BUSINESS STUDIES WORK BOOK

CLASS-XI

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Ek Tripura Shrestha Tripura

State Council of Educational Research and Training
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Class - XI

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রতন লাল নাথ
মন্ত্রী
শিক্ষা দপ্তর
ত্রিপুরা সরকার

বার্তা

শিক্ষার প্রকৃত বিকাশের জন্য, শিক্ষাকে যুগোপযোগী করে তোলার জন্য প্রয়োজন শিক্ষাসংক্রান্ত নিরন্তর গবেষণা। প্রয়োজন শিক্ষা সংশ্লিষ্ট সকলকে সময়ের সঙ্গো সঙ্গো প্রশিক্ষিত করা এবং প্রয়োজনীয় শিখন সামগ্রী, পাঠ্যক্রম ও পাঠ্যপুস্তকের বিকাশ সাধন করা। এস সি ই আর টি ত্রিপুরা রাজ্যের শিক্ষার বিকাশে এসব কাজ সুনামের সঙ্গো করে আসছে। শিক্ষার্থীর মানসিক, বৌদ্ধিক ও সামাজিক বিকাশের জন্য এস সি ই আর টি পাঠ্যক্রমকে আরো বিজ্ঞানসম্মত, নান্দনিক এবং কার্যকর করবার কাজ করে চলেছে। করা হচ্ছে সুনির্দিষ্ট পরিকল্পনার অধীনে।

এই পরিকল্পনার আওতায় পাঠ্যক্রম ও পাঠ্যপুস্তকের পাশাপাশি শিশুদের শিখন সক্ষমতা বৃদ্ধির জন্য তৈরি করা হয়েছে ওয়ার্ক বুক বা অনুশীলন পুস্তক। প্রসঙ্গাত উল্লেখ্য, ছাত্র-ছাত্রীদের সমস্যার সমাধানকে সহজতর করার লক্ষ্যে এবং তাদের শিখনকে আরো সহজ ও সাবলীল করার জন্য রাজ্য সরকার একটি উদ্যোগ গ্রহণ করেছে, যার নাম ‘প্রয়াস’। এই প্রকল্পের অধীনে এস সি ই আর টি এবং জেলা শিক্ষা আধিকারিকরা বিশিষ্ট শিক্ষকদের সহায়তা গ্রহণের মাধ্যমে প্রথম থেকে দ্বাদশ শ্রেণির ছাত্র-ছাত্রীদের জন্য ওয়ার্ক বুকগুলো সুচারুভাবে তৈরি করেছেন। ষষ্ঠ থেকে অষ্টম শ্রেণি পর্যন্ত বিজ্ঞান, গণিত, ইংরেজি, বাংলা ও সমাজবিদ্যার ওয়ার্ক বুক তৈরি হয়েছে। নবম দশম শ্রেণির জন্য হয়েছে গণিত, বিজ্ঞান, সমাজবিদ্যা, ইংরেজি ও বাংলা। একাদশ দ্বাদশ শ্রেণির ছাত্র-ছাত্রীদের জন্য ইংরেজি, বাংলা, হিসাবশাস্ত্র, পদার্থবিদ্যা, রসায়নবিদ্যা, অর্থনীতি এবং গণিত ইত্যাদি বিষয়ের জন্য তৈরি হয়েছে ওয়ার্ক বুক। এইসব ওয়ার্ক বুকের সাহায্যে ছাত্র-ছাত্রীরা জ্ঞানমূলক বিভিন্ন কার্য সম্পাদন করতে পারবে এবং তাদের চিন্তা প্রক্রিয়ার যে স্বাভাবিক ছন্দ রয়েছে, তাকে ব্যবহার করে বিভিন্ন সমস্যার সমাধান করতে পারবে। বাংলা ও ইংরেজি উভয় ভাষায় লিখিত এইসব অনুশীলন পুস্তক ছাত্র-ছাত্রীদের মধ্যে বিনামূল্যে বিতরণ করা হবে।

এই উদ্যোগে সকল শিক্ষার্থী অতিশয় উপকৃত হবে। আমার বিশ্বাস, আমাদের সকলের সক্রিয় এবং নিরলস অংশগ্রহণের মাধ্যমে ত্রিপুরার শিক্ষাজগতে একটি নতুন দিগন্তের উন্মেষ ঘটবে। ব্যক্তিগত ভাবে আমি চাই যথাযথ জ্ঞানের সঙ্গো সঙ্গো শিক্ষার্থীর সামগ্রিক বিকাশ ঘটুক এবং তার আলো রাজ্যের প্রতিটি কোণে ছড়িয়ে পড়ুক।

রতন লাল নাথ

(রতন লাল নাথ)

Class-XI

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Business Studies

Class XI

CONTENT

CHAPTER-1

Business, Trade and Commerce

History of Trade and Commerce in India :

The Importance of Trade and Commerce in the development of a nation is second to none. It can also be emphasised that the evolution of business in a country largely depends upon its geography and the surroundings.

India is blessed to have the Himalayas in the north and bordered by sea on the south. The presence of sea has helped in the spreading of business across the continents.

The following are some of the factors that helped India become the most favoured nation for trade and commerce :-

1. The Hindu mercantile community was known for their entrepreneurship, enterprising nature, resilience and trust worthiness.
2. Goods manufactured in India were known for their excellence as the goods produced in Inida were unique and were not available in any other part of the world.
3. The Hindus were very skilled at the art of Building ships along with excellent knowledge of the sea routes, winds and other aspects of navigation. This enable them to travel distant lands to perform trade.

This concludes the topic of History of Trade and Commerce in Inida, which is an important topic.

Indigenous Banking System :

Indigenous Baning System played a prominent role in lending money and financing domestic and foreign trade with currency and letter of credit.

Documents such as Hundi and Chitti were in use for carring out transactions in which money passed from hand to hand. Hundi as an instrument of exchange, which was prominent in the subcontinent.

Hundi as practised by Indian merchant communities

Name of Hundi	Broader Classification	Functions of Hundi
Dhani-Jog	Darshani	Payable to any person - no liability over who received payment.
Sah- Jog	Darshani	Payable to a specific person, someone ‘respectable’. Liability over who received payment.

Firman - Jog	Darshani	Hundi made payable to order.
Dekhan - har	Darshani	Payable to the presenter or bearer.
Dhani - Jog	Muddati	Payble to any person - no liability over who received payment, but payment over a fixed term.
Firman-Jag	Muddati	Hundi made payable to liability over who received payment, but payment, but payment over a fixed term.
Jokhmi	Muddati	Drawn against dispatched goods. If goods lost in transit, the drawer or holder bears the coasts and the drawee carries no liability.

Rise of intermediaries :

The rise of intermediaries promote trade and commerce in several ways : As they are the direct link between the manufacturer and customers (Producer and Consumer, or buyer and seller). They act as a linkage between the two parties. The grievances, demands, complains etc. of the consumers is linked to the manufacturers. The rise of intermediaries plays a vital role in promotion and growth of trade and commerce.

The emergency of credit transactions and availability of loan and advances enhanced commercial operations. The Indian subcontinent enjoyed the fruits of favourable balance of trade. Where exports exceeded imports with large margins and the indigenous banking system benefieted the manufacturers traders and merchants with additional capital funds for expansion and development.

Transport :

Transport by land and water was popular in the ancient times that helped in maintaining trade. Trade routes were structurally wide and suitable for speed and safety.

Maritime trade was another important branch of global trade network.

Malabar coast has a long history of international maritime trade going back to the era of the Roman Empire.

Trading communities strengthened :

In different parts of the country different communities dominated Trade. Punjabi and Multani merchants handled business in the northern region. The Bhats managed the trade in states of Gujarat and Rajasthan.

Other urban group included professional classes. Such as hakim and vaid (physician) wakil (lawyer) pundit or mulla (teachers) painters, musician etc.

Major Trade Centres :

In ancient India the leading trade centres in ancient Inida were -

(1) Patali putra (2) Peshawar (3) Taxila (4) Indraprastha (5) Mathura (6) Varanasi (7) Mithila (8) Ujjain (9) Surat (10) Kanchi (11) Madura (12) Broach (13) Tamralipti

Major Exports and Import :

Export

Spices, wheat, sugar, indigo, opium, sesamoil, cotton, parrot, live animals and animal products – hides skin, furs, horns, tortosis shells, pearls, sapphires, quartz, crystal, lapis, lazuli, granites turquoise and copper etc.

Imports

Horses, animal products, chiness silk, flax and linen, wine, gold, silver, tin, copper, lead, rubies, coral glass, amber etc.

Position of Indian Sub continent in World Economy [I AD upto 1991] :

Inida is estimated to have the largest economy of the ancient and medieval world, controlling about one-third and one-fourth fo the world's wealth. The country was often referred to as 'Swaran bhumi' and 'Swarn dweep' in the writing of many Traveller's.

The British empire began to take roots in India in the mid – 18th century. The east India company used revenues generated by the provinees under its rule for purchasing India raw Materials, spices and goods. Hence, the continuous inflow of Bullion that used to come on account of foreign trade stopped. This changed the condition of the Indian economy from being an exporter of raw materials and buyer of manufactured goods.

India beings to Re-industrialiser :

After independence, India went for centralised planning. In 1952 the first five year plan was implemented and importance was given to the establishment of modern industries, modern technological and scientific institutes, space and nuclear programmes. However the Indian economy could not develop at a rapid pace due to lack of capital formation, rise in population, huge expenditure on defence and inadequate infrastructure.

Thus, India relied heavily on borrowings from foreign sources and finally, agreed to economic liberalisation in 1991.

To day, India economy is one of the fastest growing economics in the world today and a preferred FDI destination.

Concept of Business :

Business referes to an occupation in which people regulary engage in activities related to purchases production and / or sale of goods and services with a view to earning profits.

Characteristics of Business Activities :

1. An economy activity : Business in considerd as an economic activity as it is undertaken with the objective of earning money.

2. Productin or procurement of goods and services : Business includes all the activities concerned with the production of procurement of goods & services for sales services include transportation, banking, insurance etc.

3. Sale or exchange of goods and services : There should be sale or exchange of goods and service between the seller & the buyer. If goods are produced not for the purpose of sale but say for internal consumption it cannot be called a business activity.

4. Dealing in goods & services on a regular basis : There should be regularity of dealings or exchange of goods & services. One single transaction of sale or purchases doesnot constitute business.

5. Profit earning : The main purpose of business into earn profit. A business cannot survive without making profits. SO a businessman try to maximize profit by increasing the volume of sales or reducing costs.

6. Uncertainly of return : Every business invests money with the objectives of earning profit but the amount of profit earned may very also there is always a possibility of losses.

Comparison of Business, profession and employment :

The Difference between business, profession and employment is given into following table :-

Basic	Business	Profession	Employment
1. Commencement	Business may commence with the decision of entoreneur.	The profession may commence on completion of a degree course & by getting a certificate of practice.	Employment commences on joining duty by entering in to a service agreement.
2. Qualification	No minimum qualification required before starting a business.	Prescribed & professional qualification & training required.	Qualification depends on the nature of the job.
3. Investment	Capital requirement depends on the scale of business.	Limited capital investment is required.	No capital investment is required.
4. Risk	In business there is always risk & uncertainty.	In the profession there is little risk present.	In employment there is no risk involved.
5. Transfer of Interest	Transfer of Interest is possible with some formalities.	Transfer of interest is not possible.	Not possible to transfer the service contract.
6. Main objectives	The main objectives of business is to earn a profit.	The main objectives of a profession is to provide service.	The main objectives of employment is to earn income in the form of salary by satisfying the employer.
7. Example	Shop, factory	Legal, medical, profession, chartered accountant.	Jobs in banks, Insurance companies and Government department.

Industry :

Industry refers to economic activities which are connected with conversion of resources into useful goods.

Example :- cotton textile, electronic industry etc.

Industries may be divided into three broad categories namely – Primary, Secondary and Teritary.

(1) Primary Industries :- These type of industries deal with products that are obtained from natural sources. The main purpose of such industries is to convert raw material into a form that can be consumable.

Example :

Farming, hunting, mining, fishing industries. Primary industries can be classified into two types based on the activities performed.

(a) Extractive Industries :

These industries deal with products that needs to be refined so that it can be used in some other industries.

Example :

Mining, hunting and fisheries etc.

(b) Genetic Industries :

These industries deal with breeding plants and animals and using them for further use.

(2) Secondary Industries :

These industries deal with manufacturing of products, they acquire raw materials and convert them in to goods to which further value can be added. Such type of industry can be categories as :

a) Maufacturing Industries :

Here the raw material gets converted into finished products to become readily usable such as petroleum. Was which isobtaied form mineral oil etc.

Manufacturing Industries may be further divided into four categories :

Analytical Industry :

Analytical Industries which analyses and separates different element form the same material as in the case of oil refinery.

Synthetical Industry :

These combine raw material to form a new product. Example are cement industry.

Processing Industry :

Here the raw material is processed and purified in order to arrive at a final product.

Example :

Paper and sugar industry

Assembling Industry :

Combining various components in order to arrive at the final product is the specially of assembling industries.

Example : Electronic industry, Automobile company, Construction company, Television, Car etc.

(b) Construction Industries :

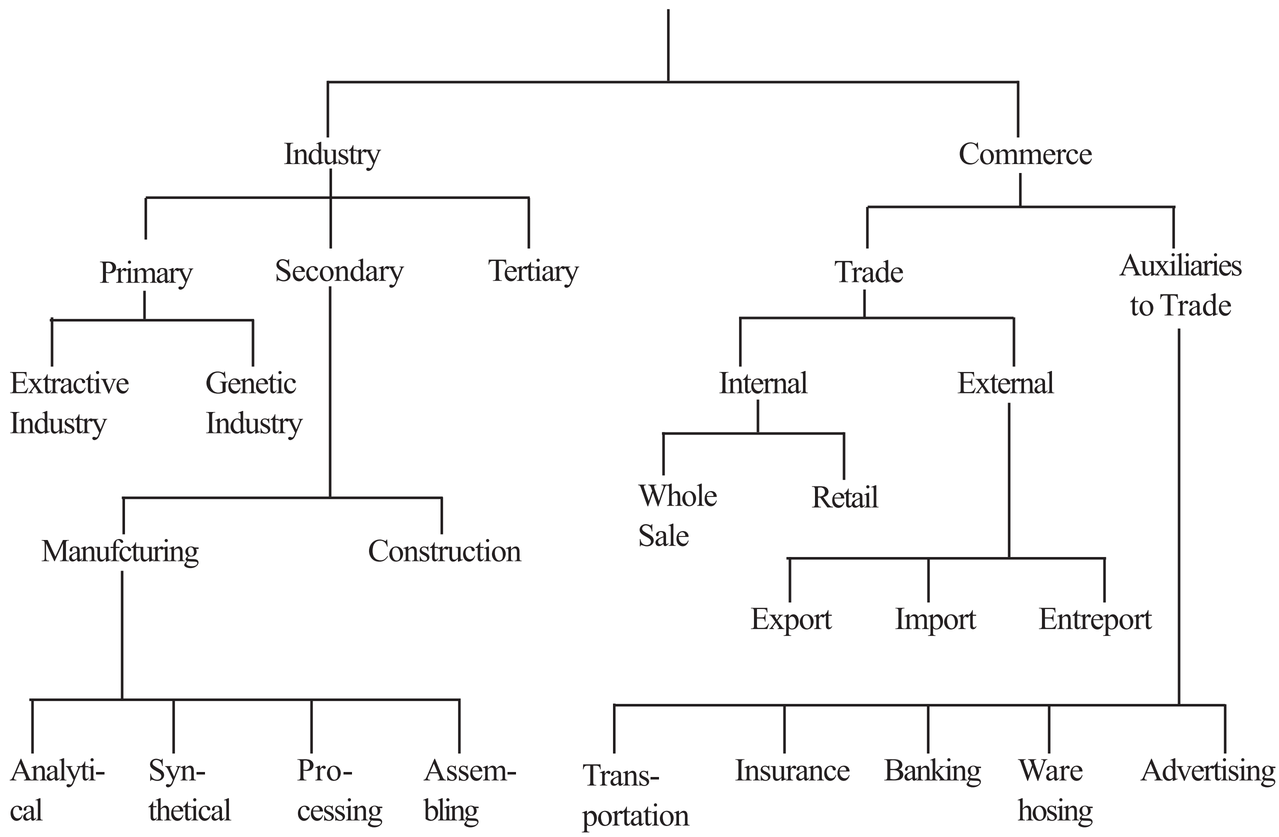
These industries are involves in the construction of building, dams, bridges, road as well as tunnels and canals.

(3) Tertiary Industries :

These industries serve as the facilitator of Primary and Secondary industries. These industries are involved in providing services to the industries.

Example : Banking, Insurance, Transportation, Advertising etc.

Chart showing Business Activities



Commerce :

Commerce is the conduct of trade among economic agents. Generally commerce refers to the exchange of goods, service or something of value between businesses or entities. From a broad perspective, nations are concerned with managing commerce in a way that enhance the well being of citizens by providing Jobs and producing beneficial goods and services.

Trade :

Trade is an essential part of commerce. It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to the consumers or users.

Auxiliaries to Trade :

Activites which are meant for assisting trade are known as Auxiliaries to trade.

Example :- Transport, Banking, Insurance Warehouse and Advertising.

Auxiliaries to trade are briefly discussed below :-

1. Transport and communication :

Along with transport facility, there is also a need for communication facilities so that producers, traders and consumers may exchange information with one another.

2. Banking and finance :

Banks and financial institutions help drive the wheels of the trade. They are regarded as the financial backbone of the trade.

3. Insurance :

Businesses involve activities that are having risk and for such risks the businesses need protection. Insurance provides cover agains all such risks.

4. Warehousing :

Warehousing refers to the process of stocking of goods. So that it can be delivered to customers effectively. It is essential in maintaining the supply of the product as per the demand in the market.

5. Advertising :

Advertising is a very essential auxiliary to trade as it helps in the promotion of the goods and service.

Objective of Business :

An objectives is the starting point of business. Every business is refer to all that the business people want to get inreturn for what they do. Profit may be regarded as an essential objective of business for various reasons :

(1) It is a source of income for business persons.

(2) It can be a source of finance for meeting expansion requirements of business.

(3) It indicate the efficient working of business.

(4) It can be taken as the society's approval of the utility of business.

However, too much emphasis on profit to the exclusion of other objectives canbe dangerous for good business.

Multiple Objectives of Business :

Objectives are neededin every area that influence the survival and prosperity of business. So of these area are described as follows :

(1) Marketing Standard :

Business can survive for a longer period only. It is able to capture a big share in the market & has market standard. It is possible only when business provides goods and services to satisfy the need & wants of customers.

(2) Earning Profit :

Profit means excess of income over the expenditure. The fore most and prime objectives of evry businessman is to earn profir. Not only for survival but it is also required for growth and expansion of business.

(3) Innovations :

Innovation means making new products or adding new features of oldproducts for making it more useful, improving methods production & distribution exploring new market etc.

(4) Productivity :

It is used as a measure of efficiency. Every business enterprises must aim at greater productivity to ensure continuous survival and growth.

(5) Physical and financial resources :

Any business requires physical resources like plants, machines, offices etc. and financial resources i.e funds to be able to produce and supply goods and services to its suctomers.

(6) Social objectives :

Business is an integral part of society. It makes use of resources of society. It earns profit by selling it products or services to members of society. So, it becomes obligatory on thepart of the businessman to do something for the society.

Business risks :

The term business risks refers to possibility of a commercial business making inadequate profit (or even losses) due to uncertainties.

Example :

Changes in tastes, changing preferencess of consumers, strikes, increased competition, changes in government plocy, obsolescence etc.

Nature of Business Risks :

(1) Arises due to uncertainties :

Uncertianties mean when you are not sure of what is going to happen in future. Common examples of uncertainties are change in demand, government policy technology etc.

(2) Essential part of any business :

Arisk is an important characteristics of business. No business can avoid risk although the degree of risk can be reduced but cannot be eliminated.

(3) Degree of Risks Depends upon the Nature and Size of Business :

The degree of risk depends upon the type of business for example, a business involved in fasion items bears more risk as compared to business involved in standardized goods.

(4) Profit is the reward for bearing the Risk :

The business earns a profit because they are bearing risk, “No risk no gain” large the risk more is the profit.

Causes of Business Risks :

Business risks arise due to a variety of causes which are classified as follows :

(1) Natural Causes :

Nature is an independent phenomenenon and human beings have no control over it. Natural calamities like earthquake, flood, drought, famine etc.

(2) Human Causes :

Human causes are related to a chance lof loss due human being or employees of the organization.

Example -

Stoppage of work due to power failure, strikes, riots management ineffeciency etc.

(3) Economic Causes :

Economic causes are related to chance of loss due to change in the market. There can be a change in the degree of competition. All these have a direct impact on the earning of the business.

(4) Other Causes :

These are unforeseen events. Like political disturbance, mechanical failure, such as the bursting pf boiler, fluctuation in exchange rates etc.

Starting a Business :

Basic Factors :

Following factors are considered while starting a new business :

(1) Selecting the line of business :

The first thing to be decided by the entrepreneur is the line and type of of business to be undertaken.

(2) Size of the firm :

Size of the firm or scale of its operation is another important decision to be taken at the start of the business. Some factors favour the large size where as others tend to restrict the scale of operation.

(3) Choice of form of ownership :

In realtion of ownership, the business origination may take the form of sole proprieter ship. Partnership or a Joint Stock company. Each form has its own merits and demerits.

(4) Location of business enterprises :

An important factor to be considered at the start of the business is the place where the enterprises will be located. Availlability of raw materials and labour, power supply, banking, transporting etc. are important factors while a choice of location.

(5) Financing the proposition :

Financing is concerned with providing the necessary capital for starting as well for continuing the proposed business. Capital is required for investment in fixed assets like land, building, machinery and equipments.

(6) Tax Planning :

Tax Planning has become necessary these days because a number of Tax Laws in the country influence alomost every aspect of the functioning of modern business.

(7) Competent and Committed work force :

Every enterprises needs competent and committed work force to perform various activities so that physical and financial resource are coverted into desired outputs.

MCQ : **Mark - 1**

(1) Which of the following is not concerned with profession ?

(a) Manufacturing goods and services (b) Specialised body of knowledge and skill

(c) Code of conduct (d) Formal training

(2) Which of the following is not a characteristics of business activity ?

(a) Wages (b) Sale of Product

(b) The factor of risk (d) Manufacturing goods and services

(3) Which is an economic ectivity.

(a) Non-employment (b) Employment

(c) Non-profit organization (d) None of the above

(4) Which one of the following is an economic activity in which specialized knowledge is required ?

(a) Profession (b) Business

(c) Employment (d) Non of the above

(5) Why a business should earn profit ?

(a) To provide return to investors (b) To increase the reputation of business

(c) To provide funds for future growth (d) All of the above

(6) Which lof the following is not natural cause of business risks ?

(a) Earthquake (b) Strikes

(c) Famine (d) Heavy

(7) Which of the following cannot be classified as an auxiliary to trade ?

(a) Transport (b) Insurance

(c) Mining (d) Warehousing

(8) Which one of the following may not be a factor behind starting a business.

(a) Routine work load (b) Size of the firm

(c) Finance (d) Location of the Business

(9) Which of the following is an instrument of exchange which was prominent in the the subcontinenet ?

(a) Copper (b) Hundi

(c) Gold (d) Silver

(10) The industries which provide support services to other industries are known as -

(a) Primary Industries (b) Commercial Industries

(c) Tertiary Industries (d) Secondary Industries

Ans : (1) a (2) a (3) b (4) a (5) d (6) b (7) c (8) a (9) b (10) c

Short Answer ype Question : Mark - 1

1. List any five major commercial cities of ancient India ?
2. What is Hundi ?
3. Write any two name of Hundi ?
4. Mention any five name of Export goods in ancient India ?
5. Mention any five name of Import Goods in ancient India ?
6. What is Industries ?
7. What do you mean by Genetic Industry ? with example.
8. What do you mean by trade ?
9. Mention any two of Auxiliaries to Trade ?
10. What is the business risk ?
11. State the meaning of business.
12. What is the role of profit in business ?

Long Answer Type Question : (Marks-3/4/5/6)

1. Discuss the Development of indigenous banking system in India ?
2. Define Business. Discuss the characteristics of Business .
3. Compare business. Profession and employment.
4. Define Industry. Discuss various types of Industries giving examples.
5. What is Trade ? Discuss the Ausxiliaries to Trade.
6. Explain any five objectives of business.
7. What is Business risk ? Explain the concept of business risk and its causes.
8. What factors are to be considered while starting a business explain ?

CHAPTER - 2

Forms of Business Organisation

Various forms of business organisations include :

(a) Sole proprietorship

(b) Joint Hindu family business

(c) Partnership

(d) Cooperative societies and

(e) Joint stock company

Sole Proprietorship :

Sole proprietorship refers to a form of business organization which is owned, managed and controlled by a single person who is the recipient of all profits and bearer of all risks.

Features :

(i) Formation and closure :

Hardly any legal formalities are required to start a sole proprietary business, but in some cases license is required. Closure fo the business can also be done easily. Thus, formation on and closure is easy.

(ii) Liability:

Sole proprietors have unlimited liability. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts.

(iii) Sole risk bearer and profit recipient :

The risk of failure of business is borne all alone by the soleproprietor. He bears the complete risk and there is no body to share profit/loss with him.

(iv) Control :

The owner of the business make all decisions regarding every matter. He can carry out his plans without any interference from others.

(v) No separate entity :

Business does not have an identity separate from the owner so there is no distinction is made between the sole trader and his business. Therefore, no separate entity is there in the business.

(vi) Lack of business continuity :

The sole proprietorship business is owned and carried by a single person, therefore death, insanity, imprisonment, physical ailment or bankruptcy of the owner will have a direct effect on the business, even business may close down.

Merits :

1. **Easy to start and close :** A sole proprietorship firm can be easily started and closed down as no legal formalities are there for this type of business.

2. Quick decision making : As sole trader is not required to consult or inform anyone about his decisions, he can take his decisions very quickly.

3. Sense of accomplishment : There is a sense of personal satisfaction as everything is done by himself as per his own thinking.

4. Confindentiality of informatin : Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy.

5. Sole profit recipient : If the business is successful, the proprietor enjoys all the benefits as nobody is there to share his profit.

Limitations :

1. Limited financial resources : Lack of resources is one of the major reason of the business that it remains small in size. Resources of a sole proprietor are limited to his/her personal savings and borrowings from others.

2. Limited managerial ability : A person cannot be an expert of every work. Same way a sole trader can't be good in all aspects of business and he can't afford to employ experts also.

3. Unlimited liability : The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts.

4. Uncertain life : The sole proprietorship business is having uncertain life because of death, insanity, imprisonment, physical ailment or bankruptcy of the owner business may close down.

Joint Hindu Family Business:

It refers to a form of organisation where in the business is owned and carried on by the members of the Hindu Undivided Family (HUF). IT is governed by the Hindu Law. The business is controlled by the head of the family who is the eldest member and is called **karta**. It is governed by the Hindu Success on Act, 1956.

Features :

1. Formation :

For a joint Hindu family business there should be at least two members in the family and some ancestral property to be inherited by them. It is governed by the Hindu Succession Act, 1956.

2. Liability :

The liability of all members of a joint Hindu family business except Karta is limited to their share in property of the business However, the ***karta***, has unlimited liability.

3. Control :

The control of Joint Hindu family business completely lies with the **karta**. He takes all the decisions and manage the business. His decisions binding other members also.

4. Continuity :

The business is not affected by death or incapacity of Karta in such cases the next senior male member becomes the karta but it can be closed with the mutual consent of the members.

5. Minor Members :

Here, minors can also become the member of the business. As inclusion of a member into the business occurs due to birth in a Hindu Undivided Family.

Merits :

1. **Effective of control :**

The Karta can promptly take decisions of the business as he has the absolute decision making power. This avoids conflicts among members as he is having the right to decide.

2. **Continued business existence :**

The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position. Hence, continuits of business is not threatened.

3. **Limited liability :**

The liability of all members except Karta is limited. It gives them relief as their personal property will not be involved for family business.

4. **Loyalty and Co-operation :**

It helps in securing better co-operation and greater loyalty from all the members as they run their own business.

Limitation :

1. **Limited capital :**

The joint Hindu family business faces the problem of limited capital as it depends mainly on their ancestral property.

2. **Unlimited liability of karta :**

The liability fo Karta of a joint Hindu family business has unlimited liability and his personal property can be used to repay business debts.

3. **Dominance of karta :**

Karta manages the business and sometimes he ignores the valuable suggestions of other members. This may cause conflict among the members and may break down of the family unity.

4. **Limited managerial skills of karta :**

Limited managerial skills of karta also pose a serious problem. Since the karta cannot be an expert in all areas of management, business may suffer as a result of his unwise decisions.

Partnership :

Definition–

The Indian partnership Act, 1932 defines partnership as "the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all."

Features –

The features of partnership firm are explained below :

1. **Formation :**

The partnership form of business is governed by the Indian partnership Act. 1932. It comes into existence by legal agreement between the partners.

2. **Two or more persons :**

There must be at least two persons to form a partnership The maximum no. of persons in banking business is 10 and in non-bankig business it is 50.

3. Decision making :

Every partner has the right to participate in decision making and control of day to day activities of the business. With the consent of every partner decisions are taken out.

4. Unlimited liability :

The partners of a firm have unlimited liability. In case the business assets are insufficient, personal assets of partners may be used for repaying debts. All the partners are jointly responsible for the debts of the business.

5. Mutual Agency :

Every partner is an implied agent of the other partners and of the firm. Every partner is liable for acts performed by other partners on behalf of the firm.

6. Lack of continuity :

Firms existence is affected by the death, retirement, Lunacy and insolvency or insanity of any of its partner. It suffers from lack of continuity.

Merits :

The advantages of a partnership firm are :

1. Ease of formation & closure :

It can be easily formed. Only an agreement among the partners is required. There is no compulsion with respect to registration of the firm.

2. Balanced Decisions :

As decisions are taken jointly by all the partners after consulting each other that's why decisions are likely to be more balanced.

3. Larger financial resources :

There are more funds as capital is contributed by no. of partners. This makes it possible to raise larger amount of funds as compared to a sole proprietorship business.

4. Sharng of risks :

The risks involved in runnning a partnership firm are shared by all the partners. This reduces the anxiety, burden and stress on individual partners.

5. Secrecy :

Secrecy can be easily maintained about business affairs as they are not required to publish their accounts or to file an report to the govt. Hence it is able to maintain confidentiality of information relating to its operations.

Limitations :

A partnership firm of business organisation suffers from the following limitations :

1. Limited resources :

As there is a restriction on the number of partners in partnership business and hence capital contributed by them is also limited. Because of this partnership firms face problems in expansion.

2. Unlimited liability :

The partners of a firm have unlimited liability. In case the business assets are insufficient, personal assets of partners may be used for repaying debts. All the partners are Jointly responsible for the debts of the business.

3. **Lack of continuity :**

Firms existence is affected by the death, retirement, lunacy an insolvency or insanity of any of its partner. It suffers from lack of continuity.

4. **Lack of public confidence :**

Patnership firms are not required to publish their reports and accounts. It is, therefore, difficult for any member of the the public to ascertain the true financial status of a partnership firm.

5. **Possibility of conflicts :**

Partenership business is carry out by a group of persons where in decision making authority is shared. Difference in opinion on some issues may lead to disputes amongst partners.

Types of Partners :

1. **Active Partner :**

A partner who takes an active part in the management of the firm is called an active partner.

2. **Slepping Partner :**

A partner who does not takes an active part in the management of the firm is called an inactive or sleeping partner.

3. **Secret Partner :**

He participates in business secretly without disclosing his association with the firm to general public.

4. **Nominal Partner :**

A nominal partner is one who allows the firm to use of his/her name, but does not contribute capital.

5. **Partner by Estoppels :**

He is the one who by his words or conduct gives impression to the others that he is a partner of the firm whereas actually he is not a partner.

6. **Partner by holding out :**

A partner by 'holding out' is a person who is not a partner in a firm but knowingly allows himself/herself to be represented as a partner in a firm.

Types of Partnership:

A. **Classification on the basis of Duration :**

Partnership at will - This type of partnership exists at the will of partners.

Particular Partnership - This type of partnership is formed for a speified time period to accomplish a particular project or activity say construction of building.

B. **Classification on the basis of Liability :**

General partnership - This liability of partners is unlimited and joint. Registration of the firm is optional.

Limited Partnership - The liability of at least one partner is unlimited whereas the other partners may have limited liability. Registration of the firm is compulsory.

Partnership Deed :

The written agreement on a stamped paper which specifies the terms and conditions that govern the partnership is called the partnership deed.

The partnership deed generally includes the following aspects :

- Name of the business
- Nature of business
- Location / Address of the business
- Duration of business
- Investment made by each partner.
- Profit sharing ratio of the partners
- Terms relating to salaries, interest on capital and interest on drawing of partners.
- Duties & obligations of partners.
- Terms relating to admission, retirement & death of a partner.
- Preparation of accounts & their auditing.
- Method of solving disputes.

Cooperative Society :

Definition :

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

The Indian Cooperative Societies Act 1912

Features :

The features of cooperative society are explained below :

1. **Voluntary association :**

   The membership of a cooperative society is voluntary. Every one having a common interest is free to join and can also leave the society.

2. **Legal status :**

   Its registration is compulsory and it gives cooperative society a separate legal identity which is distinct from its members.

3. **Limited liability :**

   The liability of the member is limited to the extent of the amount contributed by them as capital in the society.

4. **Democratic control :**

   Management & Control lies with the managing committee elected by the members by giving vote Every member has one vote which lends the cooperative society a democratic character.

5. **Service motive :**

   The main aim is to serve its members and not to maximize the profit. If any surplus is generated as a result of its operations, it is distributed among its member as dividend.

Merits :

The merits of cooperative society are explained below :

1. **Ease of formatin :**

   It can be started with minimum of 10 members. Registration is also easy as it requires very few legal formalities.

2. **Limited Liability :**

   The liability of members is limited to the extent of their capital contribution. The personal assets of the members are not used to repay business debts.

3. **Stable existence :**

   Due to registration cooperative society is a sepatate legal entity and is not affected by the death, luxury or insolvency of any of its member.

4. **Economy in operations :**

   Due to elimination of middlemen and volunary services provided by its members a cooperative society can reduce its costs.

5. **Government Support :**

   Because of the idea of democracy Govt. provides support by giving loans at lower interest rates, subsidies & by charging less taxes.

6. **Equality in voting status :**

The principle of 'one man one vote' governs the society. Irrespective of the amount of capital contribution by a member, each member is having equal voting rights.

Limitations

The limitations of cooperative society are :

1. **Shortage of capital :**

   Its suffers from shortage of capital as it is usually formed by people with limited amount of money even dividend rate is also low.

2. **Inefficient management :**

   Co-operative society can't afford to employ expert and experienced people at high salaries. Moreover, it is managed by elected members who may not be professionally competent and experienced.

3. **Lack of secrecy :**

   Its affairs are openly discussed in its meeting and disclosure obligations as per the societies Act (7), makes it difficult to maintain secrecy.

4. **Excessive govt. control :**

   It suffers from excessive rules and regulations of the govt. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registrar.

5. **Conflict among members :**

   The members are from different sections of society with different view points. Personal interests may start to dominate the welfare motive of soiety.

Types of Co-operative Societies

Different types of Co-operative societies are :

1. Consumers Co-operative Society
2. Producer's Co-operative Society
3. Marketing Co-operative Society
4. Farmer's Co-operative Society
5. Credit Co-operative Society
6. Co-operative Housing Society.

JOINT STOCK COMPANY

A company can be described as an artificial person having a separate legal entity, pertpetual succession and a common seal. The company form of organisation is governed by The Companies Act, 2013.

FEATURES

The features are :

1. Artificial perosn :

A company is a creation of law and like natural persons, it can own property I, into contracts breathe, talk like them. It is, therefore, called an artificial person.

2. Separate Legal Existence :

It is created by law and it has a distinct legal entity independent of its members. Its assets and liabilities are separate form those of its owners.

3. Formation :

The formation of a company is a time consuming and difficult process. Incorporation is compulsers under the companies Act 2013 any of the previous compant law.

4. Perpetual Existence :

Death, insolvency and insanity etc. of members cannot effect the existence of a company. It can come to an end only through the prescribed legal process.

5. Limited Liability :

The liability of every member is limited to the nominal value of the shares bought by him. The members can only be asked to contribute to the loss only to the extent of the unpaid amount of shares held by them.

6. Common Seal :

It is the official signature of the company and its is affixed on all important documents of company. Any documents which does not carry the common seal of the company is not a binding on the company.

MERITS

The advantages are discussed below :

1. **Limited Liabiity :** The liability of every shareholder is limited to the nominal value of the shares

bought by them. The members can only be asked to contribute to the loss only to the extent of the unpaid amount of shares held by them if any.

2. Transfer of Interest : Easy transferability of shares increase the attractiveness of shares investment in a public limited company. Shares of this company can easily be sold in the market and converted into cash in case the need arises.

3. Perpetual Existence : Existence of a company is not affeted by the death, retirement, Insolvency of member etc. Company can be liquidated only as per the provisions of the Companies Act, 2013

4. Scope for expansion : Due to its unlimited no. of members a company can collect huge amount of capital from its members because of limited liability, easy transferability and possibility of high return.

5. Professional management : A company can afford to employ highly qualified experts in different areas of business management. It can, therefore, get the benefit of professional management.

LIMITATIONS

The major limitations are as follows :

1. Complexity in formation :

The formation of a company is a time consuming, expensive and difficult process as compared to sole proprietorship and partership form of organisations.

2. Lack of secrecy :

It is very difficult to maintain secrecy in case of public company, as company is required to publish and file its annual accounts and reports to the registrar. Such information is available to the general public also.

3. lack of motivation :

Separation between ownership and control and absence of a direct link between efforts and reward leads to lack of personal interest and incentive.

4. Delay in decision making :

In companies most of the decisions are taken in Board meetings after consulting with different levels of management. Communication as well as approval of various proposals may cause delay in decision making.

5. Numerous regulations :

A company is burdened with numerous restrictions in respect of aspects like auditing, voting, filing of reports etc. and is required to obtain various certificates form different agencies, viz., registrar, SEBI etc.

6. Oligarchic management :

A company is actually managed by few people i.e board of directors. They use their power and sometimes take decisions keeping in mind about their personal interests and benefit, ignoring the interests of shareholders and company.

TYPES OF COMPANIES

On the basis of ownership, companies can be divided into two categories -

Private & Public

Difference bwtween a Public Company and Private Company

Basis	Public Comany	Private Company
No. of Members	It has minimum 7 and maximum unlimited members	It has minimum 2 and maximum 200 numbers
Invitation to public	It can invite general public to buy its shares and debentures	It cannot invite general public to buy its shares and debentures.
Number of directors	Minimum member of directors is Three	Minimum number of directors is Two
Transfer of shares	Its shares are freely transferable	There are certain restrictions on transfer of its shares.
Index of members	Index of member is compulsory	Index of member is not compulsory
Minimum paid up capital	Here minimum paid up capital is 5 lakh	HereMinimum paid up capital is 1 lakh

CHOICE OF FORM OF BUSINESS ORGANISATION

The following factors are important for taking decision about form of organization :

1. Cost and ease in setting up the organization : Sole proprietorship is most inexpensive and can be formed without any legal formalities to be fulfiled. Formation of a company involves a lengthy and expensive legal procedure.

2. Capital consideration : The businesses which require less amount of finance prefer sole proprietorship & partenership form of business, whereas business activities requiring huge financial resources may prefer company form of business.

3. **Nature of business :**

If the work requires presonal attention such as tailoring unit, grocery store, its is generally setup as a sole proprietorship business. For large manufacturing units, they are more likely to be organized in company form.

4. **Degree of control desired :**

A person who desires full and exclusive control over business prefers sole proprietorship business. However, if the company do not mind sharing control and decision making, partnership or company form of organisation can be adopted.

5. **Liability or Degree of Risk :**

Business which are not very risky can be started in the form of sole proprietorship or partnership, whereas the risky business should be done is the form of comapany as the liabilities of shareholder is limited.

6. **Continuity :**

The continuity of sole proprietorship and partnership form of busines is affected by death, in solvency etc. of the owners. but this are not happening is case of organisations like joint hindu family business, cooperative societies and companies.

Multiple Choice Questions : **Each Question carry 1 Mark**

1. The life of sole proprietorship / single ownership business is ——————.
   (a) Stable (b) Unstable (c) Very short life (d) Very Long life
2. The capital of a company is divided into numkber of parts each of which are called
   (a) Share (b) Dividend (c) Profit (d) Commission
3. The maximum number of partners allowed in case of banking business are
   (a) Two (b) Twenty (c) Forty (d) Ten
4. A partner whose association with the firm is unknown to the general public is known as
   (a) Active partner (b) Sleeping partner (c) Estoppel partner (d) Secret partner
5. The Head of the joint Hindu family business is called
   (a) Manager (b) Owner (c) Karta (d) Board of Director
6. A partner who is not actually involved in the partnership business but lends his name for public relations purposes is a :
   (a) Inactive partner (b) General partner (c) Nominal partner (d) partner by holding out
7. The simplest form of ownership business is called
   (a) Sole proprietorship (b) Partnership (c) Corporation (d) Cooperative Society
8. The board of directions of a joint stock company is elected by :
   (a) Public (b) Government bodies (c) Shareholders of the company (d) Employees of the company
9. The liability of karta in a Joint Hindu Family business has :
   (a) Limited (b) Unlimited (c) No liability (d) Joint liability
10. The structure in which there is no separation of ownership and management is called :
    (a) Sole proprietorship (b) Partnership (c) Company (d) All business organisation

Very Short Answer Questions : **Each question carry 1 Mark**

1. Define Sole proprietorship.
2. Who is known as Karta?
3. What do you mean by Partnership business?
4. Write the minimum & maximum no. of members in partnership business.
5. Give the meaning of co-operative society.
6. Which act governs the partnership business in India?
7. Define Joint Hindu Family business.
8. Which act governs the co-operative societies in India?

9. Give the meaning of Joint stock company.
10. Write the voting principles in co-operative societies.

Answer the following questions :- **(3/4/5/6 marks)**

1. What are the different types of features are there in a Sole proprietorship business Explain.
2. Discuss three merits and limitations of a Sole proprietorship business.
3. Explain the features of a Joint Hindu family business.
4. Discuss three merits and limitations of a Joint Hindu family business.
5. What are the different types of features are there in partnership Explain in brief.
6. Discuss three merits and limitations of a Partnership business.
7. Explain different types of partners in brief.
8. Write the aspects / contents of Partnership deed.
9. Explain four features of a cooperative society.
10. Discuss three merits and limitations of a cooperative society.
11. Explain different types of co-operative societies.
12. What are the different types of features are there in a Joint stock company explain.
13. Discuss three merits and limitations of a Joint stock company.
14. Distinguish between a public company and private company.
15. Explain the factors influencing the choice of form of business organisation.

Answer Key

Multiple Choice Questions :

1. Answer : (b) 2. Answer (a) 3. Answer (d) 4. Answer (d) 5. Answer (c)
6. Answer (c) 7. Answer (a) 8. Answer (c) 9. Answer (b) 10. Answer (a)

CHAPTER-3

Praivate, Public and Global Enterprises

3.2 Private Sector and Public Sector :

There are all kinds of business organisations - small or large, industrial or trading, privately owned or government owned existing in our country.

These organisations affect our daily economic life and therefore become part of the Indian economy. Since the Indian economy consists of both privately owned and government owned business enterprises, it is known as a mixed economy. The Government of India has opted for a mixed economy, where both private and government enterprises are allowed to operate. The economy, therefore, may be classified into two sectors viz., private sector and public sector.

The private sector consists of business owned by individuals or a group of individuals. The various forms of organisation are– sole proprietorship, partnership, joint Hindu family, cooperative and company.

The public sector consists of various organisations owned and managed by the government. These, organisations may either be partly (at least 51%) or wholly owned by the central or state government. They many also be a part of the ministry or come into existence by a special Act of the Parliament. Some enterprises under the public sector are– Indian Railways, Indian Post and Telegraph, Steel Authority of India Limited (SAIL), Life Insurance Corporation (LIC) of India etc.

3.3 Forms of Organising Public Sector Enterprises :

Public sector organisation are formed in three different forms :

(i) Departmental undertakings

(ii) Public Corporation / statutory corporation

(iii) Government company

3.3.1 Departmental Undertakings :

This is the oldest and most traditional form of organising public enterprises. These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself. The Government functions through these departments. These undertakings may be under the central or the state Government and the rules of central / State government are applicable. Examples of these undertakings are (i) Railways (ii) Post and Telegraph (iii) Ordinance Factory Board etc.

Features :-

The main characteristics of Departmental undertakings are as follows -

i) Source of Finance :-

The funding of these enterprises come directly from the Government Treasury and the revenue earned by these is also paid into the treasury;

ii) Audit and Accounts :-

They are subject to accounting and audit controls applicable to other Government activities;

iii) Employee :-

The employees of the enterprises are Government servants and their recruitment and conditions of service are the same as that of other employees directly under the Government.

iv) Administration :-

It is generally considered to be a major subdivision of the Government department and is subject to direct control of the ministry;

v) Soverign Immunity :-

They are accountable to the ministry since their management is directly under the concerned ministry;

Merits :

Departmental undertakings have certain advantages which are as follows :

i) Effective Control :

These undertakings facilitate the Parliament to exercise effective control over their operations;

ii) Accountability :

These ensure a high degree of public accountability;

iii) Public Revenue :

The revenue earned by the enterprise goes directly to the treasury and hence is a source of income for the Government;

iv) Direct Control :

It is under the direct control and supervision of the Concerned Ministry.

Limitations :

Limitations of Departmental undertakings are as follows :

i) Inflexibility :

Departmental undertakings fail to provide flexibility;

ii) Conservation :

The employees or heads of departments of such undertakings are not allowed to take independent decisions, without the approval of the ministry concerned.

iii) Lack of opportunities :

These enterprises are unable to take advantage of business opportunities;

iv) Red Tapism :

There is red tapism in day-to-day operations and no action can be taken unless it goes through the proper channels of authority;

v) Political Interference :

There is a lot of political interference through the ministry;

vi) Insensitive :

These organisations are usually insensitive to consumer needs and donot provide adequate service to them.

3.3.2 Statutory Corporation

A body corporate formed by a special Act of Parliament or by the central or state ligislature and fully financed by the government is called statutary corporation.

For Example :- Life Insurance corporation of India, Oil and Natural Gas Commission, Food Corporation of India, Damodar Valley Corporation.

Features : Stautary corporation have certain distinct features, which are discussed as below :-

(i) Formations :- Statutary corporation are set up under an Act of parliament and are goverment by the provisions of Act.

(ii) Ownership :- This type of organisation is wholly owned by the state.

(iv) Financing :- It obtains funds by borrowings from the government or from the public through revenues, derived from sale of goods and services.

(v) Accounting and Audit Process :- A statutary corporation is not subject to the same accounting and audit procedures applicable to government departments.

(vi) Employee :- The condition of service of the employees are governed by the provisions of the Act itself.

Merits :-

This form of organisation enjoys certain advantages in its working, which are as folows :-

(i) Independence :- They enjoys independence in their functioning and a high degree of operational flexibility.

(ii) Free from Government Inteference :- The Government generally does not interfere in their finacial matters, including their income and receipts.

(iii) Autonomous (organisation) :- Since they are autonomous organisations they frame thier own policies and procedures within the powers assigned to them by the Act.

(iv) Valuable Instrument :- A statutary corporation is a valuable instrument for economic development. It has the power of the government, combined with the initiative of private enterprieses.

Limitations :- This type of organisations suffers from several limitations, which are as follows :-

(i) Rules and regulations :- In reality, a statutary corporation does not enjoy as much operational flexibility. All actions are subject to many rules and regulations.

(ii) Political Interference :- Government and political interference has always been there in major decisions or where huge funds are involved.

(iii) Corruption :- Where there is dealing with public, rampant corruption exists ;

(iv) Steps of delays action :- If there is any indecisions and disagreement of the corporation board, the matter is referred to the government for final decisions. This further delays action.

3.3.3 Government company :-

Government company means any company in which at least 51% of the paid up share capital is held by central or state Government (or partly by Central of State Governemnt)

For example : Steel Authority of India, Hindustan Machine Tools.

Features :-

Government companies have certain features, which are discussed as follows :-

(i) Formation :- It is an organisation created under the companies Act, 2013 or any other previous company law ;

(ii) Legal Entity :- The company can file a suit in a court of law agaisnt any third party and be sued;

(iii) Acquire Property :- The company can enter into a contract and can acquire property in its own name.

(iv) Management :- The management of the company is regulated by the provisions of the copanies Act, like any other public limited company ;

(v) Employee :- The employees of the company are appointed according to their own rules and rregulations as contained in the Memorandum and Articles of Association of the company.

(vi) Audit :- An auditor is appointed by the Central Government and the annual report is to the be presented in the Parliament or the State Legislaturte ;

(vii) Capital :- The Governemnt company obtains its funds from government shareholdings and other private shareholders.

Merits :- Government companies enjoy several advantages which are as follows :-

i) Fulfilling the Requirements :- A government company can be established by fulfilling the requirements of the Indian company Act.

ii) Separate Entity : It has a separate legal entity, apart from the Government;

iii) Autonomy :- It enjoys autonomy in all management decisions and takes actions according to business prudence.

iv) Control :- These companies by providing good and service at reasonable prices are able to control the market and curb the unhealthy business practices.

Limitations : Despite the autonomy given to these companies, they have certain disadvantages :

i) Lack of Democracy :- Since the Government is the only shareholder in some of the companies, the provisions of the companies Act does not have much relevance;

ii) Evade :- It evades constitutional responsibility, which a company financed by the government should have.

iii) Purpose is defeated :- The government being the sole shareholder, the management and administration rests in the hands of the government. The main purpose of a government company, registered like other companies, is defeated.

3.4 Changing Role Of Public Sector :-

The Indian economy is in a stage of transition. The Five year Plans in the initial stage of development gave lot of importance to the public sector, In the post 1990s, the New economic policies, emphnsised on liberalisation, privatisation and globalisation.

i) Development of Infrastructure :-

Rail, road, sea and air transport was the responsibility of the government, and their expansion has contributed to the pace of Industrialiasation and ensured future economic growth.

Investments were to be made to :

a) Give infrastructure to the core sector, which requires huge capital investment, complex and upgraded technology, big and effective organisation structures like– steel plants, power generation plants, civil aviation, railways, petroleum, state trading etc.

b) Private sector like – fertilizers, pharmaceuticals, Petro-chemicals, news print, medium and heavy engineering.

ii) Regional balance :-

Development of backward regions so as to ensure a regional balance in the country is one of the major objectives of planned development. Therefore, the government had to locate new enterprises in the backward areas and at the same time prevent the mushrooming growth of private sector units in already advanced areas.

iii) Economics of Scale :-

Where large scale industries are required to be set up with huge capital outlay, the public sector had to step in to take advantage of economics of scale.

iv) Check over concentration of economic power :-

The public sector acts as a check over the private sector. In the private sector there are very few industrial houses which would be willing to invest in heavy industries with the resuld that wealth gets concentrated in a few hands and monopolosite practices are encouraged.

v) Import Substitution :-

During the second and third Five Year Plan Period, India was aiming to be self reliant in many spheres. Public sector companies involved in heavy engineering which would help in import substitution were established.

vi) Government Policy towards publlic sector since 1991. Its main elements are :-

Restructure and revive potentially viable PSUs, close down PSUs, which can not be revived. Bring down governments equity in all Non-strategic PSUs to 26 percent or lower if necessary; and fully protect the interest of workers.

a) Reduction in the number of industries reserved for the public sector from 17 to 8 (and then to 3): This meant that the Private sector could enter all areas (except 3) and the Public sector would have to compete with them.

b) Disinvestment of shares of a select set of public sector enterprises : Disinvestment involves the sale of the equity shares to the private sector and the public. The objective was to raise resaurces and encourage wider participation of the general public and workers in the ownership of these enterprises. The government had taken a decision to withdraw from the industrial sector and reduce its equity in all under takings.

c) Policy regarding sick units to be the same as that for the private sector : All public sector units were referred to the Board of Industrial and Financial Reconstruction to decide whether a sick unit was to be restructured or closed down.

d) Memorandum of Understanding : Improvement of performance through a MoU (Memorandum of Understanding) system by which managements are to be granted greater autonomy but held accountable for specified results.

3.5 Global Enterprises :

In the last ten years MNCs have played an important role in the Indian economy. They are characterised by their huge size, large number of products, advanced technology, marketing strategies and network of operations all over the world. Global enterprises thus are huge industrial organisations which extend their industrial and marketing operations through a network of their branches in several countries.

Features :

These corporations have distinct features which distinguish them from other private sector companies, public sector companies and public sector enterprises. These are as follows :-

i) Huge capital resources :

These enterprises are able to tap Funds from various sources. They may issue equity shares, debentures or bonds to the public.

ii) Foreign Collaborations :

Global enterprises usually enter into agreements with Indian companies pertaining to the sale of technology, production of goods use of brand names for the final products, etc. These MNCs may callaborate with companies in the public and private sector.

iii) Advanced technology :

These enterprises process technological superiorities in their methods of production. They are able to conform to international standards and quality specifications.

iv) Product innovation :

Qualitative research requires huge investment which only global enterprises can afford.

v) Marketing strategies :

The marketing strategies of global companies are far more effective than other companies. They use aggressive marketing strategies in order to increase their sales in a short period.

vi) Expansion of Market territory :

Market territory expands enabling them to become international brands. They operate through a network of subsidiaries, branches and affiliates in host countries.

vii) Centralised Control :

They have their headquaters in their home country and exercise control over all branches and subsidiaries.

3.6 Joint Venture :-

Meaning : Any business organisation if it so desires can join hands with another business organisation for mutual benefit. These two organisation may be private, government-owned or a foreign company. When two businesses agree to join together for a common purpose and mutual benefit, then it is called Joint Venture.

3.6.1 Types of Joint Venture :-

(i) Contractual Joint Venture (CJV) :

In a contractual Joint Venture, a New Jointly-owned entity is not created. There is only an agreement to work together. In such a relationship the key elements are :

(a) Two or more parties have a common intention of running a business ventures ;

(b) Each party brings some inputs ;

(c) Both parties exercise some control on the business venture ; And

(d) The relationship is not a transaction-to- transaction relationship but has a character of relatively longer duration.

(ii) Equity-based Joint Venture (EJV) :

An equity Joint Venture agreement is one in which a separate business entity, jointly owned by two or more parties, is formed in accordance with the agreement of the parties.

3.6.2 Benfits :-

The major benefits of Joint Ventures are as follows :

(i) Increased resources and capacity :

The new business pools in financial and human resources and is able to face market challenges and face market challenges and take advantage of new opportunities.

(ii) Access to New markets and distribution networks :

When foreign companies form Joint Venture companies in India they gain access to the vast Indian market.

(iii) Access to technology :

Technology is a major factor for most businesses to enter into Joint Ventures.

(iv) Innovation :

Foreign partners can come up with innovative products because of new ideas and technology.

(v) Low Cost of Production :

When internatinal corporations invest in India, they benefit immensly due to the lower cost of production .

(vi) Established brand name :

When two businesses enter into a Joint Venture, one of the parties benefits from the other's goodwill which has already been established in the market.

3.7 Public Private partnership (PPP) :

It is a relationship among public sector and private sector for allocation and completion of development projects.

The public parteners in PPP are government entities, i.e ministries, government departments, municipalilties or state owned enterprises. The private partners can be local or foreign (International) and include businesses or investors with technical or financial experties relevant to the project.

Sectors in which PPPs have been completed worldwide include power generation and distribution, water and sanitation, refuse disposal, pipelines, hospitals, school buildings and teaching facilities, stadiums, air traffic control, prisons, railways, roads, buildings and other informations technology systems, and housing.

Exercises

Multiple Type

Questions :-

1) A government company is any company in which the paid up capital held by the goverment is not less than.

   (a) 49 percent (b) 51 percent

   (c) 50 percent (d) 25 percent

2) Centralised control in MNC's imples control exercised by

   (a) Branches (b) Subsidiaries

   (c) Headquarters (d) Parliament

3) PSE's are organisations owned by

   (a) Joint Hindu family (b) Government

   (c) Foreign companies (d) Private enterpreneurs

4) Recosntruction of sick public sector units is taken up by

   (a) MOFA (b) MoU

   (c) BIFR (d) NRF

5) Disinvestments of PSE's implies

   (a) Sale of equity shares to private sector/public (b) Closing down operations

   (c) investing in new areas (d) Buying shares PSE's

6) The equity-baced Joint Ventures does not include

   (a) Cooperative development (b) Company

   (c) Partnership (d) Limited liability partnership

7) JPC means ?

   (a) Joint Parliamentary Committee (b) Joint Primary Committee

   (c) Joint Parliamentary Commission (d) None of above

8) Which type of organisation is Indian Railway ?

   (a) Departmental Undertaking (b) Statutary Corporation

   (c) Government Company (d) Public Welfare Organisation

9) Minimum member of cooperative is –

   (a) 5 (b) 10

   (c) 15 (d) 20

10) Maximum member of partnership business in banking sector –

(a) 10 (b) 20

(c) 15 (d) No ne of above

[Ans : 1. (b), 2. (c), 3. (b), 4. (c), 5. (a), 6. (b), 7. (a), 8. (a), 9. (b), 10. (a)]

Short Answer Questions

1) What is public sector ?
2) Write two features of public sector.
3) Write two advantages of public sector ?
4) What is private sector ?
5) Write two examples of private sector.
6) Write two features of private sector.
7) What is Departmental Undertakings ?
8) What is Statutary Corporations ?
9) What is Government Company ?
10) Write the defination of Joint Venture.

Long Answer Questions

1) Describe the Industrial Policy 1991, towards the public sector.
2) What was the role of the public sector before 1991 ?
3) Can the public sector companies compete with the private sector in terms of profits and efficiency ? Give reasons for your answer.
4) Why are global enterprises considered superior to other business organisations ?
5) What are the benefits of entering into Joint Ventures and public private partnership ?

CHAPTER-4

Business Services

Meaning of Services :

Services are amenities, facilities, benefits or help provided by other people. Services cannot be returned back once they are provided. Services are the intangible and nonphysical part of the economy that cannot be touched. They are perishable in nature as they need to be provided at a moment when requested by the consumer.

Nature of Services :

There are five basic features of services. These features also distinguish them from goods. These are discussed as below :

1. **Intangibility :** Cannot be seen, touched or smelled. Just can only be felt, yet their benefits can be availed of e.g., Treatment by doctor.
2. **Inconsistency :** Different customers have different demands & expectation e.g., Mobile services / Beauty Parlour.
3. **In Separability:** Production and consumption are performed simultaneously. For e.g. ATM may replace clerk but presence of customer is must.
4. **Inventory Loss :** Services cannot be stored for future use or performed erlier to be consumed at a later date. e.g., underutilized capacity of hotels and airlines during slack demad cannot be stored for future when there will be a peak demand.
5. **Involvement :** Participation of the customer in the service delivery is a must e.g. A customer can get the service modified according to specific requirement.

Difference between Services and Goods : There are many products that a consumer purchases in order to fulfill their certain requirements. These products can be either in the form of goods or services.

Basic for Comparison	Goods	Services
i) Meaning	Goods are the material items that can be seen, touched or felt and are ready for sale to the customer.	Services are amenities, facilities, benefits or help provided by other people.
ii) Nature	Tangible	Intangible
iii) Transfer of ownership	Yes	No
iv) Evaluation	Very simple and easy	Complicated
v) Variability	Identical	Diversified

Types of Service :

Services can be classified into three broad categories, viz., business services, social services and personal service.

1. **Social Services :**

   Social services are those services that are generally provided voluntarily in pursuit of certain social goals. These social goals may be to improve the standard of living for weaker sections of society, to provide educational services to their children, or to provide health care and hygienic conditions in slum areas.

2. **Personal Services :** Personal services are those services which are experiences differently by different customers. These services cannot be consistent in nature. They will differ depending upon the service provider. They will also depend upon customer's preferences and demands. For example, tourism, recreational services, restaurants.

3. **Business Services :** Business services are those services which are used by business enterprises for the conduct of their activities. For example, banking, insurance, transportation, warehousing and communication services.

Meaning of Banking : According to Banking Regulation Act 1949, banking means "accepting, for the purpose of lending and investment of deposits of money form the public, repayable in demand or otherwise and withdrawable by cheques, draft, order or otherwise".

Types of Banks :

Banks can be classified into the following :

1. Commercial banks
2. Cooperative banks
3. Specialized banks
4. Central bank

1. Commercial Banks : Commercial Banks are banking that accept deposits and grnat short-term loans and advances to their customers. There are two types of commercial banks, public sector and private sector banks.

(a) **Public Sector Bank :** Public sector banks are those banks, which are owned and managed by the Government. eg. SBI, PNB, IOB etc.

(b) **Private Sector Bank :** Private sector banks are owned and managed by pricate parties. eg. HDFC Bank, ICICI Bank, Kotak Mahindra Bank and Jammu and Kashmir Bank etc.

2. **Cooperative Banks :** Cooparative Banks are governed by the provisions of State Cooperative Societies Act. They managed on the principles of co-operation, self-help and matual help.

3. **Specialised Banks :** Specialised banks are foreign exchange banks, industrial banks, development banks, export-import banks which provide financial aid to industries, joint venture projects and foreign trade.

4. **Central Bank :** The Cental bank supervised, controls and regulates the activities of all the commercial banks of that country. It also acts as a government banker. It controls and coordinates currency and credit policies of any country. The Reserve Bank of India is the cebtrak bank of our country.

Functions of Commercial Banks :

Commercial banks perform the following functions :

1. Accepting Deposits :

Banks accept deposit from customers in the form of savings account, recurring deposit, fixed deposit and current account deposit and pay interest to customers on a quarterly or yearly basis.

2. Lending of Funds : Banks also act as lenders by granting loans in form of overdrafts, cash credit, trade bills etc. The bank earns profit by charging interest to customers on such loans.

3. Fund Remittance : Banks provide the facility of transferring funds of customers to different places. These transfers are facilitated by banks in form of pay orders and bank draft adding some transaction charge.

4. Cheque extension facility : Banks collect cheques from other banks and therefore act as clearing house for all cheques.

5. Other value-added service : Banks provide value added services like locker facility, bill payment, selling and buying of shares.

Meaning of Electronic Banking (E-Banking) Services : Use of computers and internet in the functioning of the banks is called electronic banking. Because of these services the customers don't need to go to the bank every time for every transaction. They can make transactions with the bank at any time and from any place.

E-banking promotes paperless/cashless transactions. It comes with a number of rights, responsibilities and fees as well. The range of services covered under E-banking are : Automated Teller Machines (ATM), and Point of Sales (PoS), Electronic Data Interchange (EDI) and Credit Cards Electronic or Digital Cash Eectronic Fund Transfer (EFT). The two ways in which EFT can be done are NEFT (National Electronic Fund Transfer) and RTGS (Real Time Gross Settlement).

Benegits of E-Banking to Customer :

1. E-Banking provides 24 hours a day X 365 days a year services to the customers.
2. Customers can make transactions from office or house or while traveling via mobile phone.
3. There is greater customer satisfactions through E-banking as it offers unlimited access and great security as they can avoid travelling with cash.

Benefits of E-Banking to Banks :

1. E-Banking lowers the transaction cost.
2. Load on branches can be reduced by establishing centralized database.
3. E-Banking provides cmpetitive advantage to the bank, adds value to the banking relationship.

Meaning of Insurance :

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 fixed sum of money (premium), on the heppening 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 isured.

Fundamental principle of Insurance :

The basic principle of insurance is that an individual or a business concern chooses to spend a certainly known sum in place of a possible huge amount involved in an unkown future loss. Insurance, therefore, is a form of risk management primarily used to safe guard against the risk of possible financial loss.

Functions of Insurance : The various functions of insurance are as follows :

(i) 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.

(ii) Risk Sharing : 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 compensatig a few among them who may suffer a loss. Thus, in effect the loss is spread over a large number of people.

(iii) 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.

(iv) Generation of Employent : Insurance cmpanies provide employmet to a large number of people on regular basis. A number of people earn their livelihood working as insurance agents.

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

1. 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 cse of life insurance, for eample, the proposer must honestly disclose all informatin relating to his/her health, habits, personal history, family history etc.

2. Insurable Interest : According to this principle, the insured must have insurable interest in the subject matter of the insurance. 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 loose from its damage or destruction.

3. Indemnity : The word indemnity means compensating somebody for the actual loss suffered by him; or restore someone to the same position that he/she was in before the insured event took place. The principle is applicable to the fire and marine and general insurance. It is not applicable to life insurance becuse the loss of life cannot be restored.

4. Proximate Cause : The insurance company will compensate for the loss incurred by the insured due to reasons mentioned in insurance policy. But if losses are incurred due to reasons not mentioned in insurance policy than parinciple of proximate cause or the nearest cause is followed.

5. Subrogation : This principle applies to all insurance contracts which are contracts of imdemnity. As per this principle, when any insurance cpmpany compensates the isured for loss of any of his property, then all rights related to that property automatically gets transferred to insurance company.

Types of Insurance :

Insurance, which is based on a contract, may be broadly classified into the following types :

(i) Life Insurance

(ii) Fire Insurance

(iii) Marine Insurance, and

(iv) Other tyeps of insurance such as Health Insurance, Burglary Insurance, Motor Vehicle Insurance, Cattle Insurance, Crop Insurance, Sports Insurance etc.

The Main Elements of a Life Insurance contract :

(i) Meaningful Life Insurance : Life insurance is a contact under which the insurer, in consideration of a certain amount of premium undertakes to paya fixed sum of money on the death of the insured or on the expiry of a specified period of time whichever is earlier.The Written form of contract is known as life insurance policy. it provides for the payment of a fixed sum to the insured or his legal heirs as the case may be either on a fixed date or on the happening is an event, which is certain.

The main elements of a life insurance contract are :

(i) The life insurance contract must have all the essentials of a valid contract.

(ii) The contract of life insurance is a contract of utmost good faith.

(iii) In life insurance, the insured must have an insurable interest in the life assured.

(iv) The life insurance contract is not a contract of indemnity.

Types of Life Insurance Polices :

Depending on the coverage, life insurance can be classified into the below-mentioned types :

1. Whole Life Policy :

The amount payable will not be paid before the dath of the assured. The policy money then becomes payable only to his/her beneficiaries or legal heirs.

2. Endowment Life Assurance Policy :

The insurance company undertakes to pay the policy money when the assured attains a particular age or on his death, whichever is earlier.

3. Joint Life Policy :

This policy is taken up by two or more persons like two partners and the premium is jointly in instalments or lump sum.

4. Annuity Policy :

This policy is taken by those who prefer a regular income after a certain age. Under this policy, premium is paid lump sum or in instalments by the assured.

5. Children's Endowment Policy :

This policy is taken by a person for his/her children to meet their higher education or marriage expenses. The insurance company pays the policy money when the children attaining particular age.

(ii) Meaning of 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 instalment. The fire insurance contracts are generally taken up for one year. It automatically comes to an end after the expiry of one year. However, one can renew the policy every year by paying the premium on time.

The claim for loss by fire is payable subject to two conditions, viz;

(a) There must have been actual fire; and

(b) Fire must have been accidental, not intentional; the cause of fire being immaterial.

Main Elements of a Fire Insurance Contract :

The main elements of a fire insurance contract are :

(i) In fire insurace, the insured must have insurable interest in the subject matter of the insurance. Without insurable interest the contract of insurance is void. In case of fire insurance, unlike life insurance insurable interest must be present both at the time of insurance and at the time of loss.

(ii) Similar to the life insurance contract, the contract of fire insurance is a contract of utmost good faith i.e., uberrimae fidei.

(iii) The contact of fire insurance is a contract of strict indemnity. The insured can, in the everrnt of loss, recover the actual amount of loss from the insurer. This is subject to the maximum amount for which the subject matter is insured.

(iv) The insurer is liable to compensate only when fire is the proximate cause of damage or loss.

(iii) Meaning of Marine Insurance :

A contract of marine insurance is an agreement whereby the inssurer undertakes to indemnify the insured, in the manner and to the extent thereby agreed, against transit losses, that is to say losses incidental to transit. In simple words the marine insurance includes :

(a) Ship or hull insurance : This marine insurance policy provides coverage to vessel including the furniture and articles of the ship against any unanticipated mishaps. The ship may be insured for a particular trip or for a particular period.

(b) Cargo Insurance : The person who is importing and the person who is sending the goods are intersted in the safety of goods during the sea journey. The goods to be insured are called 'cargo'. It is insured by the owner and insurance of goods shipped through waterways is known as cargo insurance.

(c) Freight Insurance : It is a type of marine insurance policy that compensates the shipping company in case the freight is lost or damaged.

Main Elements of a Marine Insurance Contract :

The main elements of a marine insurance contract are :

(i) Unlike life insurance, the contract of marine insurance is a contract of indemnity. The insured can, in the event of loss recover the actual amount of loss from the insurer.

(ii) The marine contract is based on utmost good faith on the part of both the parties. It is one of the important principles of marine insurance. The insured should give full information about the subject matter to the insurer. He should not withhold any information.

(iii) The insured should have an interest in the subject matter when it is to be insured which means insurable interest. Insurable interest must exist at the time of loss but not necessary at the time when the policy was taken.

(iv) The principle of *causa proxima* will apply to it. The insurance company will be liable to pay only if that particular or nearest cause is covered by the policy. This principle helps to decide the actual cause of loss when a number of causes have contributed to the loss. To fix the responsiblility of the insurer the immediate cause of a loss should be determined.

Differences between Life, Fire and Marine Insurance :

Difference between Life, Fire and Marine Insurance

Basis of difference	Life Insurance	Fire Insurance	Marine Insurance
1. Subject Matter	The subject matter of insurance is human life.	The subject matter is any physical property or assets.	The subject matter is a ship, cargo or freight.
2. Element \	Life insurance has the elements of protection and investment or both.	Fire insurance has only the element of protection and not the element of investment.	Marine insurance has only the element of protection.
3. Insurable interest	Insurable interest must be present at the time of effecting the policy but need not be necessary at the time when the claim falls due.	Insurable interest on the subject matter must be present both at the time of effecting policy as well as when the claim falls due.	Insurable interest must be present at the time when claim falls due or at the time of loss only.
4. Duration	Life Insurance policy usually exceeds a year and is taken for longer periods ranging from 5 to 30 years or whole life.	Fire insurance policy usually does not exceed a year.	Marine insurance policy is for one year or period of voyage or mixed.
5. Loss measurement	Loss is not measurable.	Loss is measurable.	Loss is measurable.
6. Policy amount	One can insure for any amount in life insurance.	In fire insurance, the amount of the policy cannot be more than the value of the subject matter.	In marine insurance the amount of the policy can be the market value of the ship or cargo.

Meaning of Communication Services :

A business organization must have constant contact with the outside world. There needs to be an exchange of information and ideas. This is why effective communicaiton is the cornerstone of any successful company. A company must communicate with its employees, customers, buyers, suppliers, the government etc.

There are two main communication services in India that businesses generally rely on,

A. Postal Services :

This service is required by every business to send and receive letters, market reports, parcel, money order etc. on regular basis. All these services are provided by the post offices scattered throughout the country. The postal department performs the following services.

1. Financial Services : They provide postal banking facilities to the general public and mobilize their savings through the following saving schemes like public provident fund (PPF), Kisan Vikas Patra, National Saving Certificate, Recurring Deposit Scheme and Money Order facility.

2. Mail Services : The postal mail service deals with both inland and international mails. An inland mail is one where the sender and receiver of the mail reside within the same country. On the other hand, where the sender and receiver of the mail reside in different countries it is called an international mail.

3. Allied Postal Service :

(i) Greetings Post : Greetings can be sent through post offices to people at different places.

(ii) Media Post : Corporater sectors can advertise their brands through post cards, envelops etc.

(iii) Speed Post : It allows speedy transmission of articles (within 24 hours) to people in specified cities.

iv) e-bill Post : The post offices collect payment of bills on behalf of BSNL and other organizations.

B. Telecom Services :

Today's global business world, the dream of doing business across the world, will remain a dream only in the absence of telecom services. The various tele communication services now available in India are as follows-

1. Cellular mobile services : Cordless mobile communication device including voice and non-voice messages, data services and PCO services.

2. Fixed Line Services : Includes voice and non-voice messages and data services to establish linkage for long distance traffic.

3. Cable Services : Linkages and switched services within a licensed area of operation to operate media services which are essentially one way entertainment related services.

4. VSAT Service (Very samall Aperture Terminal) :

It is a Satellite based communication service. It offers government and business agencies a highly flexible and reliable communication solution in both urban and rural areas.

5. DTH Services (Direct to Home) :

DTH Services a Satellite based media services provided by cellular companies with the help of small dish antenna and a setup box.

Meaning of Transpotation :

Goods produced at one place may be used or consumed at various places as the markets for goods now-a-days are spread over length and breadth of the country and even extend to countries across the border. Hence the goods have to be carried from place of production to the place of consumption or use. The process of carrying goods and passengers from one place to another is termed as 'transportation' and the mode used there for are roadways, railways, airways and/or water ways. 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.

Meaning of Warehousing :

Once the goods are produced, they also must be stored. There is generally a lag time between production and consumption. This systematic and scientific storage and maintenance of goods and raw materials is called warehousing.

Types of Warehouses :

There are various types of warehouses based on the ownership of them. Some of them are -

a) **Private Warehouses:** The warehouses which are owned and operated by the manufactures or traders to store exclusively their own stock of goods are known as private warehouses.

b) **Public Warehouse :** The public warehouses 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 Inida, 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 used 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.

Functions of Warehousing : The warehouses preserve goods on a large-scale in a systematic and orderly manner. Warehouses now a days perform a variety of functions as stated below :

a) **Storage of Goods :** The basic functions of warehouses is to store goods properly till they are required for use, consumption or sale.

b) **Financing :** When goods are deposited in any warehouse, the depositor gets receipt which acts as a proof of the goods in store. This receipt can be used as security to obtain loans and advances from the banks and other financial institutions.

c) **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.

d) **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.

Exercise

A. Multiple Choice Questions : **(Marks: 1)**

1. Which is not a service :
   (a) Transport (b) Hair Cutting
   (b) Book selling (d) Recreation
2. Which one of the following is NOT the form of e-banking services offered by e-banking?
   (a) Cheque (b) ATM
   (c) NEFT (d) Debit Card
3. It is necessary for e-business :
   (a) Computer system (b) Internet connection
   (c) Trained staff (d) All the above
4. It is not a type of general insurance :
   (a) Marine Insurance (b) Fidelity Insurance
   (c) Life Insurance (d) Fire Insurance
5. Which of the following is not a contract of Indemnity :
   (a) Marine Insurance (b) Life Insurance
   (c) Fire Insurance (d) All the above
6. The fee charged by the insurer on account of providing services is called :
   (a) Premium (b) Profit
   (c) Instalment (d) EMI
7. Which is considered as the cheapest means of transportation
   (a) Air (b) Water
   (c) Road (d) Railway
8. Time utility is created by :
   (a) Transportation (b) Banking
   (c) Bank (d) Postal services
9. Give full form of ATM :
   (a) Automatic Tele Machine (b) Any Time Money
   (c) Automatic Teller Machine (d) Automatic Transfer Money

10. FCI, STC, CWC are examples of :

(a) Bonded Warehouses (b) Government Warehouses

(c) Private Warehouses (d) Cooperative Warehouses

B. State whether the following statements are True or False : (Marks : 1)

1. Insurance is a valid consideration for contract.
2. In A.T.M. the messages are transferred in written form.
3. Exchange of thoughts and information is called communication.
4. NEFT not a part of E-banking.
5. Change of fashion is a personnel risk.

C. Give the answers of the following questions in one word / sentence : (Marks : 1)

1. What is meant by the term 'Banking' ?
2. Define the term 'Insurance'.
3. Write down the full form of RTGS.
4. Write the full name of NEFT.
5. What do you mean by e-banking ?
6. Who is an Isured ?
7. Who is Insurer ?
8. Expand the term ATM.
9. What do you mean by the term 'goods'.
10. What is "Insurable interest"?

D. Give the answers of the following questions : (Marks : 3/4/5/6)

1. What do you mean by services ? Discuss briefly the nature of services.
2. Write down the differences between goods and services.
3. Discuss about different types of services with examples.
4. What do you mean by commercial banks ? Discuss the functions of commercial banks.
5. What is e-banking ? What are the advantages of e-banking to the customers and banks ?
6. What do you mean by the insurance ? Discuss about the principles of insurance.
7. Explain different types of life insurance policies.
8. Write short notes on different types of marine insurance.
9. What is the difference between life, fire and marine insurance ?
10. What do you mean by warehousing ? Explain in detail the warehousing services.
11. What are different types of warehouses ?

E. Case study :

1. Bikash insured his house for Rs. 60,00,000 against fire. A fire took place and the amount of loss was assessed at Rs. 40,00,000. He is claiming Rs. 60.00,000 from the insurance company. But the insurance company wants to pay only Rs. 40,00,000.

Questions :

i) You have to assess the amount payable to him.

ii) Explain the underlying principle of insurance.

Answer Sheet

A. Multiple choice questions :

(1) c (2) a (3) d (4) c (5) b (6) a (7) b (8) a (9) c (10) b

B. State whether the following statements are True or False :

(1) True (2) False (3) True (4) False (5) False

E. Case Study :

i) Bikash will get only Rs. 40,00,000.

ii) The principle of indemnity is applicable here. Also explain this principle in details.

CHAPTER - 5

Emerging Modes of Business

Meaning of e-Business :-

e-business may be defined as the conduct of industry, trade and commerce using the computer networks. The Internet users can order for the goods, receive their delivery and make their payment while sitting at their home on the Internet.

Scope of e-Business :

Various constituents of e-business are :

1. **B2B Commerce :** B2B means, business to-business. It is the business activities in which two business firms make electronic transaction like purchase or sale orders or invoices. For example- one can be producer firm and other can be a supplier firm.
2. **B2C Commerce :** B2C i.e., a firm's interactions with its customers. Here a customer can seek information through Internet about products, place orders and make payments and on the other hand at any time the firm can know the satisfaction level of customers.
3. **Intra-B Commerce :** Intra-B commerce means a firm's internal processes. Here the parties involved in the electronic transaction are the two departments of same business. For Example, through internet it is possible for the marketing department to interact constantly with the production department and get the goods as per the requirement of customers.
4. **C2C Commerce :** Here, the business originates from the consumer and the ultimate destination is also consumers, thus the name C2C commerce. It is required for the buying and selling of those goods for which there are no established markets. For example-selling old motorcycle through internet.

Benefits of e-Business :

The major benefits of e-Business are as follows:

1. **Ease of formation and lower investment requirements :** e-business is relatively easy to start. In this type of business, you don't require any big showroom or proper location or huge amount for investment. You need only computer and Internet connection
2. **Elimination of Middlemen :** From the time of e-Business existence, middlemen i.e. the wholesalers and retailers have started disappearing. Now, producers or manufacturers can have direct contact with customers. As a result, the consumer gets goods on less price.
3. **Convenience :** Internet offers the convenience of '24 hours × 7 days a week × 365 days' a year business that allowed its customers to go for shopping well after midnight. Such benefits are available for the organisational employees also as they can do work from wherever they are, and at any time.

4. **Global reach :** Internet is truly without boundaries. It gives both businessmen and customer the opportunity of accessing the global market. New customers come in contact with them. This results in increase in sales.

5. **Speed :** Internet allows the buying or selling of goods or exchange of information by the click of a mouse. This benefit becomes more attractive in the case of information-intensive products such as software's, music, e-books and journals etc.

Limitations of e-Business :-

The major Limitations of e-Business are as follows :

1. **Low personal touch :** Sometimes a customer prefers human interaction and warmth to better understand the product, E-Business is relatively less suitable mode of business in respect of this type of product categories such as beauty products, garments, fashion accessories etc.

2. **Incongruence between order taking/giving and order fulfillment speed :** Order can be completed at the click of a mouse, but the physical delivery of the product takes time. There might be a situation where the product ordered and the delivery of the product gets delayed or mismatched.

3. **Need for technology :** e-business needs a fairly high degree of digital technology for both the parties about the world of computers. Those who are not familiar with digital technology find it difficult to place online orders and restrict e-business growth.

4. **Increased risk :** Internet transactions occur between cyber personalities. And sometimes this type of situation arises where the buyer may provide false information and may not make the payment promised. It makes e-business risky. There may be problems of virus and hacking also.

5. **Ethical fallouts :** Nowadays, companies are using an 'electronic eye' to keep track of the computer files you use, your e-mail account, the websites you visit etc. Data theft or breach can be destructive for a company if it reaches the wrong person. These may not be ethical.

Difference between Traditional business and e-business are :

Basis	Traditional business	e-business
1. Formation	Formation of traditional business is difficult.	Formation of e-business is simple.
2. Physical presence	In traditional business physical presence is required.	In e-business physical presence is not required.
3. Operating cost	In traditional business operating cost is high due to various fixed charges.	In e-business operating cost is low as a result of network relationships
4. Shape of the organisational structure	In traditional business vertical/tall, due to hierarchy or chain of command.	In e-business horizontal/flat due to directness of command and communication.

5. Nature human capital	In traditional business semi-skilled and even unskilled manpower needed.	In e-business technically and probessionally qualified persons needed.
6. Opportunity for interpersonal touch	In traditional business opportunity for interpersonal touch is much more.	In e-business opportunity for interpersonal touch is less

Meaning of Online Transaction:

Online transaction means receiving information about goods, placing an order, receiving delivery and making payment online over electronic fund transfer through medium of internet. Online transaction process is secure and password protected.

Stages of Online Transaction :

There are three stages of Online Transactions, which are:

i) **Pre-purchase/Sale :** In this stage, the product or service is advertised online with some details for the customers.

ii) **Purchase/Sale :** When a customer likes a particular product or service, he/she buys it and makes the payment online

iii) **Delivery Stage :** This is the final stage where the goods bought are delivered to the consumer.

Steps Involved in Online Transaction :

The following are the steps involved in Online Transaction:

1 **Registration:** The buyer has to register online on the specific website to buy a particular goods or service. The customer's email id, name, address, mobile no. and other particulars are saved and are safe with the website. For security reasons, the buyer's 'Account' and his 'Shopping Cart' is password protected.

2 **Placing an Order:** When a customer likes a goods or service, he/she puts the goods or service in 'shopping cart'. The shopping cart gives a record all the products selected by the buyer to be purchased, the number of units or quantity wanted to be bought per item selected and the price for each item. The buyer then proceeds to the payment option after choosing all the products.

3 **Payment :** The buyer then has to choose the payment option among the available different payment options. These payment pages are secured with very high-level encryptions so that the individual financial information like- bank/card details stay fully secure. Some ways in which one can make this payment are:

- Cash on Delivery: Cash payment can be made at the time of physical delivery of goods.
- Cheque : In this type of payment, the buyer sends a cheque to the seller and the seller sends the product after the realization of the cheque.

- Net Banking Transfer : The buyer can make electronic transfer of funds (EFT) to account of online seller over the internet.
- Credit or Debit Card : The buyer can make payment for online transaction through debit or credit card by giving the number and of card name of bank.
- Digital Cash : Digital Cash is a form of electronic currency that exists only in cyberspace and has no real physical properties. Here the money in buyer's bank account is converted into a code that is saved on a microchip, a smart card or on the hard drive of his computer. When he makes a purchase, he needs to mention that particular code to the website and thereafter the transaction is duly processed.

Risks related to e-Business/ Online Transactions :

E-commerce has been facing certain problems which threaten the security and safety of business transactions. The important problems related to e-Business or online transactions are discussed below :

1. **Transactional Risk :** Online transactions are vulnerable to the following types of transaction risks:

A) Default on order– A seller may deny that the buyer ever placed the order.

B) Default on delivery– Sometimes, goods may be delivered to the wrong address or goods other than ordered may be delivered to the buyer.

C) Default on payment– Sometimes, the seller does not get the payment for the goods supplied, whereas the buyer claims that the payment has been made.

2. **Data Storage and Transaction Risks :** Vital information stored in the system can be stolen or changed to pursue some selfish motive. The risks involved data storage is :

A) Virus (Vital Information Under Seize)– Some of the computer viruses are deadly. They can clear-out all information stored in the computer memory. Viruses bring the things to a standstill, causing huge loss of time, and revenue for the organization.

B) Hacking– Hacking refers to unauthorized entry into a website. Hackers often destroy the data and information which causes huge loss to the owner of the website because of interruptions.

3. **Risks of threat to intellectual property and privacy :** Internet is an open space. Once the information is presented over the internet, it moves out from of the private domain. The information available over the internet in the course of online transactions may be copied by other online merchants. The online merchant himself may not protect confidential information about the customers. Hackers may pretend to be customers themselves. They may make use of stolen credit cards of real customers, A fraudulent business enterprise may operate website and take away advance money from customers and not supply any product.

Security and Safety of e-Transactions/ Online Transaction :

In order to ensure Security and Safety of e- transactions or online transactions the following points need to be strengthened :

i) **Confirming the details before the delivery of goods :** The buyer is required to provide the details such as credit card no., card issuer and card validity online.

ii) **Installing Anti :** Virus Programs : Installing and timely updating antivirus program provides protection to data files, folders and system from virus attacks.

iii) **Establishment of Cyber-crime cells :** Govt. may setup special crime cells to look into the cases of hacking and take necessary action against the hackers.

iv) **Use of Digital signatures :** A digital signature is used to authenticate the sender of the message and to check the integrity of the message, i.e. it has not been altered in transit. The authentication element requires a digital ID, also known as a digital certificate that is issued by a third-party certification authority.

Meaning of Outsourcing :

Outsourcing is the process of contracting a business function or any specific business activity to specialized agencies. Mostly, the non-core areas such as sanitation, security, household, pantry, etc. are outsourced by the company. The company makes a formal agreement with the agency. Across the world, outsourcing business is rising rapidly and with its help, firms can emphasis on their core operations and gain more profits and improve product quality.

Nature/Features of Outsourcing:

The significant natures of outsourcing are discussed below :

i) **Outsourcing involves contracting out some work to other firms :** Many of the business organizations are now being entrusted to outside agencies on a contractual basis. e.g., sanitation or housekeeping.

ii) **Non-core activities are generally outsourced :** We have to understand that the same activity in two different concerns which become different activity. For e.g sanitation and housekeeping are considered as non-core activities in the case of academic institutions and so are outsourced. But housekeeping is a core activity for a hotel so is performed in-house.

iii) **Business processes may be outsourced to a captive unit or a third party :** A big company having many branches may create a separate unit to perform certain common services or functions. Examples: recruitment, selection, training, customer care support services, etc. may be transferred to a separate unit created for this purpose. So, such services may be outsourced to outside agencies.

iv) Outsourcing is popularly associated with IT-enabled services (ITES) : Outsourcing is popularly related with IT-enabled services (ITES) IS known as BPO (Business Process Outsourcing). There has been tremendous growth in the number and size of call centers which provide customer oriented voice-based services to their clients on behalf of the parent company.

Scope of Outsourcing :

Outsourcing comprises four key segments, which are:

i) contract manufacturing ii) contract research iii) contract sales and iv) informatics.

The term outsourcing has more generally come to be associated with IT -enabled services or Business Process Outsourcing (BPO). In fact, even more popular term is ‘call centers’ providing Customer-oriented voice-based services.

Need/ Benefits/ Advantages of Outsourcing :

Few advantages or needs of outsourcing are given below:

i) **Focusing of attention :** With the help of outsourcing companies can focus on their core areas which lead to better profits and increase the quality of their product. They simply outsource auxiliary services.

ii) **Quest for excellence :** Outsourcing enables the firms to pursue excellence in two ways. One, they shine themselves in the activities that they can do the best by virtue of limited focus and on the other hand they excel by extending their skills through contracting out the remaining activities to those who excel in performing them.

iii) **Cost reduction :** It avoids the need to hire people in-house; hence recruitment and functioning costs can be minimized to a great level. It reduces the cost and also saves time and affording on training cost.

iv) **Passage to High-quality Services :** Only the skilled individual is given a particular task resulting in better service and few errors.

v) **Fillip to economic development :** Outsourcing, more so offshore outsourcing, stimulates entrepreneurship, employment and exports in the host countries (i.e., the countries from where outsourcing is done). Example: IT sector of India.

Concerns over Outsourcing/ Disadvantages of Outsourcing :

Outsourcing has its own benefits and has to stay globally but it has its own limitations as discussed below:

i) **Confidentiality :** Outsourcing depends on sharing a lot of vital information and knowledge. If the outsourcing partner passes it on to competitors it can harm the business to a greater extent. Not only that even the outsourcing partner may start a competent business.

ii) **Ethical Concerns :** In the name of cost cutting, unlawful activities such as child labour, wage discrimination may be encouraged in other countries.

iii) **Resistance in home countries :** Contracting out ultimately result in contracting out of employments; this may create resistance in the home countries. Particularly if the home country is suffering from problem of unemployment.

iv) **Poor Quality :** Not hiring the right outsourcing company can often result in inferior-quality services and extension of project delivery deadlines.

EXERCISE

A. Choose the Correct Answer: **(Mark-1)**

1. Here, parties involved in the electronic transactions are from within a given business firm, hence, the name is________

   (a) C2c Commerce (b) B2B Commerce

   (c) Intra-B Commerce (d) Intra-A Commerce

2. Which of the following method is very popular for making online transactions?

   (a) Credit Card (b) Debit Card

   (c) Net banking (d) All of these

3. Name the type of e-commerce transaction where both Sellers and buyers are business firms,

   (a) B2B Commerce (b) C2B Commerce

   (c) B2C Commerce (d) C2C Commerce

4. Name the type of e-commerce transactions where business firms at one end and its customers on the other end.

   (a) C2B Commerce (b) B2C Commerce

   (c) B2B Commerce (d) C2C Commerce

5. Name the type of e-commerce transactions where the business originates from the consumer and the ultimate destination is also consumers.

   (b) B2C Commerce (a) C2B Commerce

   (d) C2C Commerce (c) B2B Commerce

6. In E-commerce payment is done by ....

   a) Offline b) Online

   c) By post d) None of these

7. Call center supports ....

   a) Customer b) Society

   c) Manufacturer d) All of these

8. Which method is used for making online transactions?

   (a) Credit Card (b) Debit Card

   (c) Net banking (d) All of these

9. Under what method payment is made at the time of physical delivery of goods

   (a) Credit card payment (b) Debit card payment

   (c) Cash on delivery (d) Prepaid amount

B. Give the answers of the following questions in one word/ sentence: (Mark: 1)

1. Define e-Business
2. What do you mean by B2B Commerce?
3. What is C2C Commerce?
4. Define B2C Commerce.
5. What is meant by intra-B Commerce?
6. What do you mean by the term online transaction?
7. What is called Digital Cash?
8. What do you mean by Cash- on Delivery (CoD)?
9. What are called Call Center?
10. Define the term 'default on delivery?

C. Give the answers of the following questions: (Marks: 3/4/5/6)

1. Explain the various constituents of e-business.
2. Discuss the major benefits of e-Business.
3. Narrate the major Limitations of e-Business.
4. Distinguish between Traditional business and e-business.
5. Briefly discuss the stages of online transaction?
6. Briefly explain different payment mechanisms available for online shopping.
7. What do you mean by outsourcing? Discuss nature of outsourcing.
8. Briefly discuss the "Need for Outsourcing".
9. Briefly explain the "Concerns of Outsourcing".

D. Case Study:

1. Your friend is of that opinion that Traditional business involves handling and carrying more cash by both buyers and sellers which was highly risky but online payment mechanism is safer. Is he correct? Explain any four such online payment mechanisms.

ANSWER KEY

A. Choose the Correct Answer:

1-c	2-d	3-a	4-b	5-b	6-a
7-a	8-d	9-c			

D. Case Study:

Ans. : Refer to Concept Explanation-Steps involved in Online Purchase- Payment Options/Mechanisms.

CHAPTER - 6

Social Responsibility of Business and Business Ethics

Introduction

A business enterprise should do business and earn money in ways that fulfill the expectations of the society. Every individual living in society has certain obligatons towards society. He has to respect social values and norms of behaviour. A business enterprise is permitted by society to carry on industrial or commercial activities and therby ern profits. But it is obligatory on part of the business enterprise not to do anything, that is undesirable from society's point of view. Supplying good quality goods, creating healthy working conditions, honestly paying taxes prevention, installing pollution devices in the factory and sincerely attending to customer complaints are are examples of socially desirable practices which improve the image of enterprises and also make them profitable. In fact, it is through socially responsible and ethically upright behaviour that business enterprises can get durable success.

Concept of Social Responsibility

Social responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of the objectives and values of our society. In other words, social responsibility involves an element of voluntary action on the part of business people for the benefit of society.

Need for Social Responsibility :-

The very concept of social responsibility implies that it is essentially an ethical issue, since it involves the question of what is morally right or wrong in relation to the firms responsibilities. Social responsibility also has an element of voluntary action on the part of the business person who may feel free to perform or not to perform such responsibilities. They may also exercise their freedom for deciding. The extent to which they would like to serve various sections to society. People strongly believe that a firm's only social responsibility is towards its owners. Some others however, hold an opposite view and argue that the firm has a social responsibility to serve all sections of society who are affected by its decisions and actions.

Corporate Social Responsibility (CSR) :-

Corporate sustainability refers to the role that companies can play in meeting the agenda of sustainable development and entails a balance approach to economic progress, social progress and environmental protection.

The United Nations Industrial Development organisation defines "Corporate Social Responsibility" as a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives while at the same time addressing the expectations of shareholders and stakeholdrs. In this sense, it is important to draw a distinction between CSR, which can strategic business management concept and charity, sponsorship or phillanthropy. Even though the latter can also make a valuable contribution to poverty reduction, it will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that".

In India the concept of CSR is governed by clause 135 of the campanies Act, 2013, which was passed by both the Houses of the Parliament, and had received the assent of the President of India on 23rd August 2013.

The CSR provisions with in the Act is applicable to companies with an annual turnover of 1,000 corore and more or a net worth of ₹ 500 core and more, or a net profit of ₹ 5 core and more.

1. The new rules, which are applicable from the fiscal year 2014-15 onward, also require companies to setup a CSR committee consisting of their board members, including at least one independent director.
2. The Act encourages companies to spend at 2% of their overage net profit in the previous three years on CSR activities.
3. The indicative activities, which can be undertaken by a company under CSR, have been specified under schedule VII of the Act.
4. Only CSR activities undertaken in India will be taken into consideration.
5. Activities meant exclusively for employees and their families will not qualify under CSR.

Arguments for Social Responsibilty :-

The following are the arguments for social responsibility

i) Justification for existence and growth

ii) Long term interest of the firm

iii) Avoidance of Government Regulations

iv) Maintenance of Society

v) Availability of resources with business.

vi) Converting problems into opportunities.

vii) Better environment for doing business.

viii) Holding business responsible for social problems.

Arguments agaisnt Social Responsibility :-

The following are the arguments against for social responsibility

i) Violation of profit maximisation objective.

ii) Burden on consumers

iii) Lack of social skills.

iv) Lack of board public support.

Reality of Social Responsibility :-

Any one may wounder what the businessmen profit do in reality. Do they concentrate on maximisation? or, do they support social goals? The fact is that one of the most important recent changes in the attitude of business people has been the realisation that they have social obligations to fulfill besides ensuring their own existence through profitable activity. Reality of social responsibility is that, despite differing arguments relating to social responsibility, business enterprises are concered with social responsibilittty because of the influence of certain external forces. These forces are :

i) Threat of Public Regulation :

ii) Pressure of labour movement :

iii) Impact of Consumer Conciousness

iv) Development of social standard for businessmen

v) Development of Business Education

vi) Relationship between social interest and business interest and

vii) Development of Professional, Managerial Class

Kinds of Social Responsibility

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

a) Economic Responsibility

b) Legal Responsibility

c) Ethical Responsibility

d) Discretionary Responsibility

Social Responsibility Towards Different Interest Groups :-

Once the social objective of business is recognised, it is important to know to whom and for what the business and its management are responsible obviously, a business unit has to decide in which areas it should carry out social goals. Some of the specific responsibilities and enterprise may be outlined as under :

i) Responsibility towards the shareholdes or owners

ii) Responsibility towards the workers.

iii) Responsibility towards the consumer

iv) Responsibility towards the government and community.

Business and Environmental Protection :

Protection of the environment is a serious issue that confronts business managers and decision makers. The environment is defined as the totality of man's surroundings– both natural and man-maid. These surroundings are also in the nature of resources, that are useful for human life. The resources may also be called natural resources like land, water, air, fauna and flora and raw materials; or man-maid resources such as cultural heritage, socio-economic institutions and the people.

Pollution– the injection of harmful substances into the environment is infact, largely the result of industrial production. Since some waste is inevitable in the use of materials and energy, the manufacturers face a great challenge in minimising the adverse impact of this waste by using proper technologies. Protection of the environment is good for all of us.

Pollution changes the physical, chemical and biological characteistics of air, land and water, pollution harms human life and the life of other species. It also degrades living conditions white wasting or depleting raw material resources.

Causes of pollution :

It must be recognised that all sectors of our society viz., industry, government, agriculture, mining energy, transportation, construction and consumers generate waste. Wasts contain pollutants which are materials of chemicals that have been discarded during the process of production or consumption. Pollution is caused by these pollutants which are released into the environment beyond its assimilation capacity.

Business activities such as production, distribution, transport, storage, consumption of goods and services are known to be the most critical sources of environmental pollution problems.

May business enterprises have been responsible for causing :

i) Air pollution

ii) Water pollution

iii) Land pollution

iv) Noise pollution.

Environmental Problmes :

The United Nations has identified eight problems that cause damage to the natural environment. These are :

i) Ozone depletion

ii) Global warming

iii) Solid and hazardous wastes

iv) Water pollution

v) Fresh water quality and quantity

vi) Deforestation

vii) Land degradation

viii) Danger to biological diversity

Need for Pollution Control :

Pollution prevention or control is needed to preserve precious environmental resources and to improve the environmental quality so that the preserved resoures can be utilised for the benefit of mankind and the improvement of health and well-being of the people. People are now raising their voice loudly against pollution generating activities. Business enterprise cannot remain unaffected by environmental destruction.

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

i) Reduction of health hazard.

ii) Reduced risk of liability.

iii) Cost savings.

iv) Improved public image.

v) Other social benefits.

Business Ethics :

From the social point of view, business exists to supply goods and services to the people. From the individual point of view, the primary objective of a business firm is to earn profit. One may expect that the individual goals of the firm would not be in conflict with the objectives of the society.

However, business enterprises are run by human beings whose decisions and actions may not always be in accordance with the expectations of society. The subject matter of ethics is concerned with establishing linkages between individual good and social good.

Role of Business in Environmental Protection :

Since the quality of the environment is important for all of us, we have a collective responsibility to protect it from being spoiled. Whether it is government, business enterprises, consumers, workers or other members of society, each one can do something to stop polluting the envionment.

The business enterprises should however, take the lead in providing their own solutions to environmental problems. It is the social responsibility of every business to take steps not only to check all sorts of pollution but also to protect environmental resources. Business enterprises are leading creators of wealth, employment, trade and technology. They also command huge financial, physical and human resources. They also have the know-how to solve environmental pollution problems with a preventive approach by controlling pollutants at the source.

Some of the specific steps which can be taken by business enterprises for environmental protection are as stated below :

i) A definite commitment by top management of the enterprise to create, maintain and develop work culture for environmental protection and pollution prevention.

ii) Ensuring that commitment to environmental protection is shared throughout the enterprise by all divisions and employees.

iii) Developing clear-cut policies and programmes for purchasing good quality raw materials, employing superior technology, using scientific techniques of disposal and treatment of wastes and developing employee skills for the purpose of pollution control.

iv) Complying with the laws and regulations enacted by the governement for prevention of pollution.

v) Participation in government programmes relating to management of hazardous substances, clearing up polluted rivers, plantation of trees and checking deforestation.

vi) Periodical assessment of pollution control programmes in terms of costs and benefits so as to increase the progress with respect to environmental protection.

vii) Arranging educational workshops and training materials to share technical information and experience with suppliers, dealers and customers to get them actively involved in pollution control programmes.

Concept of Business Ethics :

Ethics is concerned with what is right and what is wrong in human behaviour judged on the basis of a standard form of conduct/behaviour of individuals as approved by society in a particular field of acttivity.

Business ethics concerns itself with the relationship between business objectives, practices and techniques and the good of society. Business ethics refer to the socially determined moral principles which should govern business activities. A few examples of business ethics are : charging fair prices from customers, using fair weights for measurement of commodities, giving fair treatment to workers, and earning reasonable profits. A business person behaves ethically when her or his actions are upright and serve the interests of society. There is a growing realisation all over the world that ethics is vitally important for every business and for the progress of any society. Ethical business is good business. Ethical business behviour improves public image, earn's people's confidence and trust and lead greater success. Ethics and profits go together in the long run.

Elements of Business Ethics :

Since ethical business behaviour is good for both the business enterprise and society, it makes sense to discuss how the enterprises can foster ethics in their day-to-day working. Some of the basic elements of business ethics while running a business enterprise are as follows :

i) Top management commitment.

ii) Publication of a 'Code'.

iii) Establishment of compliance mechanisms.

iv) Involving employees at all levels.

v) Measuring results.

Ground Rules of Ethics :

The following are some of the universal virtues which every human beings should imbibe, develop and practise to be ethical in life :

a) Be trustworthy

b) Have respect for others

c) Own responsibility

d) Be fair in dealings

e) Be caring towards the well-being of others

f) Prove to be a good citizen–through civil virtues and duties.

Environmental Protection in India

(Steps by the Government)

1. **Laws** : The directive principles of state policy in the constitution of India lay emphasis on protection of environment. Some of the laws enacted areas under :

    i) The Wildlife Protection Act. 1972.

    ii) The water (Prevention and Control of Polution) Act. 1974 amended in 1974 and 1988.

    iii) The Air (Prevention and Control of Polution) Act. 1974 amended in 1974 and 1988.

iv) The Environment (Protection) Act. 1986.

v) The Forests (Conservation) Act. 1980 amended in 1988.

vi) The Hazardous Wastes Act, 1989.

2. **Regulations** : Administrative orders / Policy guidlines have been laid down by the government. A Seperate Department of Environment, Government of India was created in 1980.

3. Certain regulatory bodies or quasi-judicial authorities have been established such as :

- National Afforestation and Eco-development Board and
- National Wastelands Development Board.

4. Manufacturing units have been closed in cities. High Court of Delhi ordered shifting manufacturing units of Delhi and closing them. Similarly, courts have ordered removal of foundaries from Agracity and shifting of manufacturing factories from Kanpur.

5. Various programmes on environment education and seminars on creating awareness and resource are being organised regularly.

6. Government has also laid down Environment Action Plan (EAP)

CHAPTER - 7

Formation of a Company

Promoter :

The steps which are required from the time a business idea originates to the time, a company is legally ready to commence business are referred to as stages in the formation of a company. Those who are taking these steps and the associated risk are promoting a company and are called its promoters.

Formation of a company :

Formation of a Company is a complex activity involving completion of legal formalities and procedures. To fully understand the process one can divide the formalities into three distinct stages. Which are (i) Promotion (ii) incorporation and (iii) Subscription of capital

7.2.1 Promotion of a company :

Promotion is the first stage in the formation of a company. It involves conceiving a business idea and taking an intiative to form a company so that practical shape can be given to exploiting the available business opportunity. Thus, it begins with somedody having discovered a potential business idea.

Functions of a Promoter :

The important functions of promoters may be listed as below :

(i) **Identifications of a business opportunity :**

The first and foremost activity of a promoter is to identify a business opportunity.

(ii) **Feasibility Studies :**

Depending upon the nature of the project, the following feasibility studies may be undertaken, with the help of the specialists like Engineers, chartered accountants etc..., to examine weather the preceived business opportunity can be profitably exploited.

(a) **Technical Feasibility :**

Some times an idea may be good but terchnically not possible to execute. It may pbe so because the required raw material or technology is not easily available.

(b) **Financial feasibility :**

Every business activity requires funds. The promoters have to estimate the fund requirements for the identified business opportunity.

(c) **Economic feasibility :**

Sometimes it so happens that a project is technically viable and financially feasible but the chance of it being profitable is very little.

Only when these investigations throw up positive results, the promoters may decide to actually launch a company.

(iii) **Name approval :**

Having decided incorporate to a company, the promoters have to select a name for it and submit an applications to the register of companies of the state in which the registered office of the company is to situated, for its approval.

(iv) **Fixing up signatories to the Memorandum of Association :**

Promoters have to decide about the members who will be signing the Memorandum of Association of the proposed company. Usually the people signing memorandum are also the first directors of the company.

(v) **Appointment of professionals :**

Certain professionals such as mereantile bankers auditors etc, are appointed by the promoters to assist them in the preparation of necessary documents which are required to be with Registrar of companies.

(vi) **Preparation of necessary documents :**

The promoter taks up steps to prepare certain legal documents, which have to be submitted under the law, to the registrar of the companies for getting the company registered. These documents are Memorandum of Association, Articles of Association and consent of directors.

Documents required to be submitted :

(A) Memorandum of Association :

As per section 2(56) of the companies Act, 2013 "memorandum" means the memorandum of assoiciation of a company as originally framed or as altered form time to time in pursuance of any previous company law or of this Act. The Memorandum of Association contains different clauses, which are given below :

(i) The name clause :

this clause contains the name of the company with which the company will be known, which has already been approved by the registrar of companies.

(ii) Registered office clause :

This clause contains the name of the registered office of the state in which registered office of the company is proposed to be situated. Which the company already been apstate proved by the Registrar of companies.

(iii) Objects clause :

This is probably the most important clause of the memorandum. It defines the purpose for which the company is formed. A company is not legally entitled to undertake an activity, which is beyond the objects stated in this clause.

(iv) Liability Clause :

This clause limits the liability of the members to the amount unpaid on the shares owned by them.

(v) Capital Clause :

This clause specifies the maximum capital which the company will be authorised to raise through the issue of shares. The authorised share capital of the proposed company along with its division into the number of shares having a fixed face value is specified in this clause.

B. Articles of Association :

Articles of Association are the rules regarding internal management of a company. These rules are subsidiary to the Memorandum of Associatin and hence, should not contradict or exceed anything stated in the Memorandum of Association. The companies are free to make their own articles of association which may be contrary to the clauses and in that case articles of association as adapted by the company shall apply.

C. Consent of Proposed Directors :

Apart from the Memorandum and Articles of Association, a written consent of each person named as a director is required confirming that they agree to act in that capacity and undertake to buy and pay for qualification shares, as mentioned in the Articles of Association.

D. Agreement :

The agreement, if any, which the company proposes to enter with any individual for appointment as its Managing Director or a whole time Director or Manager is another document which is required to be submitted to the Registrar for getting the company registered under the Act.

E. Statutory Declaration :

A declaration stating that all the legal requirements pertaininy to registration have been complied with is to be submitted to the Registrar with the above mentioned documents for getting the company registered under the law.

F. Receipt of payment of fee :

Along with the above mentioned documents necessary fees has to be paid for the registration of the company. The amount of such fees shall depend on the authorised share capital of the company.

Position of Promoters :

Promoters undertake various activities to get a company registered and get it to the position of commencement of business. But they are neither the agents nor the trustees of the company. They can't be the agents as the company is yet to be incorporated. Therefore, they are personally liable for all the contracts which are entered by them, for the company before its incorporation, in case the same are not ratified by the company later on.

7.2.2 Incorporation:

An application is made by promoters to the Registrar of comanies along with necessary documents and registration fee. The Registrar, after due scrutiny, issues certificate of incorporation. The certificate of incorporation is a conclusive evidence of the legal existence of the company.

Effect of the Certificate of Incorportation :

A company is legally born on the date printed on the certificate of incorporation. It becomes a legal entity with perpetual succession on such date. It becomes entitled to enter into valid contracts. The certificate of incorporation is a conclusive evidence of the regularity of the incorporation of a company. The defeciency in the formalities, the certificate of incorporation once issued, is a conclusive evidence of the existence of the company. Even when a company gets registered with illegal objects, the birth of the company can not be questioned. The only remedy available is to wind it up.

7.2.3 Capital Subscription :

The following steps are required for raising funds from public :

(i) SEBI Approval :

SEBI (Securities and Exchange Board of India) which is the regulatory authority in our country has issued guidlines for the disclosure of information and investor protection. Prior approval from SEBI is, therefore, required before going ahead with raising funds from public.

(ii) Filing of Prospectus :

A copy of the prospectus or statement in lieu of prospectus is filed with the Registrar of companies. A prospectus is 'any document described or issued as a prospectus including any notice, circular, advertisment or other document inviling deposits from the public or inviting offers from the public for the subscription or purshase of any securities of a body corporate'.

(iii) Apporintment of Bankers, Brokers, Underwriters :

The application money is to be received by the bankers of the company. The brokers try to sell the shares by distributing the forms and encounraging the public to apply for the shares. If the company is not reasonably assured of a good public response to the issue, it may appoint underwriters to the issue.

(iv) Minimum Subscription :

In order to prevent companies from commencing business with inadequate resources, it has been provided that the company must receive applicaitons for a certain minimum number of shares before going ahead with the allotment of shares. According to the companies Act, this is called the 'minimum subscription'.

(v) Application to stock Exchange :

An application is made to at least one stock exchange for permission to deal in its shares or debentures.

(vi) Allotment of shares :

In case the number of shares alloted is less than the number applied for , or where no shares are alloted to applicant, the excess application money, if any, is to be returned to applicants or adjusted towards allotment money due from them.

FORMATION OF A COMPANY

Difference between Memorandum of Association and Articles of Association :

Basic of Difference	**Memorandum of Association**	**Articles of Association**
Objectives	Memorandum of Association defines the objects for which the company is formed.	Articles of Association are rules of internal management of the company. They indicate how the objectives of the company are to be achieved.
Position	This is the main document of the company and is subordinate to the company Act.	This is a subsidiary document and is subordinate to both the Memorandum of Association and the Companies Act.
Relationship	Memorandum of Association defines the relationship of the company with outsiders.	Articles defines the relationship of the members and the company.
Validity	Acts beyond the Memorandum of Association are invalid and cannot be ratified even by a unanimous vote of the members.	Acts which are beyond Articles can be ratified by the members, provided they do not violate the Memorandum.
Necessity	Every company has to file a Memorandum of Association.	It is not compulsory for a public ltd. Company to file Articles of Association. It may adopt Table F of the companies Act, 2013.

Exercises

Multiple Choice questions Marks-1

1. Minimum number of members to form a private company is –

   (a) 2 (b) 3

   (c) 5 (d) 7

2. Minimum number of members to form a public company is –

   (a) 5 (b) 7

   (c) 12 (d) 21

3. Application for approval of name of a company is to be made to -

   (a) SEBI (b) Registrar of companies

   (c) Government of Inida (d) Government of the State in which company is to be registered.

4. A proposed name of a company is considered undersirable if -

   (a) It is identical with the name of an existing company

   (b) It resembles closely with the name of an existing company.

   (c) It is an emblem of Government of Inida, United Nations etc.

   (d) In case of any of the above.

5. A prospectus is issued by -

   (a) A private company

   (b) A public company seeking investment from public.

   (c) A public enterprise

   (d) A public company

6. Stages in the formation of a public company are in the following order -

   (a) Promotion, commencement of business, capital, subscription, Incorporation.

   (b) Incorporation, capital subscription, promotion.

   (c) Promotion, Incorporation, capital subscription.

   (d) Capital subscription, promotion, Incorporation.

7. Preliminary contracts are signed -

   (a) Before the Incorporation

   (b) After Incorporation but before capital subscription.

   (c) After Incorporation but before commencement of business.

(d) After commencement of business.

8. Preliminary contracts are -

    (a) binding on the company.

    (b) binding on the company, if ratified after Incorporation.

    (c) binding on the company, after Incorporation.

    (d) not binding on the company.

Short Answer Questions : **Marks - 1**

1. What is Promotion ?
2. Write two distinct stages of company.
3. Write the important documents of company.
4. What is Incorporation ?
5. What is Memorandum of Association ?
6. What do you mean by Articles of Association ?
7. What is Agreement ?
8. What is SEBI ?
9. What is Prospectus ?
10. What do you mean by minimum subscription ?

Long Answer Questions :

1. State the important functions of promoters.
2. Write the different clauses of Memorandum of Association.
3. Discuss the effects of the certificate of Incorporation.
4. State the different steps of capital subscription.
5. Write the difference between Memorandum of Association and Articles of Associations.
6. Discuss the stage of formation of a company.

Answer

MCQ

1. (a), 2. (b), 3. (b), 4. (d), 5 (b), 6. (c), 7. (a), 8. (d)

CHAPTER - 8

Source of Business Finance

Meaning of business finance:

Business finance is the process of managing an organisation's money. The purpose of business finance is also to ensure that a business has adequate operating funds and that it is spending and investing its money carefully wisely and effectively.

The financial needs of a business can be categorised as follows:

a) Fixed capital requirements:

In order to start business funds are required to purchase fixed assets like land and building, plant and machinery, furniture and fixtures. This is known as fixed capital requirement of the enterprise. The funds required in fixed assets remain invested in the business for a long period of time. Different business units need varying amount of fixed capital depending on various factors such as the nature of business.

Example : A tranding concern for require small amount of fixed capital as compared to a manufacturing concern like wise, The need for fixed capital investment would be greater for a large enterprise, as compared to that of a small enterprise.

b) Working capital requirement:

The financial requirements of an enterprise do not end with theprocurement of fixed assets. No matter how small or large a business is it needs funds for its day to day operations. This is known as working capital of an enterprise. Which is used for holding current assets such as stock of materials, Bills reciables and For meeting currentexpense like salaries, wages, taxes and rent.

The amount of working capital required various from one business concern to another depending on various factors. A business units selling goods on credit, or having a slow sales turnover.For example would require more working capital as compared to a concern selling its goods and service on cash basis or having a speedier turnover.

Classification of sources of funds :

Source of funds classification

- On the basis of period
  - **Long term**
    - Equity shares
    - Retained earnings
    - Preference shares
    - Debentures
    - Loan from Financial Institution
    - Loan from Banks
  - **Medium term**
    - Loan from Bank
    - Public deposit
    - Loan from financial institutions
    - Lease financing
  - **Short term**
    - Trade Credit
    - Factoring
    - Banks
    - Commercial Paper
- On the basis of owner ship
  - **Owner's Funds**
    - Equity shares
    - Retained earnings
  - **Borrowed Funds**
    - Debentures
    - Loan from Bank
    - Loans from financial institutions
    - Public deposit
    - Lease financing
    - Commercial paper
- On the basis of source of generation
  - **Internal Sources**
    - Equity shares capital
    - Retained earnings
  - **External Sources**
    - Financial institutions
    - Loan from Banks
    - Preference shares
    - Public deposits
    - Debentures
    - Lease financing
    - Commercial paper
    - Trade credit
    - Factoring

Retained earnings:

Like an individual, companies to set aside a part of their profit to meet future requirements.The portion of profits not distributed among the shareholders but retained and used in businesses called retained earnings.

Advantages of retained earnings:

1) **Cheaper sources of financing :** The use of retained earnings does not involve any acquisition cost. The company has no obligation to pay anything in respect of retained earnings.
2) **Financial stability:** Retained earnings strengthen the financial position of a business and thereby give financial stability to the business.
3) **Stable dividend:** Shareholders may get stable dividend event if the company does not earn enough profit.
4) **Market value:** It may lead to increase in the market price of the equity shares of the company.

Disadvantages:

1) **Improper utilisation of funds:** If the purpose for utilisation of retained earning is not clearly stated. It may lead the careless spending of funds.
2) **Over -capitalization:** Conservative dividend policy leads to huge accumulation of retained earning leading to over capitalization.
3) **Lower rate of dividend:** Retained earnings do not allow shareholders to enjoy full benefit of the actual earnings of the company. This creates not only Dissatisfaction among the shareholders but also adversely affect the market value of shares.

Trade credit: Trade credit is a business practice where seller or supplier allows the buyer topurchases goods on credit without making immediate payment.It is a short term agreement (generally 15 to 90 days) and buyer should pay the bill amount before the due date.

Merits : The main merits of trade credit can be highlighted as follows:

1) **It helps to increase sales:**

   Trade credit encourages clients to buy more products and services because it does not require immediate payment.
2) **Better customer relation:**

   Trade credit builds trust between the sellers and buyers which improves customer relation and loyalty. Better customer relation helps to increase repeat customers.
3) **Attracts new customers:**

   Better of believe customer relation and trust it improves the image of the business good public image helps to attract more potential customers.
4) **Better cash flow:**

   it improves the cash flow and helps to maintain liquidily in the business.

5) **Incentive and discounts:**

Sellers offer incentives for early payment or encourage their clients. Buyer also can enjoy the benefit of bulk buying.

Limitations:

1) **Problem on cash flow:**

The main disadvantage of trade credit to the seller is that it may negative affect the cash flow and create liquidity problem.

2) **Monitoring problem:**

It takes paperwork extra time and effort to maintain and monitor outstanding account receivable.

3) **Risk of bad debt:**

Another drawback of trade credit is that there exists a high chance of bad debt.If buyers fail to make payment.

4) **High penalties and interest:**

If buyer cannot make payment on time then supplier may charge penalties and interest on debt.

Factoring:

Factoring a financing method in which a business owner sells accounts receivable at a discount to a third party funding source to raise capital . One of the oldest forms of business financing.

Merits: The merits of factoring as a source of finance are as follows:

1) **Improved cash flow:**

One of the main benefits of factoring invoices is that funds are released quickly and cash flow improves almost immediately.

2) **Quick solution:**

Factoring arrangements can be put in place faster than a traditional business loan, allowing directors to respond quickly to the needs of the company if crunch time looms.

3) **Greater flexibility:**

Factoring is flexible as it's based on the company's invoices.Therefore, it can grow and adapt in line with the company as its revenues increases.

4) **Simple to apply:**

The application process is far simpler than most other traditional forms of lending.Most companies that have a solid customer base and do not have major problems should qualify immediately.

5) **No payment cashing:**

The provider will manage the collections process and deal customers directly to reduce late payment and any risk of business loss.

Limitations: The limitations of factoring as a source of finance are as follows:

1) **Cost:** The cost can be higher than other types of funding.

2) **Confidentiality:** When a factoring arrangement has been put in place, the provider will manage credit control and the collections process, therefore customers will know that this type of finance is being used.

3) **Concentration limits:** Factoring maybe unsuitable for businesses that have one or two main customers.This is due to providers stipulating "Low concentration limits".

4) **Possible harm to the customer:** Selling company fully gives the charge of collection in voice to the factoring company and pay more attention on money collection methods which impairscompany's relation with their customers.

5) **Company image distortion:** In the past factoring was considered a sign on the financial difficulties of the company.However in recent times this perception has changed and it has considered a normal way of doing business.

Lease financing:

Lease financing is a contractual agreement between the owner of the assets (Lessor) and user of the assets (Lessee) whereby the owner permits the user to economically use the assets on the payment of periodical amount which is in the form of lease rent for a specific period of time.It is the most important of long term financing.

1) **100% financing:** Lease agreement finances assets which require huge investment. The lessee is able to avail of 100% financing without resorting to any immediate down payment.

2) **Alternative use of funds:** Leasing facilitates The acquisition of equipment, plant and machinery without the necessary capital outlay.So, the financial resources of the business may be spared for alternative use.

3) **Cheaper sources of finance:** Leasing costs less than other alternatives available moreover leasing permits firm to acquire equipment without going through stringent formalities. So lease financing is faster as well as cheaper.

4) **Tax concession:** A lot of tax advantages can be derived by the lessee through switably structured rental payments.

5) **Free from restrictive covenants and conditions:** Lease finance is considered preferable to institutional finance. The lessee feel free from restrictive covenants and conditions such as representation on the board conversion of debt into equity.

6) **No risk of obsolescence:** The lessor being the owner of the assets bears the risks of obsolescence.Further, the lessee at anytime can replace the asset with latest technology.

Limitations:

1) **Higher cost:**

The lease rentals include a margin for the lessor as also the cost of risk of obsolescence, it is thus, regarded as a form of financing at higher cost.

2) **Competitive market:**

As a number of leasing companies have emerged in recent years in India, the lessor has to face a tough competition from Indian as well as foreign companies.

3) **Price level changes:**

In spite of the increase in prices of assets due to inflation, the lessor gets only fixed rentals based on previous costs.

4) **Management of cash flows:**

The success of a leasing business depends to a large extent upon efficient use of cash flows which are very difficult to manage because of unexpected market fluctuations.

5) **Long term investment:**

It usually takes a long time to recover the cost of the lessor in the capital outlays through lease rentals.Thus, lease rentals received may not represent actualrealised profits because of inherent risks involved.

Public deposits:

Public deposits refer to the unsecured deposits invited by companies from the public mainly to finance working capital needs. A company wishing to invite public deposits makes an advertisement in the newspapers.

Merits : The merits of public deposits are:

1) **Simplicity:** Public deposits are very convenient source of business finance. No cumbersome legal formalities are involved. The company raising deposits has to simply give an advertisement and issue a receipt to each depositor.
2) **Economic:** Interest paid on public deposits is lower than that paid Debenture and bank loans. Moreover, no commission and brokerage etc.
3) **No charge on assets:** Public deposits are unsecured and, therefore do not, create any charge or mortgage on the company's assets.
4) **Flexibility:** Public deposits can be raised during the season to buy raw materials in bulk and for other short-term needs. They can be returned when the need is over.
5) **Trading on equity:** Interest on public deposits is paid at fixed rate.This enables a company to declare higher rates of dividend to equity shareholder during periods of good earnings.
6) **Wide contracts:** Public deposits enable a company to build up contracts with the wider public. These contracts prove helpful in the sale of shares and debenture in future.

Limitations: The major limitation of public deposits are as follows:

1) **Uncertainty:** Public deposits are an uncertain and unreliable source of finance.The depositors may not respond when economic conditions are uncertain.
2) **Limited funds:** A limited amount of funds can be raised through public deposits due to legal restrictions.

3) **Temporary finance:** The maturity period of public deposits is short.The company cannot depend upon public deposits for meeting long- term financial needs.

4) **Speculation:** As public deposits can be raised easily and quickly, a company may be tempted to raise more funds than it can profitably use.

5) **Hindrance to growth of capital market:** Public deposits hamper the growth of a healthy and capital market in the country.

Commercial paper (CP):

Definition: Commercial paper is an unsecured and negotiable money market instrument issued in the form of promissory note by highly rated corporate borrowers to diversity their source of short term finance.

Merits: The merits of commercial paper are:

1) **No collateral:** Commercial papers are sold on an unsecured basis.Hence, no security or collateral required to raise finance.

2) **Cheaper:** As commercial papers are required to be rated good credit rating reduces the cost of capital for the firm.

3) **High liquidity:** As it is a freely transferable instrument. It has high liquidity.

4) **Extra funds:** It provides extra funds as the cost of the paper to the issuing firm is cheaper than the cost of loan from commercial banks.

5) **Reliable:** Commercial papers are highly reliable and does not have any limiting condition.

6) **Good return:** Companies or firm can earn good return on Excess fund by parking it in commercial paper.

Disadvantages/ limitations: The limitations of commercial papers are as follows:

1) **Highly organisation:** Only financially secure and highly rated organisations can raise money through commercial papers. New and moderately rated organisations are not in a position to raise funds by this method.

2) **Limited liquidity:** The amount of money that we can raise through commercial paper is limited to the deductible liquidity available with the suppliers of funds at a particular time.

3) **Odd method of financing:** Commercial paper is an odd method of financing.As such if a firm is not in a position to redeem its paper due to financial difficulties, extending the duration of commercial paper is not possible.

Equity share:

An equity share normally known as ordinary share is a part ownership where each member is a fractional owner and initiates the maximum entreprencurial liability 55 related to a trading concern. These types of shareholders in any organisation possess the right to vote.

Advantages of equity share:

1) **Permanent source of finance:** Equity shares are a permanent source of finance.It can be used for long term financial needs such as procurement of fixed assets.

2) **Less cost of capital:** Equity shares are a very good source of finance for the company as they consist of less cost of capital compared to other source of finance.

3) **Voting rights:** Equity shareholders have voting rights which means they can change or remove any decision in a meeting.This type of right is only available to equity share holders.

4) **No fixed dividend:** A business does not have any obligation to pay a dividend to equity shareholders. It the company earns profit then equity shareholders are eligible to get dividend otherwise they cannot claim any dividend from the company.

5) **Liquidity:** Equity shares are liquid in nature which means they can sold easily in the capital market.

Disadvantages of equity share:

1) **Irredeemable:** Equity shares cannot be redeemed during the lifetime of the business.

2) **No trading on equity:** Where the company raises capital through equity, they can't take advantage of trading on equity.

3) **An obstacle in management:** Since equity shareholders are the real owner of management they can create obstacles and influence business decisions as they have the power to change any management decision.

4) **Speculation:** Equity shares trading in the share market can lead to speculation during a fortunate period.

Preference share:

Preference shares are those shares which give preferential rights to its holders to receive dividend and get back the initial investment at the time of winding up of the company they don't have voting rights but they are eligible to get a fixed rate of dividend.

Merits: The merits of preference shares are given as follows:

1) **Fixed dividend:** Dividend rate is fixed in case of these shares, it provides a fixed rate of income to its holders.

2) **Redemption:** They are redeemable in nature as they can be redeemed after a specific period.

3) **Convertibility:** They are convertible in nature.They can be converted into equity shares whenever the need arises.

4) **Cumulative dividend:** One more advantages of these shares is they can have a cumulative dividend.If the company does not earn any profit in any year the dividend for that year can be cumulated with future dividends.

5) **Raising capital:** It is one of the most common source for long term finance. It helps in raising long term capital for the company.

6) **Increasing the marketability:** The preference shares can be utilised for raising the value of the equity shares and debentures in the open market.

Limitations: The major limitations of preference shares as source of business finance are as follows:

1) **No voting rights:** Preference shareholders have no voting rights which means they have no control over the management.
2) **Permanent burden:** Cumulative preference become the permanent burden for the management because the company has to pay the dividend even for the unprofitable period.
3) **Taxation:** They are not a deductible expense while calculating tax.
4) **Expensive:** They are an expensive source of finance compared to equity shares.
5) **Limited Appeal:** Bold investors do not like preference shares,cautions and conservative investors prefer debentures and government securities.In order to attract sufficient investors,a company may have to offer a higher rate of dividend on preference shares.

Debenture:

Adebenture refers to a document that explicitly details the terms and conditions of a loan to a company.The primary aim of a company debentures is to provide security and reassurance to the lender and usually contains a fixed and floating charge.If the business were to enter insolvency, they would recover their money ahead of unsecured creditors.

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

1) **Debenture are preferred by investors:** Since they attract cautions investors by offering definite security and safety of investment, issue of debentures can raise more funds.
2) **Debenture are less investment risk:** The interest on the debentures is charge against profits.The date and rate of payment are certain so the investors can get interest whether the company makes a profit or not.
3) **Less costly:** Usually, the rate of interest is lower than the rate of dividend payable on preference shares and equity shares.So raising of capital through the debentures is less costly.
4) **Maintenance of control:** Debenture financing permits the company to raise long term funds without diluting the present control.
5) **Debenture are reliable:** The amount derived from the debenture issue helps the company to implement expansion programmes.
6) **Market response:** The company can easily dispose of the debentures in the open market because debentures are having a satisfactory market response.

Limitations:

1) **Debentures are not suitable for all companies:** It is not suitable for companies with fluctuating Income and companies producing goods.Which have an elastic demand.
2) **Permanent burden :** Since the company has to pay interest whether it makes a profit or incurs loss, it becomes a permanent burden on the financial resources of the company.

3) **Requires huge fixed assets:** Most of the debentures are secured.So companies with less fixed assets cannot raise money through debentures.

4) **No voting rights:** The debenture holders have no voting rights.This may discourage some investors.

5) **Difficulty in repayment:** During depression the company will find it difficult to repay the principal and fixed interest.

6) **Affecting the capacity to raise loans:** If debentures are issued, generally they are secured against all the assets.Because of this, the company may find it difficult to raise further loans and advance from banks, industrial financing institutions or from outsiders.

Commercial bank:

The term commercial bank refers to a financial institution that accepts deposits, offers checking account services, makes various loans and offers basic financial products like certificates of deposit (CDS) and savings accounts to individuals and small business.

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

1) **Overall development:** The deposited amount with the banks is used for the overall development of the country through the financial assistance provided by the banks.

2) **Development of small and cottage industries:** The commercial banks are encouraging the development of small and cottage industrial also and loan facilities are being provided to the entrepreneurs.

3) **National development:** The economic position of the common man has been rapidly improving due to the significant role of commercial banks in the process of national development.As a result their living standard is going high.

4) **Easy loan:** The entrepreneurs Can obtain the loan on easy terms without many formalities.

5) **Secrecy:** Banks maintain the secrecy of all information about their customers.

6) **Overdraft facilities:** The bank is a real friend at the time of need because the bank helps the entrepreneurs during the crisis through overdraft facilities and credit facilities.

Limitations:

1) **Customers service:** Customers services are also fast deteriorating. As a result the customers are getting dissatisfaction also.

2) **Efficiency:** The profit earning capacity of banks is also reducing due to the decline in their efficiency.

3) **Organisational structure:** No change has taken place in the organisational structure of the banks, even after their fast expansion and new challenges to them.

4) **Fraud:** The cases of fraud and embezzlement of bank funds by the bank officers and staff are also alarmingly increasing.

5) **Recovery of loan:** Good progress has not been achieved in the sphere of recovery of loans by the banks. As a result the efficientcirculation of funds does not become possible.

Financial institutions:

Financial institutions, like insurance companies, help to mobilize savings and investment in productive activities. In return they provide assurance to investors against their life or some particular asset at the time of need.In other words, they transfer their customers risk of loss to themselves.

Merits: The merits of raising funds through financial institutions are as follows :

1) **Providing long term finances:** Financial institutions provide long term finance, which are not provided by commercial bank

2) **Easy instalment:** The rate of interest and repayment measures is convenient and economical as repayment of loan can be made in easy instalment.

3) **Consultancy:** Beside providing funds money of these institutions provide financial, managerial and technical advice and consultancy to business firms.

4) **Collection of fund at the period of depression:** The funds are made available even during periods of depression. When other sources of finance are not available.

5) **Increase the goodwill:** Obtaining a loan from financial institutions increases the goodwill of the borrowing company in the capital market.Consequently, such a company can raise funds easily from other sources as well.

Limitations:

1) **Expensive:** Financial institutions follow rigid criteria for grant of loans.Too many formalities make the procedure time consuming and expensive.

2) **Restrictions:** Certain restrictions such as restriction on dividend payment are imposed on the powers of the borrowing company by the financial institutions.

3) **Limited power:** Financial institutions may have their nominees on the board of directors of the borrowing company thereby restricting the powers of the company.

International source of business finance:

1) **Commercial bank:** Commercial bank provide foreign currency loan for business all over the world. Standard Chartered Bank is an important organisation for foreign currency loan to the Indian industry.

2) **International agencies and Development Bank:** A number of international agencies and Development Bank e.g. IFC, ADB, provide long term loan.

3) **International capital market:**

(a) **Global Depository Receipts (GDRS):** The local currency shares of a company are delivered to the depositary bank.Which issues depositary receipt against shares these receipt deminated in U.S. dollar are called GDRS.

(b) **American depositary receipts (ADRS):** The depository receipt issued by a company in USA are known as ADRS. ADRSare bought and sold in American markets.

(c) **Indian depositary receipt (IDRS):** IDRS are like GRD or ADR except that the issuer a foreign company raising funds from Indian market. IDRS are rupee dominated they can be listed on any Indian Stock Exchange.

(d) **Foreign currency convertible bonds (FCCBS):** The FCCBS are issued in a foreign currency and carry a fixed Interest rate.These are listed and traded in foreign Stock Exchange and similar to the debenture.

Factors affecting the choice of the source of fund: The factors that affect the choice of source of finance are briefly discussed below:

1) **Cost:** Both types of cost i.e. the Cost of procurement of funds and cost of utilizing the funds should be taken into account while deciding about the source of funds.

2) **Financial strength and stability of operations:** The financial strength i.e. sound financial position of repay the principal amount and interest on the borrowed amount is a major factor for this choice when the earnings of the organisation are not stable fixed charged funds like preference shares and debentures should be carefully selected as these add to the financial burden of the organisation.

3) **Form of organisation and legal status:** The form of business organisation and status affects the choice of a source for raising money e.g. a partnershipfirm cannot raise money by issue of equity shares.

4) **Purpose of time period:** A short term need can be met through borrowing funds at low rate of interest through trade credit, commercial paper etc.Where As for long term finance sources such as issue of shares and debentures are more appropriate.

5) **Risk profile:** Business should evaluate each of the source of finance in terms of the risk involved. E.g There is a least risk in equity as compared to a loan that has a repayment schedule for both the principal and the interest.

6) **Control:** As equity shareholders enjoy voting rights financial institutions may take control of the assets or impose conditions as part of the loan agreement.

7) **Effect on credit worthiness:** The dependence of business on certain sources may affect its credit worthiness in the market.

8) **Flexibility and ease:** Another aspect affecting the choice of a source of finance is the flexibility and case of obtaining funds.

9) **Tax benefit:** The dividend on preference shares is not tax deductible, interest paid on debentures and loan is tax deductible and may therefore, be preferred by organisations seeking tax advantages.

Multiple choice questions : **[Each question carry one mark]**

1) Equity shareholders are called-
   (a) Owners of the company
   (b) Partners of the company
   (c) Executive of the company
   (d) Guardian of the company.
2) The term "redeemable" is used for-
   (a) Preference share
   (b) Commercial paper
   (c) Equity shares
   (d) Public deposits.
3) Internal source of capital are those that are-
   (a) Generated through outsiders such as suppliers
   (b) Generated through loans from commercial banks
   (c) Generated through issue of shares
   (d) Generated with in the business.
4) Debentures represent-
   (a) Fixed capital of the company
   (b) Permanent capital of the company
   (c) Fluctuating capital of the company
   (d) Loan capital of the company.
5) Under the factoring, agreement the factor-
   (a) Produces and distributes the goods or services
   (b) Makes the payment on behalf of the client
   (c) Collects the clients debt or account receivable
   (d) Transfer the goods from one place to another.
6) Whichof the following is a commercial bank?
   (a) Punjab National Bank
   (b) Canara Bank
   (c) State Bank of India
   (d) All of the above.
7) ADR full form-
   (a) American depositary receipts

(b) American direct receipts
(c) American domestic receipts
(d) None of the above.

8) GDR expand-
(a) Global depositary receipts
(b) Gross domestic receipts
(c) Government direct receipts
(d) None of the above

9) Funds required for purchasing current assets is an example of-
(a) Fixed capital requirement
(b) Ploughing bank of profits
(c) Working capital requirement
(d) Lease financing.

10) ADRS are issued in-
(a) Canada
(b) China
(c) India
(d) USA.

11) Public deposits are the deposits that are raised directly from-
(a) The public
(b) The directors
(c) The auditors
(d) The owners.

12) Under the lease agreement, the lessee gets the right to-
(a) Share profit earned by the lessor
(b) Participate in the management of the organisation
(c) Use the asset for a specified period.

Answer

1) a 2) b 3) d 4) d 5) c 6) d 7) a 8) a 9) c 10) d 11) a 12) c

Short answer type questions:- **Mark-1**

1) What do you mean by business finance?
2) Define fixed capital with example?

3) What is working capital?
4) Mention a source of fund?
5) What is trade credit?
6) What is factoring?
7) What is public deposit?
8) What is retained earnings?
9) What is commercial paper?
10) What is debenture?
11) Full form:- ICICI , IDBI , LIC , IFCI , ADRS.
12) What is equity shares?

Long answer type question: **Marks-3 / 4 / 5 / 6**

1) What is business finance? Write down a list source of business finance.
2) What is trade credit? What is advantages and disadvantages of trade credit?
3) What is factoring? What are advantages and disadvantages of factoring?
4) What is public deposit? What are advantages and disadvantages of public deposit?
5) What is retained earnings? What are advantage and limitation of retained earnings?
6) What is commercial paper? What are advantages and limitation of commercial paper?
7) What is equity share? What are advantages and limitation of equity share?
8) What is preference share? What are advantages and disadvantages of preference share.
9) What is debenture? What are advantages and disadvantages of debenture.
10) What is financial institutions? What are advantages and disadvantages of financial institutions?
11) What is international financing? What are factors affecting the choice of the fund.

CHAPTER - 9

Small Business

9.2 Meaning and Nature of Small Business :

In India, the 'village and small industries sector consists of both 'traditional' and 'modern' small industries. The sector has eight subgroups. They are handlooms, handicrafts, coir, sericulture, khadi and village industries, small scale industries and powerlooms. The last two come under the modern small industries, while the other come under traditional industries. Village and small industries together provide the largest employment opportunities in India.

The defination used by the Government of India to describe small industries is based on the investment in plant and machinery. This measure seeks to keep in view the socio-economic environment in India where capital is scare and labour is abundant.

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addresses these issues realting to defiantion, credit marketing and technology upgradation. The MSMED Act, 2006 came into force w.e.f, october, 2006. Accordingly, enterprises are classified into two major categories viz., manufacturing and services.

Manufacturing :

In the case of enterprises engaged in the manufacture or production of goods pertaining to any industries specified in the first shedule to the industries (Development and Regulation) Act, 1951, there are three types of enterprises : (i) Micro enterprises (ii) Small enterprises (iii) Medium enterprises.

(i) **Micro Enterprises :** The investment in plant and machinery does not exceed twenty five lakh rupees.

(ii) **Small Enterprises :** The investment in plant and machinery is more than twenty five lakh rupees but dos not exceed five crore rupees.

(iii) **Medium Enterprises :** The investment in plant and machienry is more than five crore rupees but does not exceed ten crores rupees.

Services :

In the case of enterprises engaged in providing or rendering of services there are three types of enterprises:

(i) **Micro Enterprises :** The investment in equipment does not exceed ten lakh rupees.

(ii) **Small Enterprises :** The investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.

(iii) **Medium Enterprises :** The investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Category	Manufacturing Investment Limt	Providing of Services Investment Limit
Micro enterprise	25 Lakh	10 Lakh
Small enterprise	Between 25 lakh and 5 crore	Between 10 lakh and 2 crore
Medium enterprise	Between 5 crore and 10 crore	Between 2 crore and 5 crore

* [While calculating the investment in plant and machinery the cost of pollution control, research and development, industrial safety devices and such other items shall be excluded.]

Villag Industries :

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

Cottage Industries :

These are also known as Rural Industries or Traditional Industries. Cottage Industries are characterised by certain features like the following :

i) Resource :- These are organised by individuals with private resources.

ii) Labour :- Normally use family labour and locally available talent.

iii) Equipment :- The equipment used is simple.

iv) Capital :- Capital investment is small.

v) Produce Product :- Produce simple product, normally in their own premises.

vi) Indigenous Technology :- Production of goods using indigenous technology.

9.3 Administrative set up for the small scale, Agro and Rural Industries :

The Government of India created the Ministry of Micro, small and Medium enterprises as the Nodal ministry for formulation of policy and contribution of Central assistance for the promotion and development of small scale industries in India. The National small Industries corporation (NSIC), a public sector enterprises of the ministry, has been providing marketing support to the medium and small enterprises under the Marketing Assistance Scheme.

Ministry of Agro and Rural Industries is the nodal agency for coordination and development of village and Khadi Industries, tiny and micro enterprises in both urban and rural areas. It also implements Prime Minister's Rojgar Yojana. The various polices, programmes and schemes related to agro and rural industries are implemented by the ministry through the khadi and village industries commission (KVIC), Handicrafts Board, Coir Board, Silk Board etc.

These are executed through the state Directorate of industries, who has District industries centres (DICs) under it to implement central / state level schemes.

9.4 Role of Small Business in India :

Small scale Industries in India enjoy a distinct position in view of their contribution to the socio-economic development of the country. The following points highlight their contribution.

(i) Direct and Indirect Exports :

Small industries in India account for 95 percent of the industrial units in the country. The contribute almost 40 percent of the gross industrial value added and 45 percent of the total exports (direct and indirect exports) form India.

(ii) Emplyment :

Small industries are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries.

(iii) Supply of Products :

Small industries in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches etc. Among the sophisticated items manufactured are electric and electronic goods like televisions, calculators, electro-medical equipment, electronic teaching aids like overhead projectors, air conditioning equipment, drugs and pharmaceuticals, agricultural tools and equipments and several other engineering products.

(iv) Balanced regional development :

The contribution of small industries to the balanced regional development of our country is noteworthy. Small industries which produce simple products using simple technologies and depend on locally available resources both material and labour can be set up anywhere in the country.

(v) Provide ample opportuinity for entrepreneurship :

Small industries provide ample opportunity for entrepreneurship. The latent skills and talent of people can be channelled into business ideas which can be converted into reality with little capital investment and almost nil formalities to start a small business.

(vi) Enjoy competitive strength :

The low cost of production which small industries enloy is their competitive strength.

(vii) Quick and timely decisions :

The small size of the organisations, quick and timely decisions can be taken without consulting many people as it happens in large size organisation.

(viii) Needs of customers :

Small industries are best suited for customised production. i.e. designing the product as per the tastes / preferences / needs of individual customers. Say for an example tailor made shirt or trouser.

(ix) Strength of adaptability and a personal touch :

Last but not least, small industries have inherent strength at adaptability and a personal touch and therefore maintain good personal relations with both customers and employees. The government does not have to interfere in the functioning of a small scale unit.

9.5 Role of small Business in Rural India :

Traditionally, rural households in developing countries have been viewed as exclusively engaged in agriculture. This can be largely attributed to the policy initiatives taken by the government of India, to encourage and promote the setting up of agro-based rural industries.

The emphasis in village and small scale industries has always been an integral part of India's industrial strategy, more so, after the second five year plan. Cottage and rural industries play an important role in providing employment opportunities in the rural areas, especially for the traditional artisans and the weaker sections of society. Development of rural and village industries can also prevent migration of rural population to urban areas in search of employment.

Village and small industries are significance as producers of consumers goods and absorbers of surplus labour, thereby addressing the problems of poverty and unemployment.

In fact promotion of small scale industries and rural industrialisation has been considered by the Government of India as a poweerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential in rural and backward areas.

9.6 Problems of small business :

Small scale industries are at a distinct disadvantage as compared to large scale industries. The scale of operations, availability of finance, ability to use modern technology, procurment of raw materials are some of these areas. This gives rise to several problems.

In general the small business are faced with the following problems :

(i) Finance :

One of the severe problems faced by SSIs is that of non-availability of adequate finance to carry out its operations.

Generally a small business begins with a small capital base. As a result, they heavily depend on local financial resources and are frequently the victims of exploitations by the money lenders. Banks also do not lend money without adequate collecteral security or guarantees and margin money, which many of them are not in a position to provide.

(ii) Raw materials :

Another major problem of small business is the procurement of raw materials. If the required materials are not availble, they have to compromise on the quality or have to pay a high price to get good quality materials.

(iii) Managerial skills :

Small business is generally promoted and operated by a single person, who may not possess all the managerial skills required to run the business.

(iv) Labour :

Small business firms cannot afford to pay higher salaries to the employees which affects employee willingness to work hard and produce more.

(v) Marketing :

Marketing is one of the most important activities as it generates revenue. Direct marketing may not be feasible for small business firms as they lack the nesessary infrastructure.

(vi) Quality :

Many small business organisations do not adhere to desired standards of quality. They do not have adequate resources to invest in quality research and maintain the standards of the industry, nor do they have the expertise to upgrade technology.

(vii) Capacity utilisation :

Due to lack of marketing skills or lack of demand, many small business firms have to operate below full capacity due to which their operating costs tend to increase. Gradually this leads to sickness and closure **of the business.**

(viii) Technology :

Use of outdated technology is often stated as serious lacunae in the case of small industries, resulting in low productivity and uneconomical production.

(ix) Sickness :

Prevalence of sickness in small industries has become a point of worry to both the policy makers and enterpreneurs.

(x) Global competition :

India has taken the LPG path since 1991.

(a) Competition is not only from medium and large industries, but also from multinational companies which are gaints in terms of their size and business volumes.

(b) it is different to difficult the quality standards, technological skills, financial creditworthiness, managerial and marketing capabilities of the large industries and multinationals.

(c) There is limited access to markets of developed countries due to the stringent requirements of quality certifications like ISO 9000.

9.7 Government Assistance to small industries and small business Units :

Government both at the central and state level have been activily particiapting in promoting self-employment opportunities in rural areas by providing assistance in respect of infrastructure, finance, technology, training, raw-materials and marketing.

Some of the support meausures and programmes meant for the promotion of small and rural industries are discussed below :

(A) Institutional support :

(1) National Bank for Agriculture and rural Development (NABARD) :

NABARD was setup in 1982 to promote integrated rural development. Since then it has been adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country. A part from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches. It offers counselling and consultancy services and organises training and development programmes for rural enterpreneurs.

(2) The Rural Small Business Development Centre (RSBDC) :

It is the first of its kind setup by the world association for small and medium enterprises and is sponsored by NABARD. It works for the benefir of socially and economically disadvantaged individuals and groups. It aims at providing mamagement and technical support to current and prospective micro and small enterpreneus in rural areas.

Through these programmes it covers a large number of rural unemployed youth and women in several trades, which includes food processing, soft toys making, ready-made garments, cendle making, incense stick making, two-wheeler repairing and servicing, vermicomposting and non conventional building materials.

(3) Naitonal Small Industries corporation (NSIC) :

This was set up in 1955 with a view to promote, aid and foster the growth of small business units in the country. This focuses on the commercial aspects of these functions.

- Supply indigenous and imported machines on easy hire-purchase terms.
- Procure, supply and distribute indigenous and imported raw materials.
- Export the products of small business units and develop exportworthiness.
- Mentoring and advisory services.
- Serve as technology business incubators.
- Creating awareness on technological upgradation.
- Developing software technology parks and technology transfer centres.

Marketing Assistance Scheme :

Marketing, a strategic tool for business development, is critical for the growth and survival of micro, small and medium enterprises.

Objectives :

The board objectives of the scheme are :-

(i) To enhance marketing capabilities and competitiveness of the MSMEs.

(ii) To showcase the competencies of MSMEs.

(iii) To update MSMEs about the prevalent market scenario and its impact on their activities.

(iv) To facilitate the formation of consortia of MSMEs for marketing of their products and services.

(v) To provide platform to MSMEs for interaction with large institutional buyers.

(vi) To disseminate / propagate various programmes of the Government.

(vii) To enrich the marketing skills of the micro, small and medium entrepreneurs.

Marketing Support to MSMEs :

Under the scheme, it is proposed to enhance competitiveness and marketability of their products, through followifng activities :

(i) Organising international Technology Exhibitions in Foreign countries by NSIC and participations in International Exhibitions / Trade Fairs :-

Internatinal Technology Expositions / exhibitions may be organised by NSIC with a view to providing broader exposure to Indian micro, small and medium enterprises to facilitate them in exploring new business oppertunities in emerging and developing markets.

(ii) Organising Domestic Exhibitions and Participation in Exhibitions / Trade Fairs in Inida :-

Certain theme based exhibitions / technology fairs etc., may be organised by NSIC, focused on products and services offered by MSMEs, including technologies suitable for employment generation, products from specific regions or clusters like North Eastern Region, food processing, Machine-tools, Electronics, leather etc.

(iii) Support for Co-sponsoring of Exhibitions organised by other organisations / Industry Association / Agencies :-

This support would be in the form of co-sponsoring of the event by NSIC. In order to apply for co-sponsoring of an event by NSIC, the applicant organisation / agency must fulfill the centre criteria / conditions.

(iv) Buyer-seller Meets :-

Bulk and departmental buyers such as the Railways, Defense, Communicatin departments and large companies are invited to participate in buyer-seller meets to bring them closer to the MSMEs for enhancing their marketing competitiveness.

(v) Intensinve Capaigns and Marketing Promotion Events :-

To disseminate information about the various schemes for the benefit of the micro, small and medium enterprises. They are also facilitated to enrich their knowledge regarding latest developments, quality standards etc. and improve the marketing potential of their products and services.

(vi) Other support Activities :-

- Development of Display centres, show windows and hoarding etc., for promoting products and services of MSMEs.
- Printing of literature, Brochures and product specific catalogues and CDs etc. and preparation of short films for disseminating information.
- Development of website / portal for facilitating the marketing of MSME-products and services.
- Preparation and upgradation of MSME Manufactures / Suppliers / Exporters Directory.
- Documentation of the success stores of MSMEs.
- Hosting international delegations and Networking events.

(4) Small Industries Development Bank of India (SIDBI) :

- Setup as an apex bank to provide direct / indirect financial assistance under different schemes, to meet credit needs of small business organisations.
- To coordination the functions of other institutions in similar activities.

(5) The National Commission for Enterprises in the unorganised sector (NCEUS) :

The NCEUS was contributed in september 2004, with the following objectives :

- To recommend measures considered necessary for improving the productivity of small enterprises in the informal sector.
- To generate more employment opportunities on a sustainable basis, particularly in the rural areas.
- To enhence the competitiveness of the sector in the emerging global environment.

(6) Rural and Women Enterpreurship Development (RWED) :

The Rural and Women Enterpreneurship Development Programme aims at promoting a conducive business environment and at building institutional and human capacities that will encourage and support the enterpreneurials initiatives of rural people and women.

(7) World Association for small and medium Enterprises (WASME) :

It is the only Intenational Non-Governmental Organisation of micro, small and medium enterprises based in India, which setup an international committee for rural industralisations. Its aim is to develop an action plan model for sustained growth of rural enterprises.

(8) Scheme of Fund for Regeneration of Traditional Industries (SFURTI) :

To make the traditional industries more productive and competitive and facilitate their sustainable development, the central Government set up this fund with Rs. 100 crore allocation to begin within the year 2005.

Objectives are as follows :

- To develop clusters of traditional industries in various parts of the country.
- To create sustained employment opportunities in traditional industries.

(9) The District Industries Centers (DICS) :

District Industries Centers is the institution at the district level which provides all the services and support facilities to the enterpreneurs for setting up small and village industries, identification of suitable schemes, preparation of feasibility reports, arranging for credit, machinery and equipment, provisions of raw materials and other extensions services are the main activities undertaken by these centers.

(B) INCENTIVES

Special emphasis on the industrial development of backward, tribal and hilly areas has been the concern of the Government of India expressed in all the Five Year Plans and industrial policy statements. The rural industries projcet programme initiated by the Government of India was meant to develop small business units in select rural areas. Though the backward area development programmes varied form state to state, they cumulatively represented a significant package of incentives to attract industries in backward areas.

Some of the comon incentives offered are discussed as below :

Land : Every state offers developed plots for setting up of industries. the terms and conditions may vary.

Power : Power is supplied at a concessional rate of 50 percent, while some states exempt such units form payment in the initial years.

Water : Water is supplied on a No-profit, No-loss basis or with 50 percent concession or exemption form water charges for a period of 5 years.

Sales Tax : In all union teritories, industries are exempted from sales tax, while some states extend exemption for 5 years period.

Octroi : Most states have abolished octroi.

Raw Materials : Units located in backward areas get preferential treatment in the matter of allotment of scarce raw materials like cement, iron and steel etc.

Finance :

Subsidy of 10-15 percent is given for building capital assets. Loans are also offered at concessional rates.

Industral estates :

Some statics encourages setting up of industrial estates in backward areas.

Tax hoilday : Exemption form paying taxes for 5 or 10 years is given to industries established in backward, hilly and tribal areas.

9.8 THE FUTURE

The present era is the regime of the World Trade Organisation (WTO), in which the rules of trade are subject to frequent changes as per global expectation.

Government should reorient its assistance to the small business sector by acting as a facilitator and promoter and not as a regulator. New strategies have to be evolved to foster partnership between large and small industries, adopt cluster approach, develop creative marketing, improve technological skills by upgradation, building export competitiveness by identifying the core competeness of the small business.

In fact small business sector should view globalisation as on opportunity for its active participation as suppliers of specialised componenet and parts. The long-term competitive position for the small business will depend on how will they learn to manage, adopt and improve their competitive strength.

In short the mantra of success for small business in this modern era has to be "think global, act local".

Exercise

(A) Multiple Type Questions :

1. MSMED Act — addresses these issues relating to defination, credit, marketing upgradation.

   (a) 2004 (b) 2005

   (c) 2006 (d) 2007

2. MSME means —

   (a) Micro, Small and Medium Enterprises.

   (b) Mini, Small and Medium Enterprises.

   (c) Micro, Super and Model Enterprises.

   (d) None of the above.

(3) SIDBI means —

   (a) Small Industry Development Bank of India.

   (b) Small Industrial Development Board of India.

   (c) Small Industrial Development Bank of India.

   (d) Small Industrial Develop Bank of Inida.

(4) Write the full form of NABARD

   (a) National Bank for Agriculture and Rural Development.

   (b) National Bank for Agri and Rural Development.

   (c) National Bank for Agriculture and Ritual Development.

   (d) National Bank for Agriculture and Rural Dependent.

(5) Limits of Investment in small scale enterprise on production is —

   (a) 5 lakh to 10 lakh (b) 15 lakh to 20 lakh

   (c) 25 lakh to 5 crore (d) 1 crore to 5 crore

(6) Micro enterprises are those enterprises whose investment limit in services is —

   (a) 5 lakh (b) 10 lakh

   (c) 15 lakh (d) 20 lakh

(7) ——— are also known as rural industries or traditional industries.

   (a) Mining industries (b) Cottage industries

   (b) Agricultural industries (d) None of these

(8) Small industries contribute almost ——— percent of the total exports from India.

   (a) 35 (b) 40

   (c) 45 (d) 25

(9) Which of the following is organised by individuals or group ?

(a) Chemical industry (b) Railway industry

(c) Cottage industry (d) All of the above

(10) On which date the district industries center programme was launched

(a) 1st april 1968 (b) 1st may 1978

(c) 1st sep 1973 (d) 15th june 1981

(B) Write very short type answeer :

(1) What is small Business ?

(2) Write the defination of Medium Enterprises.

(3) Write the Manufacturing investment limit of Micro enterprises.

(4) Write the services investment limit of Micro enterprises.

(5) Write the Manufacturing investment limit of Small enterprises.

(6) Write the services investment limit of Medium enterprises.

(7) What is labour ?

(8) What is Marketing ?

(9) What is Raw materials ?

(10) What is the full form of LPP ?

(C) Long Answer Questions

(1) Discuss the Role of Small Business in India.

(2) Describe the Role of Small Business in Rural India.

(3) What are the problems of Small Business – Discuss.

(4) Discuss the common 'Incentive' offered by the Government of India for hilly and backward areas.

(5) Discuss about NABARD, RSBDC and NSIC.

Answer

(A) MCQ –

1 (c) , 2 (a) , 3 (c) , 4 (a) , 5 (c) , 6 (b) , 7 (b) , 8 (b) , 9 (c) , 10 (b)

CHAPTER - 10

Internal Trade

Internal trade:

Buying and selling of goods and services within the boundaries of a nation are referred to as internal trade whether the products are purchased from in neighbourhood shop in a locality or a Central Market or a departmental Store or a mall or even from any door to door sales person or from an exhibition all these are examples of internal trade.

Internal trade can be classified into two broad categories viz,

i) Wholesale trade

ii) and retail trade

i) Wholesale trade:

Wholesale trade refers to buying and selling of goods and services in large qualities for the purchase of resale or intermediate use.Wholesaling is concerned with the activities of those persons or establishments which sale to retailers and other merchants, or to industrial, institutional and commercial users.Wholesales serve as an important link between manufacturers and retailers.They enable the producers not only to reach large member of buyers spread over a wide geographical area(through retailers), but also to perform a variety of functions in the process of distribution of goods and services.

Services of wholesalers:

Wholesalers provide various services to manufacturers as well as retailers and provide immense help in the distribution of goods and services. The various services of wholesalers to different sections are discussed below:

1) Services to manufacturers:

Major services offered by wholesalers to the producers of goods and services are given as below:

a) Facilitating large scale production:

Wholesalers collect small orders from a member of retailers and pan on the pool of such orders to the manufacturers and make purchases in bulk quantities.This enables the producers to undertake production on a large scale and take advantage of the economics of scale.

b) Bearing risk:

The wholesale merchants deal in goods in their own name, take delivery of the goods and keep the goods purchased in large lots in their warehouses.In the process, they bear variety of risks such as the risk of falling prices, theft, pilferage, spoilage, fire etc.

c) **Financial assistance:**

The wholesalers provide financial assistance to the manufacturers in the sense that they generally make cash payment for the goods purchased by them.To that extent, the manufacturers need not block their capital in the stocks, sometimes they also advanced money to the producers for bulk orders placed by them.

d) **Expert advice:**

As the wholesalers are in direct contact with the retailers, they are in a position to advice the manufacturers about various aspects including customer testes and preferences, market conditions, competitive activities and the features preferred by the buyers.

e) **Help in marketing function:**

The wholesalers take care of the distribution of goods to a number of retailers who in turn, sell these goods to a large number of customers spread over a large geographical area.

f) **Facilitate production continuity:**

The wholesalers facilitate continuity of production activity throughout the year by purchasing the goods as and when these are produced and storing them till the time these are demanded by retailers or customers in the market.

g) **Storage:**

Wholesalers take delivery of goods when these are produced in factory and keep them in their godowns/ warehouses.This reduces the burden of manufacturers of providing for storage facilities for the finished products.

2. **Services to retailers:**

The important services offered by manufacturers to the retailers are described as below:

a) **Availability of goods:**

Retailers have to maintain adequate stock of varied commodities so that they can offer variety to their customers.The wholesalers make the products of various manufacturers readily available to the retailers.This relieves the retailers of the work of collecting goods from several producers and keeping big inventory of the same.

b) **Marketing support:**

The wholesalers perform various marketing functions and provide support to the retailers.They undertake advertising and other sales promotional activities to induce customers to purchase the goods.

c) **Grant of credit:**

The wholesalers generally extend credit Facilities to their regular customers.This enables the retailers to manage their barriers with relatively small amount of working capital.

d) **Specialised knowledge:**

The wholesalers specialise in one time of products and know the pulse of the market. Day pass on the benefit of their specialised knowledge to the retailers about the new products, their users, quality, prices etc.

e) Risk sharing:

The wholesalers purchase in bulk and sell in relatively small quantities to the retailers, being able to purchase merchandise in smaller quantities, retailers are in a position to avoid the risk of storage, pilferage,obsolescence, reduction in prices and demand fluctuations in respect of larger quantities of goods that they would have to purchase in case the services of wholesalers are not available.

ii) Retail trade:

A retailer is a business enterprise that is engaged in the sale of goods and services directly to the ultimate customers.The retailer normally buys goods enlarge quantities from the wholesalers and sales them in small quantities to the ultimate customers.The retails represents the final stage in the distribution where goods are transferred from the hands of the manufacturers or wholesalers to the final customers or users.Retailing is, thus, that branch of business which is devoted to the sale of goods and services to the ultimate customers for their personal and non-business use.

A retailer performs different functions in the distribution of goods and services. He/ShePurchases a variety of products from the wholesale distributors and others, arranges for proper storage of goods, sells the goods in small quantities, bears business risks grades the products, collect market information, extend credit to the buyers and promotes the sale of products through displays, participation in various schemes.

Services of retailers:

Retailers served as an important link between the producers and final customers in the distribution of products and services.They provide useful services to the customers, wholesalers and manufacturers.Some of the important services of retailers are described as below:

1) Services to manufacturers and wholesalers:

The in valuable services that the retailers render to the wholesalers and producers are given as here under:

a) Help in distribution of goods:

A retailers most important service to the wholesalers and manufacturers is to provide help in the distribution of their products by making these available to the final consumers, who may be scattered over large geographical area. Theythus provide place utility.

b) Personal selling:

In the process of sale of most consumer goods, some amount of personal selling efforts, the retailers relieve the producers of the activity and greatly help them in the process of actualising the sale of the products.

c) Enabling large scale operations:

On account of retailer services, the manufacturers and wholesalers are freed from the trouble of making individual sales of customers in small quantities.This enable to them to operate on at relatively large scale and thereby fully concentrate on their other activities.

d) Collecting market information:

As retailers remain in direct and constant touch with the buyers, they serve as an important source of collecting market information about the taxes, preference and attitudes of customers.Such information is convicted and very useful in taking important marketing discussions in an organisation.

e) Help in promotion:

From time to time, manufacturers and distributors have to carry on various promotional activities in order to increase the sale of their products.For example they have to advertise their products and offer short-term incentives in the form of coupons, free gifts, sales Contests and so on.

2) Services to consumers:

a) Regular availability of products :

The most important service of retailer to consumers is to maintain regular availability of various product produced by different manufacturers.This enables the buyers to buy products as and when needed.

b) New products information:

By arranging for effective display of products and through their personal selling efforts, retailers provide important information about the arrival, special features etc. of new products of the customers.

c) Convenience in buying:

Retailers generally buy goods in large quantities and sell this in small quantities, according to the requirements to their customers.Also, they are normally situated very near to the residential areas and remain open for long hours.

d) Wide selection:

Retailers generally keep stock of a variety of products of different manufacturers.This enables the consumers to take their choice out of a wide selection of goods.

e) After sales services:

Retailers provide important after sales services in the form of home delivery, supply of aparents and attending to customers. This becomes on important factor in the buyers decision for repeat purchase of the products.

f) Provide credit facilities:

The retailers sometimes provide credit facilities to their regular buyers.This enables the latter to increase their level of consumption and thereby their standard of living.

Types of retailing trade:

There are many types of retailers in India for proper understanding. It would be useful to classify them into certain common categories. Different classifications have been used be experts to categorise retailers into different types.

For example, on the basis of "size of business" they may be categorised into large medium and small retailers.

On the basis of 'type of ownership' they may be categorised into 'sale trader','partnership firm','cooperative store'and company.

Similarly on the basis of 'merchandise handled', the different classifications may be 'specialty store','supermarket' and 'departmental store'.Another common basis of classification is whether or not they have a fixed place of business.On this basis, there are two categories of retailers:

a) Itinerant retailers and

b) Fixed shop retailers.

a) Itinerant retailers:

Itinerant Retailers are traders who do not have a fixed place to business to operate from.They keep on moving with their waves from street to Street place to place in search of customers.

Characteristics:

i) They are small traders operating with limited resources.

ii) They normally deal in customer products of daily use such as toiletry products, fruits and vegetables.

iii) The emphasis of such traders is on providing greater customer service by marketing the products available at the very doorstep of the customers.

iv) As they do not have any fixed business establishment to operate from, this retailers have to keep their limited inventory of merchandise either at home or at some other place.

Some of the most common types of itinerant retailers operating in India are as bellow:

i) Peddlers and hawkers:

Peddlers and hawkers are probably amongst the oldest form of retailers in the marketplace who have not lost their utility even during the modern times.They are small producers or petty traders who carry the products on a bicycle, a hand cart, a cycle rickshaw or on their heads, and move from place to place to sell their merchandise at the doorstep of the customers.

ii) Market traders:

Market traders are the small retailers who open their shops at different places on fixed days or dates. These traders may be dealing in one particular line of merchandise, Say fabrics or ready-made garments, toys are crockery, or alternatively, they may be general merchants.

iii) Street traders (pavement vendors):

Street traders are the small retailers who are commonly found at places where huge floating population gathers, for example, near railway stations and bus stands, and sell consumer items of common use, such as stationary items,etables, ready-made garments, newspapers and magazines.

iv) Cheap jacks:

Cheap Jack are petty retailers who have independent shops of a temporary nature in a business locality. They keep on changing their business from one locality to another, depending upon the potentiality of the area.

b) Fixed shop retailers:

This is the most common type of retailing in the marketplace as is evident from the name, these are retail shops who maintain permanent establishment to sell their merchandise.

Characteristics:

i) Compound with the itinerant traders, normally they have greater resources and operate in a relatively large scale.However, they are different size groups of fixed shop retailers ,varying from very small to very large.

ii) This retailers may be dealing in different products, including consumers to durables as well as non-durables.

iii) This category of retailers has greater credibility in the minds of customers, and they are in a position to provide greater services to the customers such as home delivery,guarantees, repairs, Credit facilities, availability of Shares etc.

Types:

The fixed shop retailers can be classified into two distinct types on the basis of the size of their operations.

There are-

i) Small shopkeepers and

ii) Large retailers.

The different type of retailers falling under the above two broad heads are described below:

Fixed shop small retailers:

i) General stores:

General stores are most commonly found in a local market and residential areas. As the name indicates this shop carry stock of a variety of products required to satisfy the day to day needs of the consumers residing in nearby localities. Such stores remain open for long hours at convenient timings and open provide credit facilities to some of their regular customers. Example of this type of store is grocery items, soft drinks, toiletry products, stationary and confectionary.

ii) Specialty shops:

This type of retail store is, of late, becoming very popular, particularly in urban areas.Instead of selling a variety of products of different types, these retail stores specialise in the sale of a specific line of a products. For example, shop selling children garments, men's wear, ladies shoes, tops and gifts, school uniforms, college book or consumer electronic goods etc.

iii) Street stall holders:

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

iv) Second hand goods shop:

These shops deal in second hand or used goods. Like books, cloths, automobiles, furniture and other house hold goods.Generally persons with modest means purchase goods from such shops.The goods are sold at lower prices.

Fixed shop- large stores:

i) Departmental stores:

A departmental store is a large establishment offering a wide variety of products, classified into well defined departments, aimed at satisfying practically every customers need under one roof.It has a number of departments each one confining its activities to one kind of product.For example this may be separate departments for toiletries,medicines, furniture, groceries, electronics, clothing and dress material within a store.Some stores on this line in India include "Akberally" in Mumbai and "spencers" in Chennai.

Some of the important features of departmental store, are as follows:

a) A modern departmental store may provide all facilities such as restaurant, travel and information bureau, telephone booth, rest rooms etc.

b) These stores are generally located at a central place in the heart of a city, which caters to a large number of customers.

c) As a size of these stores is very large, they are generally formed as a joint stock company managed by a board of directors.

d) A departmental store combines both the functions of retailing as well as warehousing.They purchase directly from manufacturers and operate separate warehouses.

e) They have centralised Purchasing arrangements.All the purchases in a department store are made centrally by the purchase department of the store, where is sales are decentralised in different departments.

Advantages:

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

i) Attract large number of customers:

As these stores are usually located at central places, they attract a large number of customers during the best part of the day.

ii) Convenience in buying:

By offering large variety of goods under one roof, the departmental stores provide great convenience to customers in buying almost all goods of their requirements at one place.

iii) Attractive services:

A departmental store aims at providing maximum services to the customers.Some of the services offered by it include home delivery of goods, execution of telephone orders, grant of credit facilities and provision for restrooms, telephone booths, restaurants, saloons etc.

iv) Economy of large scale operations:

As these stores are organised at a very large scale, the benefits of large scale operations, particularly in respect of purchase of goods are available to them.

v) Promotion of sales:

The departmental stores are in a position to spend considerable amount of money on advertising and other promotional activities which help in boosting their sales.

Limitations:

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

i) Lack of personal attention:

Because of the large scale operations, it is very difficult to provide educate personal attention to the customers in this stores.

ii) High operating cost:

As these stores given more emphasis on providing services, their operating costs tend to be on the higher side. These costs, in turn, make the prices of the goods high.They are, therefore, not attractive to the lower income group of people.

iii) High possibility of loss:

As a result of high operating costs and large scale operations the chances of incurring losses in a departmental store are high for example if there is any change in the testes of customers or latest fashions, it necessities selling of such out of fashion articates ales in clearence sale, to reduce the huge inventory of goods built up.

iv) Inconvenient location:

As a departmental store is generally situated at a central location it is not convenient for the purchase of goods that are needed at short notice.

2. Chain stores or multiple shops:

Chain stores or multiple shops are networks of retail shops that are owned and operated by manufacturers or intermediaries.These shops normally deal in standardised and banded consumer products.

Features:

a) These shops are located in fairly populous localities, where sufficient number of customers can be approached.

b) These manufacturing/ procurement of merchandise for all the retail limits is centralised at the head office, from where the goods are despatched to each of these shops according to their requirement.

c) Each retail shop is under the direct supervisor of a branch manager, who is held responsible for its day to day management.

d) All the branches are controlled by the head office, which is concerned with formulating the policies and getting them implemented.

e) The prices of goods in such shops are fixed and all sales are made on cash basis.

f) The head of fish normally appoints inspectors, who are concerned with day to day supervision of the shops

Advantages:

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

i) Economies of scale:

As there is central procurement, the multiple shop organisation enjoys the economies of scale.

ii) Elimination of middlemen:

By selling directly to the consumers, the multiple shop organisation is able to eliminate unnecessary middleman in the sale of goods and services.

iii) No bad debts:

Since all the sales in these shops are made on cash basis, there are no losses on account of bad debt.

iv) Transfer of goods:

The goods not in demand in a particular locality may be transferred to another locality where it is in demand.

v) Diffusion of risk:

The losses increased by one shop may be covered by profits in other shops, reducing the total risk of an organisation.

Limitations:

1) Limited selection of goods:

Some of the multiple shops deal only in limited range of products. This is specially the problem with the chain stores.

2) Lack of initiative:

The personal managing the multiple shops have to over the instructions received from the head office which makes damn he ritual of looking up to the head office for guidance on all matters.

3) Lack of personal touch:

Lack of initiative in the employees sometimes leads to indifference and lack of personal touch in them.

4) Difficult to change demand:

If the demand for the merchandise handled by multiple shops change rapidly, the management may have to sustain huge losses because of large stocks lying unsold at the central depot.

Mail order houses:

Mail order houses are the retail outlets that sell their merchandise through mail.

There is generally no direct personal contact between the buyers and the sellers in this type of trading.For obtaining orders, potential customers are approached through advertisements in news-papers or magazines, circulars, catalogues,sample and bills and price list sent to them by post.

There can be different alternatives for receiving payments, first, the customers may be asked to make full payment in advance.Second, the goods may be sent by value payable post (VPP).

Advantages:

1) **Limited capital requirement:**

Mail order business does not require heavy expenditure on building and other infrastructure facilities. Therefore, it can be started with relatively low amount of capital.

2) **Elimination of middlemen:**

The biggest advantages of mail order business from the point of view of consumers is that unnecessary middlemen between the buyers and sellers are eliminated.

3) **Absence of bad debt:**

Since the mail order houses do not extend credit facilities to the customers, there are no chances of any bad debt on account of non payment of cash by customers.

4) **Wide reach:**

Under this system goods can be sent to all the places having postal services.This opens wide scope for business as a large member of people throughout the country can be served through mail.

5) **Convenience:**

Under this system goods are delivered at the doorstep of the consumers. This results in great convenience to the customers in buying these products.

Limitation:

1) **Lack of personal contact:**

As there is no personal contact between the buyers and the sellers under the system of mail order selling, there are greater possibilities of and mistrust between the two.

2) **High promotion cost:**

The mail order business has to rely heavily on advertisements and other methods of promotion in order to inform and persuade the potential buyers to buy their products.

3) **No after sales service:**

In mail order selling, the buyers and sellers may be located very far away from each other and there is no personal contact between the two.As a result, there is absence of after sales services which is so important for the satisfaction for the customers.

4) **No credit facilities:**

The mail order houses do not provide credit facilities to the buyers, thus customers with limited means may not be interested in this type of trading.

Consumer cooperative store:

A consumer cooperative store is an organisation owned, managed and controlled by consumers themselves.The objective of such stores is to reduce the member of middlemen who increase the cost of produce, and thereby provide service to the members.The co-operative stores generally buy in large quantity, directly from manufacturer or wholesalers and sell them to the consumers at reasonable prices.

To start a consumer cooperative store, at least 10 people have to come together and form a voluntary association and get it registered under the co-operative societies act.The capital of a cooperative store is raised by issue of shares to members.

Advantages:

The major advantages of a consumer cooperative store are as follows:

i) **Ease information:**

It is easy to form a consumer cooperative society.Any 10 people can come to gather to form a voluntary association and get themselves registered with the register of cooperative societies by completing certain formalities.

ii) **Limited liability:**

The liability of the members in a co-operative store is limited to the extent of the capital contributed by them.Over and above that amount, they are not liable personally to pay the debts of society.

iii) **Democratic management:**

Co-operative societies are democratically managed through management committees which are elected by the members.Each member has one vote irrespective of the member of shares held by him/her.

iv) **Lower prices:**

A cooperative store purchase goods directly from the manufacturers or wholesalers and sells them to members and others.Elimination of middle men results in lower prices for the consumer goods to the member.

v) **Cash sales:**

The consumer cooperative stores normally sell goods on cash basis. As a result the requirement for working capital is reduced.

Limitations:

The limitations of consumer cooperative stores are given below:

i) **Lack of initiative:**

As the cooperative stores are managed by people who work on honesty basis, there is a lack of sufficient initiative and motivation amongst them to work more effectively.

ii) **Storage of funds:**

The primary source of funds for a cooperative store is the money raised from members by issue of shares. The stores generally face stories of funds as membership is limited.

iii) **Lack of patronage:**

The members of the co-operative stores generally do not patronise them regularly.As a result of this the stores are not able to operate successfully.

iv) Lack of business training:

The people entrusted with the management of cooperative stores lack expertise as they are not trained in running the stores efficiently.

Super markets:

A supermarket is a large retailing business unit selling wide variety of customer goods on the basis of low price appeal, wide variety and assortment, self-service and heavy emphasis on merchandising appeal. The goods traded are generally food products and other low priced, branded and widely used consumer products such as grocery, utensils, clothes, electronic appliances, household goods, and medicines.Goods are kept on racks with clearly levelled price and quality tax in such stores.The customers move into the store to pick up goods of their requirements, bring them to the cash counter, make payment and take whom the delivery.

Some of the important characteristics of a supermarket are as follows:

i) A super market generally carries a complete time of food items and groceries, in adition to non-food convenience goods.

ii) The buyers can purchase different products as per their requirements under one roof in such markets.

iii) A supermarket operates on the principle of self service the distribution cost is, therefore lower.

iv) The goods are sold on cash basis only.

v) The super markets are generally located at central locations to secure high turnover.

Advantages:

The following are the merits of supermarkets:

i) One roof, low cost:

Supermarkets offer a wide variety of products at low cost under one roof.These outlets are, therefore, not only convenient but also economical to the buyers for making their purchases.

ii) Central location:

The supermarkets are generally located in the heart of the city.As a result these are easily accessible to large number of people staying in the surrounding localities.

iii) Wide selection:

Super markets keep a wide variety of goods of different designs, colour, etc. Which enables the buyers to make better selection.

iv) No bad debts:

As generally the sales are made on cash basis, there are no bad debts in supermarkets

Limitations:

The major limitations of supermarkets are as follows:

i) No credit: Supermarkets sell their product on cash basis only. No credit facilities are made available to the buyers.

ii) **No personal attention :** Super markets work on the principle of self service. The customers, therefore do not get any personal attention.As a result, such commodities that require personal attention by salespeople cannot be handled effectively in supermarkets.

iii) **Mishandling of goods :** Some customers handle the goods kept in the self carelessly. This may raise costs in supermarkets.

iv) **High capital requirement :** Establishing and running a supermarket requires huge investment. The turnover of a store should be high so that the overheads are kept under reasonable level.This can be possible in bigger towns but not in small towns.

Establishing and running a supermarket requires huge investment. The turnover of a store should be high so that the overheads are kept under reasonable level.This can be possible in bigger towns but not in small towns.

Vending machines:

Vending machines are the newest she revolution in marketing methods. Coin operated vending machines are providing useful in selling several products such as hot beverages, platform, tickets, milk, soft drinks, chocolates, newspaper, etc. In many countries vending machines can be useful for selling pre-packed brands of low priced products which have high turnover and which are uniform in size and weight.

Role of Commerce and Industry associations is in promotion of internal trade:

Associations of business and industrial houses are formed to promote and protect their common interest and goals.Many such associations have been formed and are present in the country such as associated Chamber of Commerce and industry (ASSOCHAM), Confederation of Indian industry (CII) and federation of Indian Chambers of Commerce and industry (FICCI).These associations or chambers act as the national guardians of trade, Commerce and Industry.

These associations have been playing a catalytic role in strengthening internal trade to make it an important part of overall economic activity. The Chamber of Commerce and industry interact with the government at different levels to reorient or put in place policies which hindrances, increase interstate movement of goods, Introduce transparency and remove multiple layers of inspection and bureaucratic hurdles.

The interventions are mainly in the following areas:

i) **Interstate movement of goods:**

The Chambers of Commerce and industry help in many activities concerning Interstate movement of goods which include registration of vehicles, surface transport policies, construction of highways and roads.For example, the construction of golden quadrilateral corridor announced by the Prime Minister of India in one of the annual general meetings of the federal of Indian Chambers of Commerce and industry (FICCI) with facilitate internal trade.

ii) **Octroiand other local levies:**

Octroi And local taxes are the important sources of revenue of the local government.These are located on the goods and from people entering the state or the multiple limits.The Chamber of Commerce try to ensure that their position is not at the cost of smooth transportation and local trade.

iii) Harmonisation of sales text structure and value added tax:

The Che4mber of Commerce and industry play an important role in interacting with the government to harmonies the sales text structure in different states.The sales tax is an important part of the state revenue.A rational structure of the sales tax and its uniform rates across states, are important for promotion a balance in trade.As per the new policy of the government, the value added tax is being levied in place of the sales tax to remove the cascading effect of the sales tax.

iv) Excise duty:

Central excise is the chief source of the government revenue levied across states by the central government.The excise policy plays an important role in pricing mechanism.The trade associations need to interact with the government to ensure streamlining of excise duties.

v) Promoting sound infrastructure:

A sound infrastructure like road, port, electricity, railways etc. Play a catalytic role in promoting trade.The Chamber of Commerce and industry hold discussions with government agencies for investment into this projects.

vi) Labour legislature:

A simple and flexible labour legislature is helpful in running industries, maximising production and generating employment.The Chambers of Commerce and industry and the government are constantly interacting on issues like labour laws, retrenchment etc. with the government.

A. Multiple choice:

1) Buying and selling of goods or services within the boundaries of a nation are called-
   a) Internal trade b) International trade c) Wholesale trade d) All of the above.
2) Wholesalers sales to-
   a) Production firm b) Retailer c) Consumers d) None of these.
3) The business enterprises engaged in the sale of goods directly to the consumers are called-
   a) Wholesale trade b) Retail trade c) International trade d) All of the above.
4) The retailer purchased goods from-
   a) International market b) Local market c) Wholesalers d) None of these.
5) Peddlers and hawkers are-
   a) Small producer b) Big producer c) Both small and big producer d) All of the above.
6) Street stall holders are commonly found at-
   a) Street crossings b) Big market c) Open market d) None of these.
7) A departmental store is a-
   a) Large establishment b) Small establishment c) Both a and b d) None of these.
8) Departmental stores are usually located at-
   a) Street crossings b) Central place c) In busy Street d) All of the above.
9) Chain stores or multiple shops are networks of-
   a) Wholesale shop b) Departmental stores c) Retail shops d) All of the above.
10) In which business customers are asked to make full payment in advance?
   a) Departmental stores b) Multiple shops c) Mail order houses d) None of these.

B. Short answer questions: **(Mark-1)**

1) What is mean by internal trade?
2) What is wholesale trade?
3) What is retail trade?
4) Name the shop deal in second hand or used goods.
5) Write two famous departmental stores in India.

C. Long answer questions: **(Marks- 3/4 / 5)**

1) Explain the service offered by wholesalers to manufacturers.
2) How would you differentiate between Street traders and Street shops?
3) Specify the characteristics of fixed shop retailers.
4) Explain the usefulness of mail orders houses.What type of products are generally handled by them?Specify.
5) Discuss the features of a departmental store.

Answers

1) a 2) b c) b d) c 5) a 6) a 7) a 8) b 9) c
10) c 11) c 12) a 13) b 14) a 15) d

CHAPTER - 11

International Trade

Introduction :

International business refers to the trade of Goods, Services, Technology, Capital, Communication, Infrastructure, Knowledge etc. across the national boundaries.

With the announcement of Globalisation of The World economy, There has been a constant rise in the number of business organisation that operates globally.

Little wonders that the world has today come to be known as "global village". It describes the phenomenon of the entire world becoming more interconnected with each other for business operations.

India is doing exceedingly well in import and export segment for last few decades. But it is a fact that India's Contribution to the world exports in nearly a percent but trying to speed up its process of integrating with the world economy.

Meaning Of International Business :

International or External business can therefore be defined as those business activities that take place across national frontiers. It involves not only the international movements of Goods and Services, but also of Capital, Personnel, Technology and intellectual property like patents, trademarks, know now and copy rights.

Reason for international business :

There are various reasons behind the international business.

i) **Production :** Not every countries able to produce equally well or cheaply all quality things. This is why it depends on the other country.

ii) **Scarcity of Resource :** This is because of the unequal distribution of natural resources among the countries and their productivity level.

iii) **Factors of Production :** Availability of various Factors of productions such as labours, Capital and Raw materials for producing goods and services is different rates in different countries.

iv) **Cost of Production :** Countries having adequate resources and technology are able to produce goods and services at a lower rates.

Other important resource are -

v) Selling of surplus goods.

vi) Generation of employment.

vii) Increase government revenues.

viii) Increase foreign exchange reserve.

International business vs. Domestic business :

Domestic business refers the business where economic activities are conducted within the geographical boundaries of a country.

So, conducting and managing international business operations is more complex in comparison to domestic business. Key aspects in respect of domestic and international businesses different from each other in given below –

i) Nationality of buyers and sellers :

Nationality is the key factors of the participants (i.e. buyers and sellers) in domestic and international business. In domestic business, both buyers and sellers belongs to same country and in international business it is from different countries.

ii) Nationality of the stakeholders :

In domestic business all stakeholders such as employers, Supplies, Shareholders/Partners and general public belongs to one country and in international business stakeholders belongings to different nation.

iii) Mobility of factors of production :

The degree of mobility of factors like labour and capital is generally less between the countries than with a country.

iv) Customer heterogeneity across markets :

Domestic markets are relatively more homogeneous in nature but international market has lack of homogeneous due to language, background, belief, customs, attitude and product differences across market.

v) Different in business system and practices :

The differences in business and practices are considerably much more among countries than within a country.

vi) Political system and risk :

Domestic business has to face the political system and risks of a country. On the other hand international business it has to face the same of different countries.

Other differences are –

vii) Business regulations and policies.

viii) Currency used in business transactions.

Scope of international business :

International business is much broader than domestic business. It's is not only include international trade i.e export and import of goods and services) but also a wide range of activities which a business operate internationally.

Major forms of business that constitute international business are as follows –

i) Merchandise import and export :

The fundamental and the largest international business activity is the foreign trade comprising exports and imports of physical goods/commodities (Tangible).

ii) Service exports and imports :

Service exports and imports involves trade of intangibles such as banking, insurance, consulting, travel and transportation etc. earn in the form of fees and royalties.

iii) Licensing and franchising :

Licensing and franchising are both business agreements in which certain brand aspects (such as trademarks, patents and copy rights) are started in exchange for a fee is another way of entering into international business.

iv) Foreign Investment :

Foreign Investment or Foreign Direct Investment (FDI) or Direct Investment is another important form of international business. Foreign Investment involves investment of funds abroad in exchange for financial return. It can be of two types– Direct and Portfolio Investment.

Benefit of international business :

The followings are the benefits of international business to the nations-

A. Benefits to nations :

i) Earning of foreign exchange :

It helps to earn foreign exchange which the organisation can use for meetings in paying of the cost of imports of capital goods, technology, petroleum products and fertilisers etc.

ii) More efficient use of resources:

The basic principle of international trade is- "produce what your country can produce more efficiently and trade the surplus production so generated with other countries to procure what they can produce more efficiently.

iii) Improving growth prospects and employment potentials :

International trade helps in faster growth of the organisation and countriesvv. It also helps to generate employment across the world.

iv) Increased standard of living :

Through international trade people in one country are able to enjoy the goods and services of the other countries and enjoy a higher standard of living.

Benefits to firm :

i) Prospects for higher profits :

International business can be more profitable than domestic business. It helps in improving the profit margin of the organisation by selling products to those nations where costs of the product is too high.

ii) Prospects for growth :

International business open the opportunities of the organisation by plunging their products and service in the overseas market which can improving their growth.

iii) Increase capacity utilisation :

Generally, the firms where products have good demand in the domestic market can easily set up high production facility for their products by planning overseas expansion.

iv) Way out to intense competition in domestic market :

International business acts as a catalyst of growth for organization facing tough market condition on the domestic turf.

v) Improve business vision:

The vision to become international comes from the urge to grow, become competitive, diversity and gain strategic advantages of internationalisation.

Modes of entry in to international business :

There are various ways or modes in which a company can enter into international business. These are–

I. Exporting and Importing :

Exporting refers to selling of goods and services from the home country to a foreign country and importing refers to purchase of foreign products and bringing them into one's home country.

Advantages :

Major Advantages of exporting/Importing include.

i) As compared to other modes of entry. Exporting/Importing is one of the simplest routes of entering into global trade. It is less complex and managing easily.

ii) It requires less investment of times and money into international markets.

iii) It is comparatively less risky in comparison to other modes of entry into international business.

iv) As no nation is self sufficient, therefore every nation is bound to import and export there required product and services which is indispensible for the development and growth of the nation.

v) It also helps the countries to access the best/updated technology and products and services available in the world.

II. Contract Manufacturing :

Contract manufacturing refers to a type of international business where a firm enters into a contract with one or few local manufacturers in foreign countries to get certain components or goods produced as per specification. It is also known as 'outsourcing'.

Advantages :

i) In contract manufacturing, there is almost no investment risk involve as there is no need for investment in the foreign country.

ii) It permits the international firms to get the goods produced on a large scale at a lower cost.

iii) Local manufacturers also get the opportunity to get the benefits to be involved with international trade.

III. Licensing and franchising :

Licensing is an contractual agreement between licensor and licensee where latter party would acquire the right to use products and goods where the ownership remains with the licensor.

Franchising is an agreement between franchisee and franchiser. The franchiser is the service provider.

Advantages :

i) Licensing and franchising considered a less expensive mode of entering into international business.

ii) It requires very less/little foreign investment.

iii) Lower risk of business takeovers or business interventions.

iv) As franchisee being a local person who has better knowledge about market and can easily conducting its marketing operations.

IV. Joint venture:

A joint venture (JV) means establishing a firm that is jointly owned by two or more otherwise independent firms.

Advantages :

Major advantages of joint venture include-

i) Risks and costs are shared :

Risks and costs involved in the business will be divided among the parties associated in a joint venture.

ii) Less burdensome :

As the local partner will also contributes to the equity capital, so it is less burdensome to expand globally.

iii) Temporary :

It is not a lifetime commitment. A joint venture is completely a temporary agreement between two companies / organiseation.

iv) More expertise and business insights :

When two or more business organisations may share their knowledge, skill and expertise with each other, it becomes easier to handle the business.

Limitations :

Major limitations of joint venture (JV) are discussed below-

i) There is always running the risk of such a technology and secrets being disclosed to others.

ii) Sometimes the objectives of the joint venture are unclear.

iii) Due to different work culture and management style of two of more organisations which lead to poor co-ordination between them.

V. Wholly owned subsidiaries :

This entry mode of international business is preferred by companies which want to exercise full control over their business operation. The parent company by making 100% investment in its equity capital or common stock.

Wholly owned subsidiaries allow the parent company to diversify, manage and possibly reduce its risk.

Advantages :

Its advantage are-

i) The parent firm is able to exercise its full control ever its operation in foreign companies.

ii) As the subsidiary companies running under the supervision of parent company. So subsidiary company gets the benefit of technology and allied services.

iii) A company can avoid competition while entering a new market with its subsidiary.

Major differences between domestic & International business.

Basis	Domestic business	International business
1. Nationality of buyers and sellers	Both buyers and sellers belongs to same country.	Buyers and sellers belong to different countries.
2. Nationality of other stakeholders	Various stake holders such as suppliers, employees, middlemen, shareholders etc. are from same country.	Various stake-holders such as suppliers, employees, middlemen, shareholders etc. are from different countries.
3. Mobility of factor of production	The factor of labour, capital and raw material can freely move within the country.	The degree of mobility of factors of production is relatively less.
4. Customer heterogeneity across markets	Domestic markets are relatively more homogeneous in nature.	International market has lack of homogeneity due to differences in language, preferences, customs etc. across markets.
5. Differences in business systems and practices.	Business systems and practices are relatively more homogeneous within a country.	Business systems and practices are varies considerably across countries.
6. Currency used in business transactions.	It deals with single currency.	It deals with multiple currencies.

Export-Import procedures and documentation :

Export and import procedures are directly connected with documentation and evidence. Anyone who intend to export needs to provide or supply or fill the documents needs to provide or supply of fill the documents for export. Failing to provide the documents or failing to perform some procedures may lead to serious problems and costs.

Following sections are devoted to a discussion of major steps that need to be undertaken for completing export and import transactions–

Export procedure :

Steps involved in a typical export transaction are as follows–

i) Receipt of enquiry and sending quotations :

The prospective buyer of a product sends an enquiry to different exporters seeking information regarding price, quality and others terms and condition for export of goods. The exporter sends a reply in the form of a quotation known as Performa invoice.

ii) Receipt of order of indent:

If the buyer satisfied with the export price and other terms and condition, then places the order or indent for the goods.

iii) Assessing importers credit-worthiness and securing a guarantee for payments :

After receipt of the indent, the exporter makes necessary enquiry regarding the creditworthiness of the importer. It is because to assess the risks of non-payment of the importer. To minimise such risk, most of the exporters demand a letter of credit from the importers.

iv) Obtaining export licence :

As per custom laws the exporter or firm must have export licence before it proceed with exports. Important per-requisites for getting an export licence are opening a bank account in any authorized bank, obtaining import export code number from DGFT etc.

v) Obtaining pre-shipment finance :

After getting the export licence the exporter approaches his banker for obtaining pre-shipment finance to undertake export production. Pre-shipment finance is related with procurement of raw materials and other components, processing, packaging of goods etc.

vi) Production of procurement of goods :

Having obtained the pre-shipment fiance from bank, the exporter proceeds to get the goods ready as per specifications of the importer.

vii) Pre-shipment Inspection :

The Government of India (GOI) ensures that only good quality products are exported from the country. In this context, the exporter has to submit the pre-shipment inspection report along with other documents at the time of export.

viii) Excise clearance :

After inspection, the exporter therefore has to apply to the concerned excise commissioner to obtain the excise clearance from excise duty.

ix) Obtaining certificate of Origin :

In order to get tariff concessions or other exemptions from a particular country, the importer many ask the exporter to send a certificate of origin.

x) Reservation of shipping space :

The exporting company applies to the shipping company for provisions of shipping space. The exporter has to provide adequate information regarding the exported items, probable date of shipment and the port of designation.

xi) Packing and forwarding :

The goods are them properly packed and marked with necessary details such as name and address of the importer, net and gross weight, port of shipment and destination, country of origin etc.

xii) Insurance of goods :

In order to protect the goods against the risk of loss or damage due to perils of the sea during the transit, the exporter then gets the goods insured with an insurance company.

xiii) Custom clearance :

The goods must be cleared from the customs before there can be loaded on the ship. For obtaining custom clearance, the exporter prepares the shipping bill.

The exporter has to submit five copies of shipping bill along with the following documents to the custom appraiser at custom house.

- Export contract of export order.
- Commercial invoice.
- Certificate of origin.
- Letter of credit.
- Certificate of inspection, if necessary.
- Marine insurance policy.

xiv) Obtaining mates receipt :

After the goods are loaded on board of the ship which the mate or the captain of the ship delivers the mates receipt to the port superintendent.

xv) Payment of freight and insurance of bill of lading :

Shipping company prepares the fright receipt. After the fright receipt, the shipping company issues a bill of lading which as an evidence of that the shipping company has accepted the goods for carrying to assigned destination.

xvi) Preparation of invoice :

After shipment of goods, the exporter informs the importer about shipment of goods. The exporter sent different documents such as certified copy of invoice, bill of lading, insurance policy etc. the importers banker. These documents are needed for custom clearance.

Import procedure :

The import trade refers to goods and services purchased into one nation from another. A country has to follow the below mentioned procedure for import trade.

i) Trade ingoing :

It refers to a document sent by an importer to exporter countries requesting them to disclose information regarding the price and various terms and conditions for supply of goods. On the basis of trade enquiry, the exporter prepares a quotation and sends to the importer which is known as proforma invoice.

ii) Procurement of import license :

It is indispensible to procure a import licence to import the goods from outside the country.

iii) Obtaining foreign exchange :

The exporter may ask for payment of the imported goods in foreign exchange which is regulated by the exchange control Department of RBI.

iv) Placing order or indent :

After obtaining the import licence, the importer places an import order or indent with the exporter for supply of the specified products.

v) Obtaining letter of credit :

The importer should obtain the letter of credit from its bank and forward it to the overseas supplier.

vi) Arranging for finance :

The importer should make arrangement of funds in foreign currency to pay off the export before the shipment arrives.

vii) Receipt of shipment advice :

After loading the goods on the vassal, the overseas supplier dispatches the shipment advice to the importer which contains the information about the shipment of goods.

viii) Retirement of import documents :

The acceptance of bill of exchange for the purpose of getting delivery of the documents is known as Retirement of import documents.

ix) Arrival Of Goods :

When the goods arrived in the importer's country, the person in charge of the carrier (ship or airway) inform the officer in charge of the dock or the airport about the arrival of the goods in the importing country. He provides the document which is known as Import General Manifest for unloading of cargo.

x) Custom clearance and release of goods :

All the goods Imported into India have to pass through custom clearance after they cross Indian boarder. Hence the importer has to obtain a delivery order, has to pay dock dues, import duty, custom duty etc. for clearance.

Foreign trade promotion measurement and schemes :

There are various trade promotion measures and schemes available to business firm to facilitate the import and export operations are announced by the government to its Export- Import (EXIM) policy. These are–

i) Duty- Drawback scheme.

ii) Export manufacturing under bond scheme.

iii) Exemption from payment of sales taxes.

iv) Advanced license scheme.

v) Export promotion capital goods scheme.

vi) Scheme of recognising exports firm as export house, trading house and superstar trading house.

vii) Export of service.

viii) Export finance.

ix) Export processing zone.

x) 100 percent export oriented units.

Organisation support :

Government of India has get up different institutions in order to facilitate the process of foreign trade in our country. some of these important institutions are–

i) Department of commerce.

ii) Export promotions councils.(EPC)

iii) Commodity Boards.

iv) Export Inspection Council. (EIC)

v) Indian Trade Promotion Organisation. (ITPO)

vi) Indian Institute of foreign trade. (IIFT)

vii) Indian Institute of Packaging. (IIP)

viii) State Trading Organisation.

International Trade Institutions And Trade Agreements :

WORLD BANK :

The International Bank For Reconstruction and Development (IBRD) commonly known as world bank was established in the year 1944, in Breton-woods. The main objectives behind setting up this international organisation were to support European and Asian countries needing financing to fund post war reconstruction efforts and assist the development of the undeveloped nations.

Function of The World Bank :

- The World Bank is entrusted with the task of economic growth and widening of the scope of international trade.

- It helps war- affected countries by granting them loans for reconstruction and development.
- It also helps the underdevelopment countries by granting loan for development purpose.
- The World Bank provide financial helps and adequate resourses to the poor countries to increase their economic growth, reducing poverty level and a better standard of level of living.
- The World Bank also provide loan to various Nations/Governments for Education, Health and Sanitation, Agriculture, Infrastructure development etc.
- It also promotes foreign investment to other organisations by guaranteeing the loans. etc.

Headquarters : Washington D.C, United States.

International Monetary fund (IMF) : was established in the year 1945 to promotes international financial stability and Monetary co- operation. It has 191 member countries.

Objective of IMF :

The objective of IMF Include-

i) International Monetary Co- Operation :

To promote international monetary co- operation amongst the member countries through a permanent institution.

ii) Balanced growth :

To facilitate expansion of balance growth of international trade and to contribute of high levels of employment and real Income.

iii) Exchange stability :

To promote exchange stability with a view to maintain orderly exchange agreements among member countries.

iv) Multilateral System of Payments :

To assist in the establishment of a multilateral system of payments in respect of current transactions between member.

Functions of IMF :

Various functions are performed by the IMF to achieve the aforesaid objectives. Some of the important functions of IMF are as follows-

- Acting as a short term credit Institution.
- Acting as a reservoir of the currencies of all the member countries where a borrower Nation can borrow the currency of others nations.
- Providing machinery for the orderly adjustment of exchange rates.
- Acting as a lending institution of foreign currency and current transactions.
- To look after the legal growth of the global business and to take the necessary initiative for employment and income.

- Providing machinery for international consultation.

Headquarter : Washington, D.C., United state.

World trade organisation (WTO) and major agreements :

World trade organisation (WTO) was set up on 1995 to solve and manage the trade issues amongst the membership nations and providing a forum for multilateral trade arrangements.

WTO is a permanent organisation created by an international treaty ratified by the governments and legislatures of member countries. It has now 149 member.

Objectives of WTO :

It has the following major objectives–

- To ensure reduction/discounts of tariffs and other trade barriers imposed by various nations.
- To participate/engage in such activities which enhance the standards of living of the common people, generate employment, increase income and effective demand and facilitate higher production and trade.
- To facilitate the rational utilization of the global resources for sustainable development.
- To promote an integrated, more feasible and durable trading system.

Functions of WTO :

- Promoting an environment to encourage the member countries in mitigating their grievances.
- It has to ensure that trade flows as smoothly, predictably and freely as possible.
- To act as a dispute settlement body.
- Ensure that the all membership countries were duly follow the rules and regulation of WTO for settlement of their disputes.
- Providing technical assistance and training the developing and least developed economies.
- Co-operation with IMF, IBRD and other international organisations.

Benefits of WTO :

Some of the major benefits of WTO are as follows–

- WTO helps to promote international peace and facilities of International business.
- WTO provides " Most Favoured Nations" treatment which means all companies get equal opportunity for marketing their products with all WTO members nations.
- All disputes between member nations are settled with mutual consulations.
- Reduction of trade barriers between member nation.
- Free Trade improve the living standard of people by increasing the income level / cut the living costs.
- WTO helps to stimulate economic growth and employment.

- The system encourages good Governance.

WTO Agreements :

The WTO agreements cover trade of Goods, services and Intellectual property. They set the procedures for setting disputes amongs the member nations. They prescribe special treatment for developing Nations. These agreements are often called WTO trade rules. Major WTO agreements are.

- Agreements forming part of General Agreement on Tariffs and Trade (GATT).
- Agreement on Textile and clothing (ATC).
- Agreement on agriculture (AOA).
- General Agreement on Trade in Services (GATS) Agreement on Trade relatred aspects of inteclelctual property Rights (TRIPS).

EXERCISE

A. Answer the following MCQ's : (1 Marks)

(i) Which is not a Part of import related

(a) Pre-shipment Inspection (b) Obtaining foreign exchange

(c) Obtaining letter of Credit (d) Arrival of Goods

Answer : __________

(ii) Which of the following is not a member of world Bank Group.

(a) The Multinational Investment Guarantee Agency.

(b) International Bank for Reconstruction and Development.

(c) International Monetary Fund.

(d) International Finance Corporation.

Answer : __________

(iii) When a firm enter into a contract with one or a few local manufactures in foreign countries to get Certain Components or goods produced as per specification is known as -

(a) Joint ventures (b) Licensing

(c) Conrtact Manufacturing (d) None of the above

Answer : __________

(iv) Which one the following is not amongst Indias major Import items -

(a) Oil and Petrolium Products (b) Capital Goods

(c) Ayurvedic Medicine (d) Gold

Answer : __________

(v) Which one the following is not amonst Indias major export items.

(a) Pearls and Precious Stones (b) Gems and Jwellery

(c) Textile and garments (d) Oil and Petroliun Products

Answer : __________

(vi) Which documents is not required for import transaction.

(a) Proforma Invoice (b) Gems and Jwellery

(c) Mate's Receipt (d) Bill of exchange

Answer : __________

(vii) Which one of the following is not amongst Indias major trading partners –

(a) China (b) USA

(c) Saudi Arabia (d) South Africa

Answer : __________

(viii) Which one of the following is not a document related to fulfill of customs formalities.

(a) Letter of insurance (b) Proforma Invoice

(c) Shipping bill (d) Export licence

Answer : __________

(ix) In which year India become the member of World Bank –

(a) 1952

(b) 1945

(c) 1947

(d) 1950

(x) GATT organisation converted into –

(a) IMF

(b) WTO

(c) World Bank

(d) IBRD

(B) Very Short Answer (VSA) Type Questions. (Carrying 1 Mark)

(i) What do you mean by International business.

(ii) What is licensing and franchising ?

(iii) What is foreign Investments ?

(iv) Mention any two benefits of International business from Nations Point of view.

(v) What is exporting ?

(vi) What is importing ?

(vii) Define Contract Manufacturing ?

(viii) What is Joint venture ?

(ix) What is wholly owned subsidiaries ?

(x) Mention any two documents required for import procedure.

(xi) What is Mate's receipt ?

(xii) What is Bill of lading ?

(xiii) What is shipping Bill ?

(xiv) What is department of Commerce ?

(xv) What is World Bank ?

(xvi) Mention any one function of World Bank ?

(xvii) What is IMF ?

(xviii) What is WTO ?

(xix) What is GATT ?

(xx) Write full form of TRIPS ?

(C) Answer the folowing questions : (3/4/5/6)

(i) Difference between International Trade and International business.

(ii) discuss any four advantage of International business.

(iii) Enumerate the advantage of contract Manufacturing.

(iv) Distinguish between licensing and franchising.

(v) List major items of Indias exports.

(vi) Write short notes on Bills of entry, Bill of lading.

(vii) List the major countries with whom India trades.

(viii) Discuss the formalities involved in getting as export licence.

(ix) Discuss the procedure related to clearence of goods.

(x) What is letter of Credit ? Why does on exporter need this document ?

(xi) Define International business ? How is it differ from domestic business.

(xii) CDOT garments company has received an order to ecport 1000 track suits for men to ABC Garments, CDOT Garments Company would need to go through for executing the export order.

(xiii) Your firm is planning to import Gems and Jwellery items from United States. Describe the procedure involve in importing ?

(xiv) What is World Bank ? Discuss its functions.

(xv) What is IMF ? Discuss its objective and function.

(xvi) What is WTO ? Discuss its functions and benefits.

Answer

A. i) a) ii) (c) iii) (c) iv) (c) v) (d) vi) (c)

vii) (d) viii) (c) ix) (b) x) (b)

NOTE