcoming of stock exchange operations is that security prices may fluctuate due to unpredictable political, social and economic factors as well as on account of rumours spread by interested parties. This makes it difficult to assess the movement of prices in future and build appropriate strategies for investment in securities. However, these days good amount of vigilance is exercised by stock exchange authorities and SEBI to control activities at the stock exchange and ensure their healthy functioning.

4. What is rolling settlement?

Ans: Today, with the electronic / computer based system of recording and carrying out of share transactions, stock exchanges go in for 'rolling settlement'. That means, transactions are settled after a fixed number of days of the transaction rather than on a particular day of the week. For example, if a stock exchange goes in for 'T+2' days of rolling settlement, the transaction is settled within two working days of occurring of the transaction, 'T' being the day of the transaction. In 'T+7' days of rolling settlement, the transaction is settled on the 7th day after the transaction. This is facilitated through electronic transfer of shares, through Dematerialised Account or Demat Account i.e., the share does not have a physical form of a paper document, but is a computerized record of a person holding a share and through transfer of money electronically or through cheques payment is settled.

5. Discuss in brief about stock exchanges in India.

Ans: The first organised stock exchange in India was started in Mumbai known as Bombay Stock Exchange (BSE). It was followed by Ahmedabad Stock Exchange in 1894 and Kolkata Stock Exchange in 1908. The number of stock exchanges in India went upto 7 by 1939 and it increased to 21 by 1945 on account of heavy speculation activity during Second World War.

A number of unorganised stock exchanges also functioned in the country without any formal set-up and were known as kerb market. The Security Contracts (Regulation) Act was passed in 1956 for recognition and regulation of Stock Exchanges in India.

At present we have 23 stock exchanges in the country. Of these, the most prominent stock exchange that came up is National Stock Exchange (NSE). It is also based in Mumbai and was

promoted by the leading financial institutions in India. It was incorporated in 1992 and commenced operations in 1994. This stock exchange has a corporate structure, fully automated screen-based trading and nation-wide coverage.

Another stock exchange that needs special mention is Over The Counter Exchange of India (OTCEI). It was also promoted by the financial institutions in September 1992 specially to cater to small and medium sized companies with equity capital of more than Rs.30 lakh and less than Rs.25 crore.

6. State the regulations of stock exchanges.

Ans: The stock exchanges suffer from certain limitations and require strict control over their activities in order to ensure safety in dealings thereon. Hence, as early as 1956, the Securities Contracts (Regulation) Act was passed which provided for recognition of stock exchanges by the Central Government. It has also the provision of framing of proper bylaws by every stock exchange for regulation and control of their functioning subject to the approval by the Government.

All stock exchanges are required to submit information relating to its affairs as required by the Government from time to time. The Government was given wide powers relating to listing of securities, make or amend bylaws, withdraw recognition to, or supersede the governing bodies of stock exchange in extraordinary/abnormal situations. Under the Act, the Government promulgated the Securities Regulations (Rules) 1957, which provided inter alia for the procedures to be followed for recognition of the stock exchanges, submission of periodical returns and annual returns by recognised stock exchanges, inquiry into the affairs of recognised stock exchanges and their members, and requirements for listing of securities.

7. Describe the powers of SEBI concerning various aspects of capital.

Ans: SEBI has been vested with necessary powers concerning various aspects of capital market such as:

- (i) Regulating the business in stock exchanges and any other securities market;
- (ii) Registering and regulating the working of various intermediaries and mutual funds;
- (iii) Promoting and regulating self regulatory organisations;
- (iv) Promoting investors education and training of intermediaries;
- (v) Prohibiting insider trading and unfair trade practices;
- (vi) Regulating substantial acquisition of shares and takeover of companies;
- (vii) Calling for information, undertaking inspection, conducting inquiries and audit of stock exchanges, and intermediaries and self regulation organizations in the stock market; and
- (viii) Performing such functions and exercising such powers under the provisions of the Capital Issues (Control) Act and the Securities Contracts (Regulation) Act.

8. Explain bills of exchange with an example.

Ans: A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of a

certain person, or to the bearer of the instrument. To clarify the meaning let us take an example. Suppose Gopal has given a loan of Rs. 50,000 to Madan, which Madan has to return. Now, Gopal also has to give some money to Madhu. In this case, Gopal can make a document directing Madan to make payment up to Rs. 50,000 to Madhu on demand or after expiry of a specified period. This document is called a bill of exchange, which can be transferred to some other person's name by Madhu.

9. What is promissory note?

Ans: A promissory note is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

10. What are the characteristics of a stock exchange?

Ans: The main characteristics of a stock exchange are:

1. It is an organised market.
2. It provides a place where existing and approved securities can be bought and sold easily.
3. In a stock exchange, transactions take place between its members or their authorized agents.
4. All transactions are regulated by rules and by laws of the concerned stock exchange.
5. It makes complete information available to public in regard to prices and volume of transactions taking place every day.

11. What do you understand by the term 'speculation'?

Ans: When the securities are bought with the sole object of selling them in future at higher prices or these are sold now with the intention of buying at a lower price in future, are called speculation transactions. The main objective of such transactions is to take advantage of price differential at different times. The stock exchange also provides for settlement of such transactions even by receiving or paying, as the case may be, just the difference in prices.

12. What is capital market?

Ans: Capital Market may be defined as a market dealing in medium and long-term funds. It is an institutional arrangement for borrowing medium and long-term funds and which provides facilities for marketing and trading of securities.

13. What is securities market?

Ans: The market where securities are traded known as securities market. It consists of two different segments namely primary and secondary market.

14. What is primary market?

Ans: The primary market deals with new or fresh issue of securities and is, therefore, also known as new issue market.

15. What is secondary market?

Ans: The secondary market provides a place for purchase and sale of existing securities and is often termed as stock market or stock exchange.

16. What is book-building?

Ans: It is a process of determining price of shares based on market feedback. In this process the issue price of the share is not fixed in advance. It is determined by offer of potential investors about the price they may be willing to pay for the issue.

17. Which stock exchange caters the needs of small and medium scale companies?

Ans: Over the Counter Exchange of India (OTCEI)

18. Which is the first stock exchange recognized in India?

Ans: Bombay Stock Exchange (BSE)

19. Which Act was passed by the government of India in 1992 to recognize stock exchanges?

Ans: Securities Exchange Board of India (SEBI)

20. Which stock exchange was started in 1994 by covering the entire nation?

Ans: National Stock Exchange (NSE)

21. Identify if the following statement about stock exchanges are 'True' or 'False'. If the statement is 'False', rewrite it in the correct form.

- (a) Stock Exchange provides a ready market for sale and purchase of gold and silver.
- (b) In the stock exchange, transactions take place between companies and their shareholders directly.
- (c) Stock exchange transactions facilitate flow of funds from less profitable to more profitable enterprises.
- (d) It becomes difficult for investors to raise loans from banks against collateral of their holdings in securities traded at the stock exchange.
- (e) Speculation is the same thing as gambling.

Ans: (a) False: Stock Exchange provides a ready market for sale and purchase of various shares, debentures, bonds and government securities.

(b) False: In the stock exchange, transactions take place between its members or their authorised agents.

(c) True

(d) False: It becomes easy for investors to raise loans from banks against collateral of their holdings in securities traded at the stock exchange.

(e) False: Speculation is different from gambling.

19

LESSON

Introduction to Marketing

Introduction

We use a large variety of goods and services in our daily life. These include items like toothpaste, toothbrush, soap, oil, clothes, food items, telephone, electricity and many more. How do all these goods and services reach our home? Obviously the business houses who produce the goods and services have to ensure that these are to be sold, and so they have to make the consumers/users aware of their products and place them at points convenient to the consumers. This involves a number of activities such as product planning, pricing, promotion, use of middlemen (wholesalers, retailer etc.) for sale, warehousing, transportation etc. All these activities taken together are termed as Marketing. In this lesson, we will learn about the concept of marketing, its importance, objectives and functions.

Long Answer Type Questions

1. State any four points of the importance of marketing.

Ans: Marketing is important to the business, consumer as well as the society. This is evident from the following points.

- (a) Marketing helps business to keep pace with the changing tastes, fashions, preferences of the customers. It works out primarily because ascertaining consumer needs and wants is a regular phenomenon and improvement in existing products and introduction of new product keeps on taking place. Marketing thus, contributes to providing better products and services to the consumers and improve their standard of living.
- (b) Marketing helps in making products available at all places and throughout the year. We are able to get Kashmir shawls and Assam Tea all over India and get seasonal fruits like apple and oranges round the year due to proper warehousing or proper packaging. Thus, marketing creates time and place utilities.

- (c) Marketing plays an important role in the development of the economy. Various functions and sub-functions of marketing like advertising, personal selling, packaging, transportation, etc. generate employment for a large number of people, and accelerate growth of business.
- (d) Marketing helps the business in increasing its sales volume, generating revenue and ensuring its success in the long run.
- (e) Marketing also helps the business in meeting competition most effectively.

2. Explain any three objectives of marketing.

Ans: The basic objectives of marketing are as follows:

- (a) Provide satisfaction to customers

All marketing activities are directed towards customer satisfaction. Marketing starts with ascertaining consumer needs and produce goods that satisfy those needs most effectively. Not only that the pricing and distribution functions of marketing are also planned accordingly.

- (b) Increase in demand

Through advertising and other sales promotional efforts, marketing aims at creating additional demand for their products. Satisfied customers also help in creating new customers. For example, if you buy a 'gel pen' and feel satisfied, next time also you will buy the same pen and obviously when you tell others about it they will also feel like giving it a try.

- (c) Provide better quality product to the customers

This is a basic objective of marketing. The business houses try to update and upgrade their knowledge and technology to continuously provide better products. If they do not do so, they will be phased out through competition.

- (d) Create goodwill for the organisation

Another objective of marketing is to build a good public image and create goodwill for the organisation. This helps in maintaining loyalty to the product and accepting new products of the same company.

- (e) Generate profitable sales volume

The ultimate objective of all marketing efforts is to generate profitable sales volumes for the business. Taking care of customer needs and wants by providing the required goods and services at prices they can afford, and at places and timing that are convenient to them ultimately lead to increased sales and profits.

3. Describe any four important functions of marketing.

Ans: Marketing is the performance of those business activities that direct the flow of goods and services from producers to consumers or users. Let us now learn what those activities are? These are briefly discussed hereunder.

1. Product Planning and Development

Marketing starts much before the actual production. The marketers gather information regarding what are the needs of the consumers and then decide upon what to produce. So, the task of marketing begins with planning and designing a product for the consumers.

2. Buying and Assembling

Buying and assembling activities as a part of marketing refer to buying and collection of required goods for resale. This function of marketing is primarily relevant to those business organisations that are engaged in trading activities. In the context of manufacturing organisations, buying and assembling involves buying raw materials and components required for production of finished goods.

3. Standardisation and Grading

Standardisation refers to development of standards for production of goods with respect to shape, design, colour and other characteristics. If products are standardised, customers are able to identify a product and its characteristics very well.

Grading involves separating products into different classes on the basis of certain predetermined standards relating to size and quality. Grading is required in case of agricultural, forest and mineral products such as cotton, sugar cane, iron ore, coal, timber, etc.

4. Branding

Branding means giving an attractive name, symbol or identity mark to the product to make a product different from others so that it is known by that name or symbol or mark. For example, Surf is the brand name of a detergent powder produced by Hindustan Unilever Limited (HUL).

5. Pricing the Product

Pricing involves decisions regarding fixation of product prices, keeping in view the product costs, the capacity of customers to pay, and the prices of the competitive products.

6. Promotion of the Product

Promotional activities include advertising, personal selling, sales promotion and publicity. All promotional activities involve communication with the existing and prospective customers.

7. Distribution

Distribution refers to those activities that are undertaken for sale of products to the customers and the physical transfer thereof. The first aspect i.e., sale of product involves use of middlemen such as wholesalers and retailers whose services are used for making the products available at convenient points and helping in their sale to the ultimate consumers. The second aspect i.e., physical transfer involves warehousing and transportation of goods from the point of production to the point of sale or the consumer.

8. Selling

Selling is an important function of marketing whereby the ownership of goods and services is transferred from the seller to the buyer for a consideration known as price. To initiate and

complete the process of selling, the seller has to inform the prospective buyer about availability of goods, the nature and uses of products, their prices and the needs of the customers that may be effectively satisfied by the product. In the process, he arouses customers' interest in the product and persuades them to buy it.

9. Storage and Warehousing

Storage refers to holding and preserving goods from the time of their procurement or production till the time of their sale. Warehousing is synonymous to storage but is normally used for large-scale storage facility for goods and commodities.

10. Transportation

Transportation refers to the physical movement of goods from one place to another. In marketing, transport as an activity refers to physical movement of raw materials as well as finished goods from the place of production to place of consumption. Goods are transported through various means like railways, roadways, waterways and airways.

4. Define marketing and distinguish it from selling.

Ans: Marketing refers to the process of ascertaining consumers' needs and supplying various goods and services to the final consumers or users to satisfy those needs. Basically, marketing is the performance of business activities that direct the flow of goods and services from producers to consumers or users.

The American Marketing Association defines marketing as an organisational function and set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.

Marketing	Selling
Marketing includes selling and other activities like various promotional measures, marketing research, after sales service, etc.	Selling is confined to persuasion of consumers to buy firm's goods and services.
It starts with research on consumer needs, wants, preference, likes, dislike etc., and continues even after the sales have taken place.	Selling starts after the production process is over and ends with the handing over the money to the seller by the buyer.
Focus is on earning profit through maximisation of customers' satisfaction.	Focus is on earning profit through maximisation of sales.
Customer's need is the central point around whom all marketing activities revolve.	Fragmented approach to achieve short term gain.
It is an integrated approach to achieve long term goals like creating, maintaining and retaining the customers.	All activities revolve around the product that has been produced.
Stresses on needs of buyer.	Stresses on needs of the seller.

Short Answer Type Questions

1. Distinguish between traditional and modern concept of marketing.

Ans:

Points of difference	Traditional Concept of Marketing	Modern Concept of Marketing
Focus on	Product	Customers' need
Means	Selling	Coordinated marketing efforts
Ends	Profits through maximisation of sales	Profits through customers' satisfaction.

2. What is meant by integrating marketing?

Ans: All marketing activities like product planning, pricing, packaging, distribution and sales promotion are combined into one as coordinated marketing efforts. This is called integrating marketing. It implies:

- (i) Developing a product that can satisfy the needs of the consumers;
- (ii) Taking promotional measures so that consumers come to know about the products, its features, quality, availability etc.;
- (iii) Pricing the product keeping in mind the target consumers' purchasing power and willingness to pay;
- (iv) Packaging and grading the product to make it more attractive and undertaking sales promotion measures to motivate consumers to buy the product; and
- (v) Taking various other measures (e.g., after sales service) to satisfy the consumers' needs.

3. Explain the significance of marketing research.

Ans: Marketing research involves collection and analysis of facts relevant to various aspects of marketing. It is a process of collecting and analysing information regarding customer needs and buying habits, the nature of competition in the market, prevailing prices, distribution network, effectiveness of advertising media, etc. Marketing research gathers records and analyses facts for arriving at rational decisions and developing suitable marketing strategies.

4. Do you think marketing and selling are synonymous terms? Give reason.

Ans: The terms 'marketing' and 'selling' are related but not synonymous. 'Marketing' as stated earlier, emphasises on earning profits through customer satisfaction. In marketing, the focus is on the consumer's needs and their satisfaction. 'Selling' on the other hand focuses on product and emphasises on selling what has been produced. In fact it is a small part of the wide process of

marketing wherein emphasis is initially on promotion of goods and services and eventually on increase in sales volume.

Marketing has long term perspective of winning over consumer loyalty to the product by providing him maximum satisfaction. However, selling has short-term prospective of only increasing the sales volume.

In marketing, the consumer is the on king whose needs must be satisfied. In selling, the product is supreme and the entire focus is its sale. Marketing starts before production and continues even after the exchange of goods and services has taken place. It is so because provision of after sale service is an important component of marketing process. Selling starts after the production and ends as soon as the exchange of goods and services has taken place.

5. Explain the modern concept of marketing.

Ans: The modern concept of marketing considers the consumers' wants and needs as the guiding spirit and focuses on the delivery of such goods and services that can satisfy those needs most effectively. Thus, marketing starts with identifying consumer needs, then plan the production of goods and services accordingly to provide him the maximum satisfaction.

6. Explain 'packaging' as a function of marketing.

Ans: Packaging involves putting the goods in attractive packets according to the convenience of consumers. Important considerations to be kept in view in this connection are the size of the package and the type of packaging material used. Goods may be packaged in bottles (plastic or glass), boxes (made of tin, glass, paper, plastic), cans or bags.

7. Differentiate between packing and packaging.

Ans: Packaging is also used as a promotional tool as suitable and attractive packages influences the demand of the products. It may be noted that packaging is different from packing, which refers to putting goods in suitable containers for transportation purposes.

8. List the different types markets?

Ans:

According to Area	According to Commodities & Goods	According to Volume of transaction
● Local Market ● Regional Market ● Retail Market ● National Market ● International Market	● Fruit Market ● Furniture Market ● Stock Market; so on	● Wholesale Market ● Retail Market

9. Define market?

Ans: The place where buying and selling of goods and services takes place. In the context of marketing, it refers to a group of buyers for a particular product or service.

10. Who is marketer?

Ans: It refers to the person who organises the various marketing activities such as market research, product planning, pricing, distribution etc.

11. What is meant by grading?

Ans: Grading involves separating products into different classes on the basis of certain predetermined standards relating to size and quality. Grading is required in case of agricultural, forest and mineral products such as cotton, sugar cane, iron ore, coal, timber, etc

12. What is the objective of marketing according to traditional concept?

Ans: The ultimate goal of all marketing activity is to earn profit through maximisation of sales.

13. State the four activities involved in product promotion?

Ans: Promotional activities include advertising, personal selling, sales promotion and publicity.

14. Define the word 'marketing'.

Ans: The American Marketing Association defines marketing as an organisational function and set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.

15. Followings are the statements related to different concept of marketing. Identify those pertain to modern concept by mentioning 'MCM' and traditional concept by mentioning 'TCM' of each statement.

(a) It focuses on customer's need. (b) It focuses on product. (c) It sells satisfaction. (d) It sells goods and services. (e) It earns profit by maximisation of sales. (f) It earns profit through maximisation of customer satisfaction.

Ans: MCM: (a), (c), (f)

TCM: (b), (d), (e)

20

LESSON

Marketing Mix

Introduction

In the previous lesson you learnt that marketing identifies consumers' needs and supplies various goods and services to satisfy those needs most effectively. So the businessman needs to: (a) produce or manufacture the product according to consumers' need; (b) make available it at a price that the consumers' find reasonable; (c) supply the product to the consumers at different outlets they can conveniently approach; and (d) inform the consumers about the product and its characteristics through the media they have access to.

So the marketing manager concentrates on four major decision areas while planning the marketing activities, namely, (i) products, (ii) price, (iii) place (distribution) and (iv) promotion. These 4 'P's are called as elements of marketing and together they constitute the marketing mix. All these are inter-related because a decision in one area affects decisions in other areas. In this lesson you will learn about the basic aspects relating to these 4 'P's.

Long Answer Type Questions

1. What is meant by Marketing Mix? Describe the four components of marketing mix.

Ans: Marketing involves a number of activities. To begin with, an organisation may decide on its target group of customers to be served. Once the target group is decided, the product is to be placed in the market by providing the appropriate product, price, distribution and promotional efforts. These are to be combined or mixed in an appropriate proportion so as to achieve the marketing goal. Such mix of product, price, distribution and promotional efforts is known as 'Marketing Mix'.

According to Philip Kotler "Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response". The controllable variables in this context refer to the 4

‘P’s [product, price, place (distribution) and promotion]. Each firm strives to build up such a composition of 4‘P’s, which can create highest level of consumer satisfaction and at the same time meet its organisational objectives. Let us now have a brief idea about the four components of marketing mix.

Product : Product refers to the goods and services offered by the organisation. A pair of shoes, a plate of dahi-vada, a lipstick, all are products.

Price: Price is the amount charged for a product or service. It is the second most important element in the marketing mix. Fixing the price of the product is a tricky job. Many factors like demand for a product, cost involved, consumer’s ability to pay, prices charged by competitors for similar products, government restrictions etc. have to be kept in mind while fixing the price.

Place: Goods are produced to be sold to the consumers. They must be made available to the consumers at a place where they can conveniently make purchase. This involves a chain of individuals and institutions like distributors, wholesalers and retailers who constitute firm’s distribution network (also called a channel of distribution).

Promotion: Promotion is an important ingredient of marketing mix as it refers to a process of informing, persuading and influencing a consumer to make choice of the product to be bought. Promotion is done through means of personal selling, advertising, publicity and sales promotion. It is done mainly with a view to provide information to prospective consumers about the availability, characteristics and uses of a product.

2. Describe the classification and sub-classification of products on the basis of their use.

Ans: Product refers to the goods and services offered by the organisation for sale. Here the marketers have to recognise that consumers are not simply interested in the physical features of a product but a set of tangible and intangible attributes that satisfy their wants.

“Product is a set of tangible and intangible attributes including packaging, colour, price, manufacturer’s prestige, retailer’s prestige and manufacturer’s and retailer’s services which buyer may accept as offering satisfaction of wants and services”- William J. Stanton

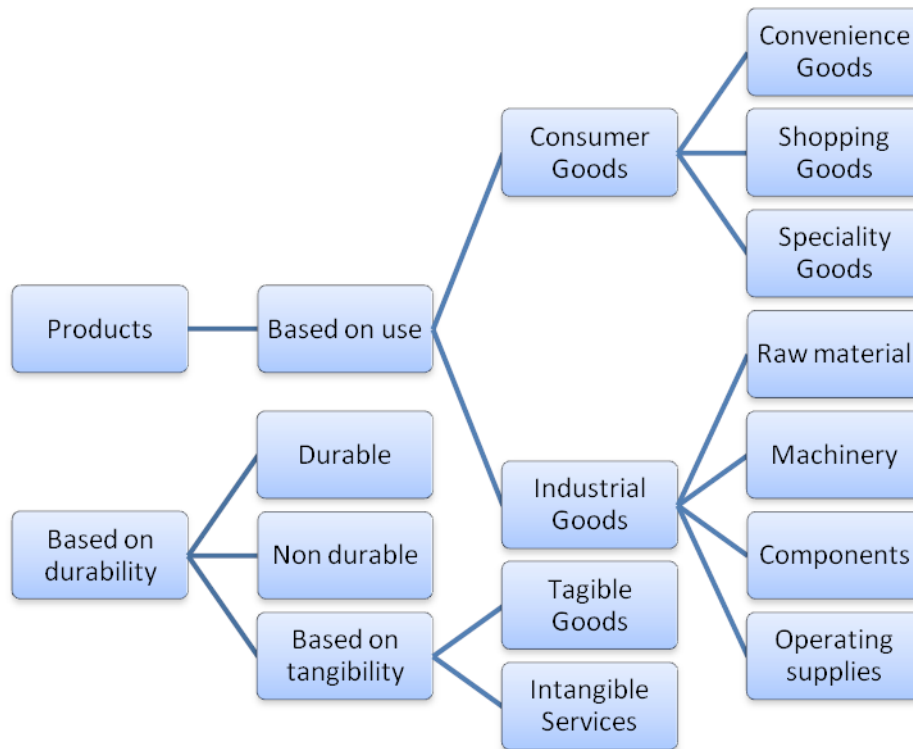
Product Classification

Product can be broadly classified on the basis of (1) use, (2) durability, and (3) tangibility.

1. Based on use, the product can be classified as:

- (a) Consumer Goods; and
- (b) Industrial Goods.

(a) Consumer goods: Goods meant for personal consumption by the households or ultimate consumers are called consumer goods. This includes items like toiletries, groceries, clothes etc.



Based on consumers' buying behaviour the consumer goods can be further classified as :

- (i) Convenience Goods;
- (ii) Shopping Goods; and
- (iii) Speciality Goods.

- (i) **Convenience Goods:** The categories of convenience goods which are bought frequently without much planning or shopping effort and are also consumed quickly. Buying decision in case of these goods does not involve much pre-planning. Such goods are usually sold at convenient retail outlets.
- (ii) **Shopping Goods:** These are goods which are purchased less frequently and are used very slowly like clothes, shoes, household appliances. In case of these goods, consumers make choice of a product considering its suitability, price, style, quality and products of competitors and substitutes, if any.
- (iii) **Speciality Goods:** Because of some special characteristics of certain categories of goods people generally put special efforts to buy them. They are ready to buy these goods at prices at which they are offered and also put in extra time to locate the seller to make the purchase. Examples of speciality goods are cameras, TV sets, new automobiles etc.
- (b) **Industrial Goods:** Goods meant for consumption or use as inputs in production of other products or provision of some service is termed as 'industrial goods'. These are meant for non-personal and commercial use and include (i) raw materials, (ii) machinery, (iii) components, and (iv) operating supplies (such as lubricants, stationery etc).

2. Based on durability, the products can be classified as :

- (a) Durable Goods; and
- (b) Non-durable Goods.
- (a) **Durable Goods :** Durable goods are products which are used for a long period i.e., for months or years together. Examples of such goods are refrigerator, car, washing machine etc.
- (b) **Non-durable Goods:** Non-durable goods are products that are normally consumed in one go or last for a few uses. Examples of such products are soap, salt, pickles, sauce etc.

3. Based on tangibility, the products can be classified as:

- (a) Tangible Goods; and
- (b) Intangible Goods.
- (a) **Tangible Goods:** Most goods, whether these are consumer goods or industrial goods and whether these are durable or non-durable, fall in this category as they have a physical form, that can be touched and seen. Thus, all items like groceries, cars, raw-materials, machinery etc. fall in the category of tangible goods.
- (b) **Intangible Goods:** Intangible goods refer to services provided to the individual consumers or to the organisational buyers (industrial, commercial, institutional, government etc.). Services are essentially intangible activities which provide want or need satisfaction. Medical treatment, postal, banking and insurance services etc., all fall in this category.

3. Explain the four broad method of price fixation of a product.

Ans: Methods of fixing the price can be broadly divided into the following categories.

1. Cost based pricing
2. Competition based pricing
3. Demand based pricing
4. Objective based pricing

1. Cost Based Pricing

Under this method, price of the product is fixed by adding the amount of desired profit margin to the cost of the product. If a particular soap costs the marketeer Rs. 8 and he desires a profit of 25%, the price of the soap is fixed at $\text{Rs } 8 + (8 \times 25/100) = \text{Rs. } 10$.

2. Competition Based Pricing

In case of products where market is highly competitive and there is negligible difference in quality of competing brands, price is usually fixed closer to the price of the competing brands. It is called 'young rate pricing'.

3. Demand Based Pricing

At times, prices are determined by the demand for the product. Under this method, without paying much attention to cost and competitors' prices, the marketers try to ascertain the demand for the product. If the demand is high they decide to take advantage and fix a high price. If the demand is low, they fix low prices for their product. At times they resort to differential prices and charge different prices from different groups of customers depending upon their perceived values and capacity to pay. Take the case of cinema halls where the rates of tickets differ for the different sets of rows in the hall.

4. Objective Based Pricing

This method is applicable to introduction of new (innovative) products. If, at the introductory stage of the products, the organisation wishes to penetrate the market i.e., to capture large parts of the market and discourage the prospective competitors to enter into the fray, it fixes a low price. Alternatively, the organisation may decide to skim the market.

4. 'Promotion includes four main tools'. Explain each of these tools.

Ans: Promotion refers to the process of informing and persuading the consumers to buy certain product. The main objective of promotion is to seek buyers' attention towards the product with a view to:

- arouse his interest in the product;
- inform him about its availability; and
- inform him as to how is it different from others.

It is thus a persuasive communication and also serves as a reminder. A firm uses different tools for its promotional activities which are as follows:

- Advertising
- Publicity
- Personal selling
- Sales promotion

These are also termed as four elements of a promotion mix. Let us have a brief idea about these promotion tools.

- 1. Advertising:** Advertising is the most commonly used tool for informing the present and prospective consumers about the product, its quality, features, availability, etc. It can be done through print media like newspaper, magazines, billboards, electronic media like radio, television, etc. It is a very flexible and comparatively low cost tool of promotion.
- 2. Publicity:** This is a non-paid process of generating wide range of communication to contribute a favourable attitude towards the product and the organisation. The tools of publicity are press conference, publication and news in the electronic media etc. It is published or broadcasted without charging any money from the firm.

3. Personal selling: You must have come across representatives of different companies knocking at your door and persuading you to buy their product. It is a direct presentation of the product to the consumers or prospective buyers. It refers to the use of salespersons to persuade the buyers to act favourably and buy the product. It is most effective promotional tool in case of industrial goods.

4. Sales promotion: This refers to short-term and temporary incentives to purchase or induce trials of new goods. The tool includes contests, games, gifts, trade shows, discounts, etc. Sales promotional activities are often carried out at retail levels.

5. “Channels of distribution are a vital link between manufactures and consumers”. Describe this statement with the help of diagrams by mentioning the four types of channels of distribution.

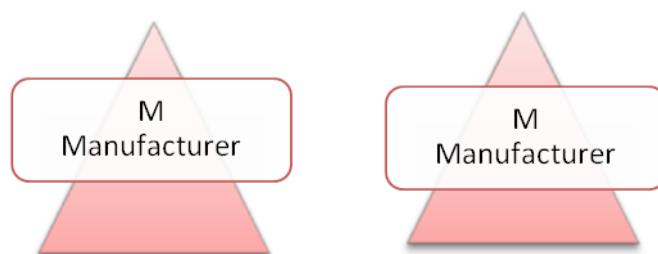
Ans: Stanton has defined it as “A distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from producer to ultimate consumer or business user”.

Basically it refers to the vital links connecting the manufacturers and producers and the ultimate consumers/users. It includes both the producer and the end user and also the middlemen/agents engaged in the process of transfer of title of goods.

Types of Channels of Distribution

Generally we do not buy goods directly from the producers. The producers/manufacturers usually use services of one or more middlemen to supply their goods to the consumers. But sometimes, they do have direct contact with the customers with no middlemen in between them. This is true more for industrial goods where the customers are highly knowledgeable and their individual purchases are large. The various channels used for distribution of consumer goods can be described as follows:

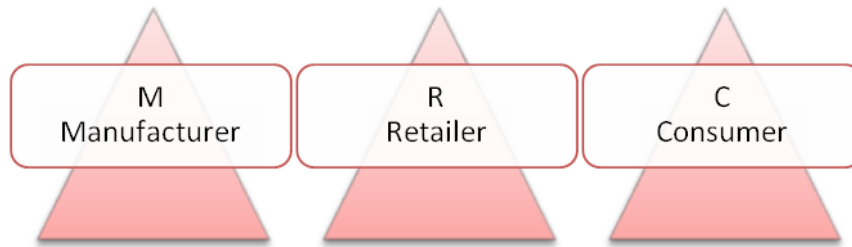
(a) Zero stage channel of distribution



Zero stage distribution channels exists where there is direct sale of goods by the producer to the consumer. This direct contact with the consumer can be made through door-to-door salesmen, own retail outlets or even through direct mail. Also in case of perishable products and certain

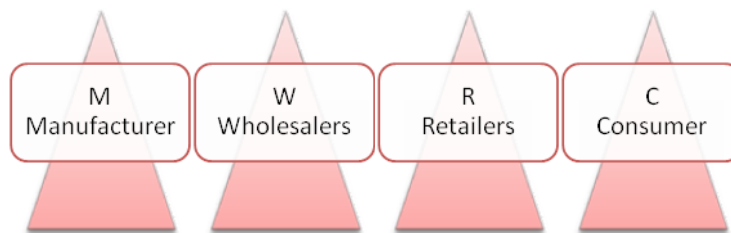
technical household products, door-to-door sale is an easier way of convincing consumer to make a purchase. Eureka Forbes, for example, sells its water purifiers directly through their own sales staff.

(b) One stage channel of distribution



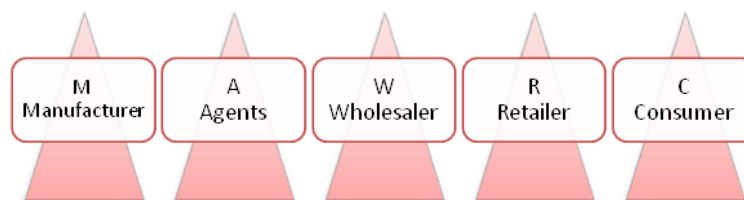
In this case, there is one middleman i.e., the retailer. The manufacturers sell their goods to retailers who in turn sell it to the consumers. This type of distribution channel is preferred by manufacturers of consumer durables like refrigerator, air conditioner, washing machine, etc. where individual purchase involves large amount. It is also used for distribution through large scale retailers such as departmental stores (Big Bazaar, Spencers) and super markets.

(c) Two stage channel of distribution



In this case, there is one middleman i.e., the retailer. The manufacturers sell their goods to retailers who in turn sell it to the consumers. This type of distribution channel is preferred by manufacturers of consumer durables like refrigerator, air conditioner, washing machine, etc. where individual purchase involves large amount. It is also used for distribution through large scale retailers such as departmental stores (Big Bazaar, Spencers) and super markets.

(d) Two stage channel of distribution



When the number of wholesalers used is large and they are scattered throughout the country, the manufacturers often use the services of mercantile agents who act as a link between the producer and the wholesaler. They are also known as distributors.

Short Answer Type Questions

1. State four functions performed by channel of distribution.

Ans: Primarily a channel of distribution performs the following functions:

- (a) It helps in establishing a regular contact with the customers and provides them the necessary information relating to the goods.
- (b) It provides the facility for inspection of goods by the consumers at convenient points to make their choice.
- (c) It facilitates the transfer of ownership as well as the delivery of goods.
- (d) It helps in financing by giving credit facility.
- (e) It assists the provision of after sales services, if necessary.
- (f) It assumes all risks connected with the carrying out the distribution function.

2. Describe the various factors affecting choice of distribution channels.

Ans: Choice of an appropriate distribution channel is very important as the pricing as well as promotion strategy are dependent upon the distribution channel selected. Not only that, the route which the product follows in its journey from the manufacturer to the consumer also involves certain costs. This in turn, affects not only the price of the product but also the profits. Hence, the manufacturer has to be careful while finalizing the channel of distribution to be used. He should pay attention to the following factors while making his choice.

- (a) Nature of Market
- (b) Nature of Product
- (c) Nature of the Company
- (d) Middlemen Consideration

3. The following words refer to tangible and intangible products. You are required to put these products into their right class.

- (i) Cricket Bat (ii) Ball (iii) Boarding a bus
- (iv) 'Pollution check' (v) Pen (vi) Getting medical advice from a Doctor

Ans:

Tangible	Intangible
i) Cricket bat, Ball, Pen	Boarding a bus, Pollution check, Getting medical advice from a doctor

4. The following is a list of durable and non-durable consumer goods. You are required to classify them.

- (i) Refrigerator (ii) Salt (iii) Soap (iv) Washing Machine
- (v) Television (vi) Cooking oil (vii) Sauce (viii) Note Book

Ans:

Durable	Non-durable
Refrigerator, Washing machine, Television	Salt, Soap, Cooking oil, Sauce, Note book

5. What are the main objectives of promotion?

Ans: (a) arouse buyer's interest in the product

(b) inform buyer about its availability

(c) inform him/her how it is different from other products

6. State the main factors affecting the choice of distribution channels.

Ans: (a) Nature of market

(b) Nature of product

(c) Nature of the company

(d) Middlemen consideration

7. Which element of the promotion mix is being referred to in the following statements?

(a) It is a temporary incentive to induce trial or purchase of a new product.

(b) It does not cost money but may involve considerable time and effort by the marketer.

(c) It is an effective promotion tool for machines, lubricant etc.

(d) Press conference, publications and news in the electronic media are its various tools.

(e) It is a paid form of non-personal communication by an identified sponsor.

(f) It is done through popular media like radio, television, magazines, newspapers etc.

Ans: (a) Sales promotion

(b) Publicity

(c) Personal Selling

(d) Publicity

(e) Advertising

(f) Advertising

8. State the meaning of advertisement?

Ans: It is a paid form of non-personal communication through different media about a product, idea, service or organisation, by an identified sponsor. According to American Marketing Association "Advertising is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor."

9. What is meant by product?

Ans: Product refers to the goods and services offered by the organisation for sale.

10. Define promotion.

Ans: Promotion refers to the process of informing and persuading the consumers to buy certain product. By using this process, the marketeers convey persuasive message and information to its potential customers.

11. Which marketing decision has direct impact on product demand and profitability?

Ans: Price

12. Which part of marketing related to distribution channels?

Ans: Place

13. What are the elements of the mix that are intended to achieve marketing objectives?

Ans: Marketing mix

14. Which refers to the goods and services offered by the organisation for Sale?

Ans: Product

15. Classify the following products into consumer goods and industrial goods and further classify them into convenience goods, shopping goods and speciality goods, if they are consumer goods:

- (a) Stationery for the office
- (b) Washing machine for use at home
- (c) A car for the family use
- (d) Oil for manufacturing soap
- (e) A pair of shoes for yourself
- (f) An electric lift for lifting weight in the workshop
- (g) A packet of biscuits for your breakfast

Ans: (a) Industrial goods

(b) Consumer goods- shopping goods

(c) Consumer goods - speciality goods

(d) Industrial goods

(e) Consumer goods - shopping goods

(f) Industrial goods

(g) Consumer goods - convenience goods

16. For the following categories of goods, give two examples of each, from the products that you see around you:

- (a) Intangible goods**
- (b) Durable goods**
- (c) Non-durable goods**

Ans: (a) banking, insurance.

(b) car, washing machine.

(c) salt, pickles, soap.

17. Which method of price fixation is being referred to here?

- (a) Hari fixes the price of shirts that he manufactures and sells at a price 10% higher than its cost.**
- (b) Mannat introduces a new brand of biscuits at a low introductory price.**
- (c) Sheetal fixes the price of her glassware keeping in mind the prices for similar products in the nearby shops.**
- (d) Rahul, a fruit-seller increases the price of mangoes if there is a heavy demand for them during the summer season.**
- (e) Pinky charges a high price for the exclusive designer handkerchiefs that she designs for a selective group of customers.**
- (f) Jahanavi lowers the price of the vegetables at her shop in the evening, so that customers purchase them even when they are not as fresh as they were in the morning time.**

Ans: (a) Cost based pricing

(b) Objective based pricing

(c) Competition based pricing

(d) Demand based pricing

(e) Objective based pricing

(f) Demand based pricing.

21

LESSON

Advertising and Salesmanship

Introduction

In TV, radio, cinema hall, newspapers and magazines, you observe a number of advertisements. These advertisements relate to a variety of products ranging from daily use items like oil, soap, shampoo, clothes to durable goods like television, refrigerator, automobile etc. For each product, a number of companies advertise their brand, as in case of washing powder, Surf, Ariel, Wheel, Doctor, Nirma etc, and in case of television, Videocon, Sony, BPL, LG etc.

The main purpose of advertising is to inform the prospective customers about the availability, quality, price etc. of their products and motivate them to buy. Besides advertising, sales promotion and personal selling are the other tools commonly used by the firms for promotion of their products. In this lesson, we shall learn about all these elements of the promotion mix.

Long Answer Type Questions

1. “Advertising plays an important role in business and society”. Discuss

Ans: In today’s competitive world there are innumerable products competing with each other. Hence, it is necessary that information regarding features, prices and availability of the product is frequently communicated to the consumers so as to ensure a reasonable market share for the manufacturer. Not only that, it also helps the consumers to make a right choice. So, advertising today benefits not only the business houses who manufacture the products but also the consumers and society.

Let us now have a brief idea about how advertising benefits the manufacturers, consumers and the society.

Benefits to Manufacturers

Advertising helps the manufacturers in introducing new products, maintaining customers of existing products and in increasing their sales by attracting new customers. It also helps the business

houses in creating and enhancing their goodwill. It makes the job of salespersons easier by keeping the customer informed about the product. Advertising is an important tool for fighting competition in the market effectively by giving the customers a comparative picture of its products vis-a-vis the competitors' products.

Benefits to Consumers

Advertising helps the consumers to gain useful information about the products, prices, quality, terms of sale, after sales services, etc. Besides providing such information advertising also guides the customers about the right use of the product. This helps them to make a comparative analysis and make their choice. Not only that, advertising is the main source of information for those who live in remote areas and cannot be easily approached by salespersons.

Benefit to Society

The enhanced competition resulting from advertising motivates the producers to make improvements in their existing products and find out better alternatives through Research and Development (R&D) activity. So it helps in providing more convenience, comfort, better life style to the people. Advertising also works as a guide and teacher for people who do not know about many products and their multiple uses, if any. It generates employment for thousands of people who are connected with advertising world in different capacities. Not only has that, advertising generated huge revenue for both print and electronic media. This helps the availability of newspapers, magazines and television programmes at affordable prices.

2. What is the right media for advertising consumer durable products ? Discuss any four points of your choice.

Ans: Advertising media are the means through which messages regarding products and services are transmitted from the advertising firm to people at whom that product is targeted. Many types of media are available for the purpose. These are enumerated below.

Newspapers: Newspaper is a good means of advertising since a big proportion of our country's population read newspapers published in Hindi, English and the various regional languages. Newspaper is the most suitable media for advertising consumer products used by masses. Such products include durables like TV, Refrigerator, Cycle, Scooter, Washing Machine etc. and non-durables like soaps, shampoos, oils, etc. It is also suitable for advertising many services like banking, insurance, transportation, etc.

Television: Television is an important source of entertainment. It shows varieties of programme in different channels and in different languages for 24 hours in most cases. Hence advertising of different products can be done on different channels during the day as well as night. It has the ability to attract the attention of different segments of consumers according to their viewership. For example, products used by children such as chocolates, school bags, chewing gums, toys, play school etc. can be advertised during programmes like cartoon network, storytelling etc. Similarly, household products and cosmetics can be more effectively advertised during programmes

watched by women in the family. It is a medium of advertising with a lot of flexibility and reach as visuals are more effective than audio and print media. It has the added advantage of reaching out to the illiterate consumers.

Radio: Radio is the most common source of entertainment for rural masses and the people in the semi-urban areas. However, the addition of FM radio has brought back the lost importance of radio in urban areas. The radio programmes too have a lot of advertising before and during the programme. Krishi Sandesh programme (for farmers) for example has advertisements on pesticides, fertilizer, tractors etc. Advertising on radio is popular in India because a number of villages do not have electricity and television transmission facility. Hence radio still remains a popular medium of advertising for rural people.

Magazines and Journals: Magazines and Journals are the print media of advertising. These are published periodically i.e., weekly, fortnightly, monthly, quarterly, half yearly or annually. Their circulation is limited and most magazines are generally targeted at specific segment of readers. Hence, advertisers use this media selectively according to the target customers to be reached. For example, the health care products can be advertised in magazines like Health and Nutrition, sports goods in magazine like Sports Star, medicines and medical equipment in different medical journals and so on.

Films: Films are an important source of entertainment in India and as such an important medium of advertisement. Advertisements are generally shown before the start of the show or during interval. It can be used for advertising products of mass consumption like cosmetics, toiletries, medicines, etc. People from all strata of society visit cinema halls. But with limited reach, this is a comparatively costly medium.

3. A manufacturer of detergent powder wants to introduce detergent cake in the market under a new brand name. Which sales promotion tools should he use to attract the customers? Give reasons in support of your answer. (OR) Explain in brief, giving a list of any four popular sales promotion tools.

Ans: Sometimes we get a small pack of tea, shampoo, soap or floor cleaner free from the manufacturer or producers. Have you ever thought why do companies distribute their products free like this? Because, their main intention is to attract the consumers' attention towards the product and then make them feel tempted to buy the product. This is a tool of sales promotion. Some of such promotional tools are given below:

- 1. Distribution of Free Samples:** Distribution of free sample is a commonly used sales promotion tool. It is a good method for introducing a new product or a brand in the market. Such free samples can be distributed at the door step, through fairs, or even through retail stores.
- 2. Bonus Offer:** At times marketers offer something extra with standard products without any additional charge to the customer. It could be extra quantity of the same product or some other product of the company like toothbrush with toothpaste or any other related items as gift like a bucket with large pack of washing powder, and so on.

3. **Price-off:** To increase sale, or to reduce competition, many business firms cut down prices. Prices may also be cut down during off season to maintain certain volume of sales.
4. **Exchange Offer:** Under this scheme, companies generally attract the customers by offering a price cut on purchase of new product in exchange for an old product. Recently you must have seen many advertisements talking about such offers on purchase of new refrigerator, television, washing machine, motorbike, cars, etc.
5. **Fairs and Exhibitions:** Trade fairs, exhibitions and fashion shows are important tools of sales promotion. They provide a forum for demonstration and exhibition of products. A lot of important information about the product can be communicated to the customers through leaflets, brochures etc. during fairs and exhibitions.
6. **Free Offer:** Many companies give 'free' offers to boost the sales of their products. They offer products of similar or related nature with the purchase of main products. For example, VCR/VCD free with plasma TV is an example of such free offer.
7. **Money Refund Offer:** Of late, another method being used by marketers to boost consumer's confidence in a product is a promise of total refund of money spent on the product if the buyer is not happy with the product's performance. Such offer not only arouses the customers' interest in the product but also motivates them to make a trial.
8. **Discount Coupon:** Discount Coupon is a certificate that entitles the holders a specified discount on purchase of a product. Such discount coupon may be issued by the company by mail or through the dealers. They can also be issued through newspapers.
9. **Deferred Payment Plan:** During 1980's, some of the airlines offered deferred payment plans - 'Travel today pay fare later' for air journeys for promoting travel. It was quite a success. This plan is quite common now-a-days in case of TVs and air conditioners.
10. **Contests:** There may be a contest like quiz related to the product or slogan writing. In case of quizzes, the questions are generally prepared in a way that consumer feel forced to know about the company and the product in the hope of winning a prize. These contests can be held on television, radio and through the magazines.

4. One reputed company wants to recruit salesmen for retail stores. Can you identify the qualities they should look for in the prospective candidates?

Ans: Some of the common qualities which a salesperson must possess are as follows.

- (a) **Good Personality:** Personality is a mixture of many traits like physical appearance, dressing-up, way of talking, manners, pitch of voice, habits etc. Personality of a salesperson should be such that the moment he/she comes in contact with the customer, he/she looks amiable with whom the customer is at least ready to start a conversation.
- (b) **Mental Qualities:** A salesperson must have the quality of alertness, imagination, foresightedness, empathy etc. He should have the ability to read the customer's mind and

behave accordingly. There may be certain doubts or apprehensions in the mind of the customer regarding the product. Only a salesperson with these mental qualities will be able to solve the customer's problems. A good salesperson should be able to match the product with the customer's need and ability to pay.

- (c) **Good Behaviour:** A salesperson should be a well behaved person having ability to interact with people comfortably. He/she should be cooperative so that he/she can help people in making up their minds by patiently answering all their questions. Patience and humility will help him/her in not only holding the attention of the customer but also in getting them interested in purchasing the product.
- (d) **Knowledge:** While buying a television set normally we ask the salesperson a number of questions about the features of the latest model. If the salesperson fails to answer our queries or if we do not satisfied with the reply, we may leave that shop and visit another shop where all of our queries are answered by the salespersons. This is possible only when the salesperson has detailed knowledge about the product. He/she should know every detail relating to the product and the company he/she is representing.
- (e) **Ability to communicate and persuade:** If a salesperson can communicate properly and effectively then he/she will be able to clear the biggest hurdle of making the prospective customer listen to him/her. The salesperson must speak confidently, clearly and audibly. Good communication ability coupled with good knowledge about the product helps the salesperson in persuading the customer to buy.
- (f) **Persistence:** The salesperson must know the art of persistence. It requires a sense of determination to convince the customers to buy. He/she must not give up easily. Without being offensive, he/she must persuade the customer to finalise the purchase with a sense of satisfaction.

5. What are the objectives of sales promotion?

Ans: Different sales promotional tools have different objectives. For example, while a free sample may motivate a consumer to buy a product for the first time, a free check-up for existing durable product like television, refrigerator etc. may affect future purchase decision of the buyer. Some of the objectives of sales promotion are listed below:

1. **Information to Customers:** Sales promotion activities inform the potential buyer about the availability, features, uses etc. of the product. Thus, it offers additional support to promotional activities like advertising, publicity and personal selling (salesmanship).
2. **Persuades Customers:** Sales Promotion activities aim at arousing customers' interest in the product and persuading them to buy.
3. **Increase in Sales Volume:** It aims at increasing sales. It is specially done during the periods when customer may not buy the product because it may not have immediate use, like a room cooler in winter, and a room heater in summer. The sales promotion schemes are a big help in making off-season sales and also in tempting the buyers to make quick decisions to purchase.

4. Incentive to Retailers: The main objective of sales promotional activities is to offer promotional support to retailers. Sales promotion schemes make sales easier. Incentive schemes help in getting shelf space for such products in new retail outlets.

5. Create Product Identity: A number of brands of a particular product are available in the market and it is very difficult to distinguish one from the other as all have similar features, prices, variety etc. Under sales promotion programme, product identity is established by offering additional features and incentives. This helps in building consumers' preference for the specific products and brands.

6. How is publicity different from advertising?

Ans:

Basis	Advertising	Publicity
1. Payment	It is a paid form of dissemination of information. The firm has to pay for the use of space and time	The sponsor does not make any payment to the media as the information is published/ communicated voluntarily.
2. Identified sponsor	There is an identified sponsor, i.e. the business firm which wants to advertise its products or services.	There is no identified sponsor. Media communicates the information as it considers it newsworthy.
3. Control	The advertising firm has full control over the content, type, size, duration and frequency of the message.	The concerned firm has no control over the contents, type, and size of the information.
4. Purpose	It is intended to give favourable and positive impression about the company and its products.	This may have favourable or unfavourable impression on the public about the company and its products.

Short Answer Type Questions

1. What are the main objectives of advertising? Explain in brief.

Ans: The main objective of advertising is to help a business firm to promote its products and increase the sales. But, there are some other goals also which a firm can achieve with the help of advertising. The objectives to be achieved through advertising are as follows:

- Advertising helps in increasing the sale of firm's products
- Advertising is used to remind the consumers about how good their products or services are and that they are still in the market as old and reliable ones.
- Advertising helps in building reputation of the business house.

- Another objective of advertisement is to provide the necessary support to firm's dealers and distributors.
- Advertising is also used for creating a brand image which helps in building customers' loyalty
- Advertising facilitates the process of personal selling.

2. Explain 'Bonus offer' as a tool of sales promotion.

Ans: At times marketers offer something extra with standard products without any additional charge to the customer. It could be extra quantity of the same product or some other product of the company like toothbrush with toothpaste or any other related items as gift like a bucket with large pack of washing powder, and so on.

3. Distinguish between advertising and sales promotion.

Ans:

Basis	Advertising	Sales promotion
Objective	The objective of advertising is to create a favourable consideration for the product.	The objective of sales promotion is to stimulate the consumers to buy the product.
Effect	It has a long term effect.	It has a short term effect and useful for increasing immediate sales.
Nature	Advertising is recurring in nature	It is non-recurring and one time communication process.

4. Name four items each, which are best suited for advertisement in 'Magazines and Journals' and through 'Films'.

Ans: TV, refrigerator, cycle, scooter, washing machine, soaps, shampoos, oils, etc.

5. What do you mean by outdoor advertising? Give two examples.

Ans: While travelling by bus or train, you must have noticed a number of advertisements on the walls, billboards, outside and inside the buses and trains. Even while walking on the road you must have seen advertisement of different products, shops, schools, coaching institutes, written on the back of a scooters, rickshaws, and buses etc. These are examples of outdoor advertising which are usually in the form of hoardings, displays on walls of buildings, public places like railway station etc., and are generally used for advertising products like shoes, lotions, creams, fans, cycles etc. They are also done through electronic displays.

6. What are the limitations of advertising?

Ans: Many people consider advertising to be a wasteful activity and something harmful for the customers and the society in many ways. Their arguments against advertisement are as follows:

- (i) Advertising multiplies wants
- (ii) Advertising adds to the cost and price of product
- (iii) Business firms which can spend heavily on advertising are usually the ones who grab a bigger share of the market, such firms generally have a monopoly.
- (iv) Advertising may affect the value-system of society
- (v) Motivation for wrong or dangerous deeds
- (vi) Advertising may not increase overall demand

7. State the importance of salesmanship.

Ans: The flow of goods from the producers to the consumers may not be possible without the involvement of salespersons. The salespersons play an important role in the process of sale. The benefits of salesmanship are to Consumers, Business and to the Society.

8. Define advertisement.

Ans: According to American Marketing Association “Advertising is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor.”

9. What is meant by publicity?

Ans: Publicity is basically information about the product, service or a business firm which is communicated voluntarily by the media and is of commercial significance to the firm. The information may be passed through media like magazines, newspapers, radio, T.V. in the form of debates, discussions, news items, reports, editorials etc. The company does not pay anything to the media for such activities.

10. Define personal selling.

Ans: Personal selling is a process of assisting and persuading the prospective customers to buy a product in a face-to-face situation.

11. What is meant by sales promotion?

Ans: All promotional activities other than advertising, salesmanship and publicity which help in increasing the market demand of the product.

12. The following sentences give the characteristics of advertising and publicity. You are required to put ‘A’ for characteristics of advertisement and ‘P’ for publicity.

- (a) It is paid form of dissemination of information.
- (b) There is no identified sponsor.
- (c) There is an identified sponsor.
- (d) This may leave favourable or unfavourable impression on the public about the company and its products.

Ans: (a) A (b) P (c) A (d) P

13. Read the following and indicate which objective of advertising is the company trying to achieve.

- (a) A washing powder manufacturing company issuing an advertisement about protection of the girl child.**
- (b) A consumer durables company bringing out an advertisement giving a list of dealers selling its products.**
- (c) A company using a celebrity to advertise their product.**
- (d) A company manufacturing technical products issuing an advertisement showing use and operation of its products.**

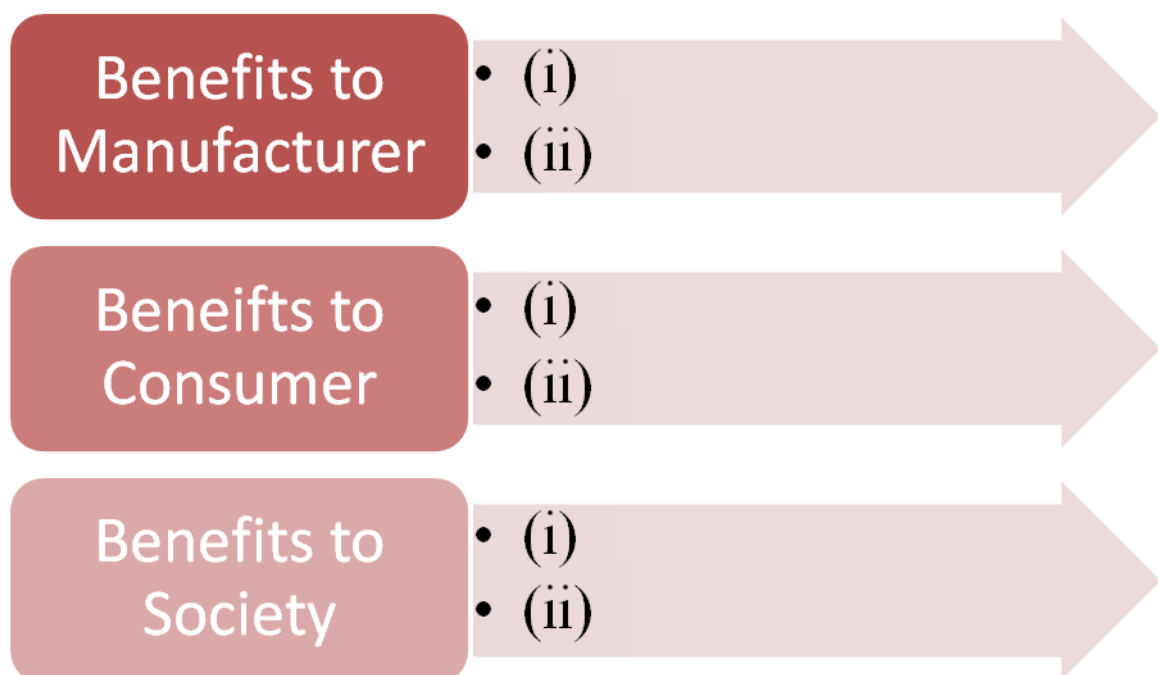
Ans: (a) Create and enhance goodwill of the firm

(b) Dealer support

(c) Create and enhance brand image

(d) Helps personal selling

14. In the flow charts given below, the benefits of advertisement are given under three heads. You are required to state two important points of benefit under each head.



Ans: Benefits to manufacturers: (i) Introduction of new products, (ii) creating and enhancing goodwill

Benefits to consumers: (i) Information about product, prices, (ii) guides the consumers about proper use.

Benefits to society: (i) Generates employment (ii) generates huge revenue for print and electronic media.

15. Which medium/media of advertising will be most suitable in the following cases:

- (a) For advertising products of mass consumption for all strata of the society.**
- (b) To reach a selective target group or a specific segment of readers.**
- (c) To catch the attention of people at traffic lights, in traffic jams or when they are travelling by train.**
- (d) To reach out to illiterate consumers as well as to use the visual medium effectively.**
- (e) To reach a wide range of the literate population of the country.**
- (f) For advertising to people in rural, semi-urban and the urban areas.**

Ans: (a) Films Advertising

(b) Magazines and Journals

(c) Outdoor advertising

(d) Television

(e) Newspapers

(f) Radio

16. Name the sales promotion tools being referred to here:

- (a) A sachet of a new brand of shampoo attached to a magazine for use by its readers.**
- (b) 10% talcum powder extra in a 250 gram tin.**
- (c) A crossword puzzle on information about a new magazine for children.**
- (d) A comb free with a bottle of hair oil.**
- (e) Books being sold at the annual book fair in your town.**
- (f) A ceiling fan being offered at a discounted price to customers during winters.**

Ans: (a) Distribution of free sample

(b) Bonus offer

(c) Contests or Quizzes

(d) Bonus-offer

(e) Fairs and exhibitions

(f) Price-off

22

LESSON

Internal Trade

Introduction

You may be using a variety of products in your daily life, right from a notebook, a pen, soap, garments, vegetables, and fruits to radio, television, fans and furniture. Where do you buy all these products? Your answer will be – from the nearby market. Sometimes during special occasions like a festival or a marriage we prefer going to a market that may be located at a distance from our residence. Now the question that arises is, how do all these products reach the market? There are a number of firms/people who are involved in this activity of bringing the product from the place of production to the market and then making it available to the ultimate consumers. They act as a link or bridge between the producers and the consumers. In this lesson, we will learn about the firms/people who link the producers and consumers within a particular country and also about the various options available to consumers to buy the products for their consumption.

Long Answer Type Questions

1. What is meant by the term departmental stores? State its merits and demerits.

Ans: A departmental store is a large-scale retail shop where a large variety of goods are sold in a single building. The entire building is divided into a number of departments or sections. In each department specific type of goods like stationery items, books, electronic goods, garments, jewellery etc. are made available. All these departments are centrally controlled under one management. Big Bazar, Vishal Megamart, Ebony, Shoppers' stop are some of the leading departmental stores in our country.

Merits of Departmental Stores

- (a) They sell a large variety of goods to consumers, under one roof. So it saves time and effort of the customers.

- (b) Departmental stores offer wide variety of goods produced by different manufacturers.
- (c) They buy large volumes of goods, at a time directly from manufacturers, and get good amount of discount from them. They are able to reap the benefits of economies of large-scale operations.
- (d) Since these stores are organised on a large-scale basis, they can afford to employ efficient and competent staff to provide the best services.
- (e) Each department that is a part of the departmental store in a way advertises for the other departments. While visiting one department customers are attracted to see and even buy the goods displayed in other departments.

Limitations of Departmental Stores

- (a) Large amount of capital investment is required to start and run a departmental store.
- (b) They are generally located at places far from residential areas, so they are not very convenient for buying goods of daily use.
- (c) The operating cost of the departmental stores is very high since it includes cost of location (in the form of rent or purchase price of building), decoration of building, salary of large number of employees and provision of various facilities for the convenience of customers.
- (d) There is no direct contact between owners and customers in departmental stores. It is the employees of the store who interact with customers. The owners do not get first hand information about the tastes, preferences, likes and dislikes of the customers.

2. What is the meaning of multiple shops? Explain its advantages and limitations.

Ans: There are some retail stores running in your town/city having the same name, same decoration and dealing in the same type of products under a single brand name. These are multiple shops. They sell similar range of commodities at the same price in all their shops. These shops are usually owned and run by big manufacturers/producers. They open a number of branches at different localities in a city or in different cities and towns in a country. These shops are also called 'Chain Stores'.

Merits of Multiple Shops

The multiple shops offer the following advantages to buyer and sellers. Let us learn about them.

- (a) All multiple shops are often built alike, that helps customers to recognize the shops easily. They have similar window display, interior decoration of the shop and arrangement of the counter, furniture, sign boards etc.
- (b) They facilitate elimination of middlemen (wholesalers and retailers) in the process of distribution.
- (c) These shops enjoy the benefits of large-scale purchase or production of goods (centralized purchase/production). Also, due to common advertisements these shops are able to save on the cost of advertising.

- (d) The customers can get the goods at a cheaper rate because of low operating cost and elimination of middlemen in the process of distribution.
- (e) Since the customers get genuine and standardised goods directly from the manufacturers, chances of duplication of goods and cheating do not arise in these shops. Also, standard quality and uniform price of products helps in winning the confidence of customers.

Limitations of Multiple Shops

In spite of all the above merits, multiple shops also suffer from the following limitations.

- (a) These shops deal in a limited variety of products and restrict the choice offered to customers.
- (b) Sales are made on cash basis only and the customer cannot avail of credit facilities from these shops.
- (c) Customers cannot bargain with sales person while buying the product. The prices of the product are fixed by the head office and individual shops have no control over it.
- (d) Each of the multiple shops is generally managed by the branch managers and they strictly follow the instructions of the head office. Often, they do not take initiative or special interest in satisfying the customers.

3. Describe the role of middlemen in the channel of distribution.

Ans: Both wholesalers and retailers act as a link between producers and consumers in the chain of distribution of products. They are called middlemen as they come in the middle, i.e., between the producers and the consumers in the chain of distribution.

Chain of Distribution



The middlemen provide useful services to both producers and consumers. For the producer, they free him of the complexities of arranging for transport, warehousing, financing and marketing of his produce to a large extent. The responsibility of the producer gets limited to producing the product. Largely all efforts to sell and distribute the same is taken up by these middlemen. For the consumers too, these middlemen are beneficial as they make the products available at the place and time of convenience to them.

Now let us learn in detail the role of wholesalers and retailers in the chain of distribution.

Role of Middlemen in the Distribution of Goods

- (a) Role of Wholesalers:** The wholesalers through their services offer a number of benefits to the producers and retailers. They save the time and effort of the producers and allow them to concentrate on production of the goods while distribution is taken care of by the wholesalers. They deal with goods in bulk and reap the benefit of economies of scale. They provide goods

in relatively small quantities to retailers and provide them with facility of credit purchase. They provide information to the producers about the consumers' preferences, changing taste and fashion, market demand etc. Wholesalers also bear the risk involved in holding of stock of goods and its transportation.

- (b) Role of Retailers:** Retailers are engaged in selling the product to the end-users or the consumers. They cater to the demand of the customers by providing a variety of products collected from different locations. The retailers may offer credit facility to customers. They also offer pre and after sales services and communicate to consumers the technique of usage of the products. They act as salesmen of the product and persuade buyers to purchase goods and services. They provide information to the manufacturers or wholesalers about the feedback on consumers' response to the product.

Evaluation of the Role of Middlemen in the Chain of Distribution

It is often debated that the middlemen do not serve any useful purpose, but only escalate the price of a product unnecessarily. However, we must not forget that they render useful services to producers and consumers. To that extent, they are justified to get their share of profit in the sale of the product. But it should be a reasonable and not too high to become a burden on the consumers.

If there are too many middlemen between manufacturers and consumers, each charging his share of profit or commission, the ultimate consumer ends up paying a very high price for the goods. Some middlemen indulge in unfair trade practices like hoarding and adulteration to increase their gains from the business. They, at times, promote the sale of inferior quality goods and exploit the consumers to get a high profit margin for themselves.

Nonetheless, when we compare the benefits of middlemen with the problems they pose, their benefits definitely outweigh the problems. In conclusion, one can clearly say that the middlemen play the role of a vital link between producers and consumers in the chain of distribution.

4. What is meant by Consumer Co-operative Store? Explain its merits and demerits in brief.

Ans: Consumer Cooperative Store is another form of large scale retail trade which is owned by the cooperative society. When the consumers of a particular area or group find it difficult to get the items of daily necessity they usually form a cooperative society and run the retailing business. The consumer cooperative stores purchase the goods directly from manufacturers or dealers and make them available at a cheaper price.

Merits of Consumer Cooperative Stores

- (a) The consumer cooperative stores generally provide the goods at a lower price than the market, because they eliminate the profits of middlemen in the process of distribution.
- (b) These stores sell the goods on cash basis. So the risk of bad debts is avoided.

- (c) These stores are generally located near the residential area for the convenience of the members as well as general public.
- (d) The profit earned by the consumer cooperative stores is distributed among the members as bonus.

Limitations of Consumer Cooperative Stores

- (a) The consumer cooperative stores generally suffer from the limitations of inadequate funds because these stores are formed by the people belonging to limited income group.
- (b) Lack of fund or resources restrict the growth and expansion of business.
- (c) These stores are managed by the member who may not have sufficient experience in business management. Again, due to limited fund it is also not possible to engage professional managers.

5. Explain the features of franchise as a form of large scale retailing business.

Ans: Franchise is a form of retailing wherein two parties enter into an agreement in which one party authorises others to sell or produce and sell specified goods and services. The party that develops a product/service or is the owner of an expertise is called the 'Franchiser'. The other party, called the 'Franchisee' is an independent business unit that buys the right to sell the product/service of the franchiser in exchange of the specified amount of money. The franchisee functions as a retailer.

Features of Franchise

Let us now know more about franchise by looking at its features:

- (a) It is based on an agreement between the franchiser and the franchisee, wherein they enter into a commercial relationship, generally for a specific period of time.
- (b) Under this agreement, the franchisee gets the right to use a particular brand name, process or product owned by the franchiser, for the purpose of retailing, in return of a fee.
- (c) The fee is generally paid partly as an initial payment at the time of entering into the contract and partly on regular payments either in monthly, quarterly or annually. This regular payment may be paid by the franchisee as a percentage of his sales volume or profit or a fixed amount agreed upon in the contract.
- (d) The franchiser may also be required to invest money in arranging a large space in prime locations, in furnishing it and in procuring stock for the outlet. In most cases all franchise outlets are required to maintain uniform pre-determined decoration, method of serving customers, type of products etc.
- (e) Franchise as a system of retailing is suitable for brands that have earned a name for themselves in the market. Only then can a franchisee benefit from using that name over a new brand.
- (f) The franchiser is very cautious while choosing franchisees for his goods or services. Only competent persons with requisite entrepreneurial skills and commitment to quality/customer-

satisfaction, in addition to, of course, a sound financial position will be able to run this business successfully. A franchisee who fails will bring disrepute to the brand and also hamper the franchiser's future business prospects.

6. Describe any two in brief, the recent trends in distribution.

Ans: With the advancement in the information technology (i.e., use of computers, telephone, internet etc.) methods of distribution of goods from producers to consumers have witnessed new developments. Today consumers can conveniently buy products of their choice without leaving their home or office, any time during the day or night. Certain channels of distribution eliminate the long and expensive chain of middlemen. Manufacturers are directly approaching consumers, either through their websites using internet or through their agent (direct selling).

Recent Trends

Some of the recent trends in distribution are discussed below.

(a) Direct Marketing

Under this method of distribution the manufacturers bypass the chain of middlemen and approach the consumers directly and sell them the goods and services, without the help of wholesalers and retailers. The manufacturers inform the prospective customers about their products and its uses through advertisements (in newspapers, television, radio) or catalogues, letters and brochures. If the customer wants to buy the product, he/she may place an order to the manufacturers over the telephone or through a letter sent by post or e-mail. The product gets delivered to the customer through courier, post or by salespersons. The benefit of direct marketing to the producer as well as consumer is in the form of doing away with the profit margin of middlemen.

Direct marketing may be classified into different types, based on the mode of communication used by the manufacturers to approach the customers. The manufacturers may use

- Printed catalogues to inform the customers about the products called catalogue retailing;
- Television advertisements called televised shopping; and
- Brochures, letters etc. sent by mail called direct mail retailing.

Products that can be conveniently and safely sent to the customers by post/courier and whose utility and description can be easily communicated through a catalogue, letter or television advertisement are generally sold using the method of direct marketing. This includes books, magazines, physical exercise equipments, certain types of furniture etc.

(b) Internet Marketing

With the widespread use of computers and internet, today it is possible to buy and sell products over the internet, through websites maintained by producers. Products can be ordered instantly from anywhere in the world, 24-hours of the day, from the convenience of one's home or a nearby cyber-cafe.

On the website we can see the picture of the product, read about it and then order it, just with the click on the mouse of the computer. The payment for the product may be made using a credit card or by bank draft etc.

Internet marketing makes it convenient to do shopping anytime, anywhere and it is easy to compare prices of the same product charged by different producers. The only thing we have to do is to open different websites on the internet. There is no need to physically go from one shop to the other or one market to the other.

We can buy all types of products from flowers to foods, clothes to computers, from producer located even at a far-off place in some other country or continent. The producer is able to cater to a larger number of customers sitting anywhere in the world, efficiently and speedily, using internet marketing.

But a drawback of this means of distribution is that the consumer can only see the image of the product. He/she cannot see the actual product nor touch it, try it nor witness a live demonstration of its use. Full information about the product may not be available on the website.

(c) Telemarketing

Some producers/manufacturers approach the consumers over the telephone, to tell them about the product and its uses and ultimately persuade them to buy the product. This method is often used to sell credit cards, subscription to certain books and journals and also membership of certain clubs etc.

A marketing representative of the concerned producer calls up prospective customers over the telephone and tells them about the product and its uses. While interacting the caller can gauge the interest level of the customer towards the product and influence his decision to buy the product. If the customer is willing to buy the product, it is delivered to him by courier or post.

Short Answer Type Questions

1. Explain the merits of super markets.

Ans: Super Market is a large scale retail store that sells a wide variety of products like food items, vegetables, fruits, groceries, utensils, clothes, electronic appliances, household goods etc. all under one roof.

Merits of Super Markets

Let us consider the merits of super markets.

- (a) Super markets deal with a wide range of goods of daily household needs.
- (b) It provides standard quality items to the customers. Chances of adulteration and duplication are minimal/almost nil.

- (c) Due to economies of large-scale purchase and avoidance of middlemen the goods are available at a cheaper price in super market.
- (d) In a super market normally services of salesmen and shop assistants are not available. This reduces the cost of operation.
- (e) A customer can find goods of different brands at one place. This makes comparison and selection easy.

2. Give any four points of distinction between a retailer and a wholesaler.

Ans:

Basis	Wholesaler	Retailer
Number of items	Deals in a few items	Deals in a variety of items
Quantity of goods bought and sold	Large	Small
Source of purchase	Manufacturers	Wholesalers/producers
Main activity	Sells goods for resale	Sells goods for consumption or final use.
Amount of capital required	Large	Small
Nature of relationship	Direct link with the producers and indirect link with the consumers	Indirect link with the producers and direct link with the consumers.
Location	Located in the same area	Located near residential areas.
Display	Does not require elaborate display of goods.	Requires display of products attractively.

3. Name any four types of large scale retailing business.

Ans: In India, generally we find the following types of large-scale retailing business:

- (i) Departmental Store
- (ii) Multiple Shops
- (iii) Super Market
- (iv) Consumer Cooperative Store
- (v) Mail Order Retailing
- (vi) Franchise

4. What is meant by ‘mail order retailing’?

Ans: The mail order retailers place the advertisements in newspapers, magazines etc. or publicise about their products in booklets, catalogues, brochures and handouts. These advertisements, leaflets, brochures etc. contain an order form or other details on how to order the product apart

from a detailed description of the product being sold. On seeing the advertisement the interested customers can place an order by post and the retailer on receiving the order, despatches the goods by post or courier. The payment for the same is either made by the customer through the money order or demand draft (at the time of ordering the goods) or through cash-on-delivery/ VPP (Value Payable Post) arrangement (i.e., payment is made by the customer on receiving delivery of goods, not in advance).

5. What is meant by internal trade?

Ans: The goods produced in a country may be sold within the country or outside the country. When buying and selling of goods and services takes place within the geographical boundaries of a country, it is referred to as internal trade.

6. State any two features of internal trade.

Ans: Features of Internal Trade

- (a) The buying and selling of goods takes place within the boundaries of the same country.
- (b) Payment for goods and services is made in the currency of the home country.
- (c) It involves transactions between the producers, consumers and the middlemen.
- (d) It consists of a distribution network of middlemen and agencies engaged in exchange of goods and services.

7. What is meant by multiple shops/outlets?

Ans: These shops are also called 'Chain Stores'. Multiple shops deal with similar types of goods mostly of everyday use e.g., shoes, textiles, watches, automobile products, etc. The price is uniform for similar items in all the shops.

8. Identify the following and write 'WT' for wholesale trade and 'RT' for retail trade.

- (a) Dealing in limited variety of product.
- (b) Goods purchased from wholesalers for resale.
- (c) Providing facilities like grading and packaging.
- (d) Buying of goods in bulk from the manufacturers.
- (e) Trading activities carried on near the residential areas.

Ans: WT : (a), (c), (d)

RT : (b), (e)

9. Rectify the following sentences if found wrong.

- (a) A wholesaler has direct link with the consumers.
- (b) The amount of capital required is less in case of wholesale trade.
- (c) Producer is a middleman in the chain of distribution.
- (d) Presence of too many middlemen increases the price of the product.
- (e) The wholesaler purchases goods from the retailer.

- Ans: (a) A retailer has direct link with the consumers.
(b) The amount of capital is less in case of retail trade.
(c) Wholesaler is a middleman in the chain of distribution.
(d) No change
(e) The retailer purchases good from the wholesaler.

10. Identify the types of retailing business.

- (a) Stores dealing with a particular line of good like books, toys etc.**
- (b) Stores dealing with a variety of goods of a particular brand.**
- (c) Stores dealing with a variety of goods of daily use.**
- (d) Selling goods on the pavement of a city.**
- (e) Stores selling used books or garments at cheaper price.**

- Ans: (a) Single line store (b) Specialty store
(c) General store or variety store (d) Itinerant retailing
(e) Secondhand goods shop

11. The decoration, display, sign boards etc. of the multiple shops are built alike. Why? Give reason.

- Ans: (a) Same ownership
(b) Easy to recognise

12. Answer the following.

- (a) Who owns the departmental stores?**
- (b) Who owns the multiple shops?**
- (c) Which stores deal with variety of goods under one roof?**
- (d) Who manages the day to day affairs of the multiple shops?**

- Ans: (a) Big businessman (Individual or group)
(b) Big manufacturers or producers
(c) Departmental store
(d) Branch manager or anybody appointed by the owner.

13. Name the method of distribution in the following cases:

- (a) The manufacturer approaches the customers directly.**
- (b) The marketing representative calls the customs over telephone.**
- (c) Sale of goods and service by using internet.**
- (d) Sale of goods through machines without any human intervention.**

- Ans: (a) Direct marketing (b) Telemarketing
(c) Internet Marketing (d) Automatic vending machine

23

LESSON

External Trade

Introduction

With the development of human society and progress in science and technology, the scope of trade has also widened. It has now crossed the geographical boundaries of each country. Today, we can buy goods of our need from other countries and also sell our surplus goods abroad without facing much difficulty. When the business firms of two different countries participate in the process of buying and selling of goods it is termed as External Trade.

Long Answer Type Questions

1. Explain any four measures taken up by Government of India to facilitate exports.

Ans: Like other countries, India imports and exports a large number of goods and services. After independence, external trade of India has considerably expanded. For economic development it is necessary to import machinery, raw materials and fuel oil. As a result, import into India has increased. However, it is also necessary to increase exports to pay for the imports. The government of India has provided a number of facilities to boost its export trade. Let us discuss some of the promotional measures taken up by Government of India in this regard.

1. 100 per cent Export Oriented Units

These units are established anywhere in the country and avail all those facilities being provided to the EPZs. They export all of their products to foreign countries.

2. Export Houses

On the basis of the export performance the government has recognised various export units as Export House, Trading Houses, Star Trading Houses, and Super Star Trading Houses. This recognition is given with an aim to encourage the units to put greater efforts and work in a highly professional manner.

3. Organising Trade Fair

The government generally arranges trade fairs at international level to provide a platform both for the buyers and sellers to interact where by the export promotion can takes place. Goods are displayed and demonstrated and their sale is also conducted in trade fairs. 'International Trade Fair' in New Delhi at Pragati Maidan, which is held from 14th to 27th November every year, is a well-known example of Fairs that promotes foreign trade.

4. EXIM Policy

To provide detailed guidelines on trade and taking various policy decisions for foreign trade Government of India announces the Export Import (EXIM) policy from time to time.

5. SAFTA

SAFTA stands for South Asian Free Trade Agreement. It is an attempt to carry on foreign trade activities within SAARC (South Asian Association for Regional Cooperation) countries without many formalities. It aims at trade among all the SAARC countries with zero customs duty by the end of 2012.

6. Tax Relief

Income tax exemptions are allowed to the businessmen on export profits and foreign exchange earnings. They are also entitled for relief under Value Added Tax (VAT) and Excise Duty.

7. Brand Promotion and Quality Awareness

In order to encourage manufacturers and exporters to attain internationally accepted standards of quality for their products, the Central Government has extended support and assistance to trade and industry to launch a nationwide programme on quality awareness and to promote the concept of Total Quality Management (TQM).

2. Discuss any four documents used in External Trade.

Ans: The main documents which are used in external trade are discussed below:

1. **Indent:** It is an order placed for import of goods. It is sent to the exporter for supply of goods. It contains full information regarding the goods to be imported i.e., quantity, quality, mode of packing and marking, period of delivery, mode of payment and other instructions regarding shipment and insurance, etc.
2. **Letter of credit:** In external trade, the importer has to prove his credit-worthiness to the exporter, who may demand a certain amount of deposit or even full payment of due price before the shipment of goods. For this purpose, the importer arranges with his bank for issuing a letter of credit in favour of the exporter. Thus, a letter of credit is issued by a bank of the importer's country in favour of the foreign dealer. It contains an undertaking by the bank concerned that the bill of exchange drawn by the foreign dealer on the importer will be honoured on presentation to the extent of amount specified in it. Thus, it establishes the credit-worthiness of the importer and guarantees payment of price to the exporter for the goods exported by him.

3. **Advice letter:** It is a document, which is prepared by the forwarding agent and sent to the exporter indicating that all the formalities for export of goods have been completed and goods have been shipped. Along with this letter, the forwarding agent sends a statement showing expenses incurred on the goods exported and his remuneration. Similarly, a letter of advice is also prepared by the clearing agent and sent to the importer stating that all the formalities for clearing the imported goods have been completed. Along with this letter, the clearing agent sends the railway receipt as a proof of goods sent to importer as well as his statement of account for expenses incurred and commission charged. Thus, it is a document used both in export and import trade.
4. **Documentary Bill :** When the documents of title to goods are sent along with the bill of exchange drawn by the exporter on the importer, it is called a documentary bill. It may be of two types (a) Documentary bill against payment (b) Documentary bill against acceptance.

In case of documentary bill against payment, the documents of title to exported goods are delivered to the importer only when the importer has paid the amount specified in the bill of exchange. In case of documentary bill against acceptance, the documents of title to the exported goods are delivered to the importer after he has accepted the bill of exchange drawn by the exporter.
5. **Insurance Policy:** The insurance policy is issued by the insurance company to cover the risks of loss or damage to goods due to specified causes. If there is no insurance then the loss will have to be borne by the owner of the goods, the exporter or importer. Under CIF (Cost Insurance Freight) contract, insurance is generally done by the exporter while under FOB (Free on Board) contract, insurance is done by the importer. There are different types of insurance policies to cover different types of risks in external trade.
6. **Shipping Bill:** The shipping bill is a document prepared by the exporter, or the forwarding agent on the basis of which the custom authority calculates the duty to be paid by the exporter.
7. **Dock Challan, Dock Warrant and Dock Receipt:** The exporter has to fill up a form for the payment of dock charges. This form is known as 'Dock Challan'. After paying the dock charges, a document is issued permitting the goods to be brought to the docks for loading. This document is known as Dock Warrant. After the goods are actually brought to the docks and handed over to the dock authority for loading in the ship, the document issued as a proof of delivery is known as Dock Receipt.
8. **Consular Invoice:** The exporter fills up a special invoice form mentioning all the particulars about the goods shipped and certifying the accuracy of the prices shown. This invoice is signed by the consul of the importer's country stationed in the exporter's country. This special invoice is known as Consular invoice. This document is obtained to avoid under and over invoicing as well as for easy clearance of goods by the custom authority at the importer's country.

9. **Certificate of origin:** It is a document issued as a proof of the fact that the goods have been produced in the country mentioned on it, i.e., a certificate about the genuine origin of the goods exported. This document is issued on the basis of trade agreements between the countries in which they agree to levy lower rates of import duties on the goods produced by them. Some chambers of commerce are authorised to issue such certificates.
10. **Airway bill:** When goods, especially perishable ones, are sent to the importer by air, then this document is needed. It is a receipt given by the airline authority for the goods it is carrying. At the destination it has to be surrendered by the importer for releasing goods. It contains such information as name and address of exporter, name and address of importer or his agent, description of goods, number of packages, weight and volume of goods, rate of freight and total freight, airport of loading and destination, flight number and date, etc.
11. **Export Invoice/Foreign Invoice:** The foreign invoice is prepared by the exporter and he/she sends it to the importer after the shipment of goods. This invoice contains details such as the name of the ship, port of shipment, port of destination, number of indent, details regarding packing and marking, price of goods and other expenses including freight, dock dues and insurance charges.
12. **Bill of Entry:** Bill of entry is a form to be filled up by the importer at the time of receiving the goods. It is a document based on which imported goods are cleared from the port. These are two types of bill of entry.
 - (a) **Bill of entry for Home Consumption:** Where an importer wants to get his goods cleared in one lot, he has to present the bill of entry for home consumption.
 - (b) **Bill of entry for Warehousing:** Where an importer wants to shift the goods to warehouse and thereafter get his goods cleared in small lot, he has to present the bill of entry for warehousing. Reason may be that he is unable to pay duty on all goods in one installment or because he has a storage problem.

3. Advise Suresh, the procedure to import ball pens from Japan.

Ans: The following steps are advised to Suresh in importing ball pens from Japan:

1. **Trade enquiry:** It is a written request by the importer to the exporters for supply of relevant information regarding the price, quality, quantity and various terms and conditions of export etc. In response to the trade inquiry of the importer, the exporter prepares the quotation and sends it to the importer.
2. **Obtaining import licence:** An importer cannot import goods without having a valid licence from the Import Licensing Authority.
3. **Obtaining foreign exchange:** As foreign exchange transactions are controlled by Reserve Bank of India, the importer has to submit an application along with necessary documents to the Exchange Control department of RBI. After scrutinising the application, the Reserve Bank of India will sanction the release of foreign exchange.

4. **Placing the indent or order :** Indent is the purchase order to the exporter by an importer for specified goods. The indent may be sent directly to the manufacturer of goods or to the exporting agent.
5. **Sending letter of credit:** Generally, the parties in external trade are not very well known to each other. So the exporter wants to be sure of the credit-worthiness of the importer. Usually, the exporter asks the importer to send a letter of credit. An importer can get a letter of credit issued as per terms and conditions of his banker and send it to the exporter. It ensures payment of bill of exchange drawn by the exporter up to the amount specified in the letter of credit.
6. **Procuring the shipping documents:** The importer will arrange to obtain necessary documents such as bill of lading, shipping bill, etc., after receiving the advice letter from the exporter. The documents are procured to take delivery of the goods. He has to go to the exporter's bank to make payment in order to get the necessary documents for taking delivery of the goods.
7. **Appointment of clearing agent:** The importer may take delivery on his own or appoint an agent known as clearing agent, to take delivery of the goods. The importer sends necessary documents to his agent to clear the goods. The clearing agent charges commission for his services for clearing the goods.

4. Explain the formalities to be completed by the clearing agent? (OR) Explain the formalities to be completed to import goods from abroad?

Ans:

- (a) **Endorsement for delivery:** When the ship arrives at the port, the clearing agent approaches the concerned shipping company and gets the bill of lading endorsed in his own name from the shipping company. If the freight has not been paid by the exporter, it will have to be paid before endorsement of the bill of lading.
- (b) **Bill of entry:** The agent has to fill in and submit three copies of the bill of entry to the custom authority. The custom authority will calculate the duty and receive the same from the clearing agent.
- (c) **Payment of dock charges:** The agent has to complete and file two copies of Port Trust receipt and three copies of bill of entry to the landing and shipping dues office. After receiving the dock charges, the dock authority will return one copy of Port Trust receipt and two copies of the bill of entry to the agent.
- (d) **Despatch of goods by rail/road:** The clearing agent has to arrange carriage of the goods to the railway station or the transport authority after taking the delivery from the dock authority. He will despatch the goods by rail/road to his principal and get the railway receipt/carrier receipt.
- (e) **Advice to the importer:** The clearing agent has to write a letter of advice to the importer after despatch of goods. In this letter of advice, information regarding arrival of goods and their despatch by rail/road is specified. He has to enclose with it the railway receipt/carrier receipt and a statement of his expenses and charges.
- (f) **Delivery of goods from railway/transport authority:** The importer can take delivery of the goods from the railway or transport authority and carry them to his godown.

5. Satish wants to export leather goods to Singapore. You are required to explain to him the procedure for the same.

Ans: The procedure generally adopted for exporting goods to a foreign country is as follows:

- 1. Receipt of enquiry and sending quotations:** The importer of goods first sends an enquiry to different exporters requesting them to send information about price, quality, terms of payment etc. In reply to the enquiry, the exporters then send the quotation mentioning details about the products, price, and quality, mode of delivery, terms and conditions if any.
- 2. Receipt of an indent or export order:** If the prospective importer finds the terms and conditions acceptable, then he places an order for export of goods which is known as indent. An indent contains a description of the goods ordered, price to be paid, terms and conditions of delivery, packing of goods and other details. On receipt of indent if the exporter finds it satisfactory, then he forwards his acceptance to export the goods.
- 3. Credit enquiry:** The exporter must ensure that there is no risk of default in payment. He should verify the credit worthiness of the importer. For this purpose he may ask the importer to send a letter of credit, bank guarantee or any other guarantee.
- 4. Obtaining export licence:** Each and every country has its own import and export policy for free goods and restricted goods. An exporter in India has to complete various formalities and apply for export license to the appropriate authority. If the authority is satisfied it will issue the export license. To get an export license, the exporter must have (i) an IEC number (ii) RCMC from appropriate export promotion council and (iii) Registration with Export Credit and Guarantee Corporation (ECGC). The registration with ECGC safeguards against risk of non-payments.
- 5. Production or procurement of goods:** The exporter has to produce the goods or buy them from the market. The goods must be in accordance with the instructions given in the indent regarding the quality, quantity, price, etc.
- 6. Pre-shipment inspection:** To ensure that only good quality products are exported from our country, the Government of India has made compulsory pre-shipment inspection of goods by certain authorized agencies.
- 7. Excise clearance:** In India, manufactured products are subject to excise duty under the Central Excise Act. Therefore excise clearance certificate is a must for the goods to be exported. It may be noted that the Government of India has exempted excise duty in many cases if the goods are manufactured exclusively for the purpose of export.
- 8. Appointment of forwarding agent:** Packed goods may be despatched to the port directly by the exporter or through a forwarding agent. If the goods are stored in any location, the exporter may appoint a forwarding agent who will perform all the formalities on behalf of the exporter before shipping the goods. The forwarding agent will charge commission for this work.

9. **Despatch of goods by rail/road:** The exporter has to despatch the goods by rail/road to the port town. He will send the R/R (railway receipt) to the forwarding agent along with other instructions. The agent will take delivery of the goods and complete other formalities before shipping them to the importer.

6. **Explain the formalities to be completed by forwarding agent for exporting goods to abroad?**

Ans:

- (a) **Obtaining the custom permit:** The agent has to apply to the custom office giving full details of the goods and also their destination in order to receive the custom permit. If goods are duty free then custom permit is given immediately, otherwise it will be necessary to complete other formalities.
- (b) **Obtaining shipping order:** The agent has to secure adequate space in the ship for loading of goods. For this purpose he has to sign an agreement with the shipping company for issue of the shipping order which will enable him to put the goods in the ship.
- (c) **Completion of shipping bill and payment of export duty:** The Agent has to fill in three copies of shipping bill and submit them to the custom-house. On the basis of the bill, duty is calculated by the custom authority. The agent has to make payment of the duty and get the original and third copy of the Shipping Bill from the custom authority.
- (d) **Payment of dock dues:** The agent has to make arrangement for carrying the goods to the dock. For this purpose, two copies of properly completed 'Dock Challan' are submitted to the dock authorities along with one copy each of shipping bill and shipping order. After dock charges are received, the dock authorities retain one copy of dock challan and return the duly signed second copy to the agent.
- (e) **Custom's verification before loading of goods:** As soon as the ship touches the port, the dock authorities start loading the goods on it. Before the goods are actually loaded, custom officials verify them to know if there is anything on which duty remains to be paid or which is not mentioned in the shipping bill. The captain or his assistant (mate) will receive goods only when shipping order has been produced before him.
- (f) **Mate's receipt:** The captain or mate will issue a receipt known as "mates receipt" after the goods have been loaded. This receipt contains particulars like quantity of goods, number of packets, condition of packing, etc.
- (g) **Bill of lading:** The forwarding agent has to present the mate's receipt at the office of the shipping company and in exchange will get a document known as Bill of Lading. He has to fill in three blank forms of bills of lading giving details regarding the goods, destination, name of the ship, date and place of loading and name and address of the person to whom delivery is to be made.

- (h) Insurance of cargo:** As a safeguard against marine risks, it is necessary to insure the goods. The insurance policy is sent to the importer along with the bill of lading and other documents.
- (i) Advice to the exporter:** The agent then informs the exporter about the shipment of goods and other related matters. He will send the bill of lading, insurance policy, shipping bill etc. to the exporter along with a statement showing his expenses and remuneration.
- (j) Preparation of export invoice and consular invoice:** Having received the advice from the forwarding agent, the exporter prepares an export invoice known as foreign invoice. This invoice states the quantity of goods sent and amount due from the importer. Custom regulations of many countries require consular invoice for the purpose of easy clearance of goods at the port of destination in the importing country. If it is required by the importer then the exporter has to arrange for such a document also.

7. Explain the need and any four points of importance of external trade to the Indian economy.

Ans: External Trade is an important indicator of economic condition of a nation. Both importing and exporting countries are benefited by external trade. While exporting country earns more foreign exchange by exporting its surplus, the importing country at the same time gets the opportunity to use better products and raise the standard of living of its people.

Let us discuss in detail about the importance of external trade.

(a) Promotes specialisation

External trade promotes specialisation. When there is expansion in the demand for a particular commodity, its producer is encouraged to specialise in its production. For example, there is demand of Japanese electronic goods all over the world. The result is that Japan's efficacy in this field has developed enormously. Similarly our country has specialised in tea, coffee and sugar production.

(b) Improves standard of living

On account of import trade, a country can consume goods, which it does not produce. On the other hand, it earns foreign exchange through export trade. The import and export trade thus, help in raising standard of living of a country.

(c) Enhances competition

External trade enhances competition, which compels the domestic firms to improve technology of production, production process and quality of the products. It ultimately benefits the consumers in getting better quality products at competitive prices. It also provides a large variety of goods.

(d) Generates employment opportunities

External trade facilitates the growth of agricultural, commercial as well as industrial activities, which in turn generates more and more employment opportunities for the people.

(e) Price equalisation

External trade leads to equalisation of prices of goods and commodities in the world. Whenever the prices of commodities tend to rise because of short supply it can be checked by importing more goods. Similarly when the prices of products decline because of availability of excessive item, the country may export that surplus to others.

(f) International relation

External trade brings the people of two different countries to come closer and to understand the need and requirement of each other. They also participate in various trade and cultural exhibitions. All these activities promote harmonious and cordial relationship among the nations.

(g) Economic growth

Economic growth of every country depends to a large extent on the volume of external trade. If a country specialises in any product, it needs to produce more to meet the worldwide demand. So by producing and exporting more goods and services it can accelerate the economic growth of the country.

(h) Proper utilisation of natural resources

External trade is a means through which the natural resources of various countries can be properly utilised. For example, a country may be rich in minerals but due to lack of technological advancement it is not able to extract those minerals from the earth. So it can import modern equipments and machineries from advanced countries and make proper utilisation of those natural resources.

8. Discuss any four difficulties faced by the buyers and sellers in external trade.

Ans: In internal trade generally buyers and sellers meet together and transactions take place as per their convenience. But in external trade the situation is completely different. It takes a long procedure to buy and sell the goods and services. The business people generally face a number of problems in the process of foreign trade. The various difficulties, which are faced by the buyers and sellers engaged in external trade are described below.

(a) Distance: External trade involves transport of goods over long distances, except for neighbouring countries. Distance between various countries makes it difficult to establish quick and close trade contact between the importers and exporters.

(b) Greater risk: In external trade goods are exposed to greater degree of risk. Risk in transit of goods is more because of long distance. Goods are transported by ship, which may sink due to storm or collide with submerged rocks. The ships or goods may also be captured by the enemies. These risks may be covered through marine insurance, but that increases the cost of goods.

(c) Difficulties of transport and communication: Long distances incidental to external trade create difficulties of proper and quick means of transport and communication. Though modern

means of communication have solved this problem, it is quite costly and cannot be used for securing all sorts of information. Loading and unloading of goods often takes long time and also involves large expenses which increase the cost of goods.

- (d) **Restrictions:** External trade is subject to various restrictions by way of customs, tariff, quotas and exchange regulations, which restrict the scope of external trade.
- (e) **Lack of personal touch:** In external trade, the transactions are made with unknown persons through correspondence and other means of communication. There is no direct contact between the buyer and seller. So the risk of dispute and bad debts are always there.
- (f) **Study of foreign markets:** Markets for different products have their own characteristics as regards demand, intensity of competition, buyers' preferences, etc. Thus, an extensive study of foreign markets is required for success in external trade. This is not easily possible from an individual exporter's or importer's point of view.
- (g) **Cost:** Both import and export of goods involve very costly operations due to high cost of transport, insurance, intermediaries and cost of formalities to be completed.
- (h) **Change in rules and regulations:** Every country has framed its own rules and regulations for its external trade, to protect its economic and political interest. These rules change from time to time. So the traders find it difficult to acquaint themselves with the rules and regulations and procedures followed by different countries.
- (i) **Frequent price change:** In external trade the price of the product changes frequently due to change in foreign exchange rate, change in import and export duties etc.

Short Answer Type Questions

1. Explain the two alternative methods of payment to the exporter.

Ans: There are two alternative methods by which payment can be received by the exporter.

- (a) **Letter of credit:** The exporter can get immediate payment on the strength of the letter of credit which is issued by the importer's bank in favour of the exporter. The exporter has to draw the bill in order to get the payment from the local branch of the bank (in home country), which has issued the letter of credit on behalf of the importer.
- (b) **Letter of hypothecation:** If the exporter wants to receive payment immediately, he can get the bill (accepted by the importer) discounted with his bank. But for this purpose, he has to give a letter of hypothecation to his bank. Letter of hypothecation is a letter addressed to a bank attached with the bill of exchange which is accepted by the importer. Through his letter of hypothecation, the exporter authorises the bank to sell the goods in case of dishonour of the bill by the importer so that the bank can release the amount advanced by it to the exporter.

2. What are the privileges of EPZs and SEZs?

Ans: Export Processing Zones (EPZs) are industrial estates normally set up near the sea ports where goods are produced primarily for the purpose of exporting to other countries. The raw materials, equipments and machineries for production of finished goods are allowed to be imported without payment of custom duty. Custom clearance and facilities needed for financial transactions are also provided inside the zone. With a view to overcome the shortcomings experienced on account of controls and clearances, EPZs have been converted into Special Economic Zones (SEZs). Special Economic Zones (SEZs) are also set up in different parts of the country to provide internationally competitive and hassle free environment for export production.

These units may be established in public, private or joint sector for manufacturing, trading or service activity.

3. Explain the following terms (i) Bill of Lading, (ii) Shipping order and (iii) Mate's receipt.

Ans: **i. Bill of lading:** It is a document prepared by the ship owner or by the master of the ship acknowledging the receipt of goods and undertaking to deliver the goods at the port of destination. This, on one hand, acts as a proof of the receipt of goods specified there in and on the other, is a document of title to the goods. The document is sent by the exporter to the importer who can take delivery of the goods at the port of destination on presentation of the bill of lading and other shipping documents.

ii. Shipping order: In order to hire space in the ship, the exporter or his agent has to enter into an agreement with the shipping company. The shipping company on the conclusion of the agreement gives a shipping order, which contains instruction to the captain of the ship to receive on board the specified quantity of goods from the exporter.

iii. Mate's receipt: When goods are brought to the docks for shipment, the document issued by the dock authority is known as a dock receipt. It is the duty of the dock authority to load the goods in the ship. But if goods are directly taken into the ship, the captain or his assistant (mate) gives a receipt as a proof of goods loaded in the ship. This receipt is known as Mate's receipt. If the mate is not satisfied regarding the packing of goods, he issues a foul Mate's receipt, otherwise he issues a clean Mate's receipt.

4. What are the essential documents required for the exporter and importer?

Ans: **1. Import Export Code (IEC) number:** The IEC number is granted by the Director General of Foreign Trade. Every firm dealing with export-import business must obtain this number without which no documents relating to external trade will be forwarded.

2. Registration-cum-Membership Certificate (RCMC): Government provides certain facilities and benefits to the exporters and importers under its EXIM policy. To avail such facilities every firm must obtain the Registration-cum-Membership Certificate from the

appropriate export promotion council. Export promotion councils are different organizations set up by the Government to promote and develop exports of different categories of products.

5. What is External Trade?

Ans: When buying and selling of goods take place across the national boundaries of different countries it is called external trade. It is also known as foreign trade or international trade.

6. What is meant by Entrepot trade?

Ans: When the firm of a country imports goods for the purpose of exporting the same to the firms of some other country with or without making any change, it is known as entrepot trade or re-export trade for that country. For example, if an Indian company imports rubber from Thailand and exports it to Japan then it is called entrepot trade for India.

7. Explain 'packing and marking' of the goods in external trade.

Ans: Packing should be done strictly according to the instructions given in the indent. If loss arises due to defective packing, the exporter may have to bear it. If necessary, grading should be done before packing. The packages should be properly marked according to instructions, if any, so that they may be easily recognised.

8. What do you mean by visible and invisible trade?

Ans: Visible trade refers to imports and exports of tangible goods, whereas invisible trade of a country includes services received from other countries or services rendered to other countries. Shipping and insurance services, services to foreign tourists, services of foreign technicians, interest on loans etc., are some of the example of invisible trade.

9. State the types of external trade.

Ans: On the basis of sale and purchase of goods and services, external trade can be divided into three kinds. They are:

- (a) Import trade
- (b) Export trade
- (c) Entrepot trade

10. Mention any two reasons for the significance of foreign trade.

Ans: External Trade is an important indicator of economic condition of a nation. Both importing and exporting countries are benefited by external trade. While exporting country earns more foreign exchange by exporting its surplus, the importing country at the same time gets the opportunity to use better products and raise the standard of living of its people.

11. Match the following facilitations.

Column I	Column II
(a) Export Houses	i. Carries goods on payment of freight charge.
(b) Indent Houses	ii. Agent ready to bear the loss/damage.
(c) Clearing Agents	iii. Organisation involved in export promotion activities.
(d) Shipping Company	iv. Help in receiving orders to goods with instructions.
(e) Insurance Company	v. Complete all formalities for clearing goods from destination.

Ans: (a) (iii), (b) (iv), (c) (v), (d) (i), (e) (ii)

12. Name the document referred to in each of the following cases.

- (a) Agreement signed with the shipping company to enable to put goods on the ship.
- (b) Document issued by the captain of the ship after loading the goods on the ship.
- (c) Assured payment on the strength of a document issued by the importers bank.
- (d) Document which authorises the bank to sell the goods in case of dishonour of bill.
- (e) Document received in exchange of Mate's Receipt at the shipping office.

Ans: (a) Shipping order, (b) Mate's Receipt, (c) Letter of credit, (d) Letter of Hypothecation, (e) Bill of Lading

13. Arrange the following document in proper sequence.

- (a) Dock Receipt
- (b) Dock Challan
- (c) Dock Warrant

Ans: (a) Dock challan, (b) Dock warrant, (c) Dock Receipt

14. Answer the following in a word or phrase.

- (a) The document prepared by the master of the ship acknowledging the receipt of good.
- (b) The document issued as a proof of the fact that goods have been produced in the country mentioned on it.
- (c) The document forwarded by the exporter to the importer after the shipment of goods.
- (d) The document issued by the dock authority after receiving the goods from the exporters.
- (e) The document needed in sending goods by air.
- (f) Document which acts as a proof that goods of stated value and quantity are being brought into the country from abroad.

Ans: (a) Bill of Lading, (b) Certificate of origin, (c) Export Invoice/Foreign Invoice, (d) Dock Receipt, (e) Airway Bill, (f) Bill of Entry

24

LESSON

Consumer Protection

Introduction

We buy a variety of goods and services in our day-to-day life. Whatever we buy we pay for it and derive satisfaction from its consumption and use. But sometimes we do not feel satisfied with the product we buy. This may be on account of poor quality of the product, overcharging by the shopkeeper, lower quantity of contents, misleading advertisement, and so on. Should we allow these practices to continue? Obviously not; then is there any remedy for such malpractices? The answer lies in the concept and practice of consumer protection, the rights and responsibilities of consumers, legal provisions and mechanism for settlement of consumer grievances. In this lesson, let us know details about all these points.

Long Answer Type Questions

1. Explain the need for consumer protection.

Ans: The necessity of adopting measures to protect the interest of consumers arises mainly due to the helpless position of the consumers. There is no denying fact that the consumers have the basic right to be protected from the loss or injury caused on account of defective goods and deficiency of services. But they hardly use their rights due to lack of awareness, ignorance or lethargic attitude. However in view of the prevailing malpractices and their vulnerability there to, it is necessary to provide them physical safety, protection of economic interests, access to information, satisfactory product standard, and statutory measures for redressal of their grievances. The other main arguments in favour of consumer protection are as follows:

(a) Social Responsibility

The business must be guided by certain social and ethical norms. It is the moral responsibility of the business to serve the interest of consumers. Keeping in line with this principle, it is the

duty of producers and traders to provide right quality and quantity of goods at fair prices to the consumers.

(b) Increasing Awareness

The consumers are becoming more mature and conscious of their rights against the malpractices by the business. There are many consumer organizations and associations who are making efforts to build consumer awareness, taking up their cases at various levels and helping them to enforce their rights.

(c) Consumer Satisfaction

Father of the Nation Mahatma Gandhi had once given a call to manufactures and traders to “treat your consumers as god”. Consumers’ satisfaction is the key to success of business. Hence, the businessmen should take every step to serve the interests of consumers by providing them quality goods and services at reasonable price.

(d) Principle of Social Justice

Exploitation of consumers is against the directive principles of state policy as laid down in the Constitution of India. Keeping in line with this principle, it is expected from the manufacturers, traders and service providers to refrain from malpractices and take care of consumers’ interest.

(e) Principle of Trusteeship

According to Gandhian philosophy, manufactures and producers are not the real owners of the business. Resources are supplied by the society. They are merely the trustees of the resources and, therefore, they should use such resources effectively for the benefit of the society, which includes the consumers.

(f) Survival and Growth of Business

The business has to serve consumer interests for their own survival and growth. On account of globalisation and increased competition, any business organisation which indulges in malpractices or fails to provide improved services to their ultimate consumer shall find it difficult to continue. Hence, they must in their own long run interest, become consumer oriented.

2. Describe any four rights of a consumer as per CPA 1986.

Ans: John F. Kennedy, the former USA President, in his message to consumer had given six rights. These rights are (i) right to safety, (ii) right to be informed, (iii) right to choose, (iv) right to be heard, (v) right to redress and (vi) right to represent. These rights had paved the way for organised consumer movement in the USA and later it spread all over the world. In India, the Consumer Protection Act, 1986 has also provided for the same rights to consumers. Let us have a brief idea about these rights of consumers.

(a) Right to safety

It is the right of the consumers to be protected against goods and services which are hazardous

to health or life. For example, defective vehicles could lead to serious accidents. The same is true of electrical appliances with sub-standard material. Only recently, there were mass protests and boycott of soft drinks due to presence of hazardous pesticides beyond permissible limits. Thus, right to safety is an important right available to the consumer which ensures that the manufacturers shall not produce and sell sub-standard and dangerous products.

(b) Right to be informed

Now-a-days the manufacturers provide detailed information about the contents of the product, its quantity, date of manufacturing, date of expiry, maximum retail price, precautions to be taken, etc. on the label and package of the product. Such information helps the consumers in their buying decision and use of the product.

(c) Right to choose

The right to choose provides that the consumer must be assured, whenever possible, access to a variety of goods and services at competitive prices. If the market has enough varieties of products at highly competitive prices, the buyers have an opportunity of wide selection. However, in case of monopolies like railways, postal service and electricity supply etc. it implies a right to be assured of satisfactory quality of service at a fair price.

(d) Right to be heard

The rights to safety, information and choice will be frivolous without the right to be heard. Consumers have a right to be consulted by government and public bodies when decisions and policies are made affecting consumer interests. Also, consumers have a right to be heard by manufactures, dealers and advertisers about their opinion on production, marketing decisions and any grievances of the consumers. Consumers have the right to be heard in legal proceedings in law courts dealing with consumer complaints.

(e) Right to seek redressal

The consumers have been given the right of redressal of their grievances relating to the performance, grade, quality etc. of the goods and services. If required, the product must be repaired / replaced by the seller/ manufacturer. The Consumer Protection Act has duly provides for a fair settlement of genuine grievances of the consumers. It has also set up a proper mechanism for their redressal at district, state and national levels.

(f) Right to consumer education

It means the right to receive knowledge and skill to become informed consumer. In this direction the consumer associations, educational institutions and the policy makers can play an important part. Effective consumer education leads to an increased level of consumer awareness and help them to enforce their rights more effectively, and protect themselves against fraudulent, deceitful and grossly misleading advertisement, labeling, etc.

3. One of your friends has recently bought a washing machine from the market by paying Rs.15,000. After using a day or two he found some mechanical problem in the machine. Immediately he informed the dealer but the dealer did not respond to repair or replace the machine. Now he wants to lodge a complaint in a consumer court. Which consumer court should he go and why? Also state any three possible reliefs the court may order in favour of your friend. (OR) Your friend bought a ceiling-fan from an electronic equipments shop. When she fitted the fan at home, she discovered that it was not functioning. The shopkeeper now refuses to exchange the fan or return the money. Where and how can your friend file a complaint to get redressal of her grievance?

Ans: The cost of washing machine or ceiling fan is less than Rs.20 lakhs. Hence, he/she can file a complaint in a District forum.

District Forum

This is established by the state governments in each of its districts.

- (a) **Composition:** The district forums consist of a Chairman and two other members one of whom shall be a woman. The district forums are headed by the person of the rank of a District Judge.
- (b) **Jurisdiction:** A written complaint can be filed before the District Consumer forum where the value of goods or services and the compensation claimed does not exceed Rs. 20 lakh.

How to file a complaint?

A complaint can be made in person or by any authorised agent or by post. The complaint can be written on a plain paper duly supported by documentary evidence in support of the allegation contained in the complaint. The complaint should clearly specify the relief sought. It should also contain the nature, description and address of the complainant as well as the opposite party, and so also the facts relating to the complaint and when and where it arose.

What are the reliefs available to consumers?

Depending on the nature of complaint and relief sought by the consumer, and the facts of the case, the redressal forum/commission may order one or more of the following reliefs:

- (a) Removal of defects from the goods or deficiencies in services in question.
- (b) Replacement of the defective goods.
- (c) Refund of the price paid.
- (d) Award of compensation for loss or injury suffered.
- (e) Discontinuance of unfair trade practices or restrictive trade practice or not to repeat them.
- (f) Withdrawal of hazardous or dangerous goods from being offered for sale.
- (g) Provision of adequate costs to aggrieved parties.

Time limit for filing the case

The consumer can file the complaint within two years from the date on which the cause of action had arisen. However, it may be admitted even after the lapse of two years if sufficient cause is shown for the delay.

Time limit for deciding the case

Every complaint must be disposed off as speedily as possible within a period of three months from the date of notice received by the opposite party. Where the complaint requires laboratory testing of goods this period is extended to five months.

Appeal

If a consumer is not satisfied by the decision of the District forum, he can challenge the same before the State Commission, within 30 days of the order.

Short Answer Type Questions

- 1. State the various publicity measures initiated by the government to increase the level of awareness of consumers.**

Ans: To increase the level of awareness among the consumers the Government of India has initiated various publicity measures. Consumer organisations have also been set up in recent years in different parts of India. It is felt that neither it is possible to discipline all members of the business community through moral sanctions and a code of fair business practices nor can administrative orders and legislative provisions to ensure consumer protection without the active involvement of consumer associations. Now with an increasing number of consumer organisations involved in consumer protection, the consumer movement is getting a foothold in India and helping individuals to seek quick and adequate redressal of their grievances. Some of the important consumer organisations that have been playing an active role in taking up consumer cause are:

- CERC (Consumer Education and Research Centre), Ahmedabad
- VOICE (Voluntary Organisation in the Interest of Consumer Education), New Delhi
- CGSI (Consumer Guidance Society of India), Mumbai
- CAG (Consumer Action Group), Chennai
- CUTS (Consumer Unity and Trust Society), Jaipur
- Common Cause, New Delhi
- Consumer Education Centre, Hyderabad
- Karnataka Consumer Service Society, Bangalore
- Kerala State Consumers Coordination Committee, Cochin

These organisations are collecting data on different products and testing them, investigating into the problems of consumers, publishing and distributing brochures and journals, organising consumer awareness programmes, filing complaints, suits and writ petitions on behalf of the consumers, etc.

2. State any two examples of consumer exploitation.

- Ans:
- i. The after sales service provider of the television set charged Rs.200 as service charge though he repaired the set within the warranty period.
 - ii. The tickets issued to different passengers on the same day for the same journey showed the same seat number.
 - iii. Penalty of Rs. 50 was charged by SBI after issuing the cheque book to the customer showing that the balance available in the account was less than the minimum required balance for issue of cheque book.
 - iv. The supply of cooking gas cylinder to the consumers is found to be underweight.

3. Mention any four standard quality certification marks.

- Ans: To put a stop to adulteration and corrupt practices of the manufacturers and traders, it is the duty of every consumer to be conscious of the quality of product they buy. They should look for the standard quality certification marks like ISI, Agmark, FPO, Woolmark, Eco-mark, Hallmark etc. while making the purchases.

4. Explain the meaning of Goods and Services as per CPA 1986.

- Ans: The term 'goods' under this Act has the same meaning as under the Sale of Goods Act. Accordingly it covers all types of movable property other than money and includes stocks and shares, growing crops, etc. The term 'service' means service of any description made available to potential users and includes banking, financing, housing construction, insurance, entertainment, transport, supply of electrical and other energy, boarding and lodging, amusement, etc. The services of doctors, engineers, architects, lawyers etc. are included under the provisions of Consumer Protection Act.

5. Explain the composition and jurisdiction of state commission.

- Ans: State Commission is established by the state governments in their respective states.

- (a) **Composition:** The State Commission consists of a President and not less than two and not more than such number of members as may be prescribed, one of whom shall be a women. The Commission is headed by a person of the level of High Court judge.
- (b) **Jurisdiction:** A written complaint can be filed before the State Commission where the value of goods or services and the compensation claimed exceeds Rs. 20 lakh but does not exceed Rs. One crore.

(c) Appeal: In case the aggrieved party is not satisfied with the order of the State Commission he can appeal to the National Commission within 30 days of passing of the order.

6. State the purpose of creating Consumer Welfare Fund.

Ans: The government has created a consumer welfare fund for providing financial assistance to strengthen the voluntary consumer movement in the country particularly in rural areas. This fund is mainly used for setting up facilities for training and research in consumer education, complaint handling, counseling and guidance mechanisms, product testing labs, and so on.

7. Who can file a complaint for redressal of grievances under the Consumer Protection Act 1986?

Ans: The following persons can file a complaint under Consumer Protection Act 1986:

- (a) A consumer;
- (b) Any recognised voluntary consumer association whether the consumer is a member of that association or not;
- (c) The Central or any State Government; and
- (d) One or more consumers where these are numerous consumers having same interest.
- (e) Legal heir or representative in case of death of a consumer.

8. State the meaning of consumer?

Ans: Normally, it is the consumption or use of goods and services that makes the person to be called as 'consumer'. But in the eyes of law, both the person who buys any goods or hires any service for consideration (price) and the one who uses such goods and services with the approval of the buyer are termed as consumers.

9. What is meant by consumer protection?

Ans: Consumer protection means safeguarding the interest and rights of consumers. In other words, it refers to the measures adopted for the protection of consumers from unscrupulous and unethical malpractices by the business and to provide them speedy redressal of their grievances.

10. State the three levels of legal forums in Consumer Protection Act?

Ans: The judicial machinery set up under the Consumer Protection Act, 1986 consists of consumer courts (forums) at the district, state and national levels. These are known as District forum, State Consumer Disputes Redressal Commission (State Commission) and National Consumer Disputes Redressal Commission (National Commission) separately.

11. What type of information you are expecting from right to consumer education?

Ans: (i) The relevant laws which are aimed at preventing unfair trade practices,

- (ii) The ways and means which dishonest traders and producers may adopt to deceive the consumers,
- (iii) Insistence on a bill or receipt at the time of purchase, and
- (iv) The procedure to be followed by consumers while making complaints.

12. Identify the relevant rights of a consumer being violated in the following instances.

- (a) A bottle of acid sold but the cap was not properly sealed.**
- (b) Medicine sold without date of manufacturing and date of expiring printed on its packaging.**
- (c) Madan bought a cooler with 2 years warranty. The cooler started giving problem within 6 months. Madan approached the seller. The seller did not listen to his grievances.**
- (d) The seller compels the consumer to purchase the available product.**
- (e) The common consumers**

Ans: (a) Right to safety
 (b) Right to be informed
 (c) Right to be heard
 (d) Right to choose
 (e) Right to consumer education

13. Advise Suresh to adopt the relevant ways and means of consumer protection in the following case.

- (a) Suresh had received a faulty bill from the electricity department and could not settle the matter amicably. Where should he go?**
- (b) Suresh wanted to be more informed about consumer protection. What should he do?**
- (c) Suresh faced an accident due to the manufacturing defect of the car. He wants to claim compensation from the manufactures. Where should he go?**
- (d) Suresh saw a group of 30 small children aged 8 to 10 years harassed by a manufacturer who employed these children. What can he do?**
- (e) Suresh came to know that an industry of the nearby area is throwing its waste into the river. What should he do?**

Ans: (a) Lok Adalat
 (b) Awareness Programme
 (c) Redressal Forums
 (d) Public Interest Litigation
 (e) Public Interest Litigation

14. State the level or rank of the head of the following consumer courts.

- (a) State Commission**
- (b) District Forum**
- (c) National Commission**

Ans: (a) High Court Judge

- (b) District Judge
- (c) Supreme Court Judge

15. Where does the remedy lie in the following cases?

- (a) A boy got drowned in a pool and the compensation claimed is Rs. 6 crores.**
- (b) The aggrieved party not being satisfied with the order of the State Commission wanted to appeal.**
- (c) A builder sold a house and the land was under litigation. The consumer claimed Rs. 56 lakhs as compensation.**
- (d) A consumer claimed a compensation of Rs.25,000/- from the manufacturer of a refrigerator.**
- (e) The aggrieved party not being satisfied with the order of the district forum wanted to make an appeal.**

Ans: (a) National Commission,

- (b) National Commission
- (c) State Commission
- (d) District Forum
- (e) State Commission

25

LESSON

Self-Employment

Introduction

When you accept an employment in any organization, you have to perform various jobs as per the requirements of your employer and you may get a fixed amount of income as salary. But, instead of seeking a job, you can also opt do something of your own to earn your livelihood. You may get engaged in trading or manufacturing on a small scale or providing some service for a price. Such economic activities are known as self-employment. In this lesson, let us learn more about the career option of self-employment in business.

Long Answer Type Questions

1. Explain any four points of significance of self-employment.

Ans: Career is a way of making one's livelihood. Self-employment is also a career because one may employ oneself in business or in service activities and earn one's livelihood. With growing unemployment and lack of adequate job opportunities, self-employment has become very significant. Its importance can be enumerated as follows.

i. Advantage of small business

Small-scale business can be easily started, and requires small amount of capital investment. The self-employment involving activities on a small-scale is a good alternative to large scale business which has brought various evils like environmental pollution, development of slums, exploitation of workers, and so on.

ii. Preference over wage employment

In self-employment one can use one's talent for own benefit. The decisions can be taken quickly and conveniently. All these factors act as strong motivators for self-employment to be preferred over wage employment.

iii. Developing the spirit of entrepreneurship

Entrepreneurship involves taking risks because the entrepreneur tries to innovate new products, new methods of production and marketing. Self-employment, on the other hand, involves either no risk or very little risk. But, as soon as the self-employed person starts becoming innovative and takes steps to expand his business, he becomes an entrepreneur. Therefore, self-employment becomes a launching pad for entrepreneurship.

iv. Promotion of individualized services

Self-employment may also take the form of providing individualized services like tailoring, repair work, dispensing of medicines etc. Such services are helpful in providing better consumer satisfaction. These can be easily started and run by individuals.

v. Scope for creativity

It provides opportunity for development of creativity and skills in art and crafts, leading to preservation of the cultural heritage of India. For example, we can see creative ideas reflected in handicrafts, handloom products, etc.

vi. Reducing the problem of unemployment

Self-employment provides opportunities of gainful occupation to those who otherwise remain unemployed. Thus it reduces the problem of unemployment.

vii. A boon to under-privileged in respect of higher education

Everyone may not be able to pursue higher education after Secondary or Senior Secondary examination due to one or the other reason. Such persons can start their career as self employed in occupations that do not require higher education.

2. Explain any two avenues of self-employment.

Ans: Before choosing a suitable career in self-employment you must have some idea about the avenues in which self-employment opportunities are available. Let us categorize the avenues of self-employment into the following broad areas.

- i. Trading
- ii. Manufacturing
- iii. Professionals, and
- iv. Individualised services

Let us discuss further about all these areas.

i. Trading

Trade involves buying and selling of goods and services. With small amount of investment one can start and run a small trading unit.

ii. Manufacturing

One can start a small industry of manufacturing bricks, or producing bakery items or confectionery. All these businesses require small amount of capital and simple equipment. Orchards, dairy, poultry, sericulture, fisheries, horticulture, etc. are good examples of avenues of self-employment.

iii. Professionals

Occupations that require special knowledge and training in a particular field also provide opportunities of self-employment. Lawyers, doctors, chartered accountants, architects and journalists fall in this category.

iv. Individualised services

Tailoring, motor repairing, hair cutting, fashion designing, interior decoration etc. are some of the business activities, which provide individualized services to the consumers. These can be easily started and run by individuals. These activities are based on the personal skills of those who perform them. Blacksmiths, carpenters, goldsmiths are all self-employed persons.

3. State any six assistance and support provided by the Government of India for development of small-scale business.

Ans: The Government of India has given special importance to small business enterprises due their vast potentiality for development of social and economic condition of the country. Several assistance and support are announced from time to time keeping in view the changing economic conditions. The following are some of such steps taken by the Government for development of small business in India.

1. It provides liberalised credit policy like, fewer formalities to process the loans and advances, loans at concessional rate, etc for small scale industries.
2. To keep away from the competition with large scale industries, the Government of India has reserved about 800 items for exclusive production by small scale industries.
3. It provides concession and exemption in excise and sales tax to the small scale units. The excise exemption has raised from Rs. 50 lakh to Rs. One crore for small industries.
4. The Government also gives preference to the products of small enterprises while purchasing stationery and other item for its own consumption and use.
5. For promotion, financing and development of small-scale industrial enterprises several institutes like Small Industrial Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD), District Industries Centres (DICs) etc. have been set up by the Government.
6. The Government of India has set up separate Ministry of Micro, Small and Medium Enterprises (MSMEs) for effective planning and monitoring of the development of small business enterprises in the country.

7. To provide benefits of its plans and policies to large number of industries, it has lowered the investment limit from Rs. 3 crore to Rs. One crore.
8. The Government provides capital subsidy of 12 % for investment in technology in select sectors of small-scale business.
9. To encourage total quality management (TQM) the Government provides grant of Rs. 75,000 to each units that obtains ISO 9000 certification.
10. To provide finance, design and marketing support to handloom sector it has launched the Deendayal Hathkargha Protsahan Yojana.
11. The Government of India has permitted upto 24 % of total shareholding of small scale units by other industrial units.
12. The Government provides land, power and water etc. at concessional rates to small business enterprises.
13. Special incentives are also provided for setting up of small enterprises in rural and backward areas.
14. The Government encourages establishing small-scale industry by providing developed land and industrial estates.

4. Describe the various institutional supports provided to the small business in India.

Ans: To start and run a business enterprise one requires various resources and facilities. These may be in the form of technical, financial, marketing or training support. Such support is provided by the Government by establishing different institutions or organizations from time to time. Let us now learn about some of such institutions and their role in providing support.

- i. **National Small Industries Corporation Ltd (NSIC):** It was set up in the year 1955 to promote aid and foster the growth of small industries in India. It also helps in development and upgradation of technology and implementation of modernization programme of small-scale industries.
- ii. **State Small Industries Development Corporations:** The State Small Industries Development Corporations (SSIDCs) are set up in various states of our country to cater to the developmental needs of small, tiny and village industries. Their main functions include procurement and distribution of scarce raw materials, supply of machinery on hire purchase basis, and providing marketing facilities for the products of small-scale industries.
- iii. **National Bank for Agriculture and Rural Development (NABARD):** The National Bank for Agriculture and Rural Development was set up in 1982 as an apex institution for financing agricultural and rural sectors. It provides financial assistance through Regional Rural Banks and cooperative banks to agriculture, small-scale, cottage and village industries, handicrafts and other allied activities in rural areas.

- iv. **Small Industries Development Bank of India:** The Small Industries Development Bank of India (SIDBI) was set up in 1990 as a principal financial institution for promotion, financing and development of small-scale industrial enterprises. It acts as an apex institution for all banks providing credit facility to small-scale industries in our country.
- v. **Small Industries Service Institutions:** The Small Industries Service Institutions (SISIs) are set up to provide consultancy and training to small enterprises. These institutions render technical support service and conduct entrepreneurship development programmes. They also provide trade and market information to small scale industries.
- vi. **District Industries Centres:** For promotion of small industries in our countries District Industries Centres (DICs) are set up at district level. They conduct industrial potential survey keeping in view the availability of resources. Their main function includes implementation of various schemes of central and state governments.

5. Enumerate any four types of small-scale industries found in India. (OR) What are the areas in which small-scale business enterprises can be successfully established? (OR) State and explain any four types of small industries.

Ans: In India we find different types of small business. They may be categorized on the basis of investment in fixed capital in plant and machinery or on the basis of nature or place of operation. Following are some of the main types of small business.

- (a) Small-scale industries
- (b) Tiny industries
- (c) Ancillary industrial undertakings
- (d) Village industries
- (e) Cottage industries
- (f) Micro business enterprises
- (g) Small- scale service and business (industry related)
- (h) Trading units

Let us have a brief idea of these small businesses.

- (a) Small-Scale Industries (SSIs):** A small-scale industrial unit is one in which fixed capital investment in plant and machinery does not exceed Rs. One crore. In case of certain export promotion units this investment ceiling can be raised upto Rs. 5 crores.
- (b) Tiny Industries:** A business unit whose total fixed capital investment in plant and machinery does not exceed Rs. 25 lakhs is called a tiny industry.
- (c) Ancillary Industrial Undertakings:** When a small-scale industry supplies not less than 50% of its production to another industry, it is called as ancillary industrial undertaking. The fixed capital investment limit of Rs. One crore also applies to it. If an ancillary unit is owned by some other business unit, it losses the status of small business.

- (d) **Village Industries:** A unit that is located in rural area and whose fixed capital investment in plant and machinery does not exceed Rs. 50, 000 per artisan or worker is termed as village industry.
- (e) **Cottage Industries:** These are small manufacturing units producing simple products involving some specific art or skill like handicrafts, filigree etc. They use simple equipments with indigenous technology for production. Cottage industries are carried on wholly or primarily with the help of members of the family either on a whole or part-time basis. These units are not defined by the ceiling of capital of investment.
- (f) **Micro Business Enterprises:** The fixed capital investment in plant and machinery of these enterprises does not exceed Rs.1,00,000/-
- (g) **Small-scale Service and Business (Industry related) Enterprises (SSSBE):** In these businesses the investment limit in fixed assets of plant and machinery does not exceed Rs. 10 lakhs. The main business enterprises included under this category are advertising agency, marketing consultancy, typing centre, photo copying centre (xeroxing), industrial testing laboratory, auto repair and garages, laundry and dry cleaning, tailoring, STD/ISD booths, beauty parlor, crèches, etc.
- (h) **Trading Units:** These are usually in the form of small retailers found in the market places.

Short Answer Type Questions

1. Mention any four characteristics of self-employment.

Ans: Following are the characteristics of self-employment:

1. Self-employment involves doing something on one's own to earn one's livelihood.
2. It involves ownership and management of activities by a person although he/she may take the help of one or two persons to assist him/her. Thus, self-employment may provide employment to other persons as well.
3. The earning from self-employment is not fixed. It depends on the income one can earn by producing or buying and selling goods or providing services to others at a price.
4. In self-employment, the owner alone has to take the profit and bear the risk of loss. So, we find a direct link between the effort and reward in self-employment.
5. It requires some amount of capital investment, although it may be small.

2. State any four characteristics of small business.

Ans: The main characteristics of small business as follows:

- (i) A small business is usually owned and managed by one or a few persons.
- (ii) The owners take active participation in day-to-day activities of business.

- (iii) The participation of owners in the management helps in taking quick decision.
- (iv) The area of operation of a small business is limited. It generally caters to the need of the local people.
- (v) The small business units are generally labour intensive and thus require less capital investment.
- (vi) It generally uses local resources for its operation. The small-scale manufacturing units are usually located near the source of raw material, labour etc.
- (vii) Gestation period (the period that a business waits to get return on its investment) is short.
- (viii) The operation of a small business is flexible.

3. Describe the importance of small business in India.

Ans: Small business enterprises are found everywhere. They play a major role in the socio-economic development of any country. In view of India's scarce capital resource and abundant labour and natural resources, small-scale enterprises have been given an important place in the economic planning of the country. In India small-scale enterprises account for 35% of the gross value of the output in the manufacturing sector, 80% of the total industrial employment and about 45% of the total exports. Besides these contributions, the importance of small-scale business is increasing day by day due to the following factors.

1. The small business enterprises are capable of generating immediate and large-scale employment opportunities in our country.
2. They require less capital investment as compared to large scale business enterprise.
3. The cost of production is less due to use of local resources and fewer establishments and running cost.
4. The small industries help in effective mobilisation of the untapped resources of the country. With the help of local resources and indigenous technology, world-class products can be produced by village and cottage industries.
5. Small industries promote balanced regional development of the country. These can be easily set up at the source of resources that leads to overall economic development of that place.
6. The small industries help in improving the national image by exporting quality products to foreign country. The Indian handicrafts, handloom products, filigree, appliqué works have a high demand in international market.
7. Small enterprises help in raising the standard of living of people. The people get employment or can start their own enterprises easily. They get variety of quality products for their daily consumption and use.

4. Describe the scope for small business.

Ans: The scope for small business is vast covering a wide variety of activities starting from retailing to manufacturing. There are some specific areas of economic activity which can be effectively and successfully managed by forming small business enterprises. Let us discuss about the scope for small business.

1. Trading which involves buying and selling of goods and services requires less capital and time to start. This area of economic activity is dominated by small-scale entrepreneurs.
2. The activities which require personalised service like motor repairing, tailoring, carpentry, beauty parlour etc. are run by establishing small business.
3. It is the best option for those who do not like to be an employee, but become selfemployed. People can work independently by running a small enterprise of their own.
4. For products and services, which are of less demand or their demand is limited to any specific area, the small-scale business is most suitable for them.
5. A large industrial unit cannot run smoothly without the support of small units. These industrial units often depend upon the small units (ancillary industrial undertaking) to get some parts or spares, which cannot be profitably produced by them.
6. In the era of business process outsourcing (BPO), many new areas have opened up for small business enterprises.
7. The business enterprises, which require constant touch of the owners with customers as well as the employees, can only be successfully run in the form of small enterprises.

5. What is meant by the term 'self-employment'?

Ans: When an individual engages in any economic activity and manages it on his own, it is known as self-employment.

26

LESSON

Setting-up A Small Business

Introduction

Setting-up a small business requires so many decisions about the nature of business, location of business and sources of raising necessary capital. Though the procedure for setting up a business is not the same for all types of businesses, there are certain steps which you have to take to start any small business. In this lesson you will learn some of the important steps in setting up of a small business unit.

Long Answer Type Questions

1. **Explain any six aspects of action plan one should keep in view before deciding about the course of action.**

Ans: Once you have selected a specific product and decided to establish a business unit, you will have to prepare a plan of action. The following aspects of the action plan should be kept in view before deciding on the course of action.

1. Nature of Business

At first, decision is to be taken about the nature of business. To decide about the nature of business you want to launch, you have to consider the following factors:

- (i) whether the business would be profitable;
- (ii) how much capital would be required;
- (iii) what would be the degree of risk;
- (iv) whether there would be sufficient market demand for the goods; and
- (v) whether there would be opportunities to grow and expand.

The above factors will help you to decide as to which line of business you can successfully pursue.

2. Choice of Form of Organisation

A small business may be organised as a sole proprietorship or a partnership firm. Advantages and disadvantages of both the forms will have to be considered.

3. Financial Planning

A business cannot be started and run without sufficient amount of capital. Capital is required to buy fixed assets like land, building, machines and equipment. Capital is also required to buy raw material and meet day to day expenses of the business like salary and wages, electricity charges, telephone bill, carriage, etc. The amount to be contributed by the owners and the amount to be borrowed from financial institutions, banks, etc. must also be decided well in advance.

4. Location of Business

Where to establish a business is also to be decided in advance. The deciding factors usually are nearness to the source of supply of raw material, nearness to the market, availability of labour, transportation and banking facilities.

5. Physical Facilities

Decisions have to be taken regarding plant and machinery and equipments to be provided for the business, building and other physical facilities like water and power supply, transportation, etc. The factors that may affect the decisions in this regard are the size of business, techniques of production to be used, availability of funds, etc.

6. Plant Layout

After selecting the machinery and equipments required, it is necessary to decide about their installation in a proper manner. This is called plant layout. A good layout makes the operations efficient and economical. It reduces the costs of material handling, storage of inventory, use of space, etc. It helps in optimum utilisation of all resources.

7. Manpower and Raw Materials

The number and type of employees to be appointed have to be estimated and decided in advance and the process of their recruitment, selection and training duly planned. Raw materials are an important input for producing goods. To maintain continuity of production, raw materials must be available in adequate quantity and in nearby areas.

8. Production Process and Operations

The whole production process is to be visualised and the various activities involved in its operation are to be planned well in advance.

2. Describe any four factors required while taking decision about the location of a business.

Ans: Once the nature and suitable form of business has been decided, the decision will have to be taken regarding the location of the place of business. Special care should be taken while making such

selection because the place of business cannot be changed easily. The factors that determine location are:

- (a) Availability of rail or road transport facilities requires special consideration. This will make it convenient to bring raw materials to the factory and transporting finished goods to the market.
- (b) Availability of banking, postal and other communication facilities is absolutely necessary. Business cannot be run smoothly without such facilities in order to satisfactorily deal with buyers, dealers and suppliers.
- (c) Adequate supply of power and water is another requirement of a factory. Availability of power and water is also a deciding factor.
- (d) Availability of both skilled and unskilled labour at reasonable cost and without difficulty is also a factor to be kept in view while deciding on the location.
- (e) Availability of civic amenities is another consideration.
- (f) Preferably, the business unit should be located near the market.
- (g) While selecting the site for a manufacturing unit, consideration should also be given to the facility for disposal of waste.
- (h) The establishment of certain business in specific area attracts tax concession and other incentives.
- (i) The social and political conditions of the locality also influence the decision regarding location of the business.
- (j) The climatic conditions like temperature, rainfall, humidity etc. are also considered before taking any final decision about the location of business.

Short Answer Type Questions

1. What is business finance and state its sources?

Ans: The financial requirement of any business can be met from owners' capital; and borrowed capital. The owners' capital is provided by the owners from their own savings. But this may not be sufficient to meet the total capital requirement of business. So, the business needs to borrow capital from the outsiders. Money can be borrowed from friends, relatives, moneylenders, and commercial banks.

From all the above sources the business can get the required funds in various forms. For example, commercial banks provide funds in the form of cash credit, overdraft, discounting of bills and loans. The suppliers and manufactures give trade credit, installment credit to the traders.

2. Describe about the supply of raw materials?

Ans: Depending on the nature of products, there may be need for different types of raw materials. For example, furniture making requires timber, for making ready-made garments cloth is required

and so on. Suppliers should be identified and enquiries made regarding price, cost of transport and terms of payment. The various factors to be kept in view while deciding on the quantity to be held in stock are: (i) storage cost, (ii) availability of working capital, (iii) risk of loss or damage of materials held in stock, (iv) insurance premium to be paid, (v) discount available if purchased in bulk and so on.

3. 'The success of business depends on the availability of physical facilities'. Discuss

Ans: The success of any organisation also depends on the availability of physical facilities like land and building, plant and machinery, tools and equipments etc. The nature, size and quantity of physical facilities are decided on the basis of the nature of business, size of business, production process etc. The availability of funds also acts as decisive factors in this regard. When sufficient funds are available, the promoter may opt to buy the facilities provided it is beneficial for the long-term prospective of the business. Otherwise, he/she may go in for hire purchase or lease arrangement to get the required items. The promoter should always try to explore the market, try to find out the alternative and then select the best product.

4. State the various legal formalities required to all forms of organizations.

Ans: To establish a business unit many legal formalities are to be fulfilled which are as follows:

Sole Proprietorship: There is no legal formality necessary to set up a sole proprietorship business except in certain cases like chemists, restaurants.

Partnership: An agreement between the persons who want to form a partnership firm is necessary. As far as possible, it should be in writing and be registered with the Registrar of firms under the Indian Partnership Act 1932.

Joint Hindu Family Business: No legal formality is required. A Joint Hindu Family business is run as per Hindu Law. But it has to be registered with the income tax department to avail certain tax concession.

Joint Stock Company: It must be registered under the Indian Companies Act 1956. It may be a Private Limited Company or a Public Limited Company.

Co-operative Society: If the business is organised as a cooperative society, it is required to be registered with the Registrar of Cooperative Societies of the state in which society's registered office is to be situated.

5. Describe the legal requirements and formalities applicable to all forms of organizations.

- Ans:
1. License is to be obtained from the Ministry of Industries if manufacturing activities are taken up. However industrial units employing less than 50 workers with power or less than 100 workers without power have been given exemption.
 2. Registration with the Registrar of Small Scale Industries of the State in which the unit is to be set up is compulsory.

3. Registration with the Labour Commissioner of the State in which the unit is set up is also compulsory. This is necessary so that there is compliance of various labour laws including the Factories Act.
4. Environmental clearance certificate has to be obtained from the State Pollution Control Board.
5. The industrial units are to be registered with the excise department so that it can get concession under General Excise Duty Exemption scheme.
6. The firm has to be registered with Sales or Trade Tax Authority of the concerned State.
7. If it is a trading concern it is to be registered with the Shop and Establishment Authority of the place.
8. The activities of business may affect the health and safety of the employees as well as public. So business unit may be registered with the local authority..
9. The business should always protect its own name and logo, along with any inventions, product designs or copyright. The others should not illegally use these things. So to avoid such practices the company/firm must go for patenting its intellectual properties like designs, copy rights, etc.
10. To cover the loss arising from unforeseen events, the businessman should go in for insurance of its plants and machinery, buildings, top executives etc.

6. Briefly discuss about the supply of manpower.

Ans: In most cases, the owner will have to employ some persons to help him in various business activities. These workers can be unskilled, semi-skilled and skilled. To run a business smoothly, it has to be ensured that sufficient requisite manpower is available at the right time and at competitive rates. The whole process, which ensures a regular supply of required manpower of right type, is called recruitment. The various sources of recruitment are:

1. Employment exchanges;
2. Technical institutions and institutes of education and training like ITIs;
3. Advertisement through newspaper, employment news, internet etc.; and
4. Placement agencies.

7. Discuss about financing of business.

Ans: Financing of business essentially involves two things viz. estimating the requirement; and deciding about the sources and their proportion. Business cannot be run without capital. Adequate capital is required to establish any business whether it is small or big. The capital requirement of a business is of two types, (a) fixed capital; and (b) working capital.

Fixed capital refers to funds required for acquiring fixed assets like land, building, machinery and equipments, whereas working capital is required to meet the routine expenditure like payment of salary, wages, electricity and telephone bill, purchase of raw materials, payment for transport, etc.

The amount of capital required by a business depends upon a number of factors like nature of business, size of business, production process, technology used etc.

8. Name the capital requirements of a business?

Ans: The capital requirements of a business are of two types: (a) Fixed capital; and (b) Working capital.

9. State the various sources of business finance?

Ans: The financial requirement of any business can be met from owners' capital and borrowed capital.

10. State the meaning of fixed capital?

Ans: Fixed capital refers to funds required for acquiring fixed assets like land, building, machinery and equipments.

11. What are the factors to be considered while determining working capital?

Ans: Following are the various factors that need to be considered to estimate the requisite amount of working capital.

1. Proportion of cost of raw materials to total cost
2. Cost of labour
3. Length of operating cycle
4. Terms of purchase and sale
5. Cash requirements
6. Seasonal operations

12. What is the meaning of business plan?

Ans: You will have to decide in advance each and every step you are going to take in that connection till it starts functioning. It will be helpful in avoiding delay at the initial stages of starting business.

13. Mention the choice of an appropriate form of business organization?

Ans: There are different forms of business ownership, i.e., Sole Proprietorship, Partnership, Joint Hindu Family Business, Company and Cooperative Society.

27

LESSON

Agency Services

Introduction

After completion of your study, you may be thinking to start your own business. How will you go about it? Where? When? How? These are some of the questions, which would definitely lurk in your mind. So what will you do? You would definitely need the help of some one specialized to guide you in different matters of business and to solve your problems. For example, when you go to buy or hire a room for your trading business in a particular locality you need to contact a Property Agent who will explain in detail about availability of room and the procedure to get it. When you start a business the point of safety and security will be raised. Then you would definitely think of getting your shop insured against all the possible hazards like fire and theft! For this, you will seek the guidance of an insurance agent. So, who are all these people who are helping you in getting things done in a smooth manner? These people like the property agent and the insurance agent who give you specialized services are known as Agents. In this lesson you will learn detail about agents and their activities.

Long Answer Type Questions

1. State any six duties and rights of an agent.

Ans:

Duties of an Agent	Rights of an Agent
1. Duty to follow principal's direction	1. Right to receive remuneration
2. Duty to act with reasonable diligence and skill	2. Right of lien
3. Duty to render correct accounts	3. Right to adjust his dues
4. Duty to communicate	4. Right of indemnification

Duties of an Agent	Rights of an Agent
5. Duty not to delegate authority 6. Duty not to misuse authority 7. Duty to deduct his dues 8. Duty not to deal in his own name 9. Duty to protect the interest of his principal.	5. Right to compensation 6. Right of stoppage of goods in transit

2. Explain the functions/services provided by the insurance agency.

Ans: **For Insurance companies:** Insurance agencies are very important for the insurance companies because of the following reasons:

- (a) **They propagate business:** Agents meet different people personally and explain the salient features of different schemes and their benefits to them. They also distribute various forms and pamphlets and this way propagate the insurance business.
- (b) **Procure business:** Almost all the business of insurance is procured through agents. Only a small part of the business is procured directly by insurance companies.
- (c) **Protect the interests of the companies:** Insurance companies rely on the agency force to select good business. In deciding upon the risk the companies have to satisfy themselves as to the purpose of insurance and the character, habits and financial standing of the insurers through their agents.

For Policyholders: An insurance agent is the link between the insurance company and the policyholder. He/she renders many useful services to the policyholders. These may be:

- (a) **Educate people about the benefits of insurance:** An insurance agent explains to the public about the various available schemes and their benefits. He also helps them to select scheme best suited to their needs.
- (b) **Encourage thrift by providing better channels of investments:** An insurance agent ensures that the policyholder saves regularly and pays the premium on time.
- (c) **Help in payment of premiums and settlement of claims:** An insurance agency informs the insured about the due dates of premiums and expiry of policies; and helps them in payment of premiums and collection of claims, if any.

3. Describe the personal liabilities of an agent.

Ans: When an agent executes a contract with a third party on behalf of a principal, the agent acts merely as a connecting link between the principal and the third party, and incurs no personal liability. But in certain circumstances, as narrated below, the agent will be held personally liable.

1. When the contract expressly provides the liability of the agent.

2. When the agent signs a negotiable instrument in his own name without making it clear that he is signing it only as an agent.
3. When the agent acts for a foreign principal.
4. When the agent acts for a secret or undeclared principal,
5. When the agent acts for a principal who cannot be sued e.g. minor, mentally challenged etc.
6. When the agent compromises with false statements or fraudulent actions.
7. When the agent works outside the limit of his rights.
8. When the agent earns personal profit by fraudulent means.
9. When the agent enters into an agreement in his own name.
10. When the interest of the agent is also included in the agency agreement.

4. State any four qualities of a successful agent.

Ans: Every agent must possess certain mental qualities, which are as follows.

- i. **Honesty:** The agent must be sincere and honest in his dealings. He/she should not indulge in any activity that may have an adverse effect on the agency work. The accounts must be prepared honestly as per the terms and conditions of the agency.
- ii. **Diligence:** The agent must show great diligence in his/her activity. To be successful, the agent must put sincere and persistent effort. At any moment he/she not be impatient.
- iii. **Tactful:** One of the reasons for engaging an agent for any specific activity is the expertise he/she possesses in that area. Hence, the agent should be tactful in dealing with others and ensure completion of the task successfully.
- iv. **Confident:** The agent must perform his/her activities with great degree of confidence. If an agent does his/her work sincerely, timely and correctly, he/she can face any challenge with confidence.
- v. **Awareness:** The agent must have clear understanding of his/her duties, rights and responsibilities while performing his/her job. The awareness about the products and services, current market situations and consumer behaviour ensures success in agency services.
- vi. **Foresight:** The agent must have the ability to visualise the future market situation and take appropriate action well in advance.
- vii. **Responsible:** The responsible behaviour of the agent contributes towards the success of the agency to a great extent. The agent must discharge his/her duty as per the instruction of the principal, take appropriate action in time, and communicate with the principal as and when required.
- viii. **Adaptability:** The agents may have to move from place to place and from region to region. They come across different people and society while discharging their duties. So it is essential that they must have a sense of adaptability in different situation and environment.

Short Answer Type Questions

1. Briefly discuss about the savings and investment agency.

Ans: The savings and investment agencies provide the following services to the investing public and collecting organisations.

- (a) **Educate the public about investments:** These agencies motivate and encourage public to save more. They educate the people about the different schemes available for investment with the different institutions, their comparative merits and demerits and encourage the public to invest their savings in secured and profitable channels of investment.
- (b) **Channelise the investment:** These agencies collect the savings from the investing public; direct them in different savings schemes provided by different organizations according to the choice of people.
- (c) **Provide personalised service:** These agents approach the individuals at a place and time convenient to them. They collect the savings as per the convenience of the investors. They also assist them in getting loans against their investments in case of their need; remind the investors about the due dates of periodic payment, maturity date of the investments and help them in the realisation of their investments.

2. What is meant by the terms 'agency' and 'agent'?

Ans: An agent is a person employed to do any act on behalf of another or to represent another in dealing with any third person. The person for whom such work is done or who is represented is called the principal. The relationship between the agent and the principal is called agency.

3. Write about financial agency services.

Ans: The financial agency services deal with savings, investments business. Hence savings and investment agency services and insurance agency services are the most common form of financial agency services. The key activities involved in saving and investment agency include the following

- educating people about the benefits of saving;
- inform them about alternative channels of investment with safe and stable income;
- collecting the savings at intervals on behalf of the organization and helping the investors in getting loans against the investment, if needed.

The insurance agency, on the other hand, involves educating people about the benefit of insurance and informing them about the terms and conditions of insurance and the types of policies available, helping them to fill up the form of application for insurance collecting premium on behalf of the insurance company; help the insured people to settle their claim, if any, from the insurance company.

4. What is meant by right of lien on goods?

Ans: If the principal does not clear the accounts of the agent, the latter has the right of lien on the goods of the principal, that is, the agent can retain the goods in his possession for realizing his dues.

5. Name the two types of agency services?

Ans: i. Financial agency services, and ii. Commercial agency services.

6. What is the need of agent in a business field?

Ans: Today there is demand for specialisation in each area business. On account of special work and experience, the specialists started working as link between the producers and consumers, buyers and sellers, creditors and debtors and employers and employees. Therefore the need for agents arises.

7. Who will appoint the agent?

Ans: Any person who is an adult, of sound mind, having an ability to enter into a contract can appoint a representative or an agent. Any person who has the full confidence of the principal can work as an agent.

8. What is the function of an insurance agency?

Ans: Insurance agency helps in propagating and procuring insurance business. Encourages thrift by providing better channels of investments.

9. What are the features of an agency?

Ans: The main characteristics of agency are: (a) mutual trust and faith; (b) remuneration after completion of the work; (c) the principal is liable for all legal act of the agent; and (d) no specific qualification is prescribed for an agent.

28

LESSON

Commercial Agency Services

Introduction

In this lesson, we shall take up the details of Commission agency, Clearing and Forwarding agency, Advertising agency, Packing agency, Travel and Tour agency, Placement agency, Property agency, Courier service, Packers and Movers, which are placed under commercial agency services.

Long Answer Type Questions

1. Describe the functions of clearing and forwarding agents.

Ans:

Relating to Imports	Relating to Exports
1. Managing delivery from the ports	1. Obtaining the custom permit
2. Preparation and submission of bill of entry	2. Obtaining shipping order
3. Payment of dock dues	3. Submission of shipping bill and payment of export dues
4. Managing custom clearance	4. Payment of dock dues
5. Dispatching goods by rail or road	5. Receiving mate's receipt
6. Sending advice documents to the importer.	6. Obtaining bill of loading
	7. Sending advice and other documents to the exporter.

2. What is packing agency and state any three of its functions?

Ans: Packing serves the purpose of protecting goods from deterioration or damage, facilitates their handling and promotes their marketing. Any person or firm undertakes the task of packing goods

on behalf of the producer or owner is known as a packing agent. Packing agencies design the appropriate package to be made and make use of wrappers or containers for the purpose of packing the products. The package may consist of goods wrapped in cloth, paper or plastic sheets or goods packed in a container, carton, box, bag or crate. Packages may be of different sizes depending on the purpose in view. For example, sugar may be packed in bags for transportation but for retail sale it may be packed in small packages.

Functions of Packing Agency

The following are some of the main functions of packing agency:

- (a) Preservation of product:** The packing agent packs the goods properly so that the goods can be preserved for a long period. The original colour, shape, size can be maintained if the goods are properly packed.
- (b) Easy handling of goods:** Packing makes handling of goods easier and more convenient. So the packing agent packs the goods in suitable container to facilitate easy handling.
- (c) Self advertising:** Attractive packages serve as a means of self-advertising. Therefore, packing agents design and prepare the packages in a way that attract the attention of the prospective customers.
- (d) Information on the package:** The packing agent labels useful information regarding the contents, quantities, maximum retail price, date of manufacturing and date of expiry etc. on the package of the goods. This information's are very much useful before taking any buying decision.
- (e) Protection from damage:** Special packing is necessary for fruit and vegetable, fish, fragile goods etc. The packing agents make special packing arrangement for these goods by using straw, paper, wood etc. In case of certain specific products, transporters are cautioned about the necessity of handling the packages with due care, like, for example. "Glass with Care".
- (f) Protection of quality:** To avoid adulteration, the products are supplied in sealed containers. It helps in maintaining its quality.

3. What is meant by travel and tours agency? State any three of its functions.

Ans: Travel agencies undertake a number of functions like preparing itineraries, getting reservation for travelling and hotel accommodation, arranging group tours, arranging credit facilities, helping to secure VISA, passport etc. These agencies not only work for the touring public but also for the organisations such as railways, airways, shipping companies and road transport companies. Sometimes, they work for hotels as well.

Functions of Travel and Tours Agency

These agencies are indispensable to the touring public because of the following services rendered by them.

- (a) **Preparing itinerary:** These agencies have specialised knowledge of all the places of interest in a country. They help the traveling public in preparing good itineraries i.e., programme of the travel or tours, so that the tourists can visit the maximum number of places of interest with optimum utilisations of the time and money available.
- (b) **Helping public to secure passport and complete other formalities:** These agencies help in securing the passport and completing VISA formalities on behalf of the traveling clientele in case of foreign travel.
- (c) **Getting reservation for traveling accommodation:** These agencies help the travelers and tourists in getting the traveling accommodation reserved for the travel in railways, airways, ships and buses.
- (d) **Getting reservation of hotel accommodation:** These agencies have specialized knowledge of hotels and their suitability to different types of tourists. They help in getting suitable accommodation reserved for the tourists during their stay at different places. Besides, they also provide local transport on hire for going to places of one's own interest.
- (e) **Helping tourists with credit facilities:** These agencies help the tourists by granting credit or securing credit facilities for them, in case they fall short of money while traveling.
- (f) **Arranging group tours:** These agencies arrange economic and convenient tours in groups and provide package deals or special holiday packages which include the travel-fare and accommodation charges, sightseeing and other transportation charges to and from the place of departure. Some agencies also arrange tourist exchange programme between two countries.
- (g) **Other functions:** Traveling with these agents means individual care and personalized attention. For this purpose, most travel agencies arrange for holidaying, water sports and tracking, adventure travels, fishing, pilgrimage etc. For business executives, they arrange conferences, meetings and discussions. For foreign travellers, they also provide courier service and help in Air and Sea Cargo clearance.

4. What is meant by property agent and state its functions?

Ans: Property agents act as middlemen in buying and selling of properties and charge a commission or fee for their services. Likewise they charge commission or fee from parties who seek their assistance in renting the property. In other words, they charge both the parties, the property owner as well as the buyer or the tenant. The services of property agents are found to be most useful in growing metropolitan cities and towns.

Functions

Property agents generally perform the following functions:

- (a) They procure information relating to properties available for sale or on rent in the area of operation.

- (b) They keep record of details of such properties including name(s) of owner(s), name(s) of occupier, location, size or area, facilities available nearby, whether freehold or leasehold, price or rent expected by the owner(s).
- (c) They check the title deeds in respect of the properties on sale.
- (d) They record the rent expected, advance payment or security deposit desired, and other terms and conditions which owner(s) of properties have in view for renting.
- (e) They communicate to the public through posters, handbills or newspaper advertisements the nature of properties which are available for purchase or renting.
- (f) They provide necessary information to the intending buyers or tenants about the properties suited to their requirements.
- (g) They arrange inspection of the properties by the parties interested.
- (h) They ensure a fair deal between property owners on the one hand and the buyers or tenants of properties on the other.
- (i) They help buyers and tenants to complete the deal with owners by legal transfer of ownership or signing of rent agreement and payments required to be made.
- (j) They assist the buyer or tenant to secure possession or occupy the property.

5. Discuss the need to become a successful travel agent.

Ans: In order to become a successful travel and tours agent, a person should need the following:

- (a) **Well equipped office:** An office equipped with proper furniture, telephone (both fixed line and mobile), computer, internet and fax machines.
- (b) **Knowledge of modes of transport:** A travel and tours agent must have full knowledge of all available modes for domestic as well foreign travel, their availability and the fare charged by each. This helps them in offering expert advice regarding the suitability of a mode of travel to individual needs of the tourists.
- (c) **Knowledge of places of interest:** A travel and tours agent must have knowledge of all places of interest, historical or religious, both within and outside the country. This enables him to give a complete picture of different places of interest to the tourists.
- (d) **Information about hotel accommodation:** The agent must have detailed information about hotel accommodations generally available in the country, their probable charges and the facilities provided by them.
- (e) **Acquaintance with formalities to be completed:** A travel and tours agent must be acquainted with all formalities to be completed before and after the travel or tours. He must have the knowledge of the procedure for getting Passport, VISA and other formalities to be completed.
- (f) **Personal qualities:** A travel and tours agent must be fair and honest in his dealings with the

traveling public. This increases his reputation and standing. He must be dedicated and hardworking. He should always remember that a tourist can only be won over with a smile. Courteous service alone can bring success to the business of a travel agent.

6. What is meant by commission agency? State its functions.

Ans: In the modern world of business, goods are bought and sold not only at the place of production, but also at various places in the country and possibly even outside the country. It is therefore, not possible for every businessman to handle all activities on his own. He needs the services of someone who could act on his behalf. These persons are known as Commission Agents because they get commission for their services. Their business is known as commission agency business. Commission agents are engaged to act on behalf of their principals for different purposes and on different terms and conditions. When appointed to buy goods, they are known as Purchase Agents. When appointed to sell goods, they are known as Sales Agents, and so on.

Functions

Commission agencies render a series of useful services. These are:

- (a) Buying and selling of goods:** The commission agents buy and sell goods on behalf of their principals' at the most favourable rates and terms. They determine which commodities or services are most suitable to the requirements and choose the supplier of the product or service accordingly. They negotiate with the supplier to get lowest price and finalise the deal.
- (b) Marketing services:** They perform certain marketing functions, such as storage of goods, sales promotion, transportation, etc.
- (c) Advisory services:** The commission agents advise their principals regarding the market conditions, when and where to buy or sell, when and how to store goods, and so on.
- (d) Providing financial assistance:** Sometimes, in case of need, the commission agents also provide advance money to their principals. Of course, they may charge interest thereon, if necessary.

Short Answer Type Questions

1. What is meant by commercial agency services and state a few of them?

Ans: In a small trading unit a single person can manage all the commercial activities. But, for large business undertakings, it may not be possible for a single person to manage everything efficiently and effectively. So the businessman may think of employing the professionals or hiring their services on commission basis. Similarly, in case of other businesses, various types of, commercial agents may be engaged to work on their behalf. Commission agency, Clearing and Forwarding agency, Advertising agency, Packing agency, Travel and Tour agency, Placement agency, Property agency, Courier service, Packers and Movers. Since all these agency services provide direct support to commerce, they are categorized as commercial agency services.

2. Write the various types of commission agents?

Ans: Commission agents may be grouped into (a) Factors and (b) Brokers.

Factors: A factor is a commission agent employed to sell goods consigned or delivered to him by the principal. He is entrusted with the possession of goods and usually sells the goods in his own name without disclosing the identity of his principal. He may sell the goods on usual terms as to credit, may receive payment of the price and give valid receipts. He may pledge the goods in his possession.

Brokers: A broker is an agent who makes bargain for others and receives commission for his service, which is called brokerage. He is employed to buy and sell goods. He is not entrusted with the possession of goods for sale and does not have authority to contract in his own name. He encourages trading by finding buyers for those who wish to sell, and sellers for those who wish to buy.

3. What is meant by clearing and forwarding agency?

Ans: Clearing and forwarding agents act on behalf of the importers and exporters and complete all formalities required for clearing the goods from the port of destination, loading the goods on the ship. They also take care of all customs formalities at the ports while clearing and despatch of goods.

4. State the meaning and functions of advertising agency.

Ans: An advertising agency is a business, set up to render specialised services in advertising and marketing of products. It helps advertisers in drafting the advertisement copy and placing them in appropriate media for publicity. Some large business firms have their own advertising departments. But many producers may not afford such in-built facilities. Consequently, they depend upon specialised advertising agencies for designing and publicising or exhibiting their advertisements in an effective manner.

Functions

The main functions of advertising agencies include:

- (a) Designing and preparing the advertisement copies;
- (b) Planning and selecting the advertising media; and
- (c) Securing space or time in all categories of media, i.e., print, televisions, radio, billboard, etc.

5. What is meant by the term placement agency?

Ans: The placement agencies undertake a number of functions like informing the candidates about the availability of jobs, helping them in preparing their bio data, arranging for interviews, negotiate with the prospective employers etc.

6. Write the functions of placement agency?

Ans: There are various functions that a placement agency performs. These are as follows:

- (a) **Preparing a data bank:** These agencies have a huge data bank of all the prospective employers and job seekers. This data bank helps them to find out the suitable employer for a job seeker, and vice versa.
- (b) **Inform the job seekers about the availability of suitable jobs:** The placement agents inform the job seekers periodically about the employers and the availability of jobs according to their qualifications, skills and experience.
- (c) **Helping candidates in preparing bio data:** They also help the candidates to prepare their bio-data and other documents.
- (d) **Arranging interviews:** They negotiate and arrange interviews for the candidates and sometimes also give them tips on how to appear for interviews.
- (e) **Negotiation on salary and other emoluments:** On behalf of the candidate they sometimes negotiate with the company about salary and other terms and conditions of employment.

7. What is needed to open a placement agency?

Ans: To open a placement agency you need the following:

1. An office equipped with proper furniture, telephone, computer, internet and fax machines;
2. Data bank of prospective clients;
3. Good knowledge of personnel and human resource aspects;
4. Information about the various companies and the vacancies available in them; and
5. Personal qualities such as fairness and honesty in his dealings with the employers as well as the candidates.

8. What is meant by courier service?

Ans: Couriers undertake the task of receiving letters, documents and parcels from sender and delivering the same to the addressees both within the country and abroad. Like post office couriers also render valuable services, ensuring timely and prompt delivery of articles. Thus, couriers supplement the postal services.

9. State the functions of couriers?

Ans: Couriers serve the public in different ways:

- (a) Collect letters, packets, parcels, etc. from the users of their service at no extra charge.
- (b) Receiving articles at different collection centers for despatch.
- (c) Arrange prompt despatch of articles through messengers and other means of transport (roadways, railway, air transport, etc.)

- (d) Undertake carriage of articles to different places within the country as also countries across the borders.
- (e) Deliver articles to the addressee, against acknowledgement receipt.
- (f) Send proof of delivery (acknowledgement receipt of the receiver) to the sender.

10. What is meant by packers and movers?

Ans: Any person or firm undertaking the task of packing and shifting the goods on behalf of the owner is known as a packer and mover agent. They pack the goods in suitable containers and then send the goods to the place of destination by using their own transport system or by hiring the public vehicles or through train. They also arrange insurance of valuable goods while sending them to distant places. For all these services they charge fee from the sender of the goods.

11. Write the functions of packers and movers.

Ans: The following are some of the important functions of packers and movers.

- (a) Packing the goods:** The packers and movers pack the goods according to the shape, size and type of goods. The packing material may consist of cloth, plastic sheets, carton, box, bag or crate etc.
- (b) Transporting the goods:** The packers and movers take the responsibility of sending the goods to the place of destination. They send the goods by road and rail to the place of destination. Some packers and movers use their own transport facility to send the goods.
- (c) Risk bearing:** The packers and movers bear the risk in handling the goods. The goods damaged or destroyed in transit or while packing and unpacking are to be borne by them. So they take utmost care and use best quality packing material and engage well trained and experience staff for this purpose.
- (d) Insuring the goods:** To avoid the risk of loss during transit the packers and movers insure the valuable items during shifting to a long distance.

29

LESSON

Wage Employment

Introduction

In your locality you must have seen people busy in different economic activities. Some of them may be working for others to earn wages or salary. The others may be doing their own business and earn profit. What do you think about yourself? What will you like to do after completing your study to earn your livelihood? However, before choosing a career you must have a clear idea about the different avenues of employment. In the present one, we shall discuss different aspects of wage employment.

Long Answer Type Questions

1. Discuss the different types of wage employment?

Ans: There are various types of wage employment available for an individual to choose from. However, each type has its own criteria for recruiting people. For example, there are some jobs for which the minimum qualification required by the individual is graduation. For other jobs, it may be high school or intermediate or post graduation or some professional/vocational qualification. Considering the types of jobs available after passing the secondary or senior secondary courses, we can categorize wage employment as Technical jobs and Ministerial jobs.

Technical Jobs

Jobs that require some kind of a technical skill to perform the tasks are called Technical Jobs. For example, a mechanic in a motor garage, a welder in a fabrication unit, a chemist in a drug manufacturing unit, a plumber in a water supply unit, an electrician in a repair shop, a DTP operator in a publishing unit, a driver in an office etc. are all said to be technical staff of the respective organizations. In order to enter into a technical job, you need to acquire a technical skill by doing a technical course in any institute that provide technical training after getting the class 10th or 12th certificate. Sometimes after completing secondary/ senior secondary course,

you are hired by some employers who provide you the necessary training for technical skill. During the training period, you earn some amount of money, which is known as a stipend or a consolidated salary. A list of some of the technical jobs is given below:

Job Category	Employers	Extra qualifications/Training
Computer Operator	Office/ business house/ shops/ Government organisations.	Computer training, DTP work
Computer Programmer	Software companies/consultants, etc.	Software packages and computer programming
Laboratory Assistants	Educational institutions	Must have a science background
Library Assistant	Educational institutions, Public library,	Certificate course in Library and Information Sciences

Ministerial Jobs

These are basically clerical jobs available in Government offices. Ministerial jobs also include cashiers, accountants, storekeepers, personal assistants, salesmen etc. The following table gives a small indication of various ministerial jobs available after secondary or senior secondary.

Job Category	Qualifications required	Age
Clerical Jobs in Government Offices:LD clerk, UD clerk, Account assistants	Secondary/Senior Secondary	18-25 years
Railways:Booking Clerk, Accounting Clerk, Goods Clerks, Train Assistant etc.	Secondary/Senior Secondary Through SSC & RRB	18-32 years
Banks: Clerk cum Cashier, Clerk cum Typist	Secondary/Senior Secondary Through BSRB and RBI-SSB	18-26 years
Offices/ Stores/ Shops: Storekeeper, salesman, office assistants etc.	Secondary/ Senior Secondary	18 plus

2. Explain the avenues of wage employment?

Ans: Availability of wage employment depends primarily on the local or regional job vacancies. Some of the major avenues of wage employment are listed below:

1. Small factory/shops
2. Business firms
3. Service organisations

4. Government and semi-government organisations
5. Public enterprises
6. Private institutions
7. Defence and allied services
8. Agricultural sector

Let us discuss about these avenues in brief.

- 1. Wage employment in small factory/shops:** This category includes employment in workshops, provision stores, super market, departmental store, stationary shop, chemist's shop etc.
- 2. Business firms:** Manufacturing and trading organisations, newspaper offices, advertising agencies, etc. also provide wage employment to a large number of people.
- 3. Service organisations:** Avenues of wage employment also exist in service organizations like railways, banks, financial institutions, insurance companies, motor transport companies, airways, telecommunications, and advertising agencies.
- 4. Government and semi-government organisations:** These organisations include municipal offices, state and central government offices, government educational and technical institutions, government hospitals and post and telegraph offices.
- 5. Public enterprises:** Public enterprises are owned, managed and controlled by central and state governments and include State Electricity Boards, Water Supply undertakings, Mahanagar Telephone Nigam Limited (MTNL), Shipping Corporation of India, Port Trusts, Steel Authority of India Limited (SAIL), Bharat Heavy Electricals Limited (BHEL), Indian Oil Corporation (IOCL), National Thermal Power Corporation (NTPC), Gas Authority of India Limited (GAIL), Bharat Electronics Limited (BEL), Hindustan Machine Tools Limited (HMT), and other State Government enterprises.
- 6. Private institutions:** These include private schools, colleges and other educational institutions, private hospitals, nursing homes, etc.
- 7. Defence and allied services:** Defence Services including Army, Navy and Air Force provide employment of different types.
- 8. Agriculture and allied fields:** This includes employment in agricultural farms, plantations, dairy, poultry farms, horticulture etc.

Short Answer Type Questions

- 1. Describe the various characteristics of wage employment.**

Ans: Following are the characteristics of wage employment

- 1. Two parties:** In case of wage employment there are always two parties involved. One is known as the employee and the other as the employer.

- 2. Contractual nature:** Wage employment is always contractual in nature. It is basically an agreement between two parties whereby one party works for the other under specific terms and conditions and the later party has to pay the former any mutually agreed upon wage or salary in return of his work. The whole employment relationship can be terminated by either party by giving a notice to the other party just like a contract.
- 3. Employer-employee relationship:** The relationship between the two parties in wage employment is an employer-employee relationship. This is unlike a master servant, father-son or teacher-pupil relationship. Here both the parties are interdependent and interrelated. One cannot exist without the other. Both operate under some pre-determined and mutually agreed upon rules and regulations concerning their work relationship.
- 4. Remuneration:** Remuneration is the return or reward that the employee receives from the employer for his work. This is one of the important characteristics of wage employment as this remuneration is determined and accepted by both the parties. This remuneration is known as wage or salary.
- 5. Terms and conditions of employment:** In case of wage employment the nature of work, working conditions, rules concerning work relationships etc. are decided in advance. Both the party abides to these terms and conditions of employment.

2. Give any four distinctions between wage employment and self-employment.

Ans:

Wage Employment	Self-employment
The status of the individual is that of an employee	The status of the individual is that of an owner and employer.
The individual works for another.	The individual works for self.
Income is in the form of salary or wage.	Income is in the form of profit.
Earning is limited. It is mostly predetermined and fixed having regular increments.	The scope of earning is unlimited. It depends upon the capability and contribution of the individual.
The nature of work is mostly routine except where one has to take independent decisions on policy and strategic matters.	The work involved is flexible and depends on what the individual wants to do.
Entire supervision and control lies with the employer.	The individual controls and supervises his own work.

3. What is employment?

Ans: Individual works for others and gets salary or wage.

4. What is wage employment?

Ans: Wage employment can be defined as ‘a mutual agreement between two parties (known as employer and employee) in which the employee (generally an individual) agrees to work for the employer (generally a business firm, government office or sometimes an individual) under some specific terms and conditions and the employer agrees to pay him some remuneration (may be in cash or kind) for his work’.

5. Name the two parties in wage employment?

Ans: In wage employment, there are always two parties and the employee gets wage or salary from the employer for his work.

6. Who is an employer?

Ans: The person who engages others to work for him/her by following certain terms and conditions.

7. Who is an employee?

Ans: An individual who works in an organisation and gets salary or wages as remuneration.

8. Give the meaning of salary?

Ans: Salary is a mutually agreed upon assured amount given to the employee by the employer for his work on a monthly basis.

9. What is the relation between two persons in salary employment?

Ans: Employer - employee

10. What is meant by self-employment?

Ans: The individual works for self.

11. How will be the earning in wage employment?

Ans: Limited

12. How will be the income in self-employment?

Ans: The scope of earning is unlimited.

30

LESSON

Office Set-up

Introduction

Suppose you want to join in an organization after completing your study as an Assistant. In the organization you have to perform different tasks assigned to you by your employer. To carry out the job properly you need to have certain facilities. The most important requirement is to have an adequate space to work. You also need to have proper sitting arrangement, well-lighted and ventilated room, safe place to keep your documents and records etc. The place where such types of facilities are made available is called as an office. In this lesson, you will learn about the meaning, objectives and functions of an office. You will also learn about office set-up, location of an office, office layout and working conditions.

Long Answer Type Questions

1. Explain the basic functions of an office.

Ans: An office is primarily concerned with collection and supply of information. Accurate and up-to-date information relating to organization and other agencies affecting the organization is always required for taking decisions and formulating policies. Therefore, the functions of a modern office may be classified into two categories:

1. Basic functions, and
2. Administrative functions.

Basic Functions

Basic functions are those functions of an office which need to be performed in all types of organisations. They are mainly related to receiving and giving of information. These basic functions are as follows:

- (a) Collecting information:** The office receives or collects information about various activities of the organisation. The information may be collected from internal or external sources. Internal sources may be employees and various departments of the organization. The external sources are customers, suppliers and government departments etc.
- (b) Recording information:** The office keeps record of information collected from various sources to make it readily available to the management. The information is kept in the form of correspondence, reports, statements, circulars, lists, charts, registers, books, etc.
- (c) Arranging, analysing and processing information:** The facts and figures collected have to be arranged, processed, organised, presented and analysed to make them useful to the management. In this connection financial statement, statistical statements, charts, lists, reports, summaries are prepared.
- (d) Preserving information:** The information is properly sorted out and preserved in the most economic and scientific manner. Various types of equipments, filing cabinets, etc. are used for preserving records.
- (e) Supplying information:** The office serves as a two-way channel for communication. On the one hand, it supplies the collected, recorded and processed information to the management and, on the other, it provides the policy decisions, guidelines and instructions issued by the management to the departments are also routed through the office. The information may be supplied verbally or in writing.

2. Explain any four administrative functions of an office?

Ans: Administrative functions are auxiliary to the basic functions of the office which are to be performed for smooth functioning of the office. These relate to the tasks of protecting and safeguarding assets, maintaining and enhancing the operating efficiency, stationery control, choice and use of the office equipments and selection, training, placement, and remuneration of the personnel etc. The following functions are normally considered as administrative functions of an office:

- (a) Management functions:** Various functions of management are also applicable to the management of a office functions. Office work has to be planned, organised and executed according to the plan. Staffing, directing, communicating, co-ordinating, motivating are also important for the management of offices.
- (b) Instituting office systems and routines:** An office has to develop systems and procedures for providing better services to other departments. Each phase of office work is carefully analysed and a proper procedure is developed for it.
- (c) Procuring stationery and supplies:** Adequate supply of office stationery of proper quality is necessary for the efficient performance of office work. The office purchases standard quality paper, pens, ink and other stationery items, maintains the stock and issues them only on demand.

- (d) **Designing and control of office forms:** Use of standardised forms simplifies office operations. It is the responsibility of the office to design, standardise, provide and control the forms to be used in the office as well as in other departments of the enterprise.
- (e) **Purchasing office equipments and furniture:** Efficient and economical performance of office work requires proper furniture, equipment and machines. It has also to ensure timely availability of furniture etc., to departments and employees to facilitate proper utilisation, as well as arrange for maintenance, servicing and replacement according to need.
- (f) **Safeguarding of assets:** Different types of assets are maintained in an organisation. The assets must be protected against damages and losses on account of fire, theft etc. An efficient control system is exercised by office to safeguard the assets.
- (g) **Personnel management:** The efficiency of office work depends very much on the employees. Their appointment, training, promotion, appraisal and welfare are the functions of the office.
- (h) **Maintaining public relations:** An organisation depends on public reputation and goodwill for its existence and progress. Maintaining public relations is also the responsibility of the office. Most organisations have reception counters to greet and receive visitors to the organisation.

The above are some of the important functions of an office. The nature of these functions differs from organisation to organisation as per the needs.

3. Describe the role of any four departments of a modern office.

Ans: Now-a-days, there are large organisations in existence which involve varied and complicated operations. Therefore, the activities of organisation are grouped into different departments or sections. Departmentisation is the process of grouping business activities into homogeneous units. The number and types of different departments in an office depend upon the nature and volume of work. However, an office generally consists of the following departments or sections.

- (a) **Correspondence section:** Correspondence section takes care of incoming and outgoing letters, enquiries, etc. This section receives incoming mail and deals with them as per instructions from the concerned department. It also prepares suitable replies to letters. This section is manned by a section officer and clerks who are experts in noting and drafting of correspondence.
- (b) **Typing and duplicating section:** In large organisations the volume of typing and duplicating work is very large. Therefore, a separate department or section is created for such work. The types of jobs available in this section are those of stenographers, typists, duplicating machine operator etc.
- (c) **Computer section:** This is an important as well as essential section in every modern office. This section deals with data entry, data analysis, sending and receiving emails, preparation and maintenance of website etc.

- (d) **Filing, indexing and record-keeping section:** This section may also be called 'Filing' or 'Records' section. It is responsible for the preservation of all records for future reference. Clerical positions are there in this section for filing, indexing, and other related work.
- (e) **Mailing section:** The incoming mail is received, recorded in register, sorted out and distributed to the departments. The outgoing mail is prepared for despatch. The main jobs available in this section are those of mail receiving clerk, despatch clerk and general duty clerk.
- (f) **Accounts section:** This section is responsible for maintaining the accounts of the organisation. The chief accountant or the chief accounts officer is the overall incharge of this department. He is assisted by accounts clerks, section officers and audit assistants.
- (g) **Cash section:** This section deals with receipts and payments in cash and by cheque for the entire organisation. It operates under the control of the chief cashier. He is assisted by cashier, petty cashier and assistants.
- (h) **Public relations section:** The function of this section is to keep in contact with and maintain good relations with outside parties like customers, suppliers, government departments, etc. Most organisations have reception counters to greet and receive visitors to the organisation.
- (i) **General office:** It is the central office of the organisation and is generally known as the establishment section. This section formulates policies for the entire office and directly or indirectly controls the departmental offices. It also acts as the controlling unit as all information from section offices passes through the general office.

4. Give the meaning of 'Office Layout' and also state any four characteristics of an ideal office layout.

Ans: Office layout can be described as the arrangement of different departments, equipments and staff within a given floor space with a view to make optimum use of space and ensure maximum efficiency of the office.

Characteristics of Ideal Layout

For ensuring effectiveness of office operations, it is necessary to have a proper layout of the office. In practice, it may be difficult to have an ideal layout, but the under mentioned characteristics should be kept in view at the time of planning layout:

- (a) **Flow of work:** Office layout must be planned in such a way so as to enable the flow of work to be smooth and unhindered. Individual work should be considered from its starting point to completion and the personnel, equipment etc., should be placed in that order.
- (b) **Free movement and observation:** The floor space should be planned in such a way that it is free from partitions, columns etc., (as far as possible) to facilitate free movement and observation.
- (c) **Adequate space for staff and equipment:** There should be provision for adequate space for each assistant and his equipments.

- (d) **Service facilities:** At the time of planning office layout, adequate provision of service facilities for employees such as, internal communication, lifts, drinking water, canteens, etc. should be made. It is necessary for efficient performance of office work as well as physical comfort of the office staff.
- (e) **Private offices:** Private offices and rooms are generally provided to senior executives and important persons in office for confidential work and mental concentration. However, the number of private offices should be minimum.
- (f) **Flexibility and expansion:** Provision for expansion and adjustments should be made in the layout plan. Additional staff and equipments may need to be accommodated with some adjustments to cope with the expansion.
- (g) **Separation of noisy departments:** Official work needs mental concentration which is possible only in noise free atmosphere. Therefore, the noisy departments should be separated or enclosed with soundproof partitions.

5. Describe any three physical factors which make a suitable working environment.

Ans: Office work is mostly of repetitive nature and leads to monotony for the office staff. Sometimes, mental work may be more fatiguing than manual work. Excessive mental concentration may also be tiring. Therefore, it is necessary that the office staff should be provided with congenial working environment which is conducive to work.

Office environment has a significant effect on the efficiency of office staff. The surroundings in which office personnel work should be healthy and pleasant. Poor office environment results in low output and low morale of employees. Labour turnover and absenteeism also tend to be high. Therefore, executives should arrange satisfactory working conditions in the office.

Essential Factors

The physical factors which constitute a suitable working environment for the office staff are as follows.

- (a) **Cleanliness and sanitation:** The office must have a neat, clean and attractive look so as to make the employees be at ease and comfort and at the same time enhance the prestige of the organization. There should be provision of waste paper baskets, dustbins, doormats, spittoons etc., for the purpose.
- (b) **Lighting system:** Lighting is the most important element of working environment. Poor lighting causes eye strain, mental fatigue and irritation to the employees and results in delay and mistakes in office work. There should be sufficient light with proper illumination.
- (c) **Ventilation and temperature:** The office premises should be properly ventilated and facilitates fresh air circulation. There should be natural ventilation, electric fans, exhaust fans etc., as per need. Air coolers and air conditioners may also be used for temperature control.

- (d) **Reduction of noise:** Noise results in more errors, low quality of work, delay, slowing down of pace of work and lower output. It may be from internal or external sources. For control of external noise the doors or windows can be closed but for internal noise, soundproof walls or partitions are necessary.
- (e) **Interior decoration:** The art of decoration of the interior of a room or a building involves the use of wallpaper, carpets, curtains, wall-hangings, etc. The office should be internally decorated in such a way as to provide pleasant surroundings to all.
- (f) **Furniture and fittings:** Office work is routine, monotonous and primarily indoor deskwork. Assistants have to sit daily in the office for long hours. Therefore, suitable furniture should be provided so that employees may work comfortably and speedily. The type of furniture used in the office depends on nature of work in the various sections, work space in office etc.
- (g) **Safety arrangements:** Some people think that office is a safe place and hardly any safety precautions are required in office. However, accidents may and do happen in offices like one falling from seven feet high filing shelves, electric shock, fire, etc. Accidents cause loss of time, discomfort, low morale of employee and loss of property. Therefore, proper safety arrangements should be made in office.
- (h) **Office security:** Office maintains and preserves records and documents. Also there are valuable equipments and machines in use. Hence, there should be proper security arrangements to prevent theft, burglary, etc. Security measures like regulating entry, staff control, posting security guards, etc., differ from office-to-office.

Short Answer Type Questions

1. What is meant by the term 'Office'? State its features.

Ans: Every modern organisation is required to have an office. Whether it is a Government department, business firm, school, hospital, or a voluntary organisation, the existence of an office is a must to enable necessary clerical and administrative tasks to be performed properly. Thus, office is a service department of an organisation which is connected with the handling of records and provision of various services like typing, duplicating, mailing, filing, handling office machines, keeping records, drafting, using information, handling money and other miscellaneous activities.

Definition of Office

Some of the popular definitions of office are as follows:

'Office is a place where clerical operations are carried on'. - Denyer, J.C.

'Office is a unit where relevant records for the purpose of control, planning and efficient management of the organisation are prepared, handled and preserved. It provides facilities for internal and external communication and coordinates activities of different departments of the organisation'. —Littlefield, Rachel and Caruth.

The above definitions highlight the following characteristics:

- o collecting information
- o processing information
- o storing information
- o coordinating information
- o distributing information

2. State any two objectives of an Office.

Ans: An office is meant to serve the following objectives:

- i) To provide support to management:** The managers of any organisation carry on the process of management by taking decisions regarding planning, organising and controlling the organisation. For taking correct and prompt decisions, managers need various informations at the right time. Office renders invaluable assistance to the management in this sphere.
- ii) To act as a channel of communication:** Office is the channel through which communication moves from top to bottom and from bottom to top, from the organisation to others and from the others to the organisation. An organisation would fail inspite of the best organisational talent, if objectives, policies, orders and results are not communicated in either direction.
- iii) To facilitate coordination:** The different departments of the organisation while pursuing their own goals may deviate from the common goal of the enterprise. The central office serves as a medium through which activities of different departments are coordinated towards achieving organisational goals and objectives.
- iv) To serve as an information Centre:** All kinds of information, whether past or present, are available in the office.
- v) To act as a control Centre:** The activities of different departments and the organisation as a whole have to be controlled to ensure that the progress takes place as per the plans. Control is thus the necessary function of management.
- vi) To act as a service centre:** It provides various services like clerical and secretarial assistance, supply of stationery to different departments, and other necessary support for the smooth functioning of the organization.

3. Give the meaning of office set-up? State its significance in brief.

Ans: Office set-up is the systematic arrangement of positions in the office to enable office personnel to work as a team. It is the framework within which office employees work for attaining the objectives of the office. It is the process of dividing the activities of the office into departments, assignment of duties to each department and providing necessary facilities to the personnel.

Significance of Office Set-up

A planned organisation establishes a harmonious relationship between people, work and resources. In a good organisation, every employee knows what he is to do, and performs his work with speed, accuracy and economy. It co-ordinates the efforts of different individuals and ensures commonness of purpose. The importance of office organisation is described below:

- (a) **Facilitates management of office work:** In a small office, the manager can supervise the office work personally. But in a large organisation, the work has to be distributed and supervisors can be appointed to supervise the work on behalf of the office manager.
- (b) **Delegation of authority:** In a properly planned office organisation the manager assigns some of the duties to his subordinates. Delegation of authority of routine work is necessary for efficient flow of work.
- (c) **Stimulates creativity:** In a well-organised set up, each individual has specific duties, his own area of activity and power. It stimulates creativity and initiative in the individual and he may explore new methods of doing the job.
- (d) **Facilitates development of office personnel:** Proper organisation of office is a pre-requisite for division of labour and specialisation. It facilitates growth of office personnel to the maximum extent in the area of their duties.

4. Explain any four factors taken into consideration while deciding suitable location of an office.

Ans: Location means the place and site where the office of an organisation is situated. Proper location of the office is of great importance to every organisation. While taking decision on this issue, the management must take into consideration the present as well as future needs. An unsuitable location adversely affects the efficiency of operations.

Factors determining Office Location

The following factors should be taken into consideration while determining office location:

- (a) **Availability of sufficient space:** The office should have sufficient accommodation and facilities i.e., rooms, storage space etc. Future expansion and requirements should also be kept in view.
- (b) **Proximity to other departments:** The office should be located at a central place so as to be easily accessible to other sections, units and departments of the organisation.
- (c) **Proximity to other offices:** The office should be located in or near an existing office complex which will enable it to derive the benefits of common services like post office, bank, transport etc. available in the locality.
- (d) **Availability of transport facilities:** Every office requires adequate transport facilities for the convenience of office workers and outsiders dealing with the office.
- (e) **Service facilities:** Besides transport, availability of banking, postal, internet, telephone and telegraph facilities are also necessary for efficient conduct of office functions. The services of

insurance agencies are also needed for various purposes. The office should, therefore, be located where such facilities exist.

(f) Availability of office employees: It is desirable to locate the office where it may be easier to recruit and retain different categories of office staff e.g., stenographers, computer operators, accountants, clerks, typists, peons, etc.

(g) Healthy environment: Every office requires healthy surroundings. The place must be free from dust and noise. It should not be located in a congested area. Unhealthy surroundings adversely affect the efficiency of the employees.

5. State the functions of Computer Section of an office.

Ans: This is an important as well as essential section in every modern office. This section deals with data entry, data analysis, sending and receiving emails, preparation and maintenance of website etc.

6. What is meant by Office?

Ans: A place where all the activities concerned with collecting, processing, storing and distributing information for efficient and effective management of an organisation are carried out

7. Classify the activities in a production department.

Ans: Manufacturing and ancillary activities.

8. The place where the ancillary activities are conducted?

Ans: Office

9. What are the major activities that are taken place in office?

Ans: Collecting information, processing information and distributing information.

10. What are the functions of a modern office?

Ans: Basic functions and administrative functions.

11. What is meant by location of office?

Ans: It means the place and site where the office of an organization is situated.

12. What are the advantages of running an office in a rented building?

Ans: (a) No expenditure on major maintenance.

(b) Office can be easily shifted to a more suitable location, if necessary.

13. What is meant by office layout?

Ans: Office layout can be described as the arrangement of different departments, equipments and staff within a given floor space with a view to make optimum use of space and ensure maximum efficiency of the office..

31

LESSON

Major Office Activities

Introduction

In the previous lesson, you have learnt about the various functions of an office and their significance, and the relevant departments in a modern office. You will recall that collecting, processing, analysing and presenting information constitute the key functions of an office. Mail happens to be an important part of information handling. Hence, for every one seeking employment in an office has to be fully conversant with the nature and type of mail and the process of handling it in terms of its receiving, sorting, marking, filing, indexing etc. including the use of machines and equipment. In this lesson, you will learn about various stages involved in handling the incoming and outgoing mail in an office, and its filing and indexing systems. You will also have an idea about the various types of machines and equipment used in the office.

Long Answer Type Questions

1. Explain any four traditional methods of filing.

Ans: There are various methods of filing based on the type of equipment they use. These methods can be classified as: (a) Traditional Methods; and (b) Modern Methods.

(a) Traditional Methods of Filing: There are some traditional methods of filing like spike filing, folder filing, pigeon hole filing, box filing, guard book filing, and arch lever filing. Although these methods of filing have limited use now a days, but these are suitable for small organisations. These methods are briefly described here.

- (i) Spike filing:** A thick steel wire with one sharp end and a wooden, plastic or steel round at the other end is used for filing. It is kept on the table or hung against the wall after filing is done.

- (ii) **Folder filing:** There are covers of cardboard or thick paper fitted with metal hinges for fastening the papers together. A separate folder is allotted to each customer. All the letters relating to that customer are kept in the file date-wise. The papers are punched and then inserted. The papers lie flat one above the other.
- (iii) **Pigeon hole filing:** It is a special almirah or cupboard divided into number of small compartments. It is open from one side and the compartments are square holes called 'pigeon holes'. Each pigeon hole bears a letter of the alphabet. When letters are received they are sorted according to the alphabet or subject wise.
- (iv) **Box filing:** Box file, as the name suggests, is made in the shape of boxes. Quite often papers are first put into folders and then they are placed in box file. It helps to preserve papers better as they are safe and gather less dirt. For classification purposes, papers relating to different subjects can be folded. This method is useful for travelling agents and where correspondence is stored temporarily.
- (v) **Guard book filing:** Under this method, the paper or vouchers are pasted in bound book date-wise. This method is often used for recording minutes and preserving receipts and vouchers. It avoids the possibility of loss or misplacement of any paper.
- (vi) **Arch lever filing:** This system uses strong cardboard folders containing strong metal arches. These arches can be operated by a lever. When a paper is to be filed, it is punched with two holes with punching machine. The lever is then moved upward which opens up the metal arches or springs. After paper is inserted through the holes the lever is pressed down to close the spring. The paper in the file lie flat one upon the other.

2. Explain the various modern methods of filing.

Ans: In addition to the traditional methods of filing, you will find some modern methods of filing which are very much popular now a days in both big and small organisations. The modern methods of filing are classified as (a) Horizontal filing; (b) Vertical filing.

- (a) **Horizontal Filing:** In this system papers are kept in file covers or folders one upon the other in horizontal position. The papers are kept in chronological order inside cardboard file covers. The papers are held together by metal hinges or levers. The files are then kept in cupboards in a horizontal position one above the other. When any paper is required, the relevant file is taken out and after use it is put back in the same position.
- (b) **Vertical Filing:** This is the most modern method of filing. In this method papers are placed in files and kept in an upright, standing position. The folders are stored in specially designed cabinets. The front side of the folder is slightly shorter. The extended part of the back is used to indicate the code number of the file. The drawers of the steel cabinet are deep enough to hold the folders in vertical position. In order to divide the drawer into convenient sections guide cards are placed at appropriate places. Under this method, a separate folder is provided for each customer or subject. The folders may be arranged alphabetically, numerically, geographically or subjectwise. This system has become very popular in large offices and big business houses.

3. Describe any four types of machines and equipment used in modern office.

Ans: There are machines which can produce multiple copies of a document. Machines are available for accounting, calculating and counting cash. Electronic computers can read, store, analyse and interpret information quickly. In mail room, letters can be opened, sealed, folded, franked, weighed and addressed automatically with the help of mailing machines. Messages can be sent from one place to another within no time through teleprinter, fax, telephone, and internet. Some of the important machines in use are outlined below.

1. **Typewriter:** A typewriter is the most popular and commonly used machine in Government and private offices for typing official letters and documents. Typewriters are available in English, Hindi and other Indian languages. The typewriters are available in different sizes and shapes. The more important among them are as follows:
 - o Standard office typewriter
 - o Portable typewriter
 - o Noiseless typewriter
 - o Electronic typewriter
2. **Duplicator:** Duplicating is a process whereby a number of copies are obtained with the help of a master copy. When multiple copies of a letter or document have to be prepared, it is necessary to make use of the duplicating machine. A wide range of duplicators are available like Gelatin Duplicator, Spirit Duplicator, Stencil Duplicator, etc. The most commonly used method of duplicating in the office is the stencil duplicating process. It is also known as cyclostyle or mimeograph.
3. **Photocopier:** A photocopier is a machine that makes paper copies of documents and other printed images quickly and cheaply. This machine was introduced for the first time in 1960. It is run by electric current. It is simple to operate. It gives best quality of image both in black and white and colour.
4. **Computer:** These days the computer is the most commonly used machine in offices. A computer is a machine that can perform a variety of operations such as arithmetical calculations, comparison of data, storage of information, analysis of data and preparation of diagrams and charts etc. It can be defined as 'an electronic data processing machine which processes raw data into meaningful information'.
5. **Electronic Time Keeping Machine:** In big organisations the arrival and departure of staff members are recorded electronically. They are provided with a particular card having a magnetic stripe on it. By swiping it through the time recording machines, the arrival and departure times are recorded.
6. **Telephone:** Now-a-days, it is impossible to imagine the office without a telephone. It is the most convenient means of oral communication. It is widely used for internal as well as external

communication. In comparison with fixed line phones, mobiles are more convenient to contact the persons at any time. It is also very convenient to send SMS through mobile phones.

- 7. Private Branch Exchange (PBX) System:** Under this system the internal telephone extensions are brought together on a private switchboard. An operator helps in providing connection to various callers. All the internal and external calls are handled by the operator. This system has been quite popular in big organisations.
- 8. Electronic Private Automatic Branch Exchange (EPABX) System:** Under this system there is no need for telephone operators because the system is automatic. The internal communication from one extension is possible by dialing the relevant internal phone number.
- 9. Intercom:** It is an automatic system of office inter-communications. It does not require an exchange. Multicore cable is used throughout the installation so that each telephone can be connected direct to every other.
- 10. Accounting Machines:** Accounting services may be provided manually or with the help of accounting machines. The mechanisation of accounting is becoming increasingly important in large organisations as they have to cope with a large amount of figure work. Accuracy and speed are the main features of accounting machines and it enables analysis of various types of figures for different purposes within minutes or even seconds. Some of the more common types of accounting machines are:
 - o Adding Machines
 - o Calculating Machines
 - o Cash Registers

4. Describe any four equipment used in mail room of an office.

Ans: The mail room staff is always busy in repetitive duties concerning the inward and outward mail. In large organisations, the volume of mail is also large. So it becomes difficult and time consuming to handle large amount of mails. It also causes monotony and boredom. Use of various mechanical devices helps to reduce monotony and increase the efficiency of mailing operations. The following types of equipments and machines are used in the mail room.

- (a) Letter Opener:** Letters may be opened by hand or by the letter-opening machine. The machine is used when the number of mail received is very large. It operates manually or electrically at a great speed. It can open 100 to 500 letters per minute.
- (b) Folding Machine:** A machine of this type is of great service when letters are sent in large numbers. This machine is capable of folding papers to the size required for insertion in the envelopes. A folding machine can fold 5,000 to 20,000 sheets per hour. It is possible to fold, insert and make letters ready for mailing with this machine. The machine is to be adjusted as per the needs of foldings.

- (c) **Sealing Machine:** This machine is used to automatically moisten the flaps of envelopes and seal them properly. The machine is very useful in those offices where a large number of envelopes have to be sealed every day. Certain machines are designed to seal with wax. Another type of machine is available in which a strip is pasted on the flap.
- (d) **Mailing Scale:** In big business organizations large quantity of mail is sent every day. Postal stamps on mail are to be affixed as per postal rates which are prescribed according to weight. The mailing scale is used to weigh so that correct postage stamps can be affixed on them.
- (e) **Numbering, Dating and Time Recording Machines:** After opening the mail, letters are stamped with time and date of receipt. A serial number is given for numerical reference. An automatic numbering machine is popular for stamping serial numbers of letters received. The serial numbers automatically change in this machine. Dating machine is used for stamping date on mail. Four rubber rings with the impression of date, month and year rotate on wheels. Self-inking stamp pad is used for inking the impression. Time recording machine is used for recording the accurate time of arrival of letters. Assistants enter the opened letter into the machine, and it prints the correct time on letter accurately.
- (f) **Addressing Machine:** This machine is used to print addresses on envelopes, wrappers, parcels etc. to be sent frequently to a large number of regular customers. In Addressograph machine inked ribbon is used to print the addresses from plates. List of addresses once prepared can be repeatedly used any number of times. The address plates are stacked on a hopper fitted to the machine. The required plates are automatically selected and fed into the machine. These machines may be operated manually or electronically.
- (g) **Franking Machine:** This machine is used to make impressions of the required denomination of postage stamps on the outbound letters and envelopes. It is very popular in large offices where thousands of letters have to be stamped every day. The franking machine can be hired under a license from the post-office.
- (h) **Fax:** The FAX service enables instant transmission of the facsimile of an entire document. It can send handwritten and printed matter as well as pictures, charts and diagrams to different locations within or outside the country. The advantage of this service over TELEX is that it sends messages without the need for typing. This service is permitted on existing telephone lines on a dial-up basis. The FAX machine is to be procured and owned by the user and should be attached to the telephone lines

5. What is meant by the term ‘filing’? State the objectives and functions of filing in an office.

Ans: Filing is the process of organising the correspondence and records in a proper sequence so that they can be easily located. The term filing may be defined as the process of arranging and storing original records or copies of them, so that they can be readily located when required.

Objectives of Filing

The major objectives of filing process are to ensure proper arrangement, careful storing and easy availability of records. An efficient filing system is expected to have the following objectives:

- (a) To classify and arrange records properly.
- (b) To protect documents against possible loss or damage.
- (c) To provide a method of obtaining information without loss of time.
- (d) To enable past records to be made easily available to management for framing business policies and future plans.

Functions of Filing System

The functions of a filing system are as follows:

- (a) Classification of documents on a pre-determined basis.
- (b) Filing of letters and other documents after action taken in cardboard file covers or folders.
- (c) Preservation of file covers or folders in cabinets fitted with drawers.
- (d) Issue of files on requisition by any department.
- (e) Transfer of papers no longer in current use from the existing files to separate folders or box files at regular intervals for possible future use.
- (f) Disposal of old papers and records when these are no longer useful.

6. State the different steps followed in handling incoming mails.

Ans: Efficient handling of mail requires establishment of definite procedures involving step by step handling of mail. The incoming mail should be received and distributed with speed and accuracy. The exact method of handling inward mail differs from office to office. Handling of incoming mail generally consists of the following steps.

- (a) Receiving the mail:** The mail is delivered once or twice a day by the postman or by messenger. If a post box or post bag is hired, the mail is collected by an employee from post office once or twice a day. A clerk is assigned the work of receiving letters and issuing receipts or acknowledging receipt in peon/ messenger book.
- (b) Opening the mail:** Letters are opened by hand or by a letter-opening machine. The mail should be opened carefully to ensure safety of mail. It must also be seen that no papers are left inside the envelope. A responsible officer should supervise this process.
- (c) Scrutiny of contents:** The contents of the envelopes should be scrutinised to find out the purpose of the correspondence and the department concerned. If there are enclosures, they should be checked to verify that they are in order. Any discrepancy should be brought to the notice of the mail room supervisor especially when the enclosures are cheques, drafts, postal orders, etc.

- (d) **Date stamping:** After opening the mail, each letter should be stamped with the date and time of its receipt. Stamping may be done with rubber stamp, by hand or with the help of dating, numbering and time recording machines. If necessary, the envelope must be pinned as evidence. The letter is marked to the concerned department and a circulation slip is also attached, if required.
- (e) **Recording:** The particulars of letters received are recorded in 'Inwards Mail Register' or 'Letters Received Book'. It ensures that letters do not get lost or remain unattended. But it is time-consuming if the mail is large. In such a situation, a 'Mail Room List' of documents delivered in a batch to a particular department or individual is prepared. Alternatively, 'Mail Room Schedule' indicating the departments handling them is prepared, provided central filing is in operation.
- (f) **Sorting and distribution:** Letters are sorted out in trays or baskets or pigeon hole cabinets and delivered to the respective departments. Receiving clerk signs the list or register as an acknowledgement of receipt.

6. Describe the different steps followed in handling outward mails.

Ans: Almost every office sends out mail daily. Outward mail must be handled with care, speed and accuracy due to the following reasons:

- improper handling of outward mail creates bad impression on outsiders.
- delays in sending replies may result in loss of business opportunities.
- delay may result in additional cost, for example, a telegram may have to be sent if a letter has been delayed.

All outgoing mail passes through three stages: (a) production, (b) signature and control, and (c) referencing. Production involves drafting or dictation and typing (or transcription) of the draft or dictated matter. Handling outward mail generally involves the following steps:

- (a) **Collection of outgoing mail:** Generally, each department sends its correspondence to the mailing department for despatch. In certain offices a messenger from mailing section goes round at scheduled intervals to collect mail from different departments. A tray marked as 'outgoing mail' is kept in each department.
- (b) **Entering the mail:** All letters sent outside are to be recorded. The letters which are to be delivered locally through a messenger or peon are recorded in "Messenger Book" or "Peon Book". Outstation letters are entered in 'Outward Mail Register' or 'Despatch Register'.
- (c) **Folding of letters:** The letter (attached with enclosures) should be folded carefully and in the correct size. Creases should be straight and should not spoil the neatness of letters. They should be folded with minimum number of folds.
- (d) **Preparation of envelopes:** After folding, the letters are inserted in the right envelopes. A complete and correct address must be written. Pin codes should be given as they ensure a prompt delivery of letters. Address written on the letter and on the envelope should tally.

(e) Sorting, weighing and stamping: The envelopes of different categories of mail are to be sorted out category wise. The outward mails generally are of two categories —

Local: to be sent through messenger, and

Outstation: to be sent through post office, courier, and airlines.

The second category may be further classified as mail to be sent by ordinary post, registered post, speed post, book post, foreign mail, under certificate of posting, parcels to send through Indian Airlines, Air India, Sea mail, etc. The sorted mail should be put in separate trays so that the task of stamping is facilitated. Stamps are to be affixed on mail which is sent by post. It is necessary to weigh the different articles to be sent by post so that proper values of stamps are affixed. An up-to-date copy of the 'Post Office Guide' should be kept with the despatch clerk responsible for affixing stamps. In large organisations franking machines are used for stamping. The letters which are to be sent by messenger are entered in the Messenger or Peon Book and handed over to the messenger for delivery.

(f) Despatching: Finally, the posting and delivery of letters have to be arranged. Ordinary mail is posted at the nearest post box at regular intervals. Special kinds of mail like registered and insured articles etc. are separately sent to the post office. Letters to be sent by speed post are to be presented at the counter of a post office meant for it.

Short Answer Type Questions

1. Describe in brief the various systems of classification of files.

Ans: Classification of documents is necessary to ensure prompt availability of records. Classification is the process of selecting headings under which records and documents are grouped on the basis of common characteristics before filing. For example, letters may be classified on the basis of the subject of correspondence. The main systems of classification of files in an office are:

- (a) Alphabetical
- (b) Numerical
- (c) Geographical
- (d) Subject-wise

(a) Alphabetical classification: According to alphabetical classification, letters from different parties or relating to various subjects are arranged and put in different file covers on the basis of the first alphabet with which the name of the party or subject begins. The first alphabet of the name or surname or the subject is the preliminary guide to the position of the file.

(b) Numerical classification: Under this system, files are arranged numerically, each correspondence or subject being allotted a number. The files are placed in a numerical order in the drawers.

(c) **Geographical classification:** In the geographical classification method, correspondence is classified according to geographical areas, regions or states. Files may be marked zone-wise i.e. North, South, East or West, or State-wise, or Citywise. All correspondence relating to a particular area are kept in one file.

(d) **Subject classification:** Under this system, papers are grouped according to the subject. The subjects are filed in alphabetical order e.g., accounts, audit, bills, bonus etc. This method is particularly suitable when the subject is of greater importance than the name or location of the correspondent.

2. What is indexing? State any two purpose served by indexing.

Ans: Indexing is an important aid to filing. Index is something that 'points out' or 'indicates'. So, 'indexing' is a method of providing indicators for a body of data or collection of records. The purposes served by indexing are as follows:

- (a) Easy location of files and documents
- (b) Speedy cross-referencing
- (c) Saving of time and effort in locating records
- (d) Efficiency of record keeping
- (e) Reducing the operating cost of records management

3. State any two types of index?

Ans: (a) **Fixed Index:** Instead of maintaining a separate index, an index may be bound with the book concerned. Such an index generally appears at the end of standard books in which subject matter is alphabetically arranged and then relevant page numbers are given against each heading or sub-heading.

(b) **Bound Book Index:** Index is prepared in a bound book or register divided into alphabetical sections in which the names or documents are entered.

(c) **Loose-Leaf Index:** It is another variation of the book index. In it, single sheets are fitted into metal hinges or screws. Index is prepared on these sheets. Whenever a new leaf is to be inserted, the book may be unscrewed and the relevant sheet put in. The binder containing the loose index sheets can be locked so that no sheets are taken out without proper authority.

(d) **Vertical Card Index:** Each subject, document, or customer, is allotted a separate card on which necessary information appears. The cards may be of small size (12.5 x 7.5 cms.) or as per the need. They are classified and arranged alphabetically, geographically, numerically or subject wise.

(e) **Strip Index:** It consists of a frame into which strips of stiff paper are arranged in such a way that they can be taken out and replaced with ease. Each strip is devoted to one item. Frame

can either be hanged on the wall or put off the table in a book form or even arranged on a rotary stand which can be turned to look at any part of the index.

- (f) **Wheel or Rotary Index:** Cards are arranged around the hub of a wheel. A single wheel can hold as many as 5000 cards. A card can be inserted or withdrawn without disturbing the other cards. Entries can also be made on the cards without removing from the wheel.

4. State any two general aspects of handling office machines and equipment.

Ans: There are different types of machines and equipment used in offices. The operation of each machine is different. Some machines need specialized technical staff for its operation while others need simple orientation. Thus, the general aspects of handling machines and equipment are as follows.

- (a) **Proper Installation:** All machines and equipments are to be installed properly in the right place. This will ensure better efficiency and productivity.
- (b) **Training and Orientation of Staff.** All staff members those engaged to use any particular machine need to be trained by an experienced professional. They must read the user's manual thoroughly. Regular orientation is also required in case of certain types of machine. The users should know how to change the cartridge of the printer and fax, ribbon of the typewriters etc.
- (c) **Regular Maintenance:** All machines require regular maintenance. Periodical inspection by technician avoids minor problems in the machines.
- (d) **Annual Maintenance Contract (AMC):** It is a facility that enables the user of any durable goods to avail of maintenance service for a particular period by giving a onetime fee. The office machines and equipments of high value must be covered under AMC.
- (e) **Guarantee and Warranty:** The office must record the terms and conditions of guarantee and warranty. If any defect is noticed in the product or problem in operation of the product, it must be immediately intimated to the seller.
- (f) **Insurance:** After buying the machines and equipment, it is advisable to get those insured against loss, theft and fire.
- (g) **Facility of Air Conditioning:** In certain cases a particular temperature is required to be maintained for smooth functioning of machines and equipments. For example, for operation of computers we need to have an air-conditioned room.
- (h) **Power back up:** Most of the office equipment and machines are run by electric power. The office must make necessary provision for supply of uninterrupted power to equipments like Computer, Fax, EPABX etc. Frequent power failure may lead to serious damage in the machines.
- (i) **Data back up:** Every office deals with certain data. It is prime responsibility of each and every office to have a back up of all these data.

5. What is meant by e-mail?

Ans: Electronic mail popularly known as E-mail is the fastest and most convenient mode of sending message, data, graphics etc. through internet. You know that internet is a network of computers all over the world connected through satellite. To receive and send mails through internet you need to have an e-mail address.

6. What is mail?

Ans: 'Mail' refers to the written communication that passes through the messenger service or the post office.

7. What are the different types of post?

Ans: Incoming mail, outward mail and inter-departmental mail.

8. What is meant by classification of files?

Ans: Classification of documents is necessary to ensure prompt availability of records.

9. What is meant by filing?

Ans: Filing is the process of organizing the correspondence and records in a proper sequence so that they can be easily located.

10. What are the different types of filing?

Ans: There are various methods of filing based on the type of equipment they use. These methods can be classified as: (a) Traditional Methods; and (b) Modern Methods

11. What is meant by Arch liver filing?

Ans: This system uses strong cardboard folders containing strong metal arches. These arches can be operated by a lever.

12. What are indexes?

Ans: Index is something that 'points out' or 'indicates'. So, 'indexing' is a method of providing indicators for a body of data or collection of records.

13. What is mean by fixed index?

Ans: Instead of maintaining a separate index, an index may be bound with the book concerned. Such an index generally appears at the end of standard books in which subject matter is alphabetically arranged and then relevant page numbers are given against each heading or sub-heading.

32

LESSON

Getting Ready for Employment

Introduction

Once you decide to earn your livelihood by pursuing wage employment you should be ready to work as an employee; work under certain terms and conditions of employment; and get fixed amount of salary or wages as remuneration. But how will you enter into the world of employment? In the present employment situation of our country it is not an easy task to get into any job. It requires serious preparation in addition to having required qualification and experience for any job. You need to find out the vacant position of the jobs in different organizations, prepare and post your resume for the same and be ready to face the employment test. In this lesson you will learn detail about all these points.

Long Answer Type Questions

1. Explain any four sources that provide information about job vacancies.

Ans: You must know some people who are employed in different factories, other business units, and offices. If you ask them as to how did they get the information about the vacancies in those offices, you will learn that they got the necessary information from various sources like:

1. Employment Exchanges
2. Placement Agencies
3. Newspapers and Magazines
4. Employment News
5. Internet
6. Leaflets
7. Notice boards of the Offices and Factories

8. Television and Radio
9. Mobile Phone
10. Friends and Relatives

Let us have a brief idea about all these sources.

- 1. Employment Exchanges:** In our country employment exchanges have been set up by the government for bringing together job seekers and job-providers. The employment exchange maintains the list of job seekers and registers their names for different categories of jobs according to their qualification. When the employers approach the employment exchange for recruitment, it identifies the candidates from its list and informs them about these vacancies so that they can approach the concerned employers.
- 2. Placement Agencies:** These are privately operated organisations whose main function is to introduce the job seekers to their prospective employers. Their role is similar to the government owned employment exchanges.
- 3. Newspaper and Magazines:** The use of newspapers and magazines both at regional and national level, are the most commonly used mode of information for the candidates about the job vacancies. The employers usually advertise their vacancies and invite the prospective candidates to offer their candidature.
- 4. Employment News:** The employment news/Rozgar Samachar is published by Ministry of Information and Broadcasting, Government of India in every week that contains the advertisement of vacancy position of jobs in different organisations. This is simultaneously published in English, Hindi and Urdu languages.
- 5. Internet:** Internet is the most convenient source of getting information about the availability of vacancies. A number of organisations, now-a-days give offer through their websites to fill up the vacancies in their offices. By using internet one can search for various job vacancies as per his/her qualification and experience.
- 6. Leaflets:** In cities and towns advertisement for recruitment are sometimes given in leaflets and distributed through newspaper venders. This is particular suitable where the employer wants to engage the local people for specific jobs only.
- 7. Notice Boards of Offices and Factories:** Information about various job vacancies are also displayed on the notice boards of government and private offices and near the factory gates.
- 8. Television and Radio:** Sometimes information about job vacancies are also telecasted through television. It may appear in special programmes or in the form of written message being scrolled during news and other programmes. The cable television operators also give advertisement in the local areas. The advertisements for job vacancies are broadcasted through radio, which is regaining its popularity now-a-days.

9. Mobile Phone: Information about job vacancies is sometimes received through mobile phone in the form of SMS. On receiving the message one may show interest to offer his/her candidature. Further information can also be obtained by following the instructions given in the SMS.

10. Friends and Relatives: Many times we also get information from our friends and relatives about the job vacancies in government, private and business enterprises. The existing staff of the offices may also inform others about the existing vacancies.

2. Explain the functions of employment exchanges in India.

Ans: The primary objective of employment exchanges is settlement of job seekers either through regular jobs or through self-employment. To achieve this objective the employment exchanges in India perform the following functions:

- (a) Registration and placement of job seekers so as to ensure a proper balance between demand and supply of labour;
- (b) Collect comprehensive employment market information on a quarterly basis for creation of data base for use in effective management of the demand and supply of labour,
- (c) Undertake career counselling and vocational guidance with a view to effectively guiding the job seekers.
- (d) Conduct area specific specialised study or surveys to have an assessment of skills available and the marketable skills required for encouraging the job seekers for self-employment particularly in rural informal sector.
- (e) Arrange disbursement of unemployment allowance to certain specific categories of job seekers through the employment exchanges as decided by some of the State Governments.

There are more than 940 Employment Exchanges run by the State Governments to provide support to the job seekers. These include State Employment Exchange (S.E.E), District Employment Exchange (DEE), Rural Employment Bureau (REB), University Employment Information and Guidance Bureau (UEI & GB) etc. The employment exchanges are controlled by Directorate General of Employment and Training (DGE&T).

3. What is meant by the term 'bio-data'? State any four points one should mention in his/her bio-data.

Ans: The brief account of one's professional or work experience and qualifications is termed as the Bio-data (Biographic Data) or Resume, Curriculum Vitae (CV).

Preparation of A Bio-data

Your bio-data should have four basic sections. The first being your name and contact details, the second your educational qualifications (academics and technical), then your work history (responsibilities, experience and achievements etc.) and finally details regarding references. The

list of enclosures may be given at the end of our bio-data. In brief, your bio data should have the following points:

1. Full Name (in Block Letters)
2. Father's/Husband's Name
3. Date of Birth
4. Residential Address
5. Details of Educational Qualifications
6. Details of Technical or Professional Qualifications, if any
7. Experience
8. Name of References
9. List of Enclosures
10. Signature of Candidate

The above points may be presented in different format and style. Now-a-days the employer wants to scan a bio-data quickly rather than reading page after page about your qualifications and achievements. Therefore, be brief and clear with just enough details to convey your message. A brief guide to help you to arrange the above-mentioned details in a proper order is as follows.

1. Begin your resume with your name, address, phone number, and email address, generally centered on the page.
2. Describe the type of position you are seeking in a sentence or two under a heading labeled 'Objective'.
3. Now, give your educational details - the name of the school, college, institute, board, percentage of marks secured, year of passing the examinations etc. in summary form.
4. Details of any technical education or skills you have may be mentioned. It may include other information about any such skills or experience like computer skills, additional training, foreign language or any other professional association you may belong to.
5. Work experience with job description and responsibilities handled should be described.
6. Personal details like marital status, date of birth, Father's/Husband's name or family details, hobbies and interest can be given under separate heading as 'Personal Details'.

4. Describe in brief the personal interview form of selection test.

Ans: The main purpose of holding personal interview is to assess the suitability of the candidate for a particular post. So it is very important for you to prepare for the interview physically, mentally and psychologically. The different aspect of personal interview that would help into face the interview board comfortably and confidently. Let us discuss those points by classifying the entire procedure

into three different stages –

- (i) Preparing for the interview;
- (ii) On the day of the interview; and
- (iii) During the Interview.

(i) Preparing for the Interview: At this stage you are advised to do the following:

1. Keep yourself well informed about current affairs, important current national and international problems and issues, and topics of general interest through regular reading of newspapers and listening to radio and watching the discussions on television.
2. Gather information about the organisation, its main activity, background, expansion / takeover plans etc. All these informations can be obtained from the annual report of the organisation or from its website.
3. Know the job profile of the post applied for.
4. Refresh your area of specialisation. A revision of your own subject of studies is desirable.
5. List out your strength and weakness.
6. Visit the site of interview, if possible. Prior visit will help to ensure punctuality on the day of interview and also will reduce nervousness.
7. Put all your documents and certificates including the call letter for the interview in a folder.

(ii) On the Day of the Interview

1. Have a good sleep in the previous night and wake up early in the morning.
2. Do your daily chores.
3. Ensure that your appearance is neat and tidy. Use well-pressed clothes, well-polished footwear.
4. Carry your document folder and reach the interview site on time.
5. After reaching the site go to the washroom, comb your hair and watch your appearance.
6. Then wait at the interview place for your turn.
7. During the waiting time you can even ask for the literature of the company and read it.

(iii) During the Interview

Take care of the following points inside the interview chamber.

1. Entry to the interview room is most important. Knock, greet, and close the door while facing the interviewer as gently as possible. Walk in confidently. Do not sit till you are asked to. If the interviewer gives a hand, give him warm, confident and firm handshake. Remember first impression is very important. In your entry you are being observed for your gait, confidence and manners.

2. The body language of the candidate is observed carefully. Sit properly and bend forward slightly to show an attitude of interest and attention. Do not fiddle with anything - pen, paper, spectacles, other items on table like paperweight etc. Fidgeting, twitching, scratching etc. show lack of confidence and concentration.

(iv) While answering questions the following points need to be observed.

- Listen, think and then talk.
- Do not be in hurry to answer. Take your own time.
- If you have not heard or understood the question, politely ask for a repeat. Do not assume things and give wrong position.
- If you do not know the answer, tell frankly that you do not know.
- If you make a mistake, admit it gracefully.
- Be brief and clear in your reply. No one likes a talkative person.
- Do not tell a lie. Be honest in your response.
- Do not get angry and lose your cool even if the questions are insulting or irrelevant.
- Remember it may be asked to check your patience or attitude. • Do not interrupt.
- Maintain eye contact.
- Avoid words like 'I mean', 'Okay' etc.
- Display enthusiasm, courage and energy while answering the questions. This shows that you are genuinely interested in the job.
- Ask questions if you are asked to ask.
- Be well mannered during the whole interview. Words like 'Thank you'
- 'I beg your pardon' 'yes please' at appropriate places reflect your manners.
- Be natural. Don't try to copy anyone.
- At the end of the interview, thank the interviewer politely with smile.
- You're picking up things from the table, getting up and leaving the room is also observed. Do these movements confidently.
- Walk confidently. Open the door while facing the interviewer and close the door after you leave.
- Do not forget to wish the receptionist or secretary before you leave the premises.

Short Answer Type Questions

1. State the functions performed by placement agencies in the process of recruitment.

Ans: The placement agencies could be private employment agencies or management consultants. Private Employment Agencies bring together the employers and suitable candidates available for a job. Private agencies advertise the vacancies in the newspapers, periodicals and internet. They prepare the data bank of all the prospective employers and job seekers. This data bank helps them to find out the suitable employer for a job seeker and vice versa. They keep on informing the job seekers periodically about the employers and the availability of jobs according to their qualifications, skills and experience.

The placement agencies also screen the applicants against the requirements specified by the employer. They supply a list of candidates, and the organisation only conducts the final round of interview. These agencies function primarily in the metropolitan cities and they charge a fee from the employer as well as employee for their services. Fake placement agencies are also found in different parts of the country. These fake agencies collect money from the jobseekers and arrange fake interviews. Job seekers therefore may be careful in utilizing their services.

Management Consultants specialize in the placement of executives at middle and top level of management. These are basically executive searching agencies. These agencies work at a nationwide level and they charge a substantial amount of fee from employer as well as employee. Some of the nationally known Management Consultants are ABC Consultants, Ferguson Associates, The Search House and Analytic Consultancy Bureau.

The placement agencies basically help in informing the availability of jobs in private sectors. Most of the small and medium size business enterprises rely upon the placement agencies for all types of manpower requirement. The big enterprises often advertise the vacancies directly through newspapers and internet. The job seekers can register their name with the placement agencies for the post of office assistant, typist, salesperson, marketing executives, accounts assistant, computer operators etc.

2. Describe the role of media in providing information about the vacancies in job position.

Ans: The advertising media also play an important role in informing the job seekers about the job vacancies and procedure to be followed in applying for the same. You know that advertisements for the job vacancies can be given in print media and electronic media. Print media includes daily Newspapers, Employment News, Journals and Magazines etc. Similarly electronic media mainly includes Internet, Television and Radio.

i. PRINT MEDIA

Newspapers are the most common print medium for advertisements of job vacancies. All small and big companies advertise their job vacancies in popular newspapers both at regional

level and national level. The employment news is a weekly publication that only carries advertisements for job vacancies. Some of the popular newspapers carry their employment news editions on weekly basis.

ii. ELECTRONIC MEDIA

With the advancement of Information and Communication Technology, electronic media has become the most common and convenient source of recruitment. There are so many websites that provide information about employment opportunities. Some of such sites are www.naukri.com, www.monsterindia.com, www.carerindia.com, www.placementindia.com. They provide the facility of searching various jobs as per:

- The category (like computer, academic, engineering, sales and marketing, finance etc.)
- The required post (fitter, electrical, office assistant, teachers etc.)
- The place of job (i.e. the city or state within which the job seeker wants to search job)
- The experience (number of years of experience)
- Expected salary (annual package from 2 to 3 lakhs, 3 to 5 lakhs, 5 to 10 lakhs etc.)

3. Briefly discuss the different types of employment tests.

Ans: The selection test for employment usually held in the form of written test, physical fitness and interview. Let us learn about these tests in brief.

i. WRITTEN TEST

Most of the organisations particularly in government sector conduct written test for the selection of candidates. This test may be conducted to test the subject knowledge or general aptitude of the candidates. Descriptive or multiple-choice questions are framed for the written test.

ii. PHYSICAL FITNESS TEST

In certain categories of jobs like defence, police and forest service's physical fitness of the candidate is essential. So they conduct physical fitness test for selection of right candidate. In almost all cases medical test is also conducted by giving offer for appointment.

iii. INTERVIEW

To judge the communication skill, presentation skill, subject command, leadership quality, personality etc. the employers usually arrange for interview. This may be done in the form of group discussion and personal interview. The personal interview can be held in the form of:

- (a) Telephonic Interview
- (b) Interview through Teleconference
- (c) Chatting through Internet
- (d) Face to face interaction

Face to face interview is the most common form of personal interview in which the candidate is asked to interact with the interview board. The interview board is headed by a chairperson and comprises of senior officers from the same organization and outside experts.

4. Explain the role of employment exchanges in India. (OR) Employment Exchanges are not playing significant role in the process of recruitment. Do you agree with this statement? Give reasons.

Ans: It may be mentioned here that in the present employment scenario, the role of Employment Exchanges are not significant. A large number of recruiting agencies like Staff Selection Commission, Railway Recruitment Boards, and Bank Exams etc. have come up and they have restricted the area of operations of the Employment Exchanges. In fact today almost all the major establishments both in Government and outside have their own recruitment agencies. The judgments of the Supreme Court has made it obligatory on the part of the employers to advertise the vacancies in other media and consider candidates not only submitted by the employment exchanges but also those responding to the open advertisements for selection of candidates. Therefore, Employment Exchanges are left with limited categories that too at the lower levels of appointment.

5. Briefly describe the procedure for getting the name registered in employment exchanges.

Ans: The procedure of getting one's name registered with the employment exchange is as given below:

- i. A candidate can visit any employment exchange during specified hours on any working day. He can get from the employment exchange a blank form/ card for registration to be filled up. This card includes entries for the name, father's name, residential address, qualifications, and other related information.
- ii. Certain documents have to be enclosed with the card, such as proof of age, residence, educational qualification, experience. The candidates are required to bring all certificates/ documents in original and a set of photocopies of all the above documents. The photocopies are retained at the Employment Exchange.
- iii. Having filled up the card, and with the enclosures ready, you are to see the Employment Officer with your original certificates and copies. He will verify and attest the copies and your signature on the Card and return the original certificates.
- iv. The card as attested above will be kept in the Employment Exchange for record and making future calls for employment. This registration card is to be renewed after every three years.

6. How the job seekers identify the various sources of information about job vacancies?

Ans: The use of newspapers and magazines both at regional and national level, are the most commonly used mode of information for the candidates about the job vacancies. The employers usually advertise their vacancies and invite the prospective candidates to offer their candidature.

7. What is meant by placement agencies?

Ans: Introduce the job seekers to their prospective employers.

8. What is meant by advertisement for job vacancies in print media?

Ans: The advertisement for job vacancies in print form receives tremendous response from the job seekers because it contains details about the eligibility criteria, proforma of application form, necessary instruction to fill up the application form etc.

9. What is meant by bio-data?

Ans: Brief account of one's professional or work experience and qualifications is termed as the Bio-data (Biographic Data) or Resume, Curriculum Vitae (CV).

10. What is meant by covering letter?

Ans: When applying for a job, the bio-data should be accompanied with an appropriate covering letter.

11. What is meant by employment tests?

Ans: The selection test for employment usually held in the form of written test, physical fitness and interview.

12. What is meant by interview?

Ans: To judge the communication skill, presentation skill, subject command, leadership quality, personality etc. the employers usually arrange for interview.

13. What is meant by physical fitness test?

Ans: It is conducted for selection of right candidate.

14. What is meant by electronic media?

Ans: With the advancement of Information and Communication Technology, electronic media has become the most common and convenient source of recruitment. There are so many websites that provide information about employment opportunities. Electronic media mainly includes internet, television and radio.



Model Question Paper

319 – E (TS)

Intermediate (TOSS)

Reg. No. :

COMMERCE/BUSINESS STUDIES

Time : 3 Hours

Maximum : 100 Marks

SECTION – A

Answer **any five** questions. **Each** question carries **8** marks. **(5×8=40 Marks)**

1. What is meant by transportation ? State any two different modes of transport.
2. Explain the various merits of a Joint Hindu Family form of business organisation.
3. State the various functions of management.
4. Differentiate between 'Shares' and 'Debentures' as sources of long-term finance.
5. What is meant by 'Mutual Funds' ? Explain its features in brief.
6. State any four points of the importance of Marketing.
7. Explain the various measures taken up by Government of India to facilitate exports.

Option – I

8. Describe the various characteristics of agency services.

Option – II

8. Explain any four administrative functions of an office.

SECTION – B

Answer **any nine** questions. **Each** question carries **4** marks. **(9×4=36 Marks)**

9. State any two points of importance of transportation for the business.
10. Explain the different types of primary industries.
11. Explain any two functions of Warehousing.

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12. Compare the status of a minor in partnership firm with that in a Joint Hindu Family Business.
13. Explain the three roles played by entrepreneurs.
14. Give any four features of Departmental undertakings.
15. Explain in brief the importance of directing.
16. State the different steps of planning process.
17. State any four objectives of financial planning.
18. Explain 'cost based pricing' and 'objective based pricing'.

Option – I

19. Explain any two avenues of self employment.
20. Explain any four factors that may be kept in view while estimating fixed capital requirement.

Option – II

19. Describe the importance of lighting and ventilation in an office.
20. State any four functions of filing system.

SECTION – C

Answer the following questions. **Each** question carries **2** marks. **(8×2=16 Marks)**

21. Define the term 'Occupation'.
22. State the meaning of the term 'company' as per the Companies Act, 1956.
23. Explain the meaning of authority.
24. Define the term 'Dividend'.
25. State the meaning of sales promotion.
26. Who is termed as Marketeer ?



Option – I

- 27. State any two characteristics of small business.
- 28. Who can appoint an agent ?

Option – II

- 27. Name the two parties of wage employment contract.
- 28. State the functions of computer section of an office.

SECTION – D

Answer the following questions. **Each** question carries **1** mark.

(8×1=8 Marks)

- 29. What is trade ?
- 30. What is meant by Public Sector ?
- 31. What is Job Analysis ?
- 32. Expand IFCI.
- 33. Expand SFC.
- 34. Non-Durable Goods.

Option – I

- 35. SEBI.
- 36. NSE.

Option – II

- 35. SAIL.
- 36. BHEL.
