

# Senior Secondary Course

## BUSINESS STUDIES (319)

1

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**NATIONAL INSTITUTE OF OPEN SCHOOLING**  
**(An autonomous organisation under MHRD, Govt. of India)**

**A-24-25, Institutional Area, Sector-62, NOIDA-201309 (U.P.)**

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## *Chairman's Message*

*D*ear learners

*As the needs of the society in general, and some groups in particular, keep on changing with time, the methods and techniques required for fulfilling those aspirations also have to be modified accordingly. Education is an instrument of change. The right type of education at right time can bring about positivity in the outlook of society, attitudinal changes to face the new/fresh challenges and the courage to face difficult situations.*

*This can be very effectively achieved by the curriculum renewal at regular intervals of time. A static curriculum does not serve any purpose, as it does not cater to the current needs and aspirations of the individual and society.*

*For this purpose only, educationists from all over the country come together at regular intervals to deliberate on the issues of changes needed and required. As an outcome of such deliberations, the National Curriculum Framework (NCF 2005) came out, which spells out in detail the type of education desirable/needed at various levels of education – primary, elementary, secondary or senior secondary.*

*Keeping this framework and other national and societal concerns in mind, we have currently revised the curricula of Business Studies course at Senior Secondary Level, as per the Common Core Curriculum developed by COBSE (Council of Boards of School Education) and NCERT (National Council for Educational Research and Training) making it current and need based. Textual material production is an integral and essential part of all NIOS programmes offered through open and distance learning system. Therefore, we have taken special care to make the learning material user friendly, interesting and attractive for you.*

*I would like to thank all the eminent persons involved in making this material interesting and relevant to your needs. I hope you find it appealing and absorbing.*

*On behalf of National Institute of Open Schooling, I wish you all a bright and successful future.*

***(Prof. C. B. Sharma)***  
***Chairman, NIOS***

## *A Note From the Director*

*Dear Learner,*

*The Academic Department at the National Institute of Open Schooling tries to bring you new programmes every now and then in accordance with your needs and requirements.*

*The Business Studies course at Senior secondary level has now been revised as per the Common Core Curriculum developed by COBSE (Council of Boards of School Education) and NCERT (National Council for Educational Research and Training) making it current and need based.*

*The National Curriculum Framework developed by the National Council for Educational Research and Training was kept as a reference point. Leading experts in the subject of the country were involved and with their active involvement, study materials based on the new curriculum have been updated. Old, outdated information has been removed and new, relevant things have been added.*

*I am happy to place this new revised study material in Business Studies in your hands. I hope you will find the new material that is now in your hands interesting and exciting. Any suggestions for further improvement are welcome.*

*Let me wish you all a happy and successful future.*

*(Dr. Kuldeep Agarwal)  
Director (Academic)  
National Institute of Open Schooling*

## *A Word With You*

**D**ear friend,

*I welcome you to this course in Business Studies for the Senior Secondary level.*

*We all know the importance of business in our everyday life. It not only fulfills our basic needs but also provides us comfort and makes our lives easier. It is a dynamic process that keeps on changing as per the requirements and demands of the society. The procedure and practices of business in the past are completely different from modern days. It is more exposed to risk and uncertainties than what it was in past. The use of modern technology, government's policies and the consumption pattern of the people have made the business sensitive and globally competitive. Therefore, a systematic effort is required to understand, analyse and respond to the changes that affect the functioning of business in the present day society.*

*Keeping in mind the above, the curriculum in the subject of Business Studies at Senior Secondary level has been designed. The whole learning material of the subject has been published in the forms two books for your convenience. The first book has three modules. Learning experiences considered essential for Business Studies are described in the first two modules. The module on Business Around Us has lessons on Nature and Scope of Business; Business Support Services; Business Environment and Modern Modes of Business where as the module on Forms of Business Organisations incorporates lessons on Forms of Business Organisation; Company Form of Business Organisations and Public Sector Enterprises. The third module on Preparing for Employment will be helpful to you when you decide to go for employment. The objective is to make the learners aware about the world of employment so that after gaining knowledge they can either start their own ventures or become employed somewhere else to earn their livelihood.*

*The second book has five modules having 15 lessons. For your practice, a sample question paper along with the question paper design and marking scheme is provided at the end of the second book.*

*To make your learning process interesting and useful we have changed the layout of the pages. You will also find some attractive icons in the lesson symbolising the content of different sections. The details are given separately under the heading 'How to study your lessons'. Some new sections like, Do and Learn, Key Terms, Role Play etc.*

*I am sure that you will find the lessons and their approach interesting and would be able to apply your knowledge in the real life situations. So read all the lessons of this course carefully and be prepared for the examination with confidence. If you face any difficulty in your studies, please feel free to write to me. Your suggestions are valuable for us.*

*Good luck and happy learning.*

**Dr. Piyush Prasad**  
Academic Officer

## How To Study Your Lessons

Congratulation! You have accepted the challenge to be a self-learner. It means, you have to organise your study, learn regularly, keep up your motivation and achieve your goal. Here it is solely you, who is responsible for your learning. NIOS is with you at every step. It has developed the material in Business Studies keeping only you in mind. A format supporting independent learning has been followed. You can take the best out of this material if you follow the instructions given below.

**Title:** The title of the lesson will give a clear indication of the contents within. Do read it.

**Introduction:** This will introduce you to the lesson and also link it to previous one.



**Objectives:** These are statements of outcomes of learning expected from you after studying the lesson. You are expected to achieve them. Do read them and check if you have achieved the same.

**Content:** Total content has been divided into sections and sub-sections. A section leads you from one content element to another and sub-section helps you in comprehension of the concepts in the content element. The text in bold, Italics or boxes is important and must be given attention.



**Intext Questions:** Objective types, self-check questions are asked after every section, the answers to which are given at the end of the lesson. These will help you to check your progress. Do solve them. Successful completion will allow you to decide whether to proceed further or go back and learn the unit again.



**Notes:** Each page carries empty space on the outer margins for you to write important points or make notes.



**What You Have Learnt :** It is the summary of the main points of the lesson. It will help in recapitulation and revision. You are welcome to add your own points to it also.



**Terminal Questions :** These are very short, short and long answer type questions that provide you an opportunity to practice for better understanding of the whole topic.



**Answers to Intext Questions:** These will help you to know, how correctly you have answered the Intext questions.



**Key Terms:** The important terms used in the lesson are highlighted in this section. Do remember these terms.



**Do and Learn:** In this section certain activities have been suggested for better understanding of the concept.



**Role Play:** To make your learning interesting an imaginary situation is given based on any concept covered in the lesson. You are required to enact the imaginary situation through realistic behaviour. You are free to choose any other concept/topic of your choice to play the role.

## *Mukta Vidya Vani*



Mukta Vidya Vani is a pioneering initiative of the National Institute of Open Schooling (NIOS) for using Streaming Audio for educational purposes. This application of ICT will enhance accessibility as well as quality of programme delivery of NIOS Programmes. This is a rare accomplishment of NIOS as the first Open and Distance Learning Institute to start a two way interaction with its learners, using streaming audio and the internet.

Keeping in mind the fact that the transmission is done through the web, the NIOS website ([www.nios.ac.in](http://www.nios.ac.in)) has a link that will take any user to the Mukta Vidya Vani. Mukta Vidya Vani thus enables a two way communication with any audience that has access to an internet connection, from the studio at its Headquarters in NOIDA, where NIOS has set up a state-of-art studio, which will be used for this purpose as well as for recording educational audio programmes meant for NIOS learners, though others can also take advantage of this facility.

Mukta Vidya Vani is a modern interactive, participatory and cost effective programme, involving an academic perspective along with the technical responsibilities of production of audio and video programmes, which are one of the most important components of the multi channel package offered by the NIOS. These programmes will attempt to present the topic/ theme in a simple, interesting and engaging manner, so that the learners get a clear understanding and insight into the subject matter.

NIOS has launched a scheme to motivate the learners to participate in the Mukta Vidya Vani by sending their Audio CD's to the respective regional centre on various subjects such as-

1. Poetry / Shloka recitation
2. Story telling
3. Radio Drama
4. Music
5. Talks on various topic related to the NIOS curriculum including Painting, Vocational Subjects etc.
6. Quiz
7. Mathematics puzzles etc.

The selected CD can be webcast on Mukta Vidya Vani and the winner participant be rewarded suitably.

Learners may visit the NIOS website and participate in live programmes from 2pm to 5pm on all week days and from 10.30am to 12.30pm on Saturdays, Sundays and all Public Holidays. The Subject Experts in the Studio will respond to their telephonic queries during this time. A weekly schedule of the programmes for webcast is available on the NIOS website. The Studio telephone number are 0120-4626949 and Toll Free No. 1800-180-2543.





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## Overview of the Learning Material

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#### **Module-I : Business Around Us**

1. Nature and Scope of Business
2. Business Support Services
3. Business Environment
4. Modern Environment

#### **Module-II : Business Organisations**

5. Forms of Business Organisation
6. Company Form of Business Organisation
7. Public Sector Enterprises

#### **Module-III : Preparing for Employment**

8. Self Employment
9. Getting Ready for Wage Employment

### 2

#### **Module-IV : Business Management : Nature and Scope**

10. Fundamental of Management

#### **Module-V : Functions of Management**

11. Planning and Organising
12. Staffing
13. Directing
14. Co-ordination and Controlling

#### **Module-VI : Business Finance**

15. Financing of Business
16. Sources of Long Term Finance

17. Financial Management
18. Indian Financial Market

#### **Module-VII : Marketing Management**

19. Introduction to Marketing
20. Marketing Mix
21. Advertising and Salesmanship

#### **Module-VIII : Trade & Consumer Protection**

22. Internal Trade
23. External Trade
24. Consumer Protection

## Module - I

# BUSINESS AROUND US

**Marks 08**

**Hours 20**

Business plays a vital role in our lives, not only by providing us various goods and services but also by offering many opportunities to earn our livelihood. This module has been designed to help the learner to identify the scope of business activities and to understand the evolution of business over time.

**Lesson 1. Nature and Scope of Business**

**Lesson 2. Business Support Services**

**Lesson 3. Business Environment**

**Lesson 4. Modern Modes of Business**

## Awards Won by NIOS

Several projects have been implemented by the NIOS to tap the potential of Information and Communication Technology (ICT) for promoting of Open and Distance Learning (ODL) system. The Ni-On project of NIOS won the National Award for e-governance and Department of Information and Technology, Govt. of India. In further recognition of its On-line initiatives and best ICT practices, the NIOS received the following awards:

### NIOS WINS National Award for e-Governance 2008-09

Silver icon for Excellence in Government Process Re-engineering, Instituted by Government of India Department of Administrative Reforms and Public Grievances & Department of Information Technology.



### NIOS receives NCPEDP MPHASIS Universal Design Awards 2012



National Institute of Open Schooling (NIOS) has been awarded THE NCPEDP - MPHASIS UNIVERSAL DESIGN AWARDS 2012 instituted by National Centre for Promotion of Employment for Disabled People. The award was given by **Sh. Mukul Wasnik, Hon'ble Minister for Social Justice and Empowerment, Govt. of India** on 14th August, 2012. NIOS has been selected for its remarkable work done for the learners with disabilities through ICT by making its web portal

[www.nios.ac.in](http://www.nios.ac.in) completely accessible for such learners.

### The Manthan Award South Asia & Asia Pacific 2012

The Manthan Award South Asia & Asia Pacific 2012 to recognize the best ICT practices in e-Content and Creativity instituted by Digital Empowerment Foundation in partnership with World Summit Award, Department of Information Technology, Govt. of India, and various other stakeholders like civil society members, media and other similar organisations engaged in promoting digital content inclusiveness in the whole of South Asian & Asia Pacific nation states for development. The award was conferred during **9th Manthan Award Gala South Asia & Asia Pacific 2012 at India Habitat Centre on 1st Dec. 2012.**



# 1

## NATURE AND SCOPE OF BUSINESS



*Notes*

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



### OBJECTIVES

*After studying this lesson, you will be able to:*

- define human activities;
- classify human activities as economic and non-economic activities;
- explain the role of profit in business;
- explain the meaning and characteristics of different categories of economic activities;
- explain the concept of business and distinguish it from profession and employment;
- describe the objectives and importance of business in modern society; and
- identify different types of business activities.

### 1.1 HUMAN ACTIVITIES

Every human being is engaged in one activity or the other. It may be cultivating land, preparing food, playing football, reading storybooks, studying in a school, teaching in a

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## Nature and Scope of Business

college, working in an office, jogging in the park and so on. If you try to ascertain as to why individuals engage themselves in one activity or the other, you will find that by doing such activities they are trying to satisfy some of their needs or wants. All these activities which human beings undertake to satisfy their needs or wants are called human activities.

However, even if all human activities satisfy the needs and wants, they differ among each other in terms of the purpose for which they are undertaken and the end result. For example, let us take the activity of preparing food – one prepared by a mother at home for her family and the other by a cook in a hotel. Here you will notice that the purpose and end result of the activity of preparing food (a) by a mother and (b) by a cook varies. In the first case, the purpose is to feed the family members without any expectation of monetary return while in the second case, cooking food is a part of his job so as to earn money in terms of salary or wage. The end result in the first case is ‘self-satisfaction’ and looking after the family, while in the second case it is ‘earning money’ for livelihood.

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



### INTEXT QUESTIONS 1.1

1. Define ‘economic activities’.
2. Below are given certain non-economic activities. Convert them into economic activities.

Example: A nurse attending her ailing son. (Non-economic activity)

A nurse attending patients in her hospital. (Economic activity)

- (a) A person working in his own garden.
- (b) A lady preparing food for her husband.
- (c) A man white-washing his own house.
- (d) A teacher teaching his son at home.
- (e) A chartered accountant preparing his own accounts.

## 1.2 CLASSIFICATION OF ECONOMIC ACTIVITIES

Economic activity can be a one-shot affair or a continuous one. For example, you know how to stitch clothes and one day you stitch a shirt for your friend and he pays some money to you. Of course, this is an economic activity as you have some monetary gain but it is a one-shot affair. But, if you start stitching shirts on a continuous basis and charge money for that, you are said to be engaged in some continuous or regular economic activity. It may be noted that by getting themselves engaged regularly in a particular economic activity people try to earn their livelihood. So, the activities in which individuals engage themselves on a regular basis and earn their livelihood are known as their '**occupations**'.

In fact everyone is engaged in one occupation or the other, and these can be broadly categorised as –

- (a) Profession;
- (b) Employment; and
- (c) Business.

Let us know a few more details about these occupations.

### 1.2.1 Profession

You are aware of doctors. What are they and what do they do? They are basically individuals who have a special knowledge and training to examine the patients, find out the ailment, if any, and then treat them to be cured from such ailment. And, for doing all these they charge a fee from patients. Similarly, we have Chartered Accountants who specialise in matters related to accounts, taxes etc. and help people and organisations for such jobs for a fee. If we look further, we find Engineers, Architects, Film-stars, Dancers, Artists and many others engaged in their own field having specialised knowledge and training. They are all known as professionals and the activities they are engaged in are called profession.

In order to gain clarity on the concept of a profession, let us look at its basic features which can be summarised as follows:

- (a) Profession is an occupation for which the individual has to acquire a special knowledge and skill.
- (b) The money they get for providing such a service is usually known as 'fee'.
- (c) Most of the professionals are regulated by a professional body, which frames the code of conduct to be followed by the member professionals. For example, Chartered Accountants in India are regulated by a professional body known as Institutes of Chartered Accountants of India, Cricketers by International Cricket Council (ICC), and so on.



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- (d) Professionals acquire the specialised knowledge mostly from colleges, universities or specialised institutes. In some cases, individuals also acquire such knowledge and skill through training or coaching by an expert in the same field, say for example, dancers and musicians, etc.
- (e) Professionals usually work on their own and get a fee for their services and termed as those in practice. However, some of them may work in organisations as employees or consultants.
- (f) The primary objective of every profession is to provide service though they may charge a fee. They should not exploit the people using their knowledge of expertise.

*All those economic activities which involves the rendering of personal service of specialised and expert nature based on professional training and skill and require the observance of certain rules and regulations (code of conduct) are termed as Professions.*

### 1.2.2 Employment

You have seen people going regularly to offices, factories, firms etc. for work. These are individuals who are engaged by organisations or individuals to work for them in return for a wage or salary. They are said to be in employment. Thus, we find a postman is in employment in the department of posts to deliver letters. Here the department is called the employer and the postman is the employee. The postman works on the basis of certain terms and conditions and gets a monthly salary in return. The main features of employment are:

- (a) It is an occupation where a person (called employee) is to work for another (called employer).
- (b) There are certain terms and conditions of work like hours of work (how many hours a day), duration of work (how many days or hours in a week or month etc.), leave facility, salary/wages, place of work etc.
- (c) The employees get salary (normally paid on a monthly basis) or wage (normally paid on daily/weekly basis) in return of their work. This amount is normally predetermined, mutually agreed upon and may increase over time.
- (d) Legally the employer-employee relationship is based on a contract and any deviation from any side permits the other party to take legal recourse.
- (e) There are jobs for which no technical education or specialised skill is required for employment. But, for skilled jobs, specialised jobs and technical jobs, a certain level of basic/technical education is required.
- (f) The main purpose behind employment is to secure assured income through wages and salaries.



## Nature and Scope of Business

*The economic activity, rendered by one person to another, under a contract of service, for some remuneration, is called employment.*

### 1.2.3 Business

You must have heard about Tata Companies. They manufacture so many things from salt to trucks and buses and sell these to individuals like you and me. In the process, they earn a profit. Look at a shopkeeper nearby. What does he do? He buys products in bulk and sells us in small quantities. He also earns some profit in the process. Similarly, the cable TV operator provides us a connection at a price so that we watch various channels on our television set. In this process the cable TV operator earns a profit. All of them are said to be engaged in business and are called businessmen. They all perform their activities regularly to earn profit. Thus, the term 'business' refers to human activities which involve production or exchange of goods and services regularly with the object of earning profit.

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

We find people like mill owners, transporters, bankers, traders, tailors, taxi operators etc. doing business. All of them are engaged in an activity of manufacturing or trading (buying and selling) or providing some service. They have invested their money, bear the risks involved and work for earning some profit. Thus, the main characteristics of business are:

- (a) It is an occupation where a person is engaged in manufacturing or buying and selling of goods and services. The goods may be consumer goods or capital goods. Similarly the services may be in the form of transportation, banking, insurance etc.
- (b) The activities must be carried on regularly. A single transaction is usually not treated as a business. For example, if a person sells his old car at a profit, it is not treated as a business activity. However, if he is engaged in the activity of buying old cars and selling them on a regular basis, he shall be treated as engaged in business activity.
- (c) The sole objective of business is to earn profit. It is essential for the survival of business. Of course, it is through provision of some goods or some services.
- (d) Every business requires some investment in cash or kind or both. It is usually provided by the owner or is borrowed by him at his own risk.
- (e) The earnings are always uncertain, because the future is unpredictable and a businessman has no control over certain factors that affect his earnings. Thus, every business involves an element of risk and the same is borne by the businessman, the owner.

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## Business Around Us



Notes

### Nature and Scope of Business



### INTEXT QUESTIONS 1.2

1. Define the term 'profession' in your own words.
2. Following is a list of activities. Classify these activities as Business, Profession or Employment by putting their number in the circles provided at the end of the question.
  - (a) Policeman on duty at your local police station.
  - (b) Teacher working in an educational institution.
  - (c) A driver driving a bus of a State Road Transport Corporation.
  - (d) A taxi-driver who runs his own taxi.
  - (e) A fisherman selling fish in a village.
  - (f) Gopal stitching cloth of the customers regularly at home.
  - (g) A daily-wager working in a factory.
  - (h) A gardener maintaining the lawns in a college.
  - (i) A lawyer practising in a court.
  - (j) An engineer running his consultancy firm.

#### Business

○	○	○	○
○	○	○	○

#### Profession

○	○	○	○
○	○	○	○

#### Employment

○	○	○	○
○	○	○	○

### 1.2.4 Comparison of Business, Profession and Employment

Having learnt about the essential characteristics of business, let us distinguish it from profession and employment.

Basis	Business	Profession	Employment
(a) Establishment	Decision to start the business and compliance of legal formalities like registration, wherever required.	Membership of a professional body is essential.	Enter into service contract with the employer.
(b) Qualification	Specific qualification is not required.	Professional knowledge and training in the same field is essential.	As per the needs of the employer and the job involved.

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(c) Capital	Capital investment is a must. Its amount depends on the nature and scale of business operation.	Some amount of capital investment is required for establishment.	No capital investment is required.
(d) Nature of work	Production or purchase and sale of goods or services.	Expert service.	Performance of job.
(e) Return or reward	Profit.	Professional fee.	Wage or Salary.
(f) Risk	There is risk of loss.	Risk of not getting sufficient fee.	No risk, so long as business /office continues its operations.
(g) Motive	Profit motive.	Service motive, though fee is charged.	Motive is to earn a livelihood.

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## 1.3 IMPORTANCE OF BUSINESS

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

- (a) Business improves the standard of living of the people by providing better quality and large variety of goods and services at the right time and at the right place.
- (b) It provides opportunities to work and earn a livelihood. Thus, it generates employment in the country, which in turn reduces poverty.
- (c) It utilises the scarce resources of the nation and facilitates mass production of goods and services.
- (d) It improves national image by producing and exporting quality goods and services to foreign countries. By participating in international trade fairs and exhibitions it also demonstrates the progress and achievements of its own country to the outside world.
- (e) It enables the people of a country to use quality goods of international standard. This is possible by way of importing goods from foreign countries or by producing quality goods in the country by applying modern methods of production.
- (f) It gives better return to the investors on their capital investment and also provides opportunities to grow and expand the business.
- (g) It promotes social interest by providing tourist services, sponsoring cultural programmes, trade shows etc. in the country, which enable people of different

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parts of the country to exchange their culture, traditions and practices. Thus, it promotes national integration.

- (h) It also facilitates exchange of culture among the people of different nations and thus, maintains international harmony and peace.
- (i) It helps in the development of science and technology. It spends large amount of money on research and development in search of new products and services. Hence a number of innovative products and services are developed through industrial research.

### 1.4 OBJECTIVES OF BUSINESS

Business objectives are something, which a business organisation wants to achieve or accomplish over a specified period of time. It is generally believed that a business has a single objective, that is, to make profit and safeguard the interests of its owners. However, no business can ignore the interests of its employees, customers as well as the interest of society as a whole. Business objectives also need to be aimed at contributing to national goals and aspirations as well as towards international well-being. Thus, the objectives of business may be classified as –

- (a) Economic objectives
- (b) Social objectives
- (c) Human objectives
- (d) National objectives
- (e) Global objectives

Now let us discuss these objectives in detail.

- (a) **Economic objectives** of a business refer to the objective of earning profit and those which have a direct impact on the profit-earning objective of business. Some of the main economic objectives of business are:
  - (i) earning of adequate profits;
  - (ii) exploring new markets and creation of more customers;
  - (iii) growth and expansion of business operation;
  - (iv) making innovations and improvements in goods and services; and
  - (v) making use of available resources in the best possible manner.
- (b) **Social objectives** of business are those, which are desired to be achieved for the benefit of the society. Some of the major social objectives are:

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- (i) production and supply of quality goods and services to the society;
  - (ii) making goods available at reasonable prices;
  - (iii) avoidance of unfair practices like hoarding, black-marketing, over-charging, etc.;
  - (iv) contributing towards the general welfare and upliftment of the society;
  - (v) ensuring fair return to the investors;
  - (vi) taking steps in the direction of consumer education; and
  - (vii) conserving natural resources and wild life and protecting the environment.
- (c) **Human objectives** of business primarily refer to the objectives aimed at safeguarding the interest of its employees and their welfare. Some of the major human objectives are:
- (i) providing fair remuneration and incentives to the employees;
  - (ii) arrangement of better working conditions and proper work environment for the employees;
  - (iii) providing job satisfaction by making the jobs interesting and challenging, putting the right persons in right job;
  - (iv) providing the employees with more and more promotional opportunities;
  - (v) organising training and development programmes for the growth of the employees; and
  - (vi) providing employment to the backward classes of the society and people who are physically and mentally challenged.
- (d) **National objectives** of business are the objectives of fulfilling the national goals and aspirations like:
- (i) creation of employment opportunities;
  - (ii) promotion of social justice;
  - (iii) produce and supply goods in accordance with the national interest and priorities;
  - (iv) payment of taxes and other dues honestly and regularly;
  - (v) helping the state in maintaining law and order by promoting good industrial relations; and
  - (vi) implementing government's economic and financial policies framed from time to time.

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- (e) **Global objectives** of business are the objectives of facing the challenges of global market. Some of the global objectives are:
- (i) making available globally competitive goods and services; and
  - (ii) reducing disparities among rich and poor nations by expanding its operations.

### 1.4.1 Role of Profit in Business

Profit plays an important role in business. Following points indicate the role of profit in business :

1. **Survival** : Profit helps an organization to replace old assets and increases the capacity of an organization to survive.
2. **Future Growth and Expansion** : Extra profit earned can be utilized for expansion purpose. Entry in new areas helps an enterprise to grow.
3. **Incentive** : Profit is an incentive for businessmen who put hard work. Profit motivates the businessmen to put maximum efforts.
4. **Prestige** : Profit making organizations can afford to give higher wages/salaries and other facilities to their employees. This can retain employees and attract highly competent persons to join the enterprise. So profit making concern enjoys goodwill in the society.
5. **Achievement of Goals** : Only a profit making concern can achieve the goals of an enterprise because achievement of economic objectives require expenditure.
6. **Measure of Efficiency** : The success of an organization can be evaluated by looking at its profit. So profit is an index of success in business. It measures the efficiency of business.
7. **Means of Livelihood to Businessmen** : Profit is a regular income to the family of business persons.

### 1.4.2 Business Risks

Business is full of uncertainties. Uncertainties can be of different forms like loss due to change in fashion; fall in market price; goods produced may be destroyed by fire, storm, cyclone, theft etc. Thus, while running a business enterprise, there is an element of risk. Business risk means chance of loss due to uncertain events in future.

#### Nature of Business Risk

1. **Uncertainty** : Business risks is due to uncertainty of the future course of action. Natural calamities such as flood, earthquake etc. result in loss. Loss may also arise due to human causes like strike, lockouts, accidents, theft, bad-debts etc. There are other uncertainties such as competition, technological changes, price fall etc.

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- 2. Profit is the Reward for Risk :** A business concern which is willing to take risk earns handsome profits. Heavy risk results in higher profits.
- 3. Difficult to Measure :** A businessman may anticipate some risks. He cannot predict all the risks which will occur in future. Therefore, risk cannot be measured accurately.
- 4. Essential Element of Business :** Business activities cannot be conducted without some element of risk. Risk bearing is an essential element of business.
- 5. Variability :** According to the nature and size of business, the degree of risk varies. If the amount invested is high, there will be high degree of risk. The degree of risk varies with time and competition.

### Causes of Business Risks

- 1. Natural Causes :** Fire, flood, storm, cyclone, earthquake, famine, lightning, snowfall, tide etc. result in loss of life, property and income. Therefore, natural causes are beyond the control of business.
- 2. Economic Causes :** It refers to change in market conditions. Economic causes can be in the form of fluctuation in demand, fluctuation in price, availability of cheap substitutes, competing business firms etc.
- 3. Political Causes :** Fall of government may change license policy and tax policy. This may result in loss to the business. Import and export restrictions, high taxes, rise in interest rate on borrowings etc. may cause loss to the business. Political causes refer to changes in government policies and laws.
- 4. Human Causes :** Inefficient management and carelessness of employees may result in loss. Workers may damage machines. They may involve in strike, lockout etc. which may also result in loss. If the management fail in estimating demand for products, loss may arise. Uncertainties caused by human actions e.g. forgery, misappropriation of cash, theft of goods, riots, wars, etc. can also result in loss.
- 5. Physical and Technical Causes :** Change in technology may make the machines obsolete before their expected life. Mechanical failures arise due to leakage of gas, bursting of a boiler etc. Value of assets may be reduced due to loss in weight, vaporisation etc. Another kind of physical cause is the loss of goods in transit.

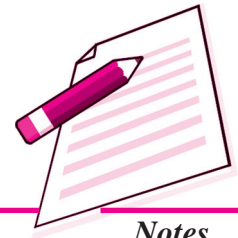


### INTEXT QUESTIONS 1.3

1. Mohan has recently completed his MBBS course. He finds difficulty in choosing his occupation. Guide him by filling up the following table:

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If he chooses	What should he do?	What will he get as return?
(a) Business		
(b) Profession		
(c) Employment		

2. Correct the following sentences, if necessary:

- Business minimizes opportunities to work and, thus, generates employment in the country.
- By producing and exporting quality goods and services, the national image of a country goes down.
- Business objectives should concentrate on profit earning only.
- Creation of employment opportunities and paying taxes and other dues honestly to the government are the national objectives of a business.
- A businessman should prepare a false statement of accounts in order to save taxes.
- Profit plays no role in business.

3. Identify the causes of business risk in the following causes :

- X Ltd. suffered a loss due to bursting of boiler.
  - Natural Cause
  - Political Cause
  - Physical Cause
  - Economic Cause
- Auditor identified misappropriation of cash by a group of workers in Y Ltd.
  - Natural Cause
  - Human Cause
  - Physical Cause
  - Political Cause
- Suzuki Ltd. suffered a loss due to tsumami
  - Natural Cause
  - Human Cause
  - Economic Cause
  - Political Cause

## 1.5 CLASSIFICATION OF BUSINESS ACTIVITIES

Let's look around and find out the various types of business activities that usually take place in an economy. Some of these are:

- extraction of oil, natural gas or minerals;



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- manufacturing of commodities;
- buying of goods from one place/country and selling it at different place/country;
- construction of buildings, roads, and bridges etc.
- providing services like ticketing, warehousing, transportation, banking, insurance etc.

When we analyse the above business activities we find that most business activities are concerned with production and/or processing of goods and services or distribution of goods and services. The former is known as ‘Industry’ and the latter as ‘Commerce’. So we can classify business as Industry and Commerce. Let us now know details about these two categories.

### 1.6 INDUSTRY

Industry primarily refers to all such business activities concerned with production/raising or processing of goods and services. It processes raw materials or semi-finished goods into finished goods. Extracting raw materials from earth’s surface, manufacturing goods and commodities, producing crops, fish, flowers, etc., constructing buildings, dams, roads etc. are all examples of industry. These activities are called industrial activities and the units engaged in these activities are known as industrial enterprises. However in a broader sense, provision of services like banking, insurance, transport also form part of industries known as tertiary industries.

#### Classification of Industries

Before classifying industry on the basis of nature of activity, let us have a broad idea of different approaches of its classification.

<i>On the basis of nature of activity</i>	<i>On the basis of nature of goods produced</i>	<i>On the basis of level of investment</i>	<i>On the basis of size of activity</i>
(a) Primary	(a) Consumer goods industries	(a) Heavy industries industries	(a) Small scale industries
(b) Secondary industries	(b) Producers’ goods or Capital goods	(b) Light industries industries	(b) Large Scale industries
(c) Tertiary industries			

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

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- (a) **Primary Industries :** Primary industries refer to the activities of extraction of natural resources like coal, oil, minerals etc. and reproduction and development of living organisms like plants and animals etc. Primary industries can be categorised as extractive and genetic industries. You must have heard about ONGC – it is a company that extracts oil and natural gas from earth. Similarly we have farmers growing crops, business houses engaged in extracting raw materials/minerals from earth (coal-mines, iron-ore mines etc.), extracting materials from forest for further processing (like collecting natural honey, timber etc.), extracting items from sea/river (like fish, crab, prawn, sea foods etc.). All these are examples of extractive industries.

Have you seen poultry farms, or apple orchards or nurseries? All these are industries engaged in rearing and breeding animals and birds and growing plants or flowers for sale and are known as genetic industries. Now-a-days genetic industries are growing in number which include Horticulture (growing fruits and vegetables), Floriculture (growing flowers), Dairy Farming, Poultry Farming, Pisciculture (breeding fish) etc.

- (b) **Secondary Industries :** The products of primary industries are normally used as raw materials to produce a variety of finished goods. And it is the secondary industry that uses the products of primary industry as its raw materials. The activities of secondary industries may be of manufacturing or construction. Manufacturing industries are engaged in producing finished goods out of raw materials or semi-finished products. For example, cotton is used to produce textile, timber to produce furniture, bauxite to produce alumina. The industries engaged in erection of buildings, dams, bridges, roadways, railways, canals, tunnels etc. are known as construction industries. They make use of the products of other industries and construct different types of structures as per the requirements of the customers.
- (c) **Tertiary Industries :** These industries are basically concerned with generating or processing of various services and facilitate the functioning of primary industries and secondary industries as well as activities of trade. These include service industries like banking, insurance, transport etc. Film industry which provides entertainment to the individuals, produces films; tourism industry which provides services to the individual by facilitating their travel, booking of tickets and hotel rooms etc. are also included in this category.

Manufacturing industries may be divided further into the following categories:

- (i) **Analytical Industries** manufacture different types of products by analysing and separating different elements from the same product. Petrol, diesel, kerosene, lubricating oil etc. are produced from the crude oil in oil refinery industry.

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- (ii) **Synthetic Industries** put together various ingredients and manufacture a new product. For instance, soap is produced by combining potassium carbonate and vegetable oil. Similarly, cement is produced by using limestone, coal and other chemicals.
- (iii) **Processing Industries** are those in which raw materials are processed through successive stages to get the final products. Textile, sugar and paper are the examples of processing industry.
- (iv) **Assembling Industries** put together various manufactured products and make a new product as in the case of car, scooter, bicycle, radio and television etc.

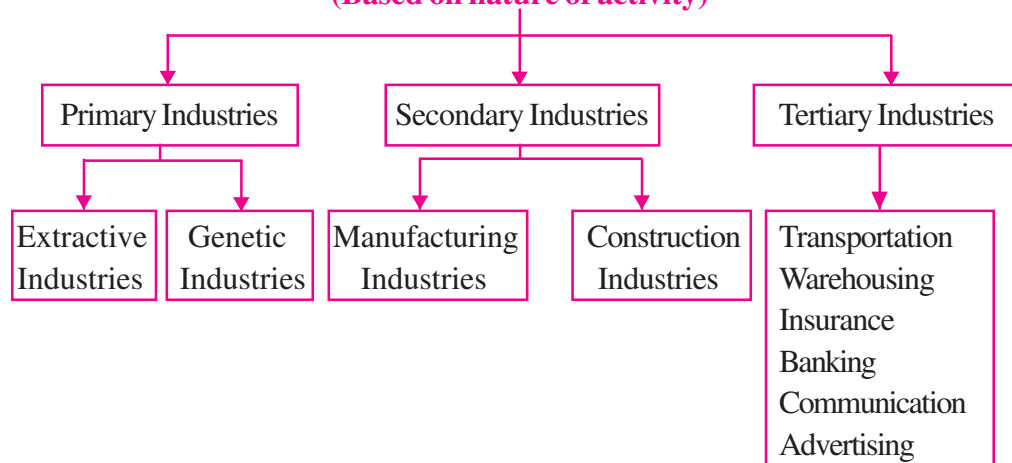
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### Classification of Industries (Based on nature of activity)



### INTEXT QUESTIONS 1.4

1. Below are given certain groups of industries. In each group, one industry does not match with the group. Find out that industry and underline it. The first one has been done for you. In this all industries except textile belong to extractive industries.
  - (a) Agriculture, forestry, textile, fishery.
  - (b) Dams, roads, canals, cement.
  - (c) Poultry farming, hunting, mining, forestry.
  - (d) Iron & steel, textile, chemical works, pisciculture.
  - (e) Oil exploration, agriculture, dairy farming, hunting.
  - (f) Floriculture, films, transport, banking.

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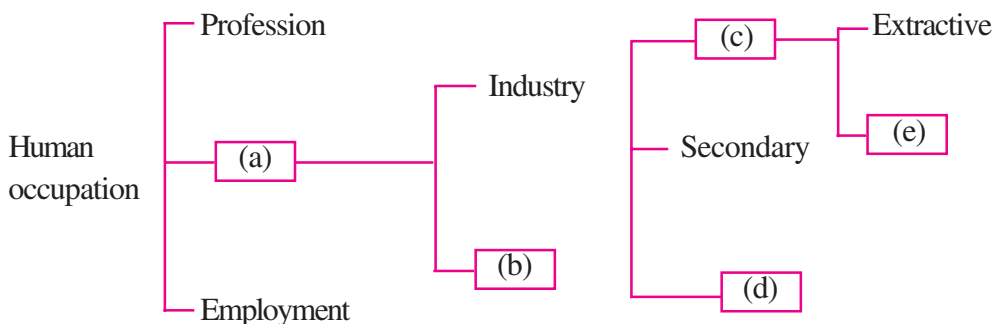
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2. Complete the following Chart:



### 1.7 COMMERCE

All goods and services produced are to be made available by those who need them. This involves a number of additional activities. For example when somebody produces bread, he has to make it available at convenient locations at right time. This involves activities like making people aware about the product, storing the product at right places, arranging retail outlets, packaging the product, transportation of the product, selling the product and so on. All these activities taken together are known as Commerce. It provides the necessary link between producers and consumers of goods and services and facilitates the purchase and sale of goods and services. In fact, it performs all functions, that are essential for maintaining a smooth and uninterrupted flow of goods and services to the customers. Thus, commerce involves:

- (a) Buying and selling of goods and services; and
- (b) Activities essential for the smooth and uninterrupted flow of goods and services from the point of production to the point of consumption.

The first activity, that is, purchase and sale of goods and services is termed as Trade, and the second activity i.e., the activities that ensure smooth flow of goods to customers are known as 'Auxiliaries to trade' or 'Aids to trade'. Thus, commerce is classified as:

- (1) Trade; and
- (2) Auxiliaries to trade.

Let us know in detail about the above two activities of commerce.

#### 1.7.1 Trade

Trade is an integral part of commerce. It simply refers to sale, transfer or exchange of goods and services. It helps in making the goods and services available to ultimate consumers. The manufacturers of goods who produce in bulk or large quantity generally find it very difficult to sell those goods directly to the consumers. The reasons may be distance of the consumers from the place of manufacturing, or the quantity of the product

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bought at one point of time, the problem of payment and so on. Hence they utilise the services of some firms or individuals who buy goods from the manufactures and sell it to the consumers. For example, the local grocery shop owner sells grocery items to the consumers after buying it from the manufactures. Sometimes, he buys it from the wholesalers who buy goods in bulk from the manufactures and sell it to him. It may be noted that the wholesalers as well as the grocery shop owners are said to be engaged in trading. Thus, the features of trade can be summed up as follows:

- (a) It involves actual buying and selling of goods;
- (b) It refers to procuring goods from one place/person to sell it to another person or at another place;
- (c) Traders, also known as middlemen facilitate the distribution of goods;
- (d) Trading helps in equalising demand and supply. For example, the state of Punjab may be producing plenty of rice without much demand for it in its own state. Traders buy rice from Punjab and make it available to states like Orissa and West Bengal where there is a great demand for rice. Thus, the demand and supply ratio is maintained.

On the basis of area of operation, trade can be classified as under –

- (a) Internal Trade; and
  - (b) External Trade.
- (a) Internal Trade :** When trade takes place within the boundaries of a country it is called internal trade. It means both the buying and selling take place within the country. For example, a trader can buy woolen garments from the manufacturers at Ludhiana and sell it to the retailers in Delhi. Similarly a trader of a village can buy goods from the wholesale market of a city for sale in the village. From these two examples, we find that internal trade can be (a) buying from manufactures and selling it to retailers in bulk (known as wholesale trade); or (b) it can be buying from manufacturers or wholesalers and selling it to consumers (known as retail trade).
- (b) External Trade :** Trade that takes place between different countries is known as external trade. In other words, external trade refers to buying and/or selling of goods/services across national boundaries. This may take any of the following forms:
- (i) Firms of country 'A' purchase goods from firms of county 'B' to be sold in their own country. This is known as Import trade.

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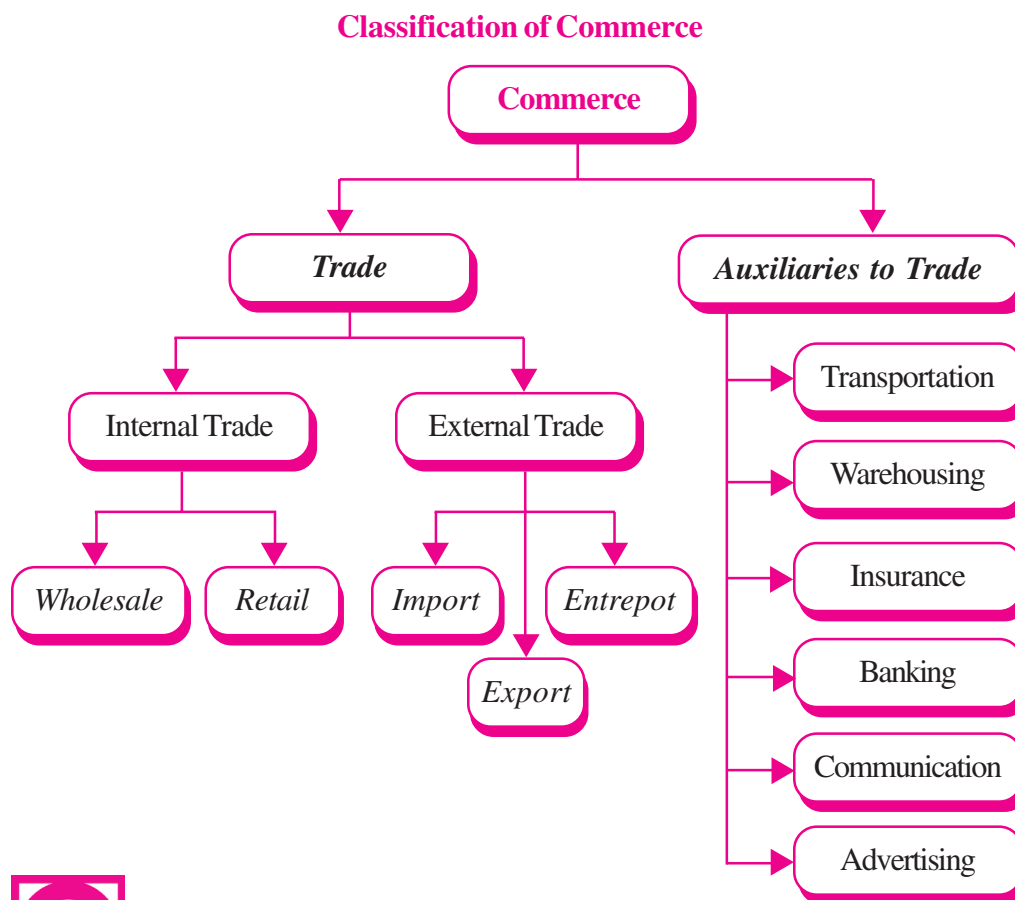
- (ii) Firms of country 'A' sell goods produced in their own country to firm of country 'B'. This is known as Export trade.
- (iii) Firms of country 'A' purchase goods from firms of country 'B' to be sold to firms of country 'C'. This is known as Entrepot trade.

### 1.7.2 Aids/Auxiliaries to Trade

To facilitate buying and selling of goods (trade) a variety of other activities are required to be performed. These include, transport of goods, storage of goods, financial transactions, insurance of goods etc. For example, when a company at Chennai buys goods from Delhi or imports it from Singapore, it needs to undertake most of the following activities, in addition to buying and selling of goods. These activities are—

- Carrying of goods physically from Delhi/Singapore to Chennai (called **Transportation**)
- Systematic storage of goods once the goods are received at Chennai (called **Warehousing**).
- Arranging money and making payments to the seller through banks and other sources (called **Banking**).
- Covering risk of damage/loss of goods in transit from Delhi/Singapore or while it is in store (called **Insurance**)
- Exchange of information with each other through postal and telecom services (called **Communication**).
- **Advertising** : In today's competitive market, it is not possible for a businessman to sit and wait for customer after investing heavily in business. To attract customers towards his product, a producer has to provide full knowledge of his product to the customer. Advertising does this properly. Advertisement enhances the knowledge of the customer about the products available in the market and with the help of this knowledge, a customer takes decision about the purchase of the product. In this way, advertisement enhances the knowledge of the customers and eliminates the hindrance of information.

All the above activities help in facilitating the trading activities or providing support to the trading activities. That is why these are called auxiliaries to trade. So auxiliaries to trade refer to those activities that facilitate trade. These activities not only facilitate the trading activities, but also provide the necessary support to the entire business in its successful functioning. Hence, these are also called support services of business. In the next lesson we shall discuss about all these support services of business in detail.



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**INTEXT QUESTIONS 1.5**

1. Give one word substitute for the following sentences:
  - (a) The process of exchange and distribution of goods and services.
  - (b) Buying and selling of goods and services.
  - (c) Buying and selling of goods in large quantities.
  - (d) Import of goods for exporting.
  - (e) Buying and selling of goods between different countries.
  
2. Complete the following incomplete words by taking clues from the statements given for each. Every blank represents one letter only. First one has been done for you.
  - (a) \_\_\_ M M \_\_\_ C \_\_\_ (COMMERCE)
  - (b) \_\_\_ A \_\_\_ E
  - (c) W \_\_\_ \_\_\_ H \_\_\_ \_\_\_ I N \_\_\_



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- (d) \_\_ X \_\_ \_\_ \_\_ T  
 (e) E \_\_ \_\_ \_\_ E \_\_ \_\_ T  
 (f) \_\_ H \_\_ \_\_ E \_\_ \_\_ \_\_ E  
 (g) \_\_ \_\_ T \_\_ \_\_ L

### Clues:

- (a) All activities that facilitate availability of goods and services for consumption.  
 (b) Buying and selling of goods.  
 (c) Storage of goods whether raw material or finished goods.  
 (d) Selling of goods to foreign countries.  
 (e) A company of one country buys goods from a company of another country to be sold to a company of some third country.  
 (f) Goods are bought and sold in bulk quantities.  
 (g) Goods are sold in small quantities to consumer.



## WHAT YOU HAVE LEARNT

- Human beings undertake various activities to satisfy their needs and wants. These activities are known as Human Activities.
- Human activities that are undertaken with an objective to earn the livelihood are called Economic Activities.
- Activities undertaken to derive mere satisfaction are known as Non-Economic Activities.
- All activities that require special knowledge and skill to be applied by an individual to earn a living are known as Profession.
- When people render their services regularly for others and get the return in terms of wages/salary, we call it Employment.
- Activities involving regular production or purchase of goods and services for sale, transfer and exchange with an object of earning profit are known as Business.
- Earning of adequate profits, exploring new markets, growth and expansion of business, innovation and optimum utilisation of available resources are the Economic objectives of a business.

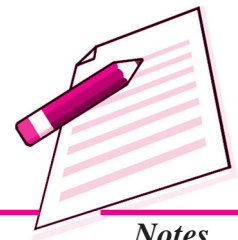


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- Social objectives of a business include production of quality goods, reasonable pricing, general welfare and upliftment of the society, fair dealings and good return to the investors.
- Human objectives include fair remuneration and incentives to the employees, better working conditions, job satisfaction, training, development and promotional opportunities etc.
- National objectives of a business are creation of employment opportunities, social justice, national interest and priorities, and payment of taxes to the government honestly.
- Global objectives of a business include making available globally competitive goods/services and reducing the gap between rich and poor nations by way of expansion of business.
- Profit is needed for survival, future growth and expansion, creating prestige, achieving goals and to measure the efficiency of business firm.
- Business risk means chance of loss due to happening of uncertain events in future.
- Business risk is uncertain, difficult to measure, variable and an essential element of business.
- Business risks arise due to natural, economic, political, human, physical and technical causes.
- Industry refers to production/raising or processing of goods and services. On the basis of nature of activity it is divided into primary, secondary and tertiary industries.
- Primary industry is concerned with extraction of natural resources, and reproduction and development of living organisms. It can be classified as extractive and genetic industries.
- Secondary industry uses the products of primary industry as its raw material. It can be either manufacturing or construction.
- Manufacturing industries are engaged in producing finished goods. It can further be classified as Analytical, Synthetic, Processing and Assembling Industries.
- Tertiary industries are concerned with generating and processing various services to the customers.
- Commerce is the sum total of all activities involving removal of hindrances in the process of exchange of goods and services and facilitates the availability for consumption. So it consist of trade and other support services that facilitate trade.

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## Nature and Scope of Business

- Trade refers to the process of buying and selling of goods and services. When trade takes place within the boundaries of a country, it is called Internal trade. It is called Wholesale trade when goods are bought in bulk from manufacturers/ produces and sold in bulk to retailers. It is termed as retail trade when goods are bought from manufacturers or wholesalers and sold in small quantities to consumers. Trade that takes place between two countries is known as External trade. When goods are purchased from a foreign country, it is known as Import trade. Export trade is the process of selling goods to a foreign country. When goods are bought from one foreign country to be sold in some other foreign country it is known as Entrepot trade.
- Auxiliaries to trade are various activities that facilitate trade. They are Transport (carrying goods physically); Communication (gathering and sharing information); Warehousing (storage of goods); Banking (making arrangement of funds and facilitate its transaction); Insurance (opting for insurance to avoid the risk of loss); and Advertising (Communicating information to the consumers).



### KEY TERMS

Advertising	Enterpot Trade	Processing Industry
Analytical Industry	Export Trade	Profession
Assembling Industry	Extractive Industry	Retail Trade
Auxiliaries to Trade	Genetic Industry	Secondary Industry
Banking	Human Activity	Synthetic Industry
Business	Import Trade	Tertiary Industry
Commerce	Industry	Trade
Communication	Insurance	Transport
Construction Industry	Internal Trade	Warehousing
Economic Activity	Non- economic Activity	Wholesale Trade
Employment	Primary Industry	



### TERMINAL EXERCISE

#### Very Short Answer Type Questions

1. What is meant by 'human activity'?

## Nature and Scope of Business

2. Define the term 'occupation'.
3. Distinguish between consumer goods and capital goods.
4. State the meaning of 'Genetic industry'.
5. What is 'Trade'?
6. Enumerate two physical causes of business risks.
7. List two examples of human causes of loss in business.

### Short Answer Type Questions

8. Explain the different type of primary industries.
9. How would you classify business activities?
10. Distinguish between economic and non-economic activities.
11. State any two characteristics of business.
12. Mention any three economic objectives of business.
13. Mention any three characteristics of business risks.
14. Briefly describe physical causes of business risks.

### Long Answer Type Questions

15. Describe the importance of business in modern society.
16. What is meant by profession? Explain its features in brief.
17. Explain the various human objectives of business.
18. State the meaning of 'Industry'. Explain the various classifications of industry.
19. Define the term 'Commerce'. Describe the various activities relating to commerce.
20. Explain the role of profit in business.
21. What do you mean by business risk? Explain the natural causes of business risks.
22. Describe the causes of business risks.

**23. "Profit plays the same role in business as blood plays in human beings." Give your comments in the light of this statement.**

**24. Your friend Ramesh wants to starts a business. Therefore, he is interesting to know the business risks and their causes. Explain him the meaning and causes of business risks.**

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### Nature and Scope of Business



### ANSWERS TO INTEXT QUESTIONS



Notes

- 1.1** 1. All such activities that are performed with an object of earning money or livelihood are called economic activities.
2. (a) A person working in a school garden.  
 (b) A lady preparing food in a restaurant.  
 (c) A man white-washing the building of a trade centre.  
 (d) A teacher teaching students in a school.  
 (e) A chartered Accountant preparing accounts of a firm.

- 1.2** 2. **Business**                      **Profession**                      **Employment**

(d)	(e)	(f)
○	○	○

(i)	(j)	○
○	○	○

(a)	(b)	(c)
(g)	(h)	○

- 1.3** 1. **If he chooses**      **What should he do?**      **What will he get as return?**

(a) Business	May open a chemist shop <b>or</b> Start a company to manufacture medicines	Profit
(b) Profession	Start his own clinic	Fee
(c) Employment	Get the job in a hospital	Salary

2. (a) Business maximises opportunities to work and thus, generates employment in the country.  
 (b) By producing and exporting quality goods and services, the national image of a country improves.  
 (c) Business objectives should not concentrate only on profit earning.  
 (d) No correction required  
 (e) The businessmen should prepare the true statement of accounts and the pay the taxes honestly.  
 (f) Profit plays an important role in business.
3. (i) c              (ii) b              (iii) a

- 1.4** 1. (b) Cement              (c) Poultry farming              (d) Pisciculture  
 (e) Dairy farming              (f) Floriculture

2. (a) Business   (b) Commerce   (c) Primary   (d) Tertiary   (e) Genetic

## Nature and Scope of Business

- 1.5 1. (a) Commerce (b) Trade (c) Wholesale trade  
 (d) Entrepot (e) External trade
2. (b) TRADE (c) WAREHOUSING (d) EXPORT  
 (e) ENTREPOT (f) WHOLESALE (g) RETAIL



### DO AND LEARN

Make a list of atleast 10 business enterprises of your locality. Classify them as industry, trade and auxiliaries to trade. Take a note of the nature of their activity and prepare a chart.



### ROLE PLAY

1. Rameshwar's son, Rampal wants to become a government servant. He is not supported by his father who wants Rampal to start his own business. Following is a beginning of the discussion between Mr. Rameshwar and his son Rampal.

Rameshwar : Beta! I want you to be independent in life. So start doing some business.

Rampal : Papa! I am more concerned about my personal satisfaction in my career rather than being independent. I want to be a public servant.

Rameshwar : Listen to me, there is nothing like satisfaction. Business will give you more money and status. Please, be practical in life.

Rampal : Papa! I have always given money second preference in life. It would be more satisfying to serve the public honestly.

Choose a role for yourself and one for your friend and give your arguments in favour of, or against the protagonists in the example.

(You are free to select any other concept covered in this lesson to develop your own script. Start playing your roles and enjoy your study).

2. Sameer is interested to start a business in the field of service industry. His friend Manya told him that there were so many opportunities in this field.

Sameer : Manya! I want to start a business in the field of service industry.

Manya : Very good, Sameer. This is a good idea. I have studied in my book of Business Studies that there are so many opportunities available in the field of service industry.

Sameer : Please tell me about these opportunities.

Choose a role for yourself and one for your friend and continue this conversation to explain the various types of service industry.

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### Business Around Us



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**MODULE - 1***Business Around Us**Notes***2****BUSINESS SUPPORT SERVICES**

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

**OBJECTIVES**

*After studying this lesson you will be able to:*

- explain the concept of business support services;
- identify various types of services;
- explain the importance of banking;
- identify different types of banks and the functions of a commercial bank;
- explain the importance and types of insurance;
- describe the meaning, importance and modes of transportation;
- explain the concept of communication, its importance and various means used for communicating;
- describe the meaning and importance of warehousing;

## Business Support Services

- identify the various types of warehouses; and
- explain the functions of warehouses.

### 2.1 BUSINESS SUPPORT SERVICES

As stated earlier, the business support services refer to those business activities that act as auxiliaries to trade and facilitate smooth flow of goods from producer to consumer and the functioning of business as such. These include banking, insurance, transportation, warehousing and communication. Banking helps in providing finance and payment facilities, insurance to provide a cover to all sorts of business risks, transportation to facilitate physical movement of goods from one place to another, warehousing to provide storage facilities at various places to meet seasonal variations in demand, and communication for facilitating exchange of information and ideas between producers, middlemen and consumers. Thus, effectively, these business services are essential for smooth functioning of any business in any part of the world, and every person who is engaged in business must be fully aware of their functioning and use. Let us now learn about each one of these in detail.



#### INTEXT QUESTIONS 2.1

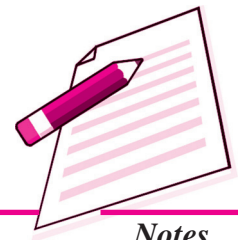
1. State the meaning of ‘Business Support Services’.
2. Name the support service required in the following business activities.
  - (a) Movement of goods and services.
  - (b) Providing finance and payment facilities.
  - (c) Coverage of business risks.
  - (d) Storage of goods and making them available on demand.
  - (e) Exchange of information and ideas.

### 2.2 BANKING

Bank is an institution that deals in money and credit. It accepts deposits from those who have funds to spare and grants loans and advances to those who are in need of funds for various purposes. Thus, banking refers to the various services provided by banks, such as acceptance of deposits, grant of loans and advances, and other supplementary services. Banking Regulation Act defines banking as “accepting, for the purpose of lending or investment of deposits of money from the public repayable on demand or/and withdrawable by cheque, draft or otherwise”. Thus, acceptance of deposits and lending or investing the same are two essential functions of a bank who act as an intermediary and deals with money belonging to the public. Of course, it provides many other financial services as clarified later in this chapter.

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### Business Around Us



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### 2.2.1 Importance of Banking

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

### 2.2.2 Types of Banks

There are various types of banks operate in our country to meet the diverse financial needs of customers. One may need money for short period of time, whereas others need it for longer period. A businessman may require funds for trading purposes whereas another may need it for setting up of a big manufacturing unit. Sometimes government also needs money and credit. So to meet all these needs we have different types of banking institutions, which can be categorised as per their functions.



## Business Support Services

- (a) Commercial bank
- (b) Co-operative bank
- (c) Development bank
- (d) Specialised bank
- (e) Central bank

Now let us have an idea about all these banks.

**(a) Commercial Bank :** Commercial Banks are banking institutions that accept deposits from the public and grant short-term loans and advances to their customers. Now-a-day, the commercial banks have also started giving medium-term and long-term loans to trade and industry. Commercial banks may be (i) public sector banks, (ii) private sector banks, or (iii) foreign banks.

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

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

**(iii) Foreign Banks :** These banks are incorporated in foreign countries and operate their branches in our country. Example of such banks are: Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard & Chartered Bank, ABN-AMRO Bank, etc.

**(b) Co-operative Bank :** When a co-operative society engages itself in banking business it is called a Co-operative Bank. . The co-operative banks generally grant loans for productive purposes as well as for other purposes. The rate of interest charged is usually low. These banks are also subject to control and inspection by Reserve Bank of India. There are three types of co-operative banks operating in our country. These are: (i) Primary Credit Societies (ii) Central Co-operative Banks, and (iii) State Co-operative Banks.

**(c) Development Bank :** Development banks are the financial institutions which provide medium and long-term loans to industry. Rapid development of industries in India after independence requiring huge financial investment and promotional efforts led to the establishment of these institutions. Development banks assist the promotion, expansion and modernisation of industries. Besides providing medium and long-term finance, these banks also subscribe to the capital issues of industrial undertakings. They also provide technical advice and assistance, if needed. Industrial

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### Business Support Services

Finance Corporation of India (IFCI) and State Financial Corporations (SFCs) are examples of development banks in India.

- (d) **Specialised Bank :** There are some banks which engage themselves in some specific area or activity and are thus, called specialised banks. Export Import Bank of India (EXIM Bank), Small Industries Development Bank of India (SIDBI), National Bank for Agricultural and Rural Development (NABARD) are examples of such banks.
- (e) **Central Bank :** In every country a bank which is entrusted with the responsibility of guiding and regulating the banking system is known as the Central Bank. Such bank is an apex bank and acts as the highest financial authority. In India, the central banking authority is the Reserve Bank of India. It does not deal directly with the members of public. It acts as bankers' bank, maintains deposit accounts of all other banks and advances money to banks as and when needed. It regulates the volume of currency and credit, and has the powers of control and supervision over all banking institutions.

The Reserve Bank of India also acts as government banker and maintains the record of government receipts, payments and borrowings under various heads. It advises the government on monetary and credit policy, and plays an important role in fixation of the rate of interest on bank deposits and bank loans. It is the custodian of currency reserves consisting of foreign exchange, gold and other securities. Another important function of the Reserve Bank of India is the issue of currency notes and regulation of the money supply.

### 2.2.3 Functions of Commercial Bank

The functions of a commercial bank are divided into two categories viz. (a) primary functions; and (b) secondary functions. Let us understand the nature and variety of those functions more clearly.

#### (a) Primary Functions

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

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

- (ii) **Lending Money :** The second important function of a commercial bank is lending of money to the public as well as to the business houses. It takes the form of loans and advances to the customers at the prescribed rates of interest. Loans are granted for a specific period. The borrower may be given the entire amount in lump sum or in instalments. Loans and advances are generally granted against the security of certain assets. The credit facility granted by the banks is usually for a shorter period of time which takes the form of cash credit, overdraft or discounting of bills. As stated earlier, banks also provide loans for a medium term or a long period.



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### (b) Secondary Functions

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

- (i) **Agency Services:** Agency services refer to those services which are provided by commercial banks as agents of their customers. These include:
- Collection and payment of cheques and bills;
  - Collection of dividends, interest and rent, etc.;
  - Purchase and sale of securities (shares, debentures, bonds etc.);
  - Payment of rent, interest, insurance premium, subscriptions etc.;
  - Acting as a trustee or executor; and
  - Acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad.
- (ii) **General Utility Services:** General utility services are those services which are rendered by commercial banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. These include:
- Issue of bank drafts, pay order (banker's cheque), travellers' cheques;
  - Issue of letters of credit;
  - Safe-keeping of valuables in safe deposit locker;
  - ATM card, debit card and credit card facility;
  - Internet banking and phone banking;

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- Sale of prospectus and application forms of various competitive examinations;
- Accepting telephone bills, electricity bills;
- Underwriting loans floated by government and public bodies;
- Supplying trade information and statistical data useful to customers; and
- Acting as a referee regarding the financial status of customers.

### 2.2.4 Types of Bank Accounts

1. **Saving Deposit Account :** These deposits are aimed to encourage habit of savings among people. Saving Account can be opened with a small amount, say Rs. 100. Deposits can be made any number of times in this account. However, there are restrictions on withdrawals. Interest is allowed on minimum daily balance. Rate of interest is allowed on these deposits is lower than that on FDs. A passbook is issued to the account holder which indicates the amount deposited and withdrawals made as well as the balance in the account holder's account.
2. **Current Deposit Account :** Current Deposit Account provides facilities to industrialists and businessmen to deposit or withdraw the money as and when they need. Money can be withdrawn at anytime by means of cheque. There is no restriction on making deposits in such account. No interest is allowed on this account balance. However, overdraft facilities are provided on current accounts. Current deposits are also called 'Demand Deposits' as they are payable on demand by the depositors. A passbook is also issued to the account holder.
3. **Fixed Deposit Account :** A fixed amount is deposited for a specified time period in case of a Fixed Deposit (FD) Account. e.g. one year, three years, five years etc. After the expiry of the fixed period, the deposit is repayable with interest. A higher rate of interest is offered on fixed deposits. The rate of interest varies with the period of deposit. Fixed Deposits are also called 'time Deposits' or 'Long-term Deposits'. Banks do not provide passbook and cheque book facilities on fixed deposit accounts. The rate of interest in fixed deposit is more than the rate of interest in saving account and depends on the duration for which deposits have been made.
4. **Recurring Deposit Account :** In Recurring Deposit Account, the account holder is required to deposit a specified sum of money every month for specified time period e.g., five years, seven years, ten years etc. At the end of the period, the accumulated amount together with interest earned is paid to the account holder. Withdrawals before maturity not allowed. In this type of account, cheque book facility is not available to account holders. Recurring deposits also called 'cumulative time deposits'. A passbook issued to account holder showing the

## Business Support Services

deposit made every month. Recurring deposit account used by small savers. Rate of interest offered by bank on recurring accounts is more than the rate of interest on saving account.

### 2.2.5 Banking Services

Commercial banks offer variety of services in addition to accepting deposits and lending money. Such services are as under :

1. **Issue of Bank Draft :** Bank draft is a convenient and safe mode of remitting money from one place to another. It is an order to pay a certain sum of money to the payee or order by the issuing bank to its another branch. For remitting money the following procedure is followed.
  - a) Person who wants to remit money fills in a form and pays the amount of draft along with the prescribed commission to the bank.
  - b) Bank gives him the bank draft.
  - c) He then sends the bank draft to the payee by post or courier service.
  - d) Payee deposits it in his bank.
  - e) Bank collects the payment from the issuing bank and credits the same to the payee's account.

#### Features of Bank Draft

- a) There is no risk of dishonour of a bank draft.
  - b) The issuing bank charges some commission for bank draft.
  - c) Bank draft is a safe and convenient method to transfer money from one place to another.
  - d) A bank draft is valid for three months from the date of its issue.
  - e) It contains an order to pay a certain sum to the payee or his order.
2. **Banker's Cheque (Pay Order) :** A pay order is like a bank draft, but it is payable at the issuing branch. Therefore it is used to send the money within the city. It is also called as a local bank draft. The commission charged for a pay order is lesser than that charged for a bank draft. Like a bank draft a pay order is also valid for three months from the date of its issue.
  3. **Real Time Gross Settlement (RTGS) :** RTGS is a funds transfer system. In this system, transfer of funds take place from one bank to another on a 'Real Time' and 'Gross' basis. i.e., there is no waiting period in payment. The settlement of transaction is done as soon as it is processed. 'Gross' settlement means the

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transactions is made on one to one basis without bunching with any other transaction. The receiving bank must credit the customer's account within 2 hours of receiving the funds transfer message. The minimum amount in RTGS transaction is Rs. 50,000. There is no upper ceiling for a RTGS transaction. Fees charged for RTGS transactions vary from bank to bank.

4. **National Electronic Funds Transfer (NEFT) :** NEFT is a fund transfer system. In NEFT an individual, firm or company can electronically transfer funds from any bank branch to another individual, firm or company having an account with any other bank in the country. The funds transfer takes place at a particular period of time. During week days NEFT transactions take place 6 times a day (9.30 a.m., 10.30 a.m., 12.00 noon, 1.00 p.m., 3.00 p.m., and 4.00 p.m.) on Saturday NEFT transactions take place 3 times a day (9.30 a.m., 10.30 a.m., and 12.00 noon)

### Features of NEFT

- a) An individual, firm or company can make use of NEFT even without having a bank account by depositing cash at a NEFT enabled bank branch.
  - b) In order to receive funds through the NEFT system, an individual firms or company must have an account with a NEFT enabled bank branch.
  - c) NEFT transaction take place in batches.
  - d) If one does not have a bank account, the maximum amount that can be transferred through NEFT system is Rs. 49,999.
  - e) There is no minimum or maximum amount that can be transferred through NEFT when one has bank account.
  - f) NEFT is not used to receive foreign remittances.
  - g) The sender of funds must pay charges for NEFT. The amount of charges vary according to the amount sent.
  - h) The receiver of funds has not to pay any charges.
5. **Bank Overdraft :** Current account holder is allowed to draw by cheque more than the amount to his credit up to a specified limit. This facility is provided against the security of some assets. A higher rate of interest is charged on bank overdrafts. Extra amount withdrawn from the current account must be deposited in the account within the prescribed period.
6. **Cash Credit :** Under cash credit system, person, firm or company can borrow money from the bank. Money can be borrowed up to a specified limit. The borrower withdraws money as and when required. Interest is charged on the amount withdrawn by the borrower. Cash credit limit is decided by the bank on the basis of the borrower's assets and personal reputation.



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- 7. SMS Alerts :** It is a type of e-banking facility. To avail this service, the customer must get his/her mobile number registered with the bank. The Bank records the mobile number of customer in computer system in the profile of customer. Whenever a transaction takes place in the customer's account, there is a SMS alert on his mobile phone. SMS alerts give information of the up to date balance in his account without visiting the bank.

### 2.2.6 E-Banking

Internet banking/Electronic banking means performing banking transactions with the help of computer systems. Any user with a Personal Computer (PC) and a browser can get connected to the banks website to perform any banking functions. Any user can avail of banking services with the help of internet. e.g. a customer withdraws money through an ATM (Automated Teller Machine)

#### Benefits

- i. Customers get 24 hours and 365 days services.
- ii. Unlimited access to the bank increases customer satisfaction.
- iii. E-banking facilitates customers to do banking transactions while travelling.
- iv. E-banking lowers the transaction costs.
- v. E-banking empowers customers.
- vi. E-banking provides competitive advantage to the bank.

#### Range of services offered by e-banking are :

- i. Electronic Funds Transfer (EFT),
- ii. Automated Teller Machines (ATM),
- iii. Point of Sales (POS)
- iv. Electronic Data Interchange (EDI) and
- v. Digital Cash

### 2.2.7 Postal and Telecom Services

#### Parcel Post

Parcels of specified size and weight can be sent through post. Postal charges for parcels vary according to the weight of the parcel, distance etc. Using parcel post, articles are sent across the country as well as outside the country.

#### Courier

Courier services are offered by private sector enterprises. Letters, products in small quantity etc. are sent from one place to another by availing courier service.

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Notes

### Saving Services

1. **Recurring Deposit (RD) in Post Office :** In this scheme a certain amount of money is deposited every month for a specified time period. (e.g., 5 yrs. 10 yrs. etc). Total amount deposited together with interest is repaid on maturity. The main objective of RD is to accumulate small savings. Cheque facility is not provided. But passbook is issued to the account holder. The amount becomes payable on the maturity, however loan may be provided against the security of the recurring deposit account.
2. **National Saving Certificates (NSC) :** NSC is taken for any amount of Rs. 100 and more. The term is for 5 years or 10 years. At the end of period, the amount of NSC together with interest is paid to the deposit holder. Tax benefit is available for funds invested in NSC, subject to an overall limit of Rs. 1,00,000.
3. **Public Provident Fund (PPF) :** An adult can open a PPF account by depositing every year an amount in between Rs. 500 – Rs. 1 lakh in some specified banks or in a post office. The term of a PPF account is 15 years. Which can be extended for a further period of 15 years. Funds invested in PPF are eligible for tax benefit under Sec. 80C of the Income Tax Act, 1961. A passbook showing the deposit details is issued to the account holder.
4. **Monthly Income Scheme (MIS) :** An Indian can open a Monthly Income Scheme in single name or jointly with another person. Deposit is made one time up to Rs. 4.5 lakhs (incase of single name account) and Rs. 9 lakhs (in case of joint account). Interest is paid monthly to the account holder. At the end of five years, the deposit amount paid to the account holders. A passbook is issued to the account holder. Premature withdrawals are not allowed.



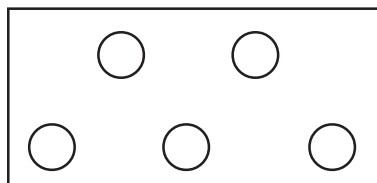
### INTEXT QUESTIONS 2.2

1. Name the bank which is termed as bankers' bank.
2. Categorise the following under agency and general utility services of commercial banks.
  - (a) Purchase and sale of securities.
  - (b) Issue of letter of credit.
  - (c) Issue of bank drafts.
  - (d) Internet Banking
  - (e) Collection of dividends

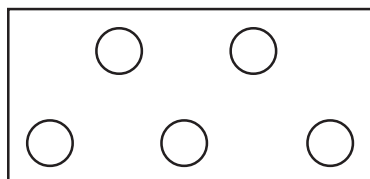


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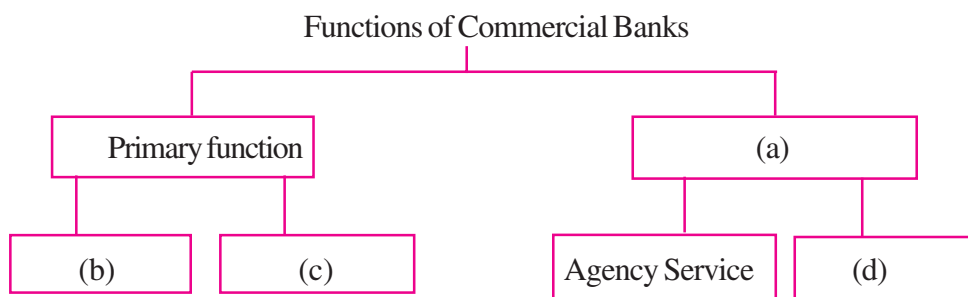
Agency Services



General Utility Services



3. Complete the flow chart



4. Choose the best alternate answer out of given four alternatives in the following questions :

- i. Overdraft facility is allowed to which type of account holder
  - a) Saving Account
  - b) Current Account
  - c) Recurring Account
  - d) Fixed Deposit Account
- ii. Anil transferred funds electronically from his account in SBI, Delhi to Deepak who has account in Punjab National Bank, Bangalore. Which type of banking service was used by Anil.
  - a) Pay order
  - b) Bank overdraft
  - c) National Electronic Fund Transfer
  - d) Issue of bank draft
- iii. Sandeep inserts his ATM card in Machine and by using his PIN, he received his transaction statement. Which type of banking service Sandeep used?
  - a) Traditional banking
  - b) E-banking
  - c) Both (a) and (b)
  - d) None of the above
- iv. Which deposit account requires deposit of money at regular periodical intervals
  - a) Savings deposit account
  - b) Recurring deposit account
  - c) Current deposit account
  - d) None of the above

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## 2.3 INSURANCE

You know that every business faces a variety of risks. For example, there may be injury to employees in job related accidents, goods may be lost in transit; there may be

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fire in the godown, and so on. In all these situations the entire loss is to be borne by the businessman or the owner. But, now-a-days, the risk of loss or damage is not entirely borne by the owner. The insurance provides protection against losses from such risk of the business for a nominal charge called premium. In other words, it helps the business in recovering losses which may arise due to various happening in the course of business, partly or fully from the insurance company. Before discussing in detail about insurance, let us first have a brief idea about the 'business risks', their nature and insurability.

Risk is the possibility of loss or damage due to factors over which we have little or no control. Similarly business risk refers to the possibility of loss or damage on the happening of certain events which are beyond one's control. For example, while goods are transported from one place to another, there may be an accident causing damage or loss of goods. Similarly, there is a possibility that the trains may be derailed, bridge may collapse, aeroplane may crash due to an engine trouble, truck may be looted on its way to another city, or damage may be caused to goods sent by ship at the time of loading or unloading at sea ports. Again, a business may suffer loss or its profit may fall due to reduction in demand of its product because of change in the taste and fashion of the customers. The innovations of science and technology also bring about changes in the demand of a particular product in the market as happened in the case of demand for fixed line telephone which has declined due to the advent of mobile phones. The change in government policy, tax rates, interest rate etc. may also affect the earnings of a business. These are also the types of risks a business might face during its life-time.

Now the question arises as to whether all these risks are covered by insurance. The answer is 'no'. All types of business risks are not covered by insurance. Some of the risks discussed above are insurable while others are non-insurable. To be specific, the risk of loss due to fire, theft, earthquake, flood, etc. can be insured on payment of a nominal amount. These are called insurable risks. But, risk of loss on account of decline in demand of a product due to change in fashions, introduction of new products in the market or change of policy of the government cannot be insured. These are called non-insurable risks. The non-insurable risks are to be fully borne by the businessman.

### 2.3.1 Meaning of Insurance

The term 'Insurance' refers to a contract between two parties, one known as insured and the other insurer, whereby the insurer in exchange of a fixed amount of money agrees to compensate the insured against risks of loss or damage caused by happening of certain events. The document containing the contract is known as 'Insurance Policy'. The person whose risk is insured is called 'Insured' or 'Assured' and the person or the company which insures is known as 'Insurer', or 'Assurer'. The consideration in return for which the insurer agrees to compensate the insured is known as 'Premium'.

Thus, insurance can be defined as 'a contract between the insurer and insured whereby the insurer undertakes to pay the insured a fixed amount, in exchange for a fixed sum of

money (premium), on the happening of a certain event (like attaining a certain age or on death), or pay the amount of actual loss when it takes place due to the risk insured.

### 2.3.2 Importance of Insurance

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

### 2.3.3 Types of Insurance

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

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



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

### (a) Life Insurance

As a human being we are exposed to different types of risk. A person may face an untimely death on account of an accident or some illness. In such a situation, the family of the deceased faces financial hardship. Similarly, on attaining old age one may not have enough money to manage a comfortable living. There is still another situation when one may need a large sum of money such as marriage of a son or daughter, higher professional education, etc. Life insurance is a contract that protects you against such types of situation. It is a contract whereby the insurer undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a specified period of time in consideration of a certain amount (premium) paid by the insured either in lump sum or in installments. Since the risk insured is certain to happen and the sum assured is bound to be paid sooner or later, the contract of life insurance is also referred to as life assurance.

Life insurance policy was introduced as a protection against the uncertainty of life. But gradually its scope has been extended to other areas like health insurance, disability insurance, pension plan, etc. There are two basic types of life insurance policies (a) Whole-life policy, and (b) Endowment Policy. In case of whole life policy the premium is payable regularly throughout the life of the insured or for a fixed period. The sum assured becomes payable to the heirs of the insured after his death. Such a policy is taken up by a person who wishes to provide financial support to his/her dependents after the death. An endowment policy, on the other hand, runs for a limited period or upto a certain age of the insured, and the sum assured becomes due for payment at the end of the specified period or on the death of the insured if it occurs earlier. This is the most common form of life insurance policy taken up by the people.

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

- (i) **Joint Life Policy:** Under this policy, the lives of two or more persons are insured jointly. The sum assured becomes payable on the death of any one, to the survivor. Usually, this policy is taken up by husband and wife jointly or by two partners of the firm.
- (ii) **Money Back Policy:** This scheme provides periodic payment to the policyholder unlike ordinary endowment insurance plans where the survival benefits are payable only at the maturity of the policy. For example, in case of a 20-year Money-Back policy, 20% of the sum assured becomes payable each after 5, 10, 15 years, and the balance 40% plus the bonus become payable at the 20<sup>th</sup> year.

- (iii) **Pension Plan:** Under this plan the sum assured is payable to the policyholder on his survival beyond the term of the policy. The sum assured or policy money becomes payable in monthly, quarterly, half yearly or annual installments. This is useful for those who prefer regular income after a certain age.
- (iv) **Unit Plans:** These plans offer twin benefits of investment and insurance cover. The premium paid by the policyholder is applied to purchase the shares and debentures of different companies. The maturity amount is largely depend upon the market value of the investment.
- (v) **Group Insurance Scheme:** Group Insurance schemes are meant to provide life insurance protection to the group of people at a low cost. These schemes are suitable for group of employees of any business house or any office.



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### (b) Fire Insurance

Fire insurance is a contract whereby the insurer, in consideration of premium, undertakes to compensate the insured for the loss or damage suffered due to fire. The premium is payable in single installment. The fire insurance contracts are generally taken up for one year. 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. The fire insurance contract is a contract of indemnity, that is, the insured cannot claim anything more than the value of property lost or damaged by fire or the amount of policy, whichever is lower. It may be noted that loss or damage by fire also includes the loss/damage caused by efforts to extinguish the fire with a view to minimise the loss.

### (c) Marine Insurance

Marine insurance is an agreement by which the insurance company agrees to indemnify the owner of a ship or cargo against risks which are incidental to marine adventures. During an ocean journey, a ship is exposed to a variety of risks such as collision with other ship, collision of ship with hidden rocks, fire, storm, and so on. In all these situations, the entire loss is grouped into three categories: (i) loss to the ship; (ii) loss to the cargo; and (iii) loss of freight. Marine insurance that covers the risk of loss of cargo is known as Cargo Insurance. And when the owner of a ship is insured against loss on account of perils of the sea, it is known as Ship or Hull insurance. Further, the freight is usually payable by the owner of cargo on its safe delivery at the port of destination. So, the shipping company may also seek insurance of the risk of loss of freight. Such a marine insurance is known as freight insurance.



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### (d) Other types of Insurance

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

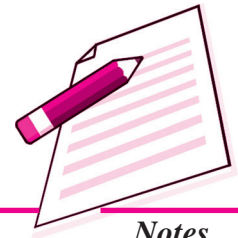
- i) **Motor Vehicles Insurance:** Insurance of passenger cars, vans, commercial vehicles, motor cycles, scooters, etc., covers the risks of damage of the vehicle by accident, loss by theft, and so also the liability arising out of injury to, or death of a third party involved in the accident. Infact, vehicle insurance in respect of third party is compulsory.
- ii) **Health Insurance:** It provides protection against the medical expenses incurred on treatment of illness or injury suffered by the policyholder. It is also termed as medi-claim insurance, and is one of the most popular type of insurance now-a-days.
- iii) **Crop Insurance:** It protects the farmers from the loss suffered due to crop failure in the event of drought or flood.
- iv) **Cash Insurance:** It protects the banks and other business establishment against loss of money in transit.
- v) **Cattle Insurance:** It covers the risk of loss due to the death of a cow, buffalo, heifer, bull, etc. caused by accident, diseases etc.
- vi) **Rajeswari Mahila Kalyan Bima Yojana:** It provides relief to the family members of the insured women in case of her death or disablement.
- vii) **Amartya Siksha Yojana Insurance Policy:** This policy is meant for the education of dependant children. In case the insured parents sustain any bodily injury which causes death or permanent disablement, the insurer shall provide for education of the dependent children of the insured.
- viii) **Burglary Insurance:** Under this insurance, the insurance company undertakes to indemnify the insured against losses from burglary i.e., loss of moveable goods by robbery, theft etc.
- ix) **Fidelity Guarantee Insurance:** As a protection against the risk of loss caused by embezzlement or defalcation of cash or misappropriation of goods by employees, the businessmen may seek insurance covering the risks of loss on account of fraud and dishonesty on the part of the employees handling cash or in charge of stores. This is called fidelity guarantee insurance.





### INTEXT QUESTIONS 2.3

1. Mention the different categories of marine insurance.
2. Identify the insurance policies in the following cases.
  - a) Policy taken up by husband and wife jointly.
  - b) Periodic payment to the policyholder before the maturity of the policy.
  - c) Protection from loss due to crop failure.
  - d) Policy that takes care of the expenditure on education of the dependent children of the policyholder.
  - e) Protection against misappropriation of goods by employees.



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#### 2.3.4 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.

- (a) **Principle of Utmost Good Faith:** Insurance contracts are the contracts of mutual trust and confidence. Both parties to the contract i.e., the insurer and the insured, must disclose all relevant information relating to the subject matter of insurance. In case of life insurance, for example, the proposer must honestly disclose all information relating to his/her health, habits, personal history, family history etc. In case of any concealment about the material facts, the contract will not be valid. It is so because the risk can be evaluated only on the basis of these facts relating to subject matter of insurance.
- (b) **Principle of 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 lose from its damage or destruction. For example, a man has insurable interest in his own life and that of his wife, and similarly the wife has insurable interest in her husband's life. As for the property, normally it is the owner who has insurable interest in his/her property. But, when he/she (the owner) has taken loan from a housing finance company to build his/her house, the housing finance company also has insurable interest in the house and it can seek its insurance. It may be noted that in case of life insurance, the insurable interest must be present at the time of taking the policy, in case of marine insurance insurable interest must exist at the time of loss or damage to the property, and in case of fire insurance, it must exist both at the time of taking the policy as well as at the time of loss or damage to the property.

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- (c) **Principle of 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. This principle is applicable to the fire and marine and general insurance. It is not applicable to life insurance because the loss of life cannot be restored.

The principle of indemnity implies that the insured is not allowed to make any profit from the insurance contract on the happening of the event that is insured against. Compensation is paid on the basis of amount of actual loss or the sum insured, whichever is less. Let us understand with the help of an example. A person insures his house against fire for Rs. 20 lakh. The fire takes place and he has to spend Rs. 5 lakh to repair the damage so caused. He can claim only Rs. 5 lakh from insurer and not the sum assured.

- (d) **Principle of Contribution:** The same subject matter may be insured with more than one insurer. In such a case, the insurance claim to be paid to the insured must be shared or contributed by all insurers in proportion to the amount of sum assured by each one of them. If one insurer has paid the full compensation to the insured, he has the right to ask other insurers to share the loss proportionately. It may be noted that in case of multiple insurance, the insured can claim the loss from any of the insurers subject to the condition that the insured can not recover more than the amount of actual loss from all taken together.
- (e) **Principle of Subrogation:** According to this principle, once the claim of the insured has been settled, the ownership right of the subject matter of insurance passes on to the insurer. In other words, if the damaged property has any value, such property can not be allowed to remain with the insured because otherwise the insured will realise more than the actual loss which goes against the principle of indemnity. Hence, when goods worth Rs. 1,00,000 are damaged due to accident and the insurance company pays the full compensation to the insured, the insurance company takes the possession of that damaged property and is entitled to dispose off that property.
- (f) **Principle of Mitigation:** In case of a mishap the insured must take all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance. This principle ensures that the insured does not become negligent about the safety of the subject matter after taking an insurance policy. The insured is expected to act in a manner as if the subject matter has not been insured. If appropriate steps are not taken to save the assets, then the insured may not get the full compensation from the insurance company. For example, if a house is insured against fire and the fire takes place, the owner must take all possible steps to extinguish the fire and minimise the loss. Similarly, when a house is insured against theft, he must take all precautions and steps to prevent theft.



- (g) **Principle of *Causa-proxima* (nearest cause):** According to this principle, the insured can claim compensation only if the loss is caused by the event insured against. In other words, unless the event insured is nearest cause (not a remote cause) for the loss occurred, the insured can not claim the loss from the insurance company. For example a ship carrying orange was insured against losses arising from accident. The ship reached the port safely and there was a delay in unloading the oranges from the ship. As a result, the oranges got spoilt. The insurer did not pay any compensation for the loss because the proximate cause of loss was delay in unloading and not an accident during the voyage.



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### INTEXT QUESTIONS 2.4

1. What is meant by 'Insurable interest'?
2. Name the principle of insurance violated in the following cases.
  - (a) 'A' does not own the building but is trying to get it insured as a party to the insurance policy.
  - (b) 'A' enters into life insurance contract with LIC of India. 'A' was ailing with heart disease but he did not reveal this at the time of entering the contract.
  - (c) 'B' enters into insurance contract with two companies 'C' and 'D'. The subject matter is a building worth Rs. 5 lakh. The building caught fire and properties worth Rs. 3 lakhs were damaged. 'C' paid the entire claim and asked 'D' to share the claim. 'D' denies.
  - (d) Goods worth Rs. 50,000 are damaged and the insurance company pays the claim to 'Z' for the loss. 'Z' not only took the compensation for loss but also claims the damaged goods.
  - (e) 'P' takes an insurance policy for Rs. 1 lakh with 'Q' company. The goods of 'P' are damaged due to fire the loss incurred is Rs. 25,000. 'Q' shall restore the actual loss but 'P' claims full amount of the policy.

## 2.4 TRANSPORTATION

You are fully aware that the 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.

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### 2.4.1 Importance of Transportation

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

### 2.4.2 Modes of Transport

While travelling from one place to another we use a car, a bus or a train. People also use boat, ship, aircraft for their movement. These are all various means through which we move from place to place. All these means of transport need the support of a particular medium or mode through which it will travel. For example, a truck needs the support of road, an aeroplane needs the support of air and a ship needs water to travel. So the modes of transport can be classified as (a) road transport, (b) rail transport, (c) water transport, and (d) air transport. Let us have a brief idea about these modes of transport.

- (a) **Road Transport :** Transport by road is undertaken through animals (horses, camels, donkeys), vehicles drawn by animals (bullock-carts), and by Motor Vehicles (Vans, trucks, etc.). Use of animals and vehicles drawn by animals have limited use only in rural areas. Vans are limited to local transports within the city. Most goods traffic moves through trucks which are considered convenient, economical and safe.
- (b) **Rail Transport :** Rail transport refers to movement of passengers and goods by trains which are on railway tracks laid for the purpose. In terms of carrying capacity over long distances rails transport is economical and safe. In India, railways are owned by government of India and most commonly used mode of goods transport
- (c) **Water Transport :** Water transport refers to movement of goods and passengers on waterways by using various means like boats, steamers, launches, ships, etc. This movement may takes place inside the country or from one country to another.

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Movement of goods through inland waterways in India is highly limited because of unavailability of inland water ways and limited facilities. Transportation by sea and ocean is quite common in coastal areas and for international trade. It is relatively more economical for bulky goods to be carried over long distance.

- (d) **Air Transport :** Movement of goods and passengers by using aircrafts is termed as air transport. It is the speediest mode of transport and is mostly used for carrying passengers. As for goods, air transport is mostly used for goods of high value and low volume such as medicines, spare parts for machinery, electronic components etc. With the provision of large cargo planes, the use of air transport for goods has considerably increased within the country and for international trade.



### INTEXT QUESTIONS 2.5

1. Define the term 'transportation'.
2. Suggest suitable mode of transportation in the following cases.
  - (a) Transport of perishable goods within the country.
  - (b) Transport of goods of high value and low volume.
  - (c) Quickest mode for carrying passengers.
  - (d) Convenient mode for short distance travel.
  - (e) Economical mode of transport for long distance within the country.

## 2.5 COMMUNICATION

Communication is the process of transmission of ideas, opinions, thoughts and information through speech, writing, gestures or symbols between two or more persons. Communication always contains a message which is transmitted between the parties. There are minimum of two parties involved in communication - one is 'Sender', and the other is 'Receiver'. The process of communication is said to be complete when the receiver receives the message and responds to it or acts according to it.

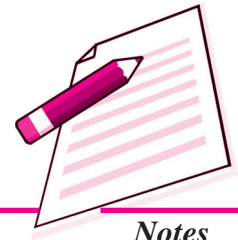
### 2.5.1 Types of Communication

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

- (a) **Oral Communication :** When a message is transmitted orally i.e., through spoken words it is called oral communication. It may be in the form of lectures, meetings, group discussions, conferences, telephonic conversations, radio message and so on. It is considered to be quite an effective and economical method of

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communication (both in term of money and time), and is most commonly used for internal as well as external communication. The major drawback with verbal communication is that it cannot be verified as normally it is not put on record.

- (b) **Written Communication :** When a message is transmitted through written words (in writing in the form of letters, telegram, memos, circulars, notices, reports etc. it is called written communication. It provides a record of the message and feedback which is available for verification as and when required. Normally, one is very careful to the point and precise while sending a written communication. However, it is formal, lacks personal touch and difficult to maintain secrecy.
- (c) **Non-verbal Communication :** Communication without any use of words is called non-verbal communication. Sometimes when you look at some pictures, graphs, symbols, diagrams etc. some message is conveyed to you. All these are different forms of visual communication. Bells, whistles, buzzers, horns etc. are also the instruments through which we can communicate our message. Communication with the help of these types of sounds is called 'aural' communication. Similarly, communication is also made through some physical gestures through the use of various parts of the human body through body language. This is termed as 'gestural' communication. Saluting our national flag, motionless position during the singing of national anthem, waving of hands, nodding of head, showing anger on face, etc. are all examples of gestural communication. When a teacher pats his student on his back, it is considered as an appreciation of his work and it encourages the student to do still better.

### 2.5.2 Communication Services

For sending the message or getting the response, you require a medium. Such medium is termed as 'means of communication'. It carries the message to the receiver and a feedback or response from him. The commonly used means of communication are: postal mail services, courier services, telephone, cellular phone, telegraph, internet, fax, e-mail, voice mail. These means are also termed as 'communication services'. Of these, the main services which help business in its effective communication, are classified as (1) Postal Services, and (2) Telecommunication Services.

### 2.5.3 Postal Services

The postal system in India was established in 1766 by Lord Clive for sending official mails. It was made available to the public in 1837. The Indian postal service has the largest network of 1,55,516 post offices throughout the country, out of 1,39,120 are in rural areas. These are mainly concerned with collection, sorting, and distribution of letters, parcels, packets, etc. Besides, a number of other services are also provided to the general public as well as business enterprises. Let us classify the various postal services as:

- (a) **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.

While sending a written message, the sender can make use of a post card, an inland letter, or an envelope. For sending some item in a packet, parcel post facility is provided. Articles in the form of printed materials, printed books, periodicals, greeting cards can also be mailed by book post.

Besides these general mail services, some specialised mail services are also provided by the post office for convenience of the public. Let us know these services in brief.

- (i) **Certificate of Posting :** For ordinary letters, the post office does not give any receipt. But, if the sender wants a proof that he or she has actually posted the letter, then a certificate can be obtained from the post office on payment of prescribed fee which is called 'certificate of posting'. These letters are marked as 'Under Postal Certificate' (UPC).
- (ii) **Registered Post :** If the sender wants that the mail should definitely be delivered to the addressee otherwise it must return to him, then post office offers 'registered post' facility. For this service, the post office charges additional amount and issues a receipt for the registered post.
- (iii) **Insured Post :** To compensate for the loss incase the letters or parcels get damaged or lost in transit, the post office provides insured post facility. For this the post office acts as an insurer. The insurance premium is paid by the sender.
- (iv) **Speed Post :** This facility provides quick, time bound as well as guaranteed mail delivery in some selected destinations on payment of additional charge. This facility is available in more than 1000 post offices in India and links with 97 countries.
- (v) **Post Restante :** When the exact postal address of the receiver is not known, the sender can avail of post restante facility. The letter can be sent to the postmaster of the locality where the receiver resides. The receiver can collect the letter from the post office on showing his identity. This facility is suitable for tourists and travelling salesmen who are not sure about their address in a particular place, or for any other person looking for a fixed address at a new place.

- (b) **Financial Services :** Various financial services are provided by the post office through Saving Schemes, Remittance Services, and Distribution of Mutual Funds and Securities.



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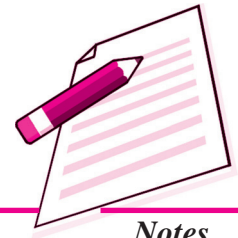
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- (i) **Saving Schemes:** There are eight different schemes offered by the post offices to mobilise the savings from the public. These are:
- Post Office Savings Bank Account
  - 5-Year Post Office Recurring Deposit Scheme
  - Post Office Time Deposit Account
  - Post Office Monthly Income Scheme
  - 6-Year National Savings Certificates (VIII Issue) Scheme
  - 15-Year Public Provident Fund Account (PPF Account)
  - Kissan Vikas Patra Scheme
  - Senior Citizens Saving Scheme 2004
- (ii) **Remittance Service:** Money can be conveniently transferred from one place to other through the remittance service offered by the post office. It is in the form of Money Order and Postal Order facility with the help of which people can transfer money from one place to another within as well as outside the country. Money order is an order issued by one post office to another post office to pay a certain sum of money only to the person named therein. The sender hands over the money to the post office and on payment of the requisite fee, post office takes the responsibility of giving the money to the receiver. In a single money order form, we can send a maximum amount of Rs. 5,000. For the convenience of customers, post office offers different types of money order services like Ordinary Money Order, Telegraphic Money Order, Satellite Money Order, Speed-post Money Order, Instant Money Order (INO), International Money Transfer Services, etc. For the convenience of businessmen it also offers Corporate Money Order service.
- Like Money Order, we can also send money through postal order i.e., Indian Postal Order (IPO). It is a convenient method of sending money from one place to another and is mainly used for remitting examination fees or while applying for any job.
- (iii) **Distribution of Mutual Funds and Securities:** This facility enables the investors to purchase mutual funds and government securities through the designated post offices. The mutual funds of State Bank of India, prudential ICICI, RBI/Govt. Relief Bonds and ICICI Safety Bonds are available from 42 post offices at Bangalore, Chennai, Chandigarh, Delhi and Mumbai.
- (c) **Insurance Services :** In addition to dealing with mail and remittance of money, post offices also provide life insurance coverage to individuals. There are two



different schemes of insurance offered by post office. These are (i) Postal Life Insurance (PLI), and (ii) Rural Postal Life Insurance (RPLI). The Postal Life Insurance was introduced in 1884 as a welfare measure for the employees of Posts and Telegraphs Department. Later on it was extended to the employees of Central and State governments, public sector undertakings, universities, government aided institutions, nationalised banks and financial institutions, local bodies like Municipalities and Zilla Parishads. The employees of these organisations who are below 50 years of age, can insure their life on payment of a fixed premium for a particular period. The PLI offers five insurance schemes viz. (i) Suraksha (whole life insurance) (ii) Suvidha (Convertible whole life assurance), (iii) Santosh (endowment assurance) (iv) Sumangal (Anticipated endowment assurance), (v) Yugal Suraksha (joint life endowment assurance for couples). Just like PLI, the post office also provides life insurance coverage to the people living in rural areas at low premiums under the scheme of Rural Postal Life Insurance (RPLI). This was introduced on 24 March 1995. All the above mentioned plans are available under RPLI also.



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- (d) **Business Development Services :** Besides carrying mail through various means as discussed earlier, post office offers some special services to the business firms. Let us learn in brief about those services.
- (i) **Business Post:** In this service, post office undertakes all the pre-mailing activities of the bulk senders. Pre-mailing activities include collection from sender's doorstep, insertion of goods in packet, pasting and addressing as well as franking of mails, etc.
  - (ii) **Media Post:** The postal department offers a unique media to help the corporate and government organisations to reach the potential customers through media post. Under this facility, (a) advertisements are allowed on post cards, inland letter cards and in other postal stationeries, and (b) space sponsorship options on letter boxes.
  - (iii) **Express Parcel Post :** Post office offers a reliable, speedy and economical parcel service to the corporate and business customers through its express post. It provides a time bound door-to-door delivery of parcels upto 35 kgs. in weight and VPP services upto Rs. 50,000.
  - (iv) **Direct Post :** It allows the business houses to send the pamphlets, brochures and other advertising materials like CDs, floppies, cassettes, samples, etc. to the prospective customers at very low rates.
  - (v) **Retail Post :** The post office offers the facility to collect public utility bills like telephone, electricity, and water bills, sale of application forms for government and other private organisations, survey through postmen, address



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verification through postmen are some of the activities undertaken under retail post.

- (vi) **Business Reply Post** : Under this facility post offices allow the customers to send their reply through business reply post, which does not require any postage from the sender. The post office recovers the postage from the addressee later on.
- (vii) **Post Shoppe** : Post shoppes are the small retail shops established for sale of postal stationery items, greeting cards and small gift items to the customers. These shops are found within the premises of some post offices.
- (viii) **Value Payable Post (VPP)** : This facility is offered to meet the requirement of the traders who wish to sell their articles and collect the price of articles supplied by them through the post offices. Under this service, post office receives the properly packed goods from the seller and carries those to the customers. After receiving the total amount (the price of the goods plus the VPP charges) from the customer, it delivers the goods to him/her. Later on, the post office sends the amount due to the seller.
- (ix) **Corporate Money Order** : Like individuals, business organisations can also transfer money through money order. For them, the post office offers Corporate Money Order Service. It enables business organisation to transfer upto Rs. 1 crore to any part of the country.
- (x) **Post-box and Post-bag Facility** : Under this facility, a particular number and a box or a bag is allotted to the receiver at the post office to receive all unregistered mails. Post office keeps all mails addressed to that number in those boxes or bags. The addressee makes necessary arrangement to collect the mails as per his convenience. This facility is mostly suitable for business firms which want to receive their mail promptly. Those who do not have any fixed address or those who do not want to disclose their names and address can avail of this facility on payment of the specified rent.
- (xi) **Bill Mail Service** : It provides cost effective solution for mailing of periodic communication with nature of annual report, bills, monthly account bills or other items of similar nature.
- (xii) **E-post** : E-post service launched on 30<sup>th</sup> January, 2004 this has enabled people to send and receive messages through e-mail in all post offices of the country. To make it more useful for business, a corporate version of e-mail was also launched on 18<sup>th</sup> October 2005, which allows simultaneous sending of e-post to a maximum of 9999 addresses.



## INTEXT QUESTIONS 2.6

1. Give one word substitute of the following communication.
  - (a) Conversation with the help of telephone.
  - (b) Communication through symbols and diagram.
  - (c) Traffic signal showing red light.
  - (d) Sending SMS to friends through mobile phone.
  - (e) Saluting our nation flag in different occasion.

2. Match the following

Column AColumn B

- |                   |  |
|-------------------|--|
| (a) Retail post   | (i) Collection of letters from the customers' doorstep |
| (b) Media post    | (ii) Compensation for loss or damage of the parcels    |
| (c) Direct post   | (iii) advertisement on post card                       |
| (d) Business post | (iv) Collection of telephone bill                      |
| (e) Insured post  | (v) Sending pamphlets to prospective customers.        |

**2.5.4 Telecommunication Services**

The first telegraph line between Kolkata and Diamond Harbour was opened for traffic in 1851. The first telephone service was introduced (in Kolkata) in 1881-82, and the first automatic exchange was commissioned at Shimla in 1913-14. As of now, India is the 10<sup>th</sup> largest telecom network in the world in terms of number of phones. The various telecommunication services now available in India are as follows.

- (a) **Fixed Line Phone :** The fixed line phone or telephone is a very popular means of verbal communication. It is widely used for internal and external business communications. It facilitates both oral conversation as well as sending written text messages. Both government and private telecom companies provide this service in our country.
- (b) **Cellular Services :** Now-a-days, cellular phones or mobile phones are very popular as they give access to the receiver at all times and everywhere. This is an improvement over the fixed line telephone. It possesses many modern features like Short Messaging Services (SMS), Multi Media Messaging Services (MMS) etc. MTNL, BSNL, Airtel, Idea, Hutch, Reliance and Tata are the leading mobile phone service providers in our country.

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- (c) **Telegram** : It is a form of written communication by which messages can be sent quickly to distant places. It is generally used when there is an urgency of communicating an important message. **Now a days this facility is not available in any of the telegraph offices.**
- (d) **Telex** : Telex provides a means of printed communication using teleprinter. The teleprinter is a tele-typewriter having a standard keyboard and connected through telephone.
- (e) **Fax** : Fax or facsimile is an electronic device that enables instant transmission of handwritten or printed matters to distant places. By using telephone lines, this machine sends the exact copy of the document to another fax machine at the receiving end. This is the most commonly used means of written communication in business now-a-days.
- (f) **Voice Mail** : It is a computer based system for receiving and responding to incoming telephone calls. It records and stores telephone messages through computer memory. The caller can get the required information by dialing the voice mail number and then following the instructions of the computer. The individuals can also record their messages through voice mail. The receivers at their own convenience can get the message from the machines and take action accordingly.
- (g) **E-mail** : Electronic mail, popularly known as e-mail is a modern means of communication that transmits the written message, pictures or sounds etc. from one computer to the others connected through internet facility.
- (h) **Unified Message Service** : It is a system by which fax, voice mails and e-mails (all three) can be received from one mail box using telephone instrument, fax machine, mobile phones, internet browsers, etc.
- (i) **Teleconferencing** : Teleconferencing is a system through which people can interact without physically sitting in front of each other. People can hear the voice and see the picture of others and also respond to their queries while sitting in different countries. It makes the use of modern electronic devices like telephone, computers, television etc.

### 2.5.5 Importance of Communication

- (a) **Promotion of Business** : Because of modern means of communication, businessmen sitting at different places can finalise their business deals without much difficulty. They can make enquiries, settle terms and conditions, place orders and send confirmation. It has helped in the growth of national as well as international trade.
- (b) **Mobility of Labour** : People who have gone for employment to places away from their homes and families are able to keep in touch with their friends and relatives through the various means of communication. So they willingly go to far off places for employment.

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

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### INTEXT QUESTIONS 2.7

1. Mention any two problems we may face in the absence of telecommunication services.
2. Complete the following incomplete words by taking clues from the statement given for each. Every blank represents one letter only. First one has been done for you.
  - (a) T \_ \_ L \_ \_ X (TELEX)
  - (b) V \_ \_ \_ C \_ \_ MAIL

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- (c) \_\_\_ X  
 (d) T \_\_\_ L \_\_\_ R \_\_\_ M  
 (e) E \_\_\_ M \_\_\_

### Clues

- (a) Communication using tele-printer  
 (b) Computer based system for receiving and responding the incoming telephone calls.  
 (c) Machine that transmits hand written message instantly.  
 (d) A form of written communication.  
 (e) Communication of written message through internet.

## 2.6 WAREHOUSING

The words 'warehouse' and 'godown' are synonymous and so warehouse refers to a place used for storing goods, and warehousing refers to the activities involving storage of goods on a large-scale in a systematic and orderly manner and making them available conveniently when needed. In other words, warehousing means holding or preserving goods in huge quantities from the time of their purchase or production till their actual use or sale. Thus, it creates time utility by bridging the time gap between production and consumption of goods.

### 2.6.1 Importance of Warehousing

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

- (a) **Storage of Raw Materials :** To maintain continuity in production, a good quantity of raw materials is to be kept in stock. Not only that, some raw materials are only available in specific period of the year (cotton, oilseeds etc.) while these are used for production throughout the year. So, these have to be kept in stock for use as and when required.
- (b) **Storage in Anticipation of Rise in Price :** In case the manufacturer anticipates a rise in prices of raw materials in future he/she likes to purchase it in advance and stock it. It equally applies to traders of goods if they expect price rise.
- (c) **Storage of Finished Goods :** Since goods are generally produced in anticipation of demand, these need to be stored till sales take place. Not only that, some goods are produced round the year but purchased/used during a specified part of

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the year e.g. electric fans, woollen clothes. Similarly, some goods may be produced during a part of the year but used throughout the year like sugar.

- (d) **Storage of Goods by the Wholesalers :** Wholesalers buy goods in bulk and maintain stock of goods in warehouses for sale in small quantities to retailers from time to time.
- (e) **Packaging and Grading :** Goods in warehouses are divided into grades according to size or quality and packaging is done for convenient handling and sales.
- (f) **Use for Importers :** Warehouses (known as bonded warehouse) are used for storage of imported goods till the importer is able to pay the customs duty and take delivery.

Based on the above uses of warehousing, it can be concluded that it is an important link in the chain of marketing and adds to the time and place value of goods. It also smoothens out fluctuations in their supply and demand. So, wherever there is trade and commerce, there is need for warehousing.

### 2.6.2 Types of Warehouses

You have learnt that warehousing caters to the storage needs of various types of commodities. In order to meet their storage requirement effectively, various types of warehouses came into existence. These are as follows.

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

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### 2.6.3 Functions of Warehouses

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

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



### INTEXT QUESTIONS 2.8

1. Give the meaning of warehousing.
2. Identify the type of warehouse in the following cases.
  - (a) Warehouse to store the goods of public.
  - (b) Warehouses owned and managed by government.



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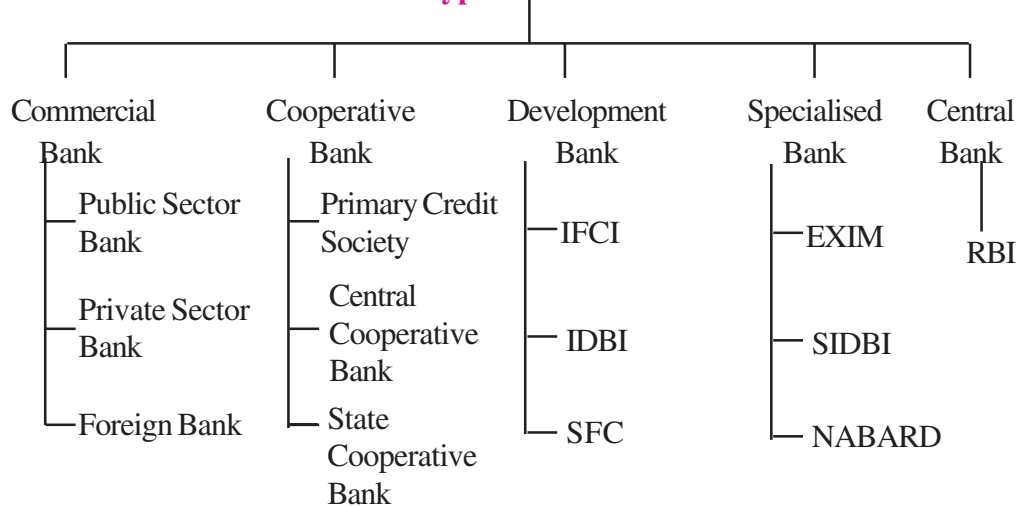
- (c) Warehouses for storage of imported goods on which import duty is yet to be paid.
- (d) Warehouses set up for the benefit of its members.
- (e) Warehouses owned and managed by private traders for stocking their goods.



## WHAT YOU HAVE LEARNT

- Activities that act as auxiliaries to trade and facilitate smooth flow of goods from producers to consumers and functioning of business are termed as business support services.
- Banking refers to the provision of services by banks like acceptance of deposits, grant of loans and advances and other agency as well as general utilities services.

### Types of Bank



- Functions of commercial banks
  - (a) Primary functions : (i) Accepting deposit (ii) Lending money
  - (b) Secondary functions : (i) Agency services (ii) General utility services
- Fixed Deposit Account, Recurring Deposit Account, Current Deposit Account and Savings deposit Account are different types of bank accounts.
- A lumpsum amount is deposited for a specified time in fixed deposit account.
- In RD accounts, the account holder is required to deposit a specified sum of money every month.
- To cultivate saving habit, savings account is opened.

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### Business Support Services

- Current deposits accounts provide facility to business persons to deposit or withdraw money as and when they need.
- Bank draft is a cheque drawn by a bank branch on another branch outside the city.
- A pay order is a cheque drawn by a bank branch and payable at same branch.
- RTGS is a fund transfer system where there is no waiting period for the settlement of transaction. Minimum transaction value is Rs. 50,000.
- NEFT is a fund transfer system and transactions are settled in batches.
- Persons not holding current account are eligible for credit arrangements through cash credit facility.
- SMS alert is an e-banking facility where in the customer remains informed about every deposit/withdrawal from his account.
- Parcels and couriers are type of postal services.
- Saving services provided by post office include NSC, PPF, and MIS.
- Insurance is a contract between the insurer and insured whereby the insurer undertakes to pay a fixed amount of money to compensate the insured against risks of loss or damage caused by happening of certain events, in exchange for a fixed sum of money.
- Based on the subject matter of insurance and nature of risk covered, insurance can be broadly classified as (a) Life insurance, (b) Fire insurance, (c) Marine insurance, and (d) Other types of insurance.
- Principles of insurance : (a) Utmost good faith; (b) Insurable interest; (c) Indemnity; (d) Contribution; (e) Subrogation; (f) Mitigation; (g) Cause proxima
- Transportation: The process of carrying goods and passengers from one place to another is termed as transportation. The mode used for transportation are roadways, railways, airways and water ways.
- Communication is the process of transmission of idea, opinion, thoughts and information through speech, writing, gestures or symbols between two or more persons.
- Based on the method used, communication may be oral, written or non-verbal. Communication without any use of words is called non-verbal communication. It may be visual, aural or gestural.
- The main services which help business in its effective communication are classified as postal services and telecommunication services.

## Business Support Services

- The various services provided by post offices are classified as (a) Mail services, (b) Financial services, (c) Insurance services, and (d) Business development services.
- The various special services offered by post office to the business firms are – Business post, Media post, Express parcel post, Direct post, Retail post, Business reply post, Post shoppe, Value payable post, Corporate money order, Post Box and Post bag facility, E-post and Bill Mail service.
- The telecommunication which are helpful for business firms are fixed line phone, cellular service, telegram, telex, fax, voice mail, e-mail, teleconferencing.
- Warehousing refers to the activities involving storage of goods on a large scale in a systematic and orderly manner and making them available conveniently when needed.
- The different types of warehouses functioning in our country are – Private warehouses, Public warehouse, Government warehouse, Bonded warehouse and Cooperative warehouse.
- The functions of warehouse are – storage of goods, protection of goods, bears the risk of loss or damage to goods in storage, financing, processing, transportation. It also performs various value added services like grading and branding, mixing, blending and packaging of goods.

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### KEY TERMS

Banking	Fire Insurance	Post restante
Bonded warehouse	Fidelity guarantee insurance	Post shoppe
Burglary insurance	Health insurance	Postal life insurance
Business post	Indemnity	Principles of contribution
Cash insurance	Insurable interest	Principles of mitigation
Cattle insurance	Insurance	Principles of subrogation
Central Bank	Insured post	Retail post
Commercial Bank	Joint life policy	Specialised Bank
Cooperative Bank	Marine insurance	Value payable post
Crop insurance	Media post	Voice mail
Direct post	Money back policy	Warehousing
Endowment policy	Motor vehicles insurance	Whole-life policy
Express post	Pension Plan	



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## TERMINAL EXERCISE

### Very Short Answer Type Questions

1. What is meant by the term 'Banking'?
2. Define the term 'Insurance'.
3. Name the hindrance that is removed by transportation.
4. State the benefits of insured post.
5. What is bonded warehouse?
6. Give an example of e-banking.
7. Name any two savings schemes of post office.
8. Give the full form of PPF and MIS.

### Short Answer Type Questions

9. Mention any two general utility services rendered by commercial banks.
10. Distinguish between whole-life policy and endowment policy.
11. State any two points of importance of transportation for the business.
12. What is meant by post restante letter.
13. Explain any two functions of warehousing.
14. What is meant by cash credit?
15. What is meant by a Bank overdraft?
16. Give the full form of NSC.
17. What is meant by courier service?

### Long Answer Type Questions

18. Explain the primary functions of a commercial bank.
19. Describe any two principles of a valid insurance contract.
20. What is meant by transportation? State any two different modes of transport.
21. Describe any four special services rendered by the post office for the benefit of business.
22. Explain any four points of importance of warehousing.
23. **“Post office provides the various services in addition to mail service.” In the light of this statement explain the different services provided by the Post office.**
24. **Your friend Nitesh feels that warehousing is of no importance. Explain him about the importance of warehousing.**



## ANSWERS TO INTEXT QUESTIONS

- 2.1** 1. Business support service refer to those business activities that act as auxiliaries to trade and facilitate smooth flow of goods from producers to consumers.
2. (a) Transportation, (b) Banking, (c) Insurance,  
(d) Warehousing, (e) Communication
- 2.2** 1. Central bank/Reserve Bank of India
2. Agency services - (a), (e)  
General utility service – (b), (c), (d)
3. (a) Secondary functions (b) Accepting deposits  
(c) Lending money (d) General utility services
4. (i) b (ii) c (iii) b (iv) b
- 2.3** 1. (a) Cargo insurance (b) Ship or Hull insurance  
(c) Freight insurance
2. (a) Joint life policy (b) Money back policy  
(c) Crop Insurance (d) Amartya Siksha Yojana insurance policy  
(e) Fidelity guarantee insurance
- 2.4** 1. Insurable interest means financial or pecuniary interest on the subject matter of insurance.
2. (a) Principle of insurable interest (b) Principle of utmost good faith  
(c) Principle of contribution (d) Principle of subrogation  
(e) Principle of Indemnity
- 2.5** 2. (a) Road transport (b) Air transport (c) Air transport  
(d) Road transport (e) Rail transport
- 2.6** 1. (a) Oral Communication (b) Visual Communication  
(c) Visual Communication (d) Written Communication  
(e) Gestural Communication
2. (a) – (iv) (b) – (iii) (c) – (v) (d) – (i) (e) – (ii)
- 2.7** 2. (b) VOICE MAIL (c) FAX (d) TELEGRAM (e) E-MAIL
- 2.8** 1. Activities that involve storage of goods on large scale and making them available when demanded.
2. (a) Public warehouse (b) Government warehouse  
(c) Bonded warehouse (d) Cooperative warehouse  
(e) Private warehouse



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**MODULE - 1***Business Around Us***Business Support Services***Notes***DO AND LEARN**

Visit the nearest post office of your area and collect information on the various services provided to the public and business community. Also collect pamphlets on the various saving schemes available.

**ROLE PLAY**

1. Deeksha is working as an agent of life insurance and Sunita is working as an agent of General insurance. Read and complete the following Conversation:

Deeksha : Sunita, I heard that you are a GIC agent. Could you tell me what is the subject matter of insurance.

Sunita : Well! Unlike the life insurance our subject matter of insurance is the goods that need risk coverage in business.

Deeksha : This is very interesting! Could you tell me more about it?

Sunita : Yes, of course! I do not know anything about life insurance. First you advise me how should I proceed in taking a policy to protect my life?

In the light of the basic principles, different types of policies, continue the conversation between the two friends. You can take the role of one of the agents and ask one of your friends to enact the other role.

2. Raksha is working as a Bank Manager and her friend Seema is a housewife. Read and complete the following conversation:

Raksha : Hello Seema. How are you?

Seema : I am fine. Raksha, I heard that you are working as a Bank Manager could you tell me something about the banking?

Raksha : Well! Bank is an institution that deals in money and credit.

Seema : The work of Bank is very interesting. Could you tell me something more about it?

Raksha : Yes, of course! Bank accepts deposits from those who have funds to spare and grants loans and advances to those who are in need of funds for various purpose.

In the light of various functions of Bank, continue the conversation between the two friends. You can take the role of any one friend and ask one of your friends to enact the other role.

# 3

## BUSINESS ENVIRONMENT



*Notes*

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



### OBJECTIVES

*After studying this lesson, you will be able to:*

- explain the meaning of business environment;
- identify the features of business environment;
- describe the importance and types of business environment;
- describe the recent developments in Indian Economy that have greatly influenced the working of business units in India;
- explain the concept of social responsibility of business;
- state the social responsibility of business towards different interest groups;
- explain the concept of business ethics; and
- understand the impact of Government Policy changes on Business and Industry.



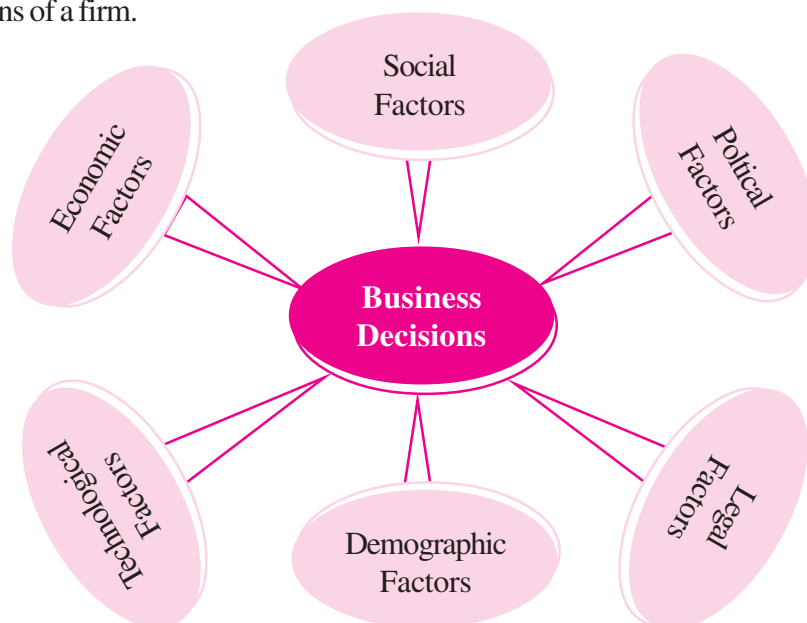
### 3.1 MEANING OF BUSINESS ENVIRONMENT



Notes

As stated earlier, the success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies, the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

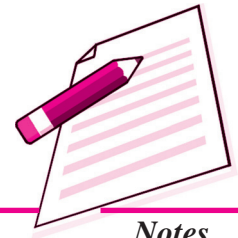
The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.



### 3.1.1 Features of Business Environment

On the basis of the above discussion the features of business environment can be summarised as follows.

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



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### 3.1.2 Importance of Business Environment

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- (a) **Determining Opportunities and Threats :** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- (b) **Giving Direction for Growth :** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- (c) **Continuous Learning :** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- (d) **Image Building :** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

**MODULE - 1***Business Around Us**Notes***Business Environment**

- (e) **Meeting Competition** : It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.
- (f) **Identifying Firm's Strength and Weakness** : Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

**INTEXT QUESTIONS 3.1**

1. Define the term Business Environment in your own words.
2. Rectify the following sentences if found incorrect.
  - (a) The business environment is static in nature.
  - (b) Business environment includes factors external as well as internal to business firm.
  - (c) The changes in business environment are quite predictable.
  - (d) Business environment helps the firm to identify the opportunities for the business.

**3.2 TYPES OF BUSINESS ENVIRONMENT**

Confining business environment to uncontrollable external factors, it may be classified as (a) Economic environment; and (b) Non-economic environment. The economic environment includes economic conditions, economic policies and economic system of the country. Non-economic environment comprises social, political, legal, technological, demographic and natural environment. All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations. Let us have a brief idea about each of these areas of business environment.

**3.2.1 Economic Environment**

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

- (a) **Economic Conditions** : The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

**(b) Economic Policies :** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

- (i) Industrial policy
- (ii) Fiscal policy
- (iii) Monetary policy
- (iv) Foreign investment policy
- (v) Export–Import policy (Exim policy)

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

#### ***Important Economic Policies***

- (i) ***Industrial policy:*** *The Industrial policy of the government covers all those principles, policies, rules, regulations and procedures, which direct and control the industrial enterprises of the country and shape the pattern of industrial development.*
- (ii) ***Fiscal policy:*** *It includes government policy in respect of public expenditure, taxation and public debt.*
- (iii) ***Monetary policy:*** *It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.*
- (iv) ***Foreign investment policy:*** *This policy aims at regulating the inflow of foreign investment in various sectors for speeding up industrial development and take advantage of the modern technology.*
- (v) ***Export–Import policy (Exim policy):*** *It aims at increasing exports and bridge the gap between export and import. Through this policy, the government announces various duties/levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties.*

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



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### 3.2.2 Non-economic Environment

The various elements of non-economic environment are as follow:

- (a) **Social Environment :** The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.
- (b) **Political Environment :** This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.
- (c) **Legal Environment :** This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:
- (i) Companies Act, 1956
  - (ii) Foreign Exchange Management Act, 1999
  - (iii) The Factories Act, 1948
  - (iv) Industrial Disputes Act, 1972
  - (v) Payment of Gratuity Act, 1972

- (vi) Industries (Development and Regulation) Act, 1951
- (vii) Prevention of Food Adulteration Act, 1954
- (viii) Essential Commodities Act, 2002
- (ix) The Standards of Weights and Measures Act, 1956
- (x) Monopolies and Restrictive Trade Practices Act, 1969
- (xi) Trade Marks Act, 1999
- (xii) Bureau of Indian Standards Act, 1986
- (xiii) Consumer Protection Act, 1986
- (xiv) Environment Protection Act
- (xv) Competition Act, 2002

Besides, the above legislations, the following are also form part of the legal environment of business.

- (i) **Provisions of the Constitution :** The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.
- (ii) **Judicial Decisions :** The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities.
- (d) **Technological Environment :** Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. Now a days infact, no firm can afford to persist with the outdated technologies.
- (e) **Demographic Environment :** This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is



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high and children constitute a large section of population, then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

- (f) **Natural Environment :** The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.



### INTEXT QUESTIONS 3.2

1. What is meant by Exim policy?
2. Identify the types of non-economic environment in the following cases:
  - (a) Demand for new clothes increases during festive session.
  - (b) Computer has outdated typewriter.
  - (c) Coca-Cola is now being freely sold in the Indian market.
  - (d) Sugar factories are being set up where sugarcane is grown abundantly.
  - (e) Availability of skilled labour in a particular region.

### 3.3 RECENT DEVELOPMENTS IN INDIAN ECONOMY

The economic environment of business in India has been changing at a fast rate mainly due to the changes in the economic policies of the government. At the time of independence, the Indian economy was basically agrarian with a weak industrial base. To speed up the industrial growth and solve various economic problems, the government took several steps like state ownership on certain categories of industries, economic planning, reduced role of private sector, etc. The Government adopted several control



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measures on the functioning of private sector enterprises. All these efforts resulted a mixed response. There was growth in net national product, per capita income and development of capital goods sector and infrastructure. But rate of industrial growth was slow, inflation increased and government faced a serious foreign exchange crisis during eighties. As a result, the government of India introduced a radical change in economic policies in 1991. This policy abolished industrial licensing in most of the cases, allowed private participation in most industries, disinvestment was carried out in many public sector industrial enterprises and opened up the economy considerably. Foreign Investment Promotion Board was set up to channelise foreign capital investment in India. Let us discuss the developments under three heads, viz., (a) Liberalisation, (b) Privatisation, and (c) Globalisation.

### (a) Liberalisation

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

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

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

### (b) Privatisation

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

- (i) reduction in the number of industries reserved for the public sector from 17 to 8 (reduced further to 3 later on) and the introduction of selective competition in the reserved area;

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- (ii) disinvestment of shares of selected public sector industrial enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership in business;
- (iii) improvement in performance through an MOU system by which managements are to be granted greater autonomy but held accountable for specified results.

In India, as a result of these steps, the post liberalisation phase has witnessed a massive expansion of the private sector business in India. You can have an idea of their expansion from the fact that the total capital employed in top 500 private sector companies rose from Rs. 1,39,806 crores in 1992-93 to Rs. 2,34,751 crores in 1994-95 (an expansion of 68% in just two years).

#### (c) Globalisation

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

#### (d) Business Environment

Impact of Government Policy changes on Business & Industry with special reference to liberalization, privatisation and globalisation.

1. **Rapidly Changing Technological Environment :** After the introduction of new economic policy the companies were forced to adopt the world class technology. The reason is increase in competition.
2. **More Demanding Consumers :** Prior to government policy changes, consumers purchased goods and services without much inquiry. But now-a-days products are produced considering the demands of customers. Customers have started buying good quality goods and services.
3. **Increasing Competition :** Today, Indian companies have to face competition not only from the internal market but also from the MNCs. If the companies could not face the competition, they had to leave the market.
4. **Necessity for Change :** Before the government policy changes, the businesses were more stable. Policies once laid down were used to continue for a long time. But these days business environment is undergoing rapid changes so business enterprise have to modify their policies from time to time.

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- 5. Necessity for Developing Human Resources :** Prior to government policy changes, Indian companies were managed by inadequately trained personnel. New market situations demanded highly skilled and competent human resources. Hence, Indian companies started training and developing their human skills.



### INTEXT QUESTIONS 3.3

1. What is meant by Globalisation?
2. Write 'L' for Liberalisation, 'P' for Privatisation and 'G' for Globalisation.
  - (a) Freedom in fixing prices of goods and services.
  - (b) Disinvestment of shares of public sector industrial enterprises.
  - (c) Reduction in sales tax rates.
  - (d) Reduction in custom duties.
  - (e) Reduction in number of industries reserved for public sector.

## 3.4 SOCIAL RESPONSIBILITY OF BUSINESS

Every business enterprise is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of business is injurious to the long run interests of the society. However, it is observed that, in practice, there are a few socially undesirable aspects of business such as, polluting the environment, non-payment of taxes, manufacturing and selling adulterated products, giving misleading advertisement and so on. This has resulted in the development of the concept of social responsibility of business whereby the owners and managers of business are made conscious about the responsibilities of their business towards the community and its customers, workers etc.

### 3.4.1 Concept of Social Responsibility

Social responsibility of business means obligation to act in a manner which will serve the best interests of the society. Social obligation of a business is different from legal obligation legal obligation is observed because of the provisions or fear of law, but social obligations will help to take voluntary efforts on the part of business to fulfill the need of the society. By fulfilling the social obligations, business creates an environment which is conducive to its success.

### Case for Social Responsibility

Business has social responsibility because of the following reasons :

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1. **Self Interest :** Business can succeed in the long run by fulfilling the demands of the society. The people who have good environment, education and opportunities can become good employees, customers and neighbours of the business.
2. **Balancing of Social Power :** The decisions and activities of a business can affect the consumers, employees, environment and community. So it has social power. If social power and responsibility are not balanced, the business might use its power against the interests of consumers, employees, environment and community.
3. **Creation of Society :** Business is a creation of society as it uses the resources provided by the society. So it should utilise the resources for the benefit of people. A successful business can built a happy and satisfied community and employees.
4. **Social Awareness :** Now-a-days consumers are aware of the quality of various products, the market price of various products, the name of reputed companies supplying the product etc. Therefore, they should be given fair treatment by the business. Otherwise, they will organise and form Consumer Associations. This will compel the business to perform social obligations.
5. **Public Image :** If the business follows social obligations, public image will improve. The public will have credibility to the concern. Otherwise, conflict will arise between the business and society.
6. **Moral Justification :** Every business organisation uses human resources, physical resources and capital of the society. Roadways, power and water supply are used by business firms. The products of business units are sold to the society. Therefore, it is the moral responsibility of business to contribute for the well being of the society.

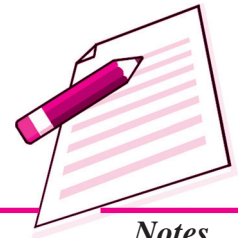
### 3.4.2 Responsibilities Towards Different Interest Groups

It needs to be noted that the responsibilities of those who manage the business cannot be limited to the owners. They have to take into account the expectations of other stakeholders like the workers, the consumers, the government and the community and public at large. Let us now look at the responsibilities of the business towards all these groups.

- (a) **Responsibility towards the shareholders or owners :** The shareholders or owners are those who invest their money in the business. They should be provided with a fair return on their investment. You know that in case of companies it is in the form of dividends. It has to be ensured that the rate of dividend is commensurable with the risk involved and the earnings made. Besides dividends, the shareholders also expect an appreciation in the value of shares. This is governed primarily by company's performance.

Funds required by the business are provided by investors. The responsibility of business towards owners or investors are as follows :

1. To ensure safety of investment.
2. To provide regular, correct and adequate information on the financial aspects.
3. To provide fair and regular dividend.
4. To ensure capital appreciation.
5. To protect the assets of the business.



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- (b) Responsibility towards the Employees :** A business enterprise must ensure a fair wage or salary to the workers based on the nature of work involved and the prevailing rates in the market. The working conditions must be good in respect of safety, medical facilities, canteen, housing, leave and retirement benefits etc. They should also be paid reasonable amount of bonus based on the business earnings. Preferably, there should also be a provision for their participation in management

Without employees no organisation can survive. The brain, efforts, talent and expertise of employees bring success to business concerns. The responsibility of business towards its employees are as follows :

1. To provide reasonable and fair wages and salaries.
2. To maintain good working conditions for the good health of the workers.
3. To provide services such as housing, medical care, recreation etc.
4. To develop a sense of belonging.
5. To win the cooperation of the workers by creating better human relations in the business.

- (c) Responsibility towards the Consumers :** A business enterprise must supply quality goods and services to the consumers at reasonable prices. It should avoid adulteration, poor packaging, misleading and dishonest advertising, and ensure proper arrangement for attending to customer complaints and grievances.

The products produced by the business are used by consumers. The responsibility of business towards consumers are as follows :

1. To ensure regular supply of goods/services.
2. To provide goods at reasonable prices.
3. To provide goods which will help to meet the needs of consumers of different classes.

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4. To provide goods of standard quality.
5. To ensure that advertisements made are true.
6. To provide prompt and continuous service.

**(d) Responsibility towards the Government :** A business enterprise must follow the guidelines of the government while setting up the business. It should conduct the business in lawful manner, pay the taxes honestly and in time. It should not indulge in any corrupt practices or unlawful activities.

The responsibilities of business towards government are as follows :

1. To abide by the laws of the nation.
2. To pay taxes honestly and in time.
3. To refrain from corrupting government employees.
4. To discourage the tendencies of concentration of economic power and monopoly.
5. To adapt fair dealings in foreign trade.

**(e) Responsibility towards the Community :** Every business is a part and parcel of our community. So it should contribute towards the general welfare of the community. It should preserve and promote social and cultural values, generate employment opportunity and contribute towards the upliftment of weaker sections of the society. It must take every step to protect the physical and ecological environment of the society. It should contribute to the community development programmes like public health care, sports, cultural programmes.

Business should work for the community. The main responsibility of business towards the public are as follows :

1. To protect the environment from pollution.
2. To provide better employment opportunities.
3. To preserve social and cultural values.
4. To help the weaker sections of the society like disabled persons, widows, scheduled tribes etc.
5. To promote national integration.

Looking at the importance of the social responsibilities of business towards various groups, it would have been better if the companies act provided for the reporting of the social activity in the annual report of the companies. However, a few large companies



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have been voluntarily reporting their social performances in their Annual Reports regularly. The prominent among them are Cement Corporation of India, Indian Oil Corporation, Tata Steels, Asian paints and ITC. These reports reveal that companies are becoming eco-friendly and conscious of their role in community development.

### 3.4.3 Business and Environmental Protection

The health of plants and animals depend on the quality of environment in which they live. Rapid industrialisation, evolvment of fast food centres and traffic have caused much damage to the environment. Forests and wild life are declining very fast because of the construction of large number of factories and apartments for their employees. Therefore, air, noise and water pollution increased. Governments have framed laws to prevent pollution. Pollution Control Boards have been set up by Central and State governments.

#### Causes of Environmental Pollution

Environmental pollution arises due to the following causes :

1. **Air Pollution :** Air pollution is the result of a combination of factors which decreases the air quality. Carbon monoxide emitted by automobiles contributes to air pollution.
2. **Water Pollution :** Chemical waste from factories is polluting the water bodies of every country. Throwing of plastic bags filled with flowers and other materials plastic bottles etc. pollute our rivers, streams and lakes.
3. **Land Pollution :** Excessive useage of pesticides in agriculture has damaged our devine land. People go for shopping every day and have the habit of buying in plastic bags. People throw these plastic bags here and there causing pollution of soil.
4. **Noise Pollution :** Running of factories is a source of noise pollution. Automobiles also cause noise pollution. Noise pollution may cause mental disorder, loss of hearing, malfunctioning of heart etc.

#### Need for Pollution Control

Pollution control is required because of the following reasons :

1. To reduce safety hazards and to ensure safety of life.
2. To reduce risk of liability to pay compensation to people.
3. To protect public health.
4. To reduce inconveniences like water pollution (which will affect fishes and other water plants), human health hazards such as breathing difficulty, irritation in eyes etc.
5. To save cost of cleaning the land and machines.

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**MODULE - 1***Business Around Us***Business Environment***Notes***3.5 BUSINESS ETHICS**

Business Ethics means the business practices which are desirable from the point of view of the society. i.e. the moral principles which should be followed by business.

Business ethics are concerned with determining what is right and what is wrong while doing the business. By ethics we mean the business practices which are desirable from the point of view of the society.

A few examples of ethical business practices are :

1. To charge fair prices from the customer.
2. To use fair weights for commodities.
3. To pay taxes to government correctly and promptly.
4. To ensure supply of safe products for the public.
5. To give fair treatment to the workers.
6. Not to indulge in unfair trade practices, mal practices, black marketing and hoarding.

**3.5.1 Elements of Business Ethics**

The elements of business ethics are as follows :

1. Business ethics create selfimposed discipline on the part of the business firms.
2. Business ethics make a business honest and responsible.
3. Business ethics aims at fair and reasonable treatment to customers, employees, suppliers etc.
4. Business ethics co-exist with law which will help in the perfection of the conduct of life.
5. Business ethics covers all business practices which are desirable from the point of view of the society.

**INTEXT QUESTIONS 3.4**

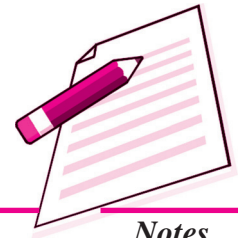
1. State the meaning of 'business ethics'.
2. Identify the group towards which the business is responsible.
  - (a) When the organisation pays the taxes in time.
  - (b) When the company produces good quality products and sells it at reasonable price.

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- (c) When the company organises sport meet for the general public for a particular locality.
- (d) When the company declares dividend at a higher rate.
- (e) When the organisation provides proper medical facility to the staff members.
3. Multiple choice questions:
- i. Identify from the following the ethical practices in business.
    - a) Exploitation of workers                      b) Selling adulterated food.
    - c) Honesty in dealing with consumers      d) Sale of duplicate goods
  - ii. Which of the following is not ethical practice :
    - a) Prompt payment of taxes by business
    - b) Sell products with correct measurement
    - c) Black marketing
    - d) Providing fair wages to workers.

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### WHAT YOU HAVE LEARNT

- The term ‘business environment’ connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of business enterprises. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. Business environment is multifaceted, complex, and dynamic in nature. The changes in business environment are unpredictable. It differs from place to place, region to region and country to country.
- **Importance of Business Environment:** The interaction between the business and its environment helps in identifying the opportunities for and threats to the business. It opens up new frontiers of growth for the business firms. Environmental analysis makes the task of managers easier in dealing with business challenges. It helps the firms to analyse the competitors’ strategies and formulate their own strategies accordingly keeping in mind its own strength and weakness.
- Types of Business Environment
  - (a) *Economic environment* : (i) Economic Conditions; (ii) Economic Policies; (iii) Economic System

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- (b) **Non-economic environment** : (i) Social Environment; (ii) Political Environment; (iii) Legal Environment; (iv) Technological Environment; (v) Demographic Environment; (vi) Natural Environment
- Recent Developments in Indian Economy
    - (a) **Liberalisation**: Liberalisation refers to the process of eliminating unnecessary controls and restrictions on the smooth functioning of business enterprises.
    - (b) **Privatisation** : Privatisation refers to reducing the role of public sector by involving the private sectors in most activities.
    - (c) **Globalisation** : Globalisation means ‘integrating’ the economy of a country with the world economy. This implies free flow of goods and services, capital, technology and labour across national boundaries.
  - **Social Responsibility of Business** : Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public are not adversely affected by the decisions and policies of the business.
  - **Social Responsibilities Towards Different Groups**
    - (a) Responsibility towards the shareholders or owners
    - (b) Responsibility towards the Employees
    - (c) Responsibility towards the Consumers
    - (d) Responsibility towards the Government
    - (e) Responsibility towards the Community
  - **Business Ethics** : Business ethics are the moral principles, which guide the behaviour of businessmen or business activities in relation to the society. It provides certain code of conduct to carry on the business in a morally justified manner.
  - Social responsibility means obligation of business to care for the interests of society.
  - Arguments in favour of social responsibility : self interest, balancing of social power, creation of society, social awareness, public image and moral justification.
  - Business has the responsibility towards investors like ensuring safety of investment, provide correct information, provide fair dividend and to protect the assets of the business.
  - Business has the responsibility towards consumers like ensure regular supply of goods, provide goods at reasonable price, provide goods to meet the needs of consumers of different classes, provide goods of standard quality etc.

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- Responsibility towards employees are to provide fair wage/salaries, maintain good working conditions, provide housing and recreation facilities, to win the cooperation of workers etc.
- Responsibility of business towards government include to pay taxes promptly, to refrain from corruption, to adapt fair dealings in foreign trade and to discourage the tendencies concentration of economic power.
- Responsibility towards community include protection of environment, better employment opportunities, pressure social and cultural values, help weaker sections of the society and to promote national integration.
- Air pollution, water pollution, land pollution and noise pollution are the cause of environmental pollution.
- Business ethics means moral behaviour on the part of businessmen.
- Elements of business ethics include – discipline, honesty, fair and reasonable treatment, perfection in the conduct of life and desirable business practices.



### KEY TERMS

Business Ethics	Legal Environment	Social Environment
Demographic Environment	Liberalisation	Social Responsibility of Business
Economic Environment	Natural Environment	Technological Environment
Economic Policy	Political Environment	
Globalisation	Privatisation	



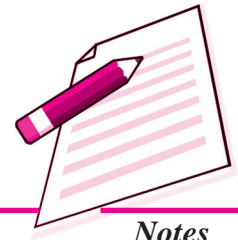
### TERMINAL EXERCISE

#### *Very Short Answer Type Questions*

1. State any two features of business environment.
2. Mention the different types of business environment.
3. List the various elements of non-economic environment of business.
4. State any two effects of liberalisation of Indian economy.
5. What is meant by the term 'ethics'?
6. What do you mean by social responsibility of business?
7. What do you understand by 'business ethics'?
8. State any two responsibilities of business towards consumers.

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9. Mention any two causes of environmental pollution.
10. State any two elements of business ethics.
11. Give two examples of business ethics.

**Short Answer Type Questions**

12. How does demographic environment of business influence the business activities.
13. What are the steps Government of India has taken as a part of its liberalisation process.
14. Explain the effect of political environment in the normal functioning of business enterprises.
15. Why should a business enterprise be socially responsible?
16. What are the effects of Globalisation of Indian economy?
17. Briefly explain the concept of social responsibility.
18. Enumerate the responsibilities of business towards employees.
19. Give any four arguments in favour of social responsibility.
20. What do you mean by the term 'business ethics'.

**Long Answer Type Questions**

21. Describe the importance of business environment for the business firm.
22. Explain any two non-economic environment of business.
23. What is meant by social responsibility of business? State the responsibilities of business towards the community.
24. Describe in brief the economic environment of business.
25. Explain the social responsibility of business towards different groups.
26. What are the responsibilities of business towards investors, consumers and employees?
27. What do you mean by social responsibility? Explain some points favouring social responsibility of business.
28. What do you mean by business ethics? Give three examples. Which are the elements of business ethics? Explain briefly.
29. **“Knowledge of Business Environment helps the businessmen to understand the opportunities for and threats to the business.” In the light of this statement explain the importance of Business Environment that helps to Businessmen to prepare future plans.**
30. **“Business has to take into account the expectations of various stakeholders like the workers, the consumers, the Government and the community.” Comment on this statement with the explanation of Social Responsibilities of business.**



### ANSWERS TO INTEXT QUESTIONS

- 3.1** 2. (a) The business environment is dynamic in nature.  
 (b) Business environment includes factors external to business firm.  
 (c) The changes in business environment are quite unpredictable.  
 (d) Correct statement.
- 3.2** 1. Exim policy regulates the import and export of our country. Through this policy Government decides the duties or taxes on import of goods and services.
2. (a) Social environment  
 (b) Technological environment  
 (c) Political environment  
 (d) Natural environment  
 (e) Demographic environment
- 3.3** 1. Globalisation means integrating the economy of a country with world economy. It implies free flow of goods and services, capital, technology and labour across the national boundaries.
2. (a) L          (b) P          (c) L          (d) G          (e) P
- 3.4** 1. Business ethics means the relationship between the society on one hand and business activities on the other. The objectives, practices, techniques and behaviour of business must be in conformity to the standards set by the society.
2. (a) Responsibility towards Government  
 (b) Responsibility towards Consumer  
 (c) Responsibility towards Community  
 (d) Responsibility towards Owners/shareholders  
 (e) Responsibility towards Employees
3. (i) c          (ii) c



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### DO AND LEARN

- Visit the market place, post offices, banks and other places of your locality and make note of the changes that have taken place due the change in Information Technology.
- Find out the raw materials being available in abundance in your area. How many industries or business units are set up based on it? Prepare a report.

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### ROLE PLAY



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1. Satish belongs to a rural area. Once he had gone to the nearest town. He saw there a very big and well maintained park. Inside the park he read a small board - 'This Park is maintained by KCS Ltd'. He tried to recall where did he read this name before? He remembered that the charitable hospital of his village was also run by KCS Ltd. He was filled with curiosity. He decided to find out more about all this. One day he met his friend's father. Mr. K. Mohan.

Satish : Good Morning Uncle.

K. Mohan : Good Morning Satish? How are you?

Satish : Very fine! How about you?

K. Mohan : Great! What brings you here son?

Satish : Uncle, if I remember rightly you are in a company called KCS Ltd, right?

K. Mohan : You are right. I am working as General Manager (Administration). But why?

Satish : Uncle! Today when I went to the park, I observed that the company KCS Ltd. maintains the park and so also the charitable hospital in my village. Well, why should a company divert its attention from its regular activities and indulge in an activity which only increases its expense?

K. Mohan : Well, all these are taken up by the company as a part of its responsibility towards the community, and it is called Social Responsibility of a company.

Satish : Social Responsibility? What is that?

(Mr. K.Mohan explained to Satish about the concept of social responsibility of business.)  
Now, you are required to continue the conversation by assuming a role for yourself and one for your friend.

2. Rahul, a trade union leader, discussed in one of the meetings with his followers, about the problems they faced while performing duties in the factory.

Workers : Informed Rahul about problems of working hours, bad working conditions, housing, recreation etc.

Rahul : No problem, I will talk to the manager and shall explain him about social responsibilities of business towards workers, society, Government and so on.

Assuming the discussion of Rahul & Manager of factory please continue the discussion on social responsibility, which manager is performing to discharge his duties towards different interest groups.



# 4

## MODERN MODES OF BUSINESS



*Notes*

You know that normally, to buy goods and services we visit the nearby market, to book the train tickets we go to the rail reservation counters, to make deposits and withdrawals of money we visit banks personally, and so on. But, now-a-days all these facilities are available at our doorstep. The Information and Communication Technology (ICT) has made it a reality. It has brought about a formidable change in the mode of transacting the business activities. There is no need to stand in long queues in the banks and rail reservation counters. All these transactions are now being done with the help of Internet. We can visit the world market at any time just sitting at our home. We can avail of many facilities without visiting the shops or the market physically. All these developments are the result of the changes in the economic policies effected by the government. One of the major advantages that India gained due to globalisation has been our introduction to the world of technology. The Multinational Corporations (MNCs) got an opportunity to explode the Indian market with its modern science and technology. However, India took no time to adapt the changing technology and emerged as a successful player in the world market. In addition to the technological revolution, another concept successfully introduced in the Indian market has been the 'Outsourcing of Services' or 'Business Process Outsourcing' (BPO). It has helped the business firms to concentrate on their core competencies. In this lesson we shall learn in details about all these modern modes of business.



### OBJECTIVES

*After studying this lesson, you will be able to:*

- explain the various mode of business;
- describe the facility of Internet and its uses;
- explain the concept of e-Commerce and e-Business;

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- outline the benefits and limitations of e-Commerce and e-Business;
- identify the stages involved in the trading process in on-line transactions;
- describe the precautions to be taken to ensure security in on-line transactions;
- explain the various applications of e-Commerce such as e-Banking, e-Ticketing, e-Advertising, e-Post; and
- explain the concept of outsourcing of services, its merits and limitations.

**4.1 MODES OF BUSINESS**

As stated earlier, to buy goods and services we usually go to a nearby market personally where buyers and sellers get together for transactions. The buyers check the quality and bargain the price. The sellers, on the other hand, try to persuade the prospective buyers and finalise the transaction. Sometimes, we contact the sellers over telephone or through correspondence to buy the specific goods. These are the common modes of business transactions. However, of late, the virtual market mode is gaining momentum. Through this mode, people get their desired goods and services sitting at their own place without actually visiting the market place. This has been made possible through introduction of information technology. The activities of production, marketing, selling, banking, insurance etc. are all carried on at a faster speed through the use of computers and Internet. When all these activities are carried on electronically it is commonly referred to as 'Electronic Business' or 'e-Business'. Since Internet plays an important role in all e-Business activities, let us first acquaint ourselves with Internet before we learn as to how it is helpful in carrying on business transactions.

**4.2 INTERNET**

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

- (a) Browse the information on any topic through the World Wide Web (www).
- (b) Read news available from leading newspapers and television channels.
- (c) Exchange messages using e-mail.
- (d) Search databases of government, individuals and private organisations.
- (e) Transfer files, pictures, animations etc.
- (f) Communicate with others by chatting or talking to them personally when both of them are connected to the Internet.

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- (g) Browse and search the catalogues of goods and services and purchase items on-line.
- (h) Set up a website with information about products and services of your organisation.

*The Internet was conceived by the Advanced Research Projects Agency (ARPA) of U.S. Government in 1969 as a military project and was known as ARPANET. It developed as an academic and research network. Later on, it was opened for use by members of public and commercial use. In the year 1979, it was called Internet. It has now evolved into a global network.*

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### 4.3 ELECTRONIC COMMERCE

You know that commerce involves buying and selling and support services like transport, insurance, banking, communication etc. When all these activities are undertaken using information and communication technologies, it is termed as Electronic Commerce or e-Commerce. In other words, e-Commerce refers to the process of conducting business with the help of electronic devices using the computer and interconnected telecommunication network. Here, offer for sale and its acceptance are made electronically through Internet. It does not require physical interaction between the parties concerned. It is also known as 'on-line trading', 'on-line shopping' and 'e-shopping'.

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

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

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

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



#### INTEXT QUESTIONS 4.1

1. Define the term Internet.
2. State the full form of the following.
  - (a) www
  - (b) B2B
  - (c) B2C
  - (d) C2C

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### 4.4 ELECTRONIC BUSINESS

Normally, one may use the terms ‘e-Commerce’ and ‘e-Business’ interchangeably. But, in practice, the term e-Business is used in a broader sense. The e-Business covers not only the interaction with its customers and suppliers but also interactions and dealings among various departments and persons within the firm. Thus, e-Business is a wider term which includes e-commerce and other electronically conducted business functions like production, accounting, finance, personnel, administration etc. In other words, e-Business includes not only B2B, B2C, and C2C but also **Intra-B Commerce** i.e., interaction and dealings among various departments and persons within the firm. For example, the marketing department may interact regularly with the production department and get the products made as per the requirements of the customers. Similarly, regular interaction among other departments helps in attaining efficient inventory handling, better cash management, proper utilisation of manufacturing capacity, timely and sufficient provision of customer services, and so on. Thus, e-Business implies use of Internet technologies to perform the key business processes.



### 4.5 BENEFITS OF E-COMMERCE/E-BUSINESS

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

- (a) **Wider Accessibility :** With the help of a well-developed computerised networking system, the business units can operate at the national as well as the global level. The buyers and sellers from any part of the world can interact with each other. This helps in gaining exposure to new markets.
- (b) **Improved Customers Service :** E-Commerce enables a company to be open for business whenever a customer needs it. Up-to-date information about products can be offered on the web, making it easier and convenient for customers to select the best product. It also enables suppliers of goods and services to offer a wide range of services to the customers, before as well as after sale, and respond to customers’ queries without any delay.

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- (c) **Shortened Transaction Time :** An e-Business transaction takes much less time as compared to the normal process of buying and selling because the producers are able to cut short the distribution channels and establish direct contact with the consumers. It also enables a company to introduce a new product into the market, gain customers' reaction quickly, implement the necessary changes without incurring heavy cost and loss of time.
- (d) **Cost Saving and Low Prices :** There is a substantial cost saving in business transactions through e-Commerce as there is hardly any display of goods involved and need for large stocks in godowns. The number of employees required is also limited. For example, as the orders are directly put into the system there is no need for any sales persons or order entry clerk. This helps in substantial savings in operational costs and offers products at lower prices to customers.
- (e) **Enlarge Business and Profits :** With e-Commerce, the companies are able to approach a larger number and variety of customers and gain exposure to new markets. This enables them to enlarge their business volume and earn more profits.
- (f) **Convenience to Customers :** The customers also stand to gain by e-Commerce in various ways. They have access to a large number of suppliers, enjoy a wider choice, and acquire quality products and services at competitive prices. They also receive prompt and efficient service and gain information about new products easily.

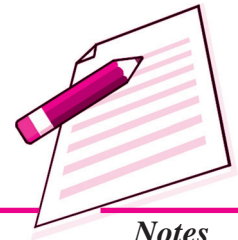
## 4.6 LIMITATIONS OF E-COMMERCE/E-BUSINESS

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

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

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risks relate to (i) the transaction (default in order taking, default in delivery, default in payment); (ii) data storage and transmission; and (iii) privacy. Moreover, the privacy of personal details and security of financial transactions are a concern for many users.

It may be noted that most of the above limitations are applicable to B2C commerce. As for the business buying i.e., B2B e-Commerce, these limitations have little relevance as both the parties are sufficiently knowledgeable, resourceful and well informed, and transact regularly with each other. No supplier therefore, can afford mishandling of any transaction with its business customers. However, there are some challenges, which will have to be overcome. These are: (i) lack of adequate Internet infrastructure; (ii) delivery and payment related issues; and (iii) absence of cyber laws.



### INTEXT QUESTIONS 4.2

1. What is meant by Intra-B Commerce?
2. Enumerate the limitations of B2C e-Commerce.
3. Identify the merits and limitations of e-business from the following statements.
  - (a) It lacks personal touch in business transactions.
  - (b) It takes less time to give order for desired goods and services.
  - (c) The customers have access to a large number of suppliers and they enjoy a wider choice.
  - (d) It helps the business houses to expand the business and earn more profit.
  - (e) The privacy of personal details and security of financial transactions are a concern for many users.

## 4.7 THE TRANSACTION PROCESS

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

- (a) **Search** : For making a purchase, the prospective customer has to find an appropriate vendor by using various web sites, either directly or through a search engine.
- (b) **Order** : Once the vendor has been found and goods are identified, the customer makes contact and negotiates the terms. When satisfied, the customer proceeds to the checkout that involves filling up a registration form to have an account with a password. Thereafter, he can place the order for the items put by him in his virtual shopping cart, an on-line record of what has been picked up while browsing the on-line store.



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- (c) **Payment :** The normal way for paying on-line purchases is by the credit card. The customer enters the credit card numbers, expiry date and billing address on the order form, and the vendor can verify the details. Debit cards, or store's value cards can also be used for the purpose. Alternatively, payments can be made by cheques sent by post.
- (d) **Delivery :** Once the payment is made or is assured, the vendor arranges for delivery of goods as per instructions of the buyer.
- (e) **After Sales Service :** In any transaction, there can be problems like damaged or faulty goods. For items such as machinery or consumer durables, there can be a provision of warranty or maintenance. The e-Vendors have to make the necessary arrangements for attending to such complaints and services.

### 4.8 PRECAUTIONS FOR SECURITY

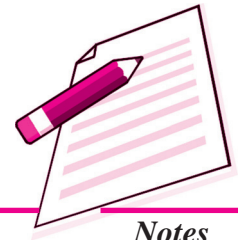
There are numerous threats to the security of e-Commerce from the customer's side as well as the vendor's side. The following steps are usually taken to ensure security in on-line transactions.

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

However, the provision of encryption, digital signatures and trusted third parties cannot provide full proof security against the use of stolen credit cards or the setting up of fraudulent web site by a bogus trader. Hence, the parties have to be highly vigilant and take all possible precautions to ensure security in e-Commerce dealings, whatever may be the cost.

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### INTEXT QUESTIONS 4.3

1. Mention the various ways of making payment in on-line transactions.
2. Arrange the following stages of on-line transactions in proper sequence.
  - (a) Order
  - (b) Delivery
  - (c) Payment
  - (d) Search
  - (e) After sales services

## 4.9 APPLICATIONS OF E-COMMERCE

The impact of e-Commerce has already begun to appear in all areas of business ranging from customer service to new product design. It has facilitated new types of information based interaction with customers, Internet bookshops, on-line super market, electronic newspapers, on-line trading on stock exchanges (e-Trading), on-line advertising (e-Advertising), on-line taxation (e-Taxation), online ticketing (e-ticketing), online banking (e-Banking), computerisation in postal communication (e-Post) and so on. We shall take up some of these e-Commerce services to have an idea of how it has transformed the functioning in these sectors.

### 4.9.1 e-Banking

Imagine the days when one had to go to the bank during a particular time of the day and on particular days of a week to deposit or withdraw money or to get a demand draft made. Long queues and waiting were the normal phenomena. But, the scenario in banks now-a-days is very different. One can withdraw and deposit money at his/her own convenience. Having account in one place in India, one can transact in any part of the country. Some of the new trends in banking sector are as follows:

- (a) **Telebanking** : A customer is given a password number (known as T-PIN i.e., Telephonic personal identification number) through which he can have access to his/her account over telephone and give instruction regarding withdrawal, issue of demand draft etc. The customer can also access his account and give instructions by using the mobile phone. Similarly, the bank can also keep on informing the customer regarding the various schemes, opportunities, last dates, etc. and attend to balance enquiries by the customers.
- (b) **Internet Banking** : This is another way a customer can have access to his account and give instructions. It makes the task of the customer easy as he can access his account anywhere, any time and any number of times. The customer simply uses a password number and gets the details of transactions sitting at home.

- (c) **ATM**: ATM, the acronym for Automated Teller Machine, is increasingly becoming popular in banking industry. ATM is a computerised machine used for most of the routine jobs of a bank. It is operated by a magnetic plastic card popularly known as ATM card. By inserting the ATM card in the machine and entering the PIN (Personal Identification Number) the customer can use it for withdrawals and deposits of money. The customer can also get the information about the balance available in his/her account, get the mini-statement of last 5/10 transactions from the ATM.

Earlier the customers only had the option to access the ATM of the bank in which they had an account. But now-a-days some banks have tied-up with other banks for use of their ATM by the customers. So customers can use the ATM facility even of a bank they do not have an account in, but with whom their bank has a tie-up.

- (d) **Debit Card**: A debit card is an electronic card that can be used conveniently while making payments. This card is issued to the customers of the bank having current or savings deposit account. The holder of this card can use this card at several outlets for purchase of goods and services. This card allows the holder to spend upto the balance available in his/her bank account. It can also be used at ATMs just like ATM cards.
- (e) **Credit Card**: Some banks issue credit cards to individuals who may or may not have an account with them. The cards are issued to individuals after verifying their credit worthiness. The individual can use those cards at various outlets to make payments. The issuing bank fixes a credit limit upto which the cardholder can purchase goods and services. The bank issues a statement of transactions periodically and the individuals have to pay back the amount to the bank by a due date. Thus, the customers get a credit period ranging from 10 to 55 days which varies from bank to bank and the nature of transactions made. No interest is charged if the payment is made within the due date. If the customers fails to pay back by due date, the bank charges interest at a high rate on the amount due. Most banks give bonus points for transactions and insurance coverage for the products purchased through credit card as well as to the cardholders. The cardholder can also use his/her card to withdraw cash from ATMs.



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#### INTEXT QUESTIONS 4.4

1. Mention the benefits of ATM for the customers of the bank.
2. Identify the following in e-banking transactions.
  - (a) A card that allows the holder to spend money without having any balance in his/her deposit account.

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- (b) A machine using which we can withdraw money from our deposit accounts at our convenience.
- (c) A system that allows the account holder to avail the banking facility over telephone.
- (d) A convenient way of accessing the account anytime, anywhere and any number of times.

**4.9.2 e-Ticketing**

Purchasing tickets has become so easy now that you can make railway reservations while sitting at home or even while you are on the move. If you have access to Internet you can have all the details of railway information and accordingly you can book a ticket. You have to make payment through credit cards/debit cards for on-line booking of tickets. You can also buy air tickets through similar methods. Recently, with private sector entry in aviation sector, the competition has increased and bidding of air tickets through Internet has started. The highest bidder avails the opportunity of travelling at a rate much lower than the original price. The e-Ticketing service is also available through mobile phones.

**4.9.3 e-Advertising**

Internet advertising has revolutionised marketing strategies. Unlike the print and television media where all advertisements are stacked together, the viewer has the choice either to view it or ignore them. Where as in the net-world the surfer will only click on the advertisement of his/her choice. He may select advertisements of his own interest. E-Advertising is still in its infancy stage and covers only a small portion of the advertising market.

**4.9.4 e-Trading at Stock Exchanges**

On line trading started with the establishment of OTCEI. Now the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) have also completely switched over to on-line trading to which most stock-brokers have access through internet. It is also taking off among small investors and traders in stock and shares. Internet makes available to them up-to-the-minute information which, until recently, had only been available to financial institutions. The use of on-line brokerage services automates the process of buying and selling. This allows reduction in brokerage charges, makes trading transparent as they can access the information on market prices on-line, and the investor is able to deal at a price viewed immediately. The transfer of ownership of stocks and shares can also be recorded electronically in investor's Demat accounts thereby avoiding the need for physical delivery. This has also made it possible to have rolling settlement and reduce the settlement period to just 2 days.

### 4.9.5 Computerisation of Mail Transmission and Processing

As a part of modernisation programme, computerisation of the registration and sorting work has been done in a large number of post offices in India. To cut down the transmission time for sending money order across the country, money orders are now transmitted through VSAT satellite networks which has resulted in faster delivery of money order to the customers. New policy for Voice mail/Audio fax services was announced in July 2001 by incorporating a new service known as Unified Message Service (UMS), a system by which voice message, mails, fax and e-mail can be received from one mail box using telephone instrument, fax machines, mobile phones, internet browsers, etc.



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### 4.9.6 e-Post

You know about e-mail which is the fastest means of communication. To send and receive any information through e-mail, we need to have a computer with Internet connectivity and the e-mail account of the sender and receiver. However, this technology has not yet reached the rural and other remote areas of our country. To bridge this gap and extend the benefit of the e-mail facility to the people of rural India, the Department of Post has introduced e-Post facility. It enables people to send and receive e-mail at the post offices.

e-Post is a service under which printed or even handwritten messages are transmitted as email on internet. At the destination post offices, these messages are printed, enveloped and delivered through the postman like other letters. For this purpose, e-Post centres have been set up in the post offices in all districts and major towns. The post offices where this facility is not available can receive the e-Post message from the customers and forward the same to the nearest e-Post centre for despatch. Similarly e-Post messages received for areas beyond the delivery jurisdiction are printed and sent to concerned post office for delivery. Besides availing e-Post services through post office it can also be accessed from a customer's house or office or from any other places if he has Internet access. The customer can make payment through a prepaid card that is available in the head post office and other outlets. The customer has to register as a user and access the service at the e-Post portal <http://indiapost.nic.in>. The present tariff for sending the message in A4 size page is Rs.10 per addressee.

### 4.9.7 Resources Required for Successful E-business Implementation

Following resources are required for successful e-business implementation :

1. **A Website :** A business must develop a website to effectively communicate with its customers. Detailed information of the enterprise should be provided on the website. Necessary pictures should also be posted on the website.

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2. **Technically Qualified Workforce :** E-business can be successful only with a well trained workforce. The workers should be capable to handle easily the new trends in computers. Sales Department staff should be trained to handle sales inquiries, processing orders and ensuring prompt delivery.
3. **Adequate Computer :** The business enterprise must own computers with adequate speed and memory to handle the expected volume of business. Business concerns must have the necessary Internet Service Provider (ISP) and Application Service Provider (ASP), Server and Portals, and e-mail facilities.
4. **Effective Telecommunication System :** Good telephone lines with high quality voice calls must be there to make e-business effective. Business firms will be badly affected if the telephone lines get disconnected frequently.
5. **Payment Mechanism :** Adequate information must be provided on the website so that customers will have idea of the exact amount to be paid. If extra amount is received, inbuilt systems should be created to refund the extra money received. Business concerns must make arrangements with banks and credit card agencies to enable electronic receipts and payments of money.

### 4.9.8 Payment Mechanism of Online Transactions

1. **Finding the Seller :** Buyer will go through the website of the seller. Online shopping buyer has to register with online seller by filling up a registration form. Registration means buyer will create an 'account' with online seller by providing a 'password'.
2. **Selection of Products :** Buyer selects the products after comparing prices and quality offered by other sellers.
3. **Placing an Order :** While browsing the website, the buyer drop the items selected in his shopping cart. Shopping cart is an online record of the items picked up by the buyer while browsing the website.
4. **Payment Mechanism :** Payment for the purchases through online shopping may be done in any of the following ways :
  - a) **Cash on Delivery (COD) :** The payment for goods ordered online may be made in cash at the time of physical delivery of goods.
  - b) **Cheque :** The buyer may send a cheque to the online vendor. The delivery of goods are made upon the realisation of cheque.
  - c) **Net-banking transfer :** Buyer may transfer the amount for the agreed price of the transaction to the account of the on-line vendor.
  - d) **Credit/Debit Card :** In case of Credit Card, the buyer can make purchases on credit. Issuing bank transfers the amount involved in the transaction to the credit of the seller and debit the buyer's account.

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The debit card allows purchases up to the specified amount that is Buying in his account. (available balance)

- e) **Digital Cash** : This is a form of electronic currency that exists in cyber space. In favour of the customer the bank issues digital cash for the amount he paid. Bank will supply a special software that will allow the customer to draw digital cash from his account. Digital cash is used for purchases over the web.

5. **Delivery** : The product is given to the buyer after receiving the payment.

### 4.9.9 Security and Safety of e-transaction : e-business Risks

Risks are involved in online transactions. There can be financial, reputational or physiological losses to the parties in online transactions. Various types of e-business risks are:

1. **Transaction Risks** : Transaction risks can be of the following types :
  - a) **Default on order giving/taking** : Seller denies that the order was placed or customer denies that he ever placed the order.
  - b) **Default on delivery** : The intended delivery does not take place; goods are delivered at wrong address or goods other than ordered may be delivered.
  - c) **Default on payment** : The customer claims that the payment was made and the seller does not receive the payment of the goods supplied.

To avoid the above defaults, following measures can be used :

- i. The identity and location of the customer may be verified at the time of registration.
  - ii. Seller can verify the 'cookies' to confirm whether the customer has correctly entered his details in the registration form. Cookies are like caller ID in Telephones that provide important information about customers to the telemarketers.
  - iii. Customers must shop from well established shopping sites.
2. **Data Storage and Transmission Risk** : People may steal/distort the data for selfish motives/for fun. VIRUS (Vital Information Under Siege) and Hacking are the methods used for distorting data. Antivirus programmes should be installed from time to time. Cryptography is used to prevent interception of data in the course of transmission. Cryptography is the act of protecting information by transforming into an unreadable format called 'hyper text'. Only those who possess a secret key can decipher the message into 'plain text'.

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3. **Risks to Intellectual Property and Privacy** : Anyone can copy the data available in the internet and supply it to others. **Junk materials formed** as a result of dumping advertisement materials can be a great problem.



### INTEXT QUESTIONS 4.5

1. What is meant by e-Post?
2. Identify the linkage of the following terms in different e-Commerce applications.
  - (a) Demat Account
  - (b) Unified Message Service
  - (c) Getting e-mail facility without direct access to Internet.
  - (d) On-line booking of air ticket.

## 4.10 OUTSOURCING OF SERVICES

Another important trend in business, of late, has been ‘outsourcing’ of some of its activities i.e., use of outside sources to perform activities traditionally handled by internal staff and resources. For example, most companies have so far had their own staff for cleaning and security activities in their organisations. But, of late many companies have started entrusting these tasks to outside agencies on contractual basis. Infact, outsourcing is a management strategy by which an organisation contracts out its major non-core functions to specialised service providers with a view to benefit from their expertise, efficiency and cost effectiveness, and allow managers to concentrate on their core activities. The Information Technology (IT) is one area in which this approach is growing fast, and in recent years, outsourcing the operation of IT systems has been supplemented by a move to outsourcing the whole business processes such as payroll processing, cheque processing, etc. This is known as BPO (Business Process Outsourcing). It may be noted that Indian IT-BPO sector, both in domestic business and exports, has registered a growth of 28% in 2006-07 and revenues have exceeded \$ 48 billion, nearly 10 fold increase over the aggregate revenue in 1998.

### Need for BPO

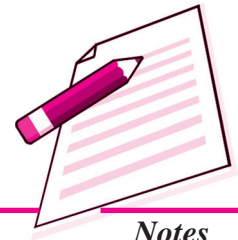
1. Improvement in productivity.
2. Reduction in cost.
3. Opportunity to focus on core business.
4. Updation of technology.
5. Stimulates entrepreneurship, employment and export.



**4.10.1 Features of Outsourcing of Services**

The basic features of outsourcing of services are:

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



*Notes*

**4.10.2 Merits of Outsourcing of Services**

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

**4.10.3 Limitations of Outsourcing of Services**

- (a) It may be opposed by labour unions who feel threatened by possible reduction in their strength and prospects.
- (b) It reduces confidentiality as outsourcing involves sharing a lot of information with others. This implies a possibility of its communication to the competitors by such persons.

## MODULE - 1

### Business Around Us



#### Notes

## Modern Modes of Business

- (c) Globalised outsourcing at times causes resentment in the manpower of the home countries who feel threatened by increased competition.
- (d) The organisation hiring others may face the problem of loss of managerial control because it is more difficult to manage outside service providers than managing one's own employees. Not only that, it may also lead to decrease or total loss of in-house expertise and the organisation becomes partially or totally dependent on the service provider.

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

### 4.10.4 Knowledge Process Outsourcing (KPO)

KPO means outsourcing services that require expertise of a higher order. i.e. high end Knowledge Work is done by an outside organisation. KPO is mainly done to improve the efficiency and quality and to reduce costs of doing business. KPO requires professional with right skills, attitude and experience.

#### Distinction between BPO and KPO

<i>BPO</i>	<i>KPO</i>
1. Repeatable processes	1. Non repeatable process.
2. Quick learning is needed	2. Need regular learning process.
3. Large number of workers.	3. Smaller work force.
4. Comparatively less experts	4. Specialists/experts
5. Predetermined way to solve problem	5. No pre-determined way to solve problem.



### INTEXT QUESTIONS 4.6

1. Define the term 'Outsourcing of services'.
2. Identify the merits and limitations of Outsourcing of Services.
  - (a) It facilitates inter-organisational knowledge sharing and collaborative learning.
  - (b) It reduces confidentiality of information.
  - (c) It helps in concentrating on the core competency of the organisation.
  - (d) The management finds it difficult to handle the outside staff.

## Modern Modes of Business

(e) It provides expert and specialised service at competitive prices.

### 3. Multiple Choice Questions :

- i. Name the act of protecting information by transforming into an unreadable format.
  - a) VIRUS
  - b) Hacking
  - c) Cryptography
  - d) None of the above
- ii. In online buying the buyer drops the items selected in a \_\_\_\_\_.
  - a) Shopping cart
  - b) Shopping box
  - c) Net card
  - d) None of the above
- iii. Plastic Card is the popular name for
  - a) Debit/Credit card
  - b) Cheque
  - c) Digital Cash
  - d) None of the above

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*Business Around Us*



*Notes*



### WHAT YOU HAVE LEARNT

- To buy goods and services we normally visit the nearby market. But, virtual market mode facilitates the transactions of purchase and sale without actually visiting the real market. This has been made possible through introduction of information technology.
- The Internet is a worldwide system of computer network through which the users at any computer can access the information from any other computer. It helps the users to browse information on any topic, read the newspaper, exchange messages using e-mail, chatting, search the catalogues of goods and services and purchase items on-line and so on.
- e-Commerce refers to the process of conducting business with the help of electronic devices using the computer and interconnected telecommunication network. Here, offer for sale and its acceptance are made electronically through Internet. It is also known as 'on-line trading', 'on-line shopping' and 'e-shopping'. e-Commerce takes place between companies i.e., business to business (B2B), between companies and their customers (B2C), and customer to customer (C2C).
- e-Business covers not only the interaction with its customers and suppliers but also interactions and dealings among various departments and persons within the firm. e-Business includes not only B2B, B2C, and C2C but also Intra-B Commerce i.e., interaction and dealings among various departments and persons within the firm.

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### Business Around Us



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## Modern Modes of Business

- Benefits of e-Commerce/e-Business:
 

(a) Wider Accessibility	(b) Improved Customers Service
(c) Shortened Transaction Time	(d) Cost Saving and Low Prices
(e) Enlarge Business and Profits	(f) Convenience to Customers
- Limitations of e-Commerce/e-Business:
  - (a) It lacks personal touch with customers
  - (b) The customer cannot actually see, feel or try on the goods he/she is buying.
  - (c) The physical delivery of goods often takes long time.
  - (d) Return of faulty goods bought on-line may often be more problematic and a time consuming exercise.
  - (e) Shopping through Internet is not the same experience as a shopping expedition with family or friends.
  - (f) Online transactions are prone to a number of risks that can result into financial, reputational or psychological losses to the parties involved in a transaction.
- **The Transaction Process**


```

graph LR
  A([Search]) --> B([Order])
  B --> C([Payment])
  C --> D([Delivery])
  D --> E([After Sales Services])
  
```
- **Precautions for Security**
  - (a) Protected by Passwords
  - (b) Off-line Authentication
  - (c) Encryption, which refers to the conversion of data into a code so that it cannot be read by other users.
  - (d) Use of digital signatures to authenticate the sender of the message
  - (e) Copy of the transaction may be forwarded to a trusted third party.
- Applications of e-Commerce
 

(a) e-Banking	(b) e-ticketing	(c) e-Advertising
(d) e-Trading	(e) e-Post	
- Outsourcing is a management strategy by which an organisation contracts out its major non-core functions to specialised service providers with a view to benefit from their expertise, efficiency and cost effectiveness, and allow managers to concentrate on their core activities.

## Modern Modes of Business

- E-business requires a website, technically qualified workforce, computer and effective telecommunication system.
- Before performing online buying, customer must find the seller, select the product and place an order.
- Payment in online shopping can be through COD, Cheque, Net banking transfer, Credit/debit card, Digital Cash etc.
- Scope for BPO are productivity improvement, cost reduction, focus on core business technology upgradation and stimulation of entrepreneurship.
- KPO means outsourcing services that require expertise of a higher order.



### KEY TERMS

ATM	e-Business	Internet
Business Process Outsourcing	e-Commerce	Internet Banking
Credit Card	e-Post	Mobile Banking
Debit Card	e-Ticketing	Telebanking
e-Banking	e-Trading	



### TERMINAL EXERCISE

#### *Very Short Answer Type Questions*

1. Define the term 'e-commerce'.
2. State any two precautions one should take while making on-line transactions.
3. Mention any two advantages of outsourcing of services.
4. What is meant by 'Internet banking'?
5. Give the meaning of 'B2C e-commerce'.
6. Give the full form of the BPO and KPO.
7. Name the electronic currency that exists in cyberspace.

#### *Short Answer Type Questions*

8. State any four uses of Internet in our daily life.
9. Distinguish between 'e-Business' and 'e-Commerce'.

## MODULE - 1

### *Business Around Us*



*Notes*

**MODULE - 1***Business Around Us**Notes***Modern Modes of Business**

10. Mention any four limitations of 'e-Commerce'.
11. Distinguish between 'Debit Card' and 'Credit Card'.
12. Explain the usefulness of 'e-Post' facility for the general public.
13. State any two requirements for successful implementation of e-business.
14. What is meant by Knowledge Process Outsourcing?

**Long Answer Type Questions**

15. Explain the merits of 'e-Commerce'.
16. Describe the transaction process of 'e-Commerce'.
17. Explain any four new trends of banking services under the e-Banking mode.
18. What is meant by outsourcing of services? Explain its features.
19. State the meaning of 'e-Banking'. Explain any two modes of e-Banking.
20. Distinguish between BPO and KPO.
21. How can security of e-business transactions be ensured?
22. Explain the step involved in the payment mechanism of online transactions?
- 23. You are interested to give a new mobile phone to your mother as a gift on mother's day. One of your friend told you that you can get it quite cheaper through online shopping, for which you have no experience. But you decide to try at least once. Explain the steps you will follow to get the mobile phone for your mother through online shopping.**
- 24. Your father is a businessman having a business of digital watches. He heard a lot about e-business from his friends, newspapers & magazines. Now he is equally interested in entering in the field of business as he want to enter into new markets which were far off from his reach. As a student of class XII, he discussed the matter with you. Explain him the various resources required for the successful implementation of e-business.**

**ANSWERS TO INTEXT QUESTIONS**

- 4.1**
1. Internet is a worldwide system of computer network through which the users at any computer can access the information from other computers.
  2. www: World Wide Web                      B2B: Business to Business  
B2C: Business to Customer                C2C: Consumer to Consumer

## Modern Modes of Business

- 4.2** 1. Intra-B Commerce refers to interaction and dealings among various departments and persons within the firm with the help of computer and interconnected telecommunication network.
2. (a) Lack of adequate infrastructure  
(b) Delivery and payment related problems  
(c) Absence of cyber laws
3. Merits: (b), (c), (d)                      Limitations: (a), (e)
- 4.3** 1. (a) Credit card              (b) Debit card    (c) Store's value card    (d) Cheque  
2. (d), (a), (c), (b), (e)
- 4.4** 1. (a) withdrawals and deposits of money              (b) Balance inquiry  
(c) Mini-statement of transactions
2. (a) Credit card              (b) ATM    (c) Telebanking    (d) Internet banking
- 4.5** 1. e-post is a service offered by post office through which printed or hand written messages are transmitted as e-mail on internet.
2. (a) e-Trading at stock exchanges  
(b) Computerisation of mail transmission and Processing  
(c) e-Post                                      (d) e-Ticketing
- 4.6** 1. Outsourcing of services is a management strategy by which an organization contracts out its major non-core functions to outside specialised service providers.
2. Merits: (a), (c), (e)                                      Limitations: (b), (d)
3. (i) c    (ii) a    (iii) a



### DO AND LEARN

You are required to visit the nearby post offices and banks and find out the various services that are being rendered electronically or through the use of computers. Make a list of those services and their features.

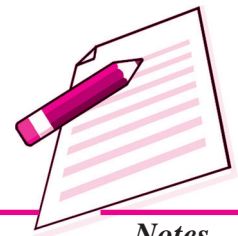


### ROLE PLAY

1. Mr. A. Reddy is a 70 year old man and was hurriedly going through the daily chores and getting ready. His grandson Satish, who works as an officer in SBI, was silently observing his activities.
- A. Reddy :    Satish, please find out if my breakfast is ready?

## MODULE - 1

### Business Around Us



*Notes*



## MODULE - 1

### Business Around Us



#### Notes

### Modern Modes of Business

Satish : Okay, grandpa. But, where are you going so early? I find you in a great hurry!

A. Reddy : I have a lot of work to do today that may take the whole day. First, I have to book the train ticket for Mumbai, as I have planned to visit my brother. Thereafter I have to go to the bank to withdraw Rs.10, 000. Then, I have to go to the Post Office to send money order to my sister who is at Vellore. You see, I have to perform to so many activities today.

Satish : Oh! now I understand why you are so worried.

A. Reddy : You know that there are long queues for tickets at rail booking counters. It may take atleast two hours. There will be little time left for other things to do.

Satish : Grandpa! You are still living in your olden days. Things have drastically changed now. Haven't you heard about e-Ticketing and e-Banking?

A. Reddy : What? e-Banking and e-Ticketing?

Satish : Yes, grandpa. These are new modes of business transactions. You don't have to sweat in the long queue for tickets now and run the risk of carrying money.

(Satish explains each of these modes to his grandfather. Assume a role for you-self and the other for your friend and carry on the conversation between Satish and his grandfather).

2. Sonam a girl of 15 years of age once got an opportunity to visit the branch of a Bank along with her mother. Due to failure of server, her mother could not perform the transactions she wanted to perform. Now Sanam is curious to know the role of server in Banking activities. Her mother took her to the Bank manager.

Sonam : Good morning Sir, today I came to Bank with my mother for some work, but we came to know that server is down.

Manager : Good morning, Yes, today the server is not working for which I am extremely sorry for the inconvenience caused to you.

Sonam : No need to feel sorry sir, I just want to be know something more about the role of internet in Banking services.

Manager : Sure.

Please continue the discussion of Sonam & Bank Manager about the e-banking & various services provided by bank to general public through internet.

## Module - II

# BUSINESS ORGANISATIONS

**Marks 08**

**Hours 20**

Business can be done by an individual, a small group of persons or collectively by a large number of persons. Even the government also participates in running businesses. So on the basis of ownership different forms of business are found in our society. The formation and operation of all the businesses differ according to the ownership of the business. To acquaint the learners with business ownership and formation of different business organisations, this module has been designed.

**Lesson 5. Forms of Business Organisations**

**Lesson 6. Company Form of Business Organisation**

**Lesson 7. Public Sector Enterprises**

## Awards Won by NIOS



**Web Ratna Awards 2012 Platinum Icon under Outstanding Web Content** for Acknowledging exemplary initiatives/practices in the realm of e-Governance for dissemination of information & services instituted by Department of Information Technology, Ministry of Communications & IT (MC&IT) and National Informatic Centre (NIC), Government of India. The award has been conferred by Hon'ble Minister of Communications and Information Technology Shri Kapil Sibal on 10th December 2012 at Dr. D.S Kothari Auditorium, DRDO Bhawan, Dalhousie Road, New Delhi.

### TOI Social Impact Award 2012

NIOS has been selected as winner of the Social Impact Award 2012 instituted by Times of India in partnership with J P Morgan. The Award is given in the recognition of magnificent work done by an individual or groups or institutions making an impact in the society in various segment including Education. NIOS feels honoured to accept the award.



The award was conferred on 28th January 2013 at a function in presence of President of India and high level dignitaries.

### National Awards for the Empowerment of Persons with Disabilities, 2012



The NIOS received the National Award for the Empowerment of persons with disabilities, 2012 Instituted by Ministry Social Justice and Empowerment, Govt. of India. The NIOS got this award under the category of best accessible Website for making its website [www.nios.ac.in](http://www.nios.ac.in) completely accessible for person with disabilities. The website is bilingual in Hindi and English. It also has provisions of Screen Reader, increasing text size, colour contrast scheme etc. for disabled learners. This award was conferred by the Hon'ble President of India at Vigyan Bhawan, New Delhi on 6th February, 2013. Dr. S.S. Jena Chairman, NIOS received the award.

## 5

## FORMS OF BUSINESS ORGANISATION



*Notes*

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



### OBJECTIVES

*After studying this lesson, you will be able to:*

- explain the concept of business organisation;
- state the meaning and characteristics of Sole Proprietorship, Partnership, Joint Hindu Family Business and Cooperative Societies.
- identify the merits and limitations of these forms of business organisation; and
- describe the suitability of these forms of business organisation.

### 5.1 BUSINESS ORGANISATION

You have already learnt about the meaning of business and the various types of business activities like industry, trade, transport, banking, insurance etc. If you observe these business activities carefully, you will realise that whatever business activity one may take up, he has to bring together various resources like men, money, materials, machines, technology, etc. to carry out that activity successfully. Not only that these resources are to be put into action in a systematic manner to achieve the objectives of business.

**MODULE - 2***Business Organisations**Notes***Forms of Business Organisation**

Let us take the example of a rice mill. First, the owner will have to acquire a land, construct a building, buy machines and install them, employ labour to work, buy paddy and then process the paddy to produce rice that will be sold to the customers. Thus, to produce rice from paddy you need to assemble resources like land, building, machinery, labour etc., and put these resources together in action in a systematic way. Then only it becomes possible to produce rice and sell it to the customers, and earn profit.

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

**5.2 FORMS OF BUSINESS ORGANISATION**

Have you ever thought who brings the required capital, takes the responsibility of arranging other resources, puts them into action, and coordinates and controls the activities to earn the desired profits? If you look around, you will find that a small grocery shop is owned and run by a single individual who performs all these activities. But, in big businesses, it may not be possible for a single person to perform all these activities. So in such cases two or more persons join hands to finance and manage the business properly and share its profit as per their agreement. Thus, business organisations may be owned and managed by a single individual or group of individuals who may form a partnership firm or a joint stock company. Such arrangement of ownership and management is termed as a form of business organisation. A business organisation usually takes the following forms in India:

- (1) Sole proprietorship
- (2) Partnership
- (3) Joint Hindu Family
- (4) Cooperative Society
- (5) Joint Stock Company

Let us now learn in detail the exact nature of these forms of business organisation, excluding Joint Stock Company which will be taken up in the next lesson.

**5.3 SOLE PROPRIETORSHIP**

Gopal runs a grocery shop in the local market. He buys goods from the wholesale market and sells it to the customers as per their requirement. By doing so he earns some profit. He had started his business two years ago by investing Rs. 1 lakh, which he had borrowed from his friend. Today, he is running his business successfully, earning a good profit, and has been able to pay back the borrowed money. He has also employed two persons to help him in the shop. Gopal says, he is the owner of a sole proprietor concern.

## Forms of Business Organisation

## MODULE - 2

### Business Organisations

### Do you agree?

Before giving answer to this question, let us first know the exact nature of 'sole proprietorship'.

The term 'sole' means single and 'proprietorship' means 'ownership'. So, only one person is the owner of the business organisation. This means, that a form of business organisation in which a single individual owns and manages the business, takes the profits and bears the losses, is known as sole proprietorship form of business organisation.

Gopal is doing exactly the same thing. So, you can say that Gopal is running a sole proprietorship business, and is known as a sole proprietor or a sole trader.

You must have seen many more such business organisations in and around your locality. Could you now make a list of such concerns engaged in different types of businesses?

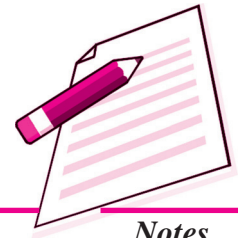
1. Supreme Drycleaners

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_



*Notes*

### Definition of Sole Proprietorship

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

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

Now you can work out certain characteristics of sole proprietorship form of business organisation.

#### 5.3.1 Characteristics of Sole Proprietorship Form of Business Organisation

- (a) **Single Ownership** : The sole proprietorship form of business organisation has a single owner who himself/herself starts the business by bringing together all the resources.
- (b) **No Separation of Ownership and Management** : The owner himself/herself manages the business as per his/her own skill and intelligence. There is no separation of ownership and management as the case with company form of business organisation.



## MODULE - 2

### Business Organisations



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### Forms of Business Organisation

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

*Gopal is happy in running his business in sole proprietorship form because he enjoys many benefits in doing this business. At the same time, he also comes across many difficulties. Would you like to know the merits and limitations of this form of business organisation? Let us discuss.*

#### 5.3.2 Merits of Sole Proprietorship Form of Business Organisation

- (a) **Easy to Form and Wind Up:** It is very easy and simple to form a sole proprietorship form of business organisation. No legal formalities are required to be observed. Similarly, the business can be wound up any time if the proprietor so decides.
- (b) **Quick Decision and Prompt Action:** As stated earlier, nobody interferes in the affairs of the sole proprietary organisation. So he/she can take quick decisions on the various issues relating to business and accordingly prompt action can be taken.
- (c) **Direct Motivation:** In sole proprietorship form of business organisations, the entire profit of the business goes to the owner. This motivates the proprietor to work hard and run the business efficiently.
- (d) **Flexibility in Operation:** It is very easy to effect changes as per the requirements of the business. The expansion or curtailment of business activities does not require many formalities as in the case of other forms of business organisation.



- (e) **Maintenance of Business Secrets:** The business secrets are known only to the proprietor. He is not required to disclose any information to others unless and until he himself so decides. He is also not bound to publish his business accounts.
- (f) **Personal Touch:** Since the proprietor himself handles everything relating to business, it is easy to maintain a good personal contact with the customers and employees. By knowing the likes, dislikes and tastes of the customers, the proprietor can adjust his operations accordingly. Similarly, as the employees are few and work directly under the proprietor, it helps in maintaining a harmonious relationship with them, and run the business smoothly.



*Notes*

After knowing the various merits of sole proprietorship form of business organisation let us discuss its limitations.

### 5.3.3 Limitations of Sole Proprietorship Form of Business Organisation

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

**MODULE - 2***Business Organisations***Notes****Forms of Business Organisation**

*Now you must have a clear idea about Gopal's business and its merits and limitations. Take the example of any other sole proprietorship form of business organisation of your locality analyse its activities and try to find out whether the points discussed above are applicable to it or not. Application of book knowledge in real life situations will definitely help you to comprehend and remember the facts about sole proprietorship form of business organisation in a better way.*

**5.3.4 Suitability of Sole Proprietorship form of Business Organisation**

You learnt about the meaning, characteristics, merits and limitations of sole proprietorship form of business organisations. After such a detailed study, it should now be easier for you to identify areas in which sole proprietorship form of business organisation is most suitable. To assist you in such exercise, it can be stated that the sole proprietorship is suitable where the market is limited, localised and the customers give importance to personal attention. It is also considered suitable where the capital requirement is small and risk involved is limited. It is also considered suitable for the production of goods which involve manual skill e.g., handicrafts, filigree work, jewelry, tailoring, haircutting etc.

*Move around your locality and make a list of different types of business being run by sole proprietors and then categorise them under the above points.*

**INTEXT QUESTIONS 5.1**

1. Define 'Sole Proprietorship' in your own words.
2. Below are given the merits and limitations of sole proprietorship form of business organisation. Write 'M' against Merits and 'L' against Limitations in the space provided against each.
  - (a) A sole proprietorship business is easy to form.
  - (b) A sole proprietor is personally liable for all the liabilities of the business.
  - (c) A sole proprietor has a limited capacity to raise funds for his business.
  - (d) A sole proprietor can maintain secrecy about the affairs of his business.
  - (e) A sole proprietor maintains good personal contact with the customers.

## Forms of Business Organisation

3. Match the following with reference to sole proprietorship business.

### Column - A

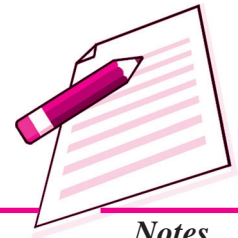
- (a) Liability
- (b) Formation
- (c) Resource
- (d) Decision making
- (e) Legal formalities

### Column - B

- (i) Easy
- (ii) minimum
- (iii) prompt
- (iv) Unlimited
- (v) Limited

## MODULE - 2

### Business Organisations



Notes

## 5.4 PARTNERSHIP

*A textile factory is going to be started in the nearby area where Gopal is carrying on his business. As a businessman, he is now in a jubilant mood. He is thinking that once the textile factory is set up, he will get more customers; the sales will increase and he will earn more profit. But, for all these, he will have to expand his business, and for this he needs more money.*

*The major problem is how to arrange the additional funds. He has the option of getting loans from the banks. But the fear of loss comes to his mind again and again. He does not want to take that risk. Another option is that he may join hands with some other person. By doing so, more resources can be raised, work can be shared, and business can be run in a better way. The risk of loss will also be shared. But this involves a new form of business organisation known as **Partnership** organisation. Gopal has to gain clarity on the exact nature of this form of business organisation, its pros and cons before he goes in for it.*

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

Let’s assume that Gopal joins hand with Rahim to start a big grocery shop. Here both Gopal and Rahim are called partners who are running the partnership firm jointly. Both of them will pool their resources and carry on business by applying their expertise. They will share the profits and losses in the agreed ratio. In fact, for all terms and conditions of their working, they have to sit together to decide about all aspects. There must be an agreement between them. The agreement may be in oral, written or implied. When the agreement is in writing it is termed as partnership deed. However, in the absence of an agreement, the provisions of the Indian Partnership Act 1932 shall apply.

## MODULE - 2

### Business Organisations



#### Notes

As per Indian Companies Act 1913 there can be 50 partners in partnership firm.

## Forms of Business Organisation

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

### 5.4.1 Characteristics of Partnership form of Business Organisation

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

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

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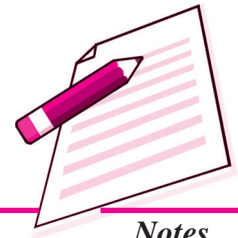
- (ii) In case of any dispute among the partners, it is not possible to settle the dispute through court of law.
- (iii) The firm cannot claim adjustments for amount payable to, or receivable from, any other parties.

### 5.4.2 Merits of Partnership Form of Business Organisation

- (a) **Easy to Form :** A partnership can be formed easily without many legal formalities. Since it is not compulsory to get the firm registered, a simple agreement, either in oral, writing or implied is sufficient to create a partnership firm.
- (b) **Availability of Larger Resources :** Since two or more partners join hands to start partnership firm it may be possible to pool more resources as compared to sole proprietorship form of business organisation.
- (c) **Better Decisions :** In partnership firm each partner has a right to take part in the management of the business. All major decisions are taken in consultation with and with the consent of all partners. Thus, collective wisdom prevails and there is less scope for reckless and hasty decisions.
- (d) **Flexibility :** The partnership firm is a flexible organisation. At any time the partners can decide to change the size or nature of business or area of its operation after taking the necessary consent of all the partners.
- (e) **Sharing of Risks :** The losses of the firm are shared by all the partners equally or as per the agreed ratio.
- (f) **Keen Interest :** Since partners share the profit and bear the losses, they take keen interest in the affairs of the business.
- (g) **Benefits of Specialisation :** All partners actively participate in the business as per their specialisation and knowledge. In a partnership firm providing legal consultancy to people, one partner may deal with civil cases, one in criminal cases, another in labour cases and so on as per their area of specialisation. Similarly two or more doctors of different specialisation may start a clinic in partnership.
- (h) **Protection of Interest :** In partnership form of business organisation, the rights of each partner and his/her interests are fully protected. If a partner is dissatisfied with any decision, he can ask for dissolution of the firm or can withdraw from the partnership.
- (i) **Secrecy :** Business secrets of the firm are only known to the partners. It is not required to disclose any information to the outsiders. It is also not mandatory to publish the annual accounts of the firm.

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*Having learnt about the nature and merits of the partnership form of business organisation, now Gopal has decided to expand his business by starting a partnership form of business. One day, in a happy mood, he met Rahim (who also runs a grocery shop in the same locality) and explained to him about the concept, characteristics and merits of partnership form of business organisation. Rahim heard Gopal very carefully and asked Gopal about the limitations (if any) of this form of business organisation. Gopal had no idea about any limitations. Let him now have an idea about the limitations of partnership form of business organisation.*

### 5.4.3 Limitations of Partnership Form of Business Organisation

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

- (a) **Unlimited Liability :** The most important drawback of partnership firm is that the liability of the partners is unlimited i.e., the partners are personally liable for the debt and obligations of the firm. In other words, their personal property can also be utilised for payment of firm's liabilities.
- (b) **Instability :** Every partnership firm has uncertain life. The death, insolvency, incapacity or the retirement of any partner brings the firm to an end. Not only that any dissenting partner can give notice at any time for dissolution of partnership.
- (c) **Limited Capital :** Since the total number of partners cannot exceed 20, the capacity to raise funds remains limited as compared to a joint stock company where there is no limit on the number of share holders.
- (d) **Non-transferability of share :** The share of interest of any partner cannot be transferred to other partners or to the outsiders. So it creates inconvenience for the partner who wants to transfer his share to others fully or partly. The only alternative is dissolution of the firm.
- (e) **Possibility of Conflicts :** You know that in partnership firm every partner has an equal right to participate in the management. Also every partner can place his or her opinion or viewpoint before the management regarding any matter at any time. Because of this, sometimes there is friction and quarrel among the partners. Difference of opinion may give rise to quarrels and lead to dissolution of the firm.

### 5.4.4 Types of Partners and Partnership

#### Types of Partners

You have learnt that normally every partner in a firm contributes to its capital, participates in the day-to-day management of firm's activities, and shares its profits and losses in the agreed ratio. In other words all partners are supposed to be active partners. However,



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in certain cases there are partners who play a limited role. They may contribute capital and such partners cannot be termed as active partners. Similarly, some persons may simply lend their name to the firm and make no contribution to capital of the firm. Such persons are partners only in name. Thus, depending upon the extent of participation and the sharing of profits, liability etc., partners can be classified into various categories. These are summarised as under.

- (A) **Based on the extent of participation** in the day-to-day management of the firm partners can be classified as ‘Active Partners’ and ‘Sleeping Partners’. The partners who actively participate in the day-to-day operations of the business are known as active partners or working partners. Those partners who do not participate in the day-to-day activities of the business are known as sleeping or dormant partners. Such partners simply contribute capital and share the profits and losses.
- (B) **Based on sharing of profits**, the partners may be classified as ‘Nominal Partners’ and ‘Partners in Profits’. Nominal partners allow the firm to use their name as partner. They neither invest any capital nor participate in the day-to-day operations. They are not entitled to share the profits of the firm. However, they are liable to third parties for all the acts of the firm. A person who shares the profits of the business without being liable for the losses is known as partner in profits. This is applicable only to the minors who are admitted to the benefits of the firm and their liability is limited to their capital contribution.
- (C) **Based on Liability**, the partners can be classified as ‘Limited Partners’ and ‘General Partners’. The liability of limited partners is limited to the extent of their capital contribution. This type of partners is found in Limited Partnership firms in some European countries and USA. The partners having unlimited liability are called as general partners or Partners with unlimited liability. It may be noted that every partner who is not a limited partner is treated as a general partner.
- (D) **Based on the behaviour and conduct exhibited**, there are two more types of partners besides the ones discussed above. These are (a) Partner by Estoppel; and (b) Partner by Holding out. A person who behaves in the public in such a way as to give an impression that he/she is a partner of the firm, is called ‘partner by estoppel’. Such partners are not entitled to share the profits of the firm, but are fully liable if some body suffers because of his/her false representation. Similarly, if a partner or partnership firm declares that a particular person is a partner of their firm, and such a person does not disclaim it, then he/she is known as ‘Partner by Holding out’. Such partners are not entitled to profits but are fully liable as regards the firm’s debts.

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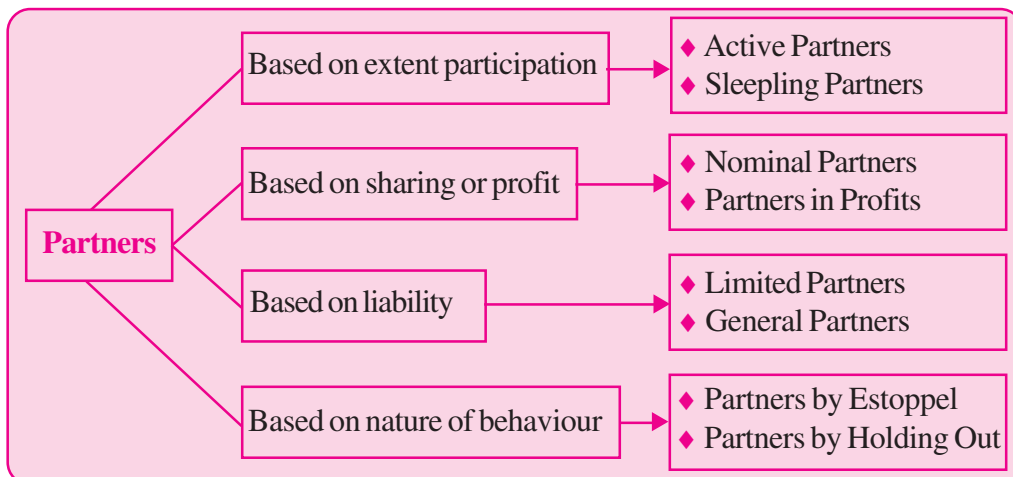
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### Types of Partnership

Partnership can be categorised as under :

- General and Limited Partnership :** In the general partnership, the liability of the partners is unlimited, whereas limited partnership has two types of partners : General Partner and Special Partner. Liability of general partner is unlimited whereas liability of special partner is limited. There should be at least one general partner in the limited partnership.
- Partnership at Will and Particular Partnership :** Partnership at will can be formed to run the business for an indefinite period, while particular partnership can be formed for some specific purpose and it ends with the attainment of pre-determined specific purpose.
- Legal and Illegal Partnership :** Although it is not essential to get the partnership registered under Indian Partnership Act, 1932 in order to bring it into existence, yet the partnership organisations have to work in accordance with the provisions of the Act. Those partnerships which work according to the provisions of the Act are considered as legal and are called legal partnerships.

On the contrary, partnership becomes illegal or non-statutory in the following conditions:

- If the purpose of the establishment of partnership is illegal.
- If the business of partnership is against public policy.
- If the number of partners reduces to one or exceeds the maximum limit.
- If there is any partner from an enemy country.

*One of Gopal's friends Rahul comes to his shop and sits there for hours together. In Gopal's absence, he attends to the customers and deals with his suppliers. Under the impression that Rahul is a partner (although he is not), a supplier finalised a deal which Gopal does not accept. In the process, the supplier suffers some loss. Can he claim the compensation from Rahul? What type of partner Rahul is?*



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### 5.4.5 Suitability of Partnership form of Business Organisation

We have already learnt that persons having different ability, skill or expertise can join hands to form a partnership firm to carry on the business. Business activities like construction, providing legal services, medical services etc. can be successfully run under this form of business organisation. It is also considered suitable where capital requirement is of a medium size. Thus, business like a wholesale trade, professional services, mercantile houses and small manufacturing units can be successfully run by partnership firms.

### 5.4.6 Partnership Deed

There must be an agreement among the partners to carry on the business and share the profits and losses. This agreement must preferably be in writing and duly signed by all the partners. The agreement, i.e., the partnership deed must contain the following:

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

The partners should get their firm registered with the Registrar of Firms of the concerned state. Although registration is not compulsory, but to avoid the consequences of non-

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registration, it is advisable to get it registered when it is setup or at any time during its existence. The procedure for registration of a firm is as follows.

- (i) The firm will have to apply to the Registrar of Firms of the concerned state in the prescribed form.
- (ii) The duly filled in form must be signed by all the partners.
- (iii) The filled in form along with prescribed registration fee must be deposited in the office of the Registrar of Firms.
- (iv) The Registrar will scrutinise the application, and if he is satisfied that all formalities relating to registration have been duly complied with, he will put the name of the firm in his register and issue the Certificate of Registration.

*Gopal is now running the partnership firm along with Rahim as a partner. They are earning good profit and managing their business smoothly.*

*Gopal's father also runs a wholesale business in the same locality. That business was earlier being managed by Gopal's grand father. One-day Gopal's father revealed that Gopal and his younger brother and sister have an equal share in his wholesale business. It is a family business and Gopal can continue his own partnership business without losing his position in this family business. Gopal was confused. His father explained to him that under Hindu Law it is a Joint Hindu Family business. Let us know in detail about Joint Hindu Family form of business organisation.*



### INTEXT QUESTIONS 5.2

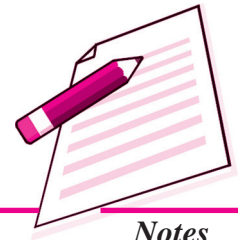
1. State the position of minors in relation to a partnership firm.
2. Following are the statements related to partnership form of business organisation. Rewrite the statement in correct form if found wrong.
  - (a) Maximum 20 partners can join in a partnership firm running banking business.
  - (b) Partnership Deed may be either oral or in writing.
  - (c) There is an employer-employee relationship among the partners.
  - (d) In a partnership firm Hari and Madhu contributed Rs. 10,000 each Madhu's liability would be limited to Rs. 10,000 in case of losses in firm's business.
  - (e) A person acquired interest in a partnership firm by virtue of his relationship with the existing partners.

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3. Identify the type of partners in the following situation:
- The liability of Sridhar, a 25 years old partner is limited to the extent of his capital contribution.
  - Madan has neither contributed any capital nor shares the profits of the firm though he is treated as a partner.
  - Sunita has been admitted to the benefits of the firm at the age of 15.
  - Sudhir had contributed to capital and shares the profit and loss of the firm. But he does not take part in the day-to-day activities.
  - A firm declares that Sachin is a partner of their firm. Knowing the declaration Sachin did not disclaim it.

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## 5.5 JOINT HINDU FAMILY FORM OF BUSINESS ORGANISATION

After knowing about sole proprietorship and partnership forms of business organisation let us now discuss about a unique form of business organisation that prevails only in India and that too among the Hindus. The Joint Hindu Family (JHF) business is a form of business organisation run by Hindu Undivided Family (HUF), where the family members of three successive generations own the business jointly. The head of the family known as Karta manages the business. The other members are called coparceners and all of them have equal ownership right over the properties of the business.

The membership of the JHF is acquired by virtue of birth in the same family. There is no restriction for minors to become the members of the business. As per Dayabhaga system of Hindu Law, both male and female members are the joint owners. But Mitakshara system of Hindu Law says only male members of the family can become the coparceners. While the Dayabhaga system is applicable to the state of West Bengal, Mitakshara system of Hindu Law is applicable to the rest of the country.

### 5.5.1 Characteristics of JHF form of Business Organisation

From the above discussion, it must have been clear to you that the Joint Hindu family business has certain special characteristics which are as follows:

- Formation :** In JHF business there must be at least two members in the family, and family should have some ancestral property. It is not created by an agreement but by operation of law.
- Legal Status :** The JHF business is a jointly owned business. It is governed by the Hindu Succession Act 1956.
- Membership :** In JHF business outsiders are not allowed to become the coparcener. Only the members of undivided family acquire co-parcenership rights by birth..

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- (d) **Profit Sharing :** All coparceners have equal share in the profits of the business.
- (e) **Management :** The business is managed by the senior most member of the family known as Karta. Other members do not have the right to participate in the management. The Karta has the authority to manage the business as per his own will and his ways of managing cannot be questioned. If the coparceners are not satisfied, the only remedy is to get the HUF status of the family dissolved by mutual agreement.
- (f) **Liability :** The liability of coparceners is limited to the extent of their share in the business. But the Karta has an unlimited liability. His personal property can also be utilised to meet the business liability.
- (g) **Continuity :** Death of any coparceners does not affect the continuity of business. Even on the death of the Karta, it continues to exist as the eldest of the coparceners takes position of Karta. However, JHF business can be dissolved either through mutual agreement or by partition suit in the court.

### 5.5.2 Merits of JHF form of Business Organisation

Since Joint Hindu Family business has certain peculiar features as discussed above, it has the following merits.

- (a) **Assured Shares in Profits :** Every coparcener is assured of an equal share in the profits irrespective of his participation in the running of the business. This safeguards the interest of minor, sick, physically and mentally challenged coparceners.
- (b) **Quick Decision :** The Karta enjoys full freedom in managing the business. It enables him to take quick decisions without any interference.
- (c) **Sharing of Knowledge and Experience :** A JHF business provides opportunity for the young members of the family to get the benefits of knowledge and experience of the elder members. It also helps in inculcating virtues like discipline, self-sacrifice, tolerance etc.
- (d) **Limited Liability of Members :** The liability of the coparceners except the Karta is limited to the extent of his share in the business. This enables the members to run the business freely just by following the instructions or direction of the Karta.
- (e) **Unlimited Liability of the Karta :** Because of the unlimited liability of the Karta, his personal properties are at stake in case the business fails to pay the creditors. This clause of JHF business makes the Karta has to manage business most carefully and efficiently.

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- (f) **Continued Existence :** The death or insolvency of any member does not affect the continuity of the business. So it can continue for a long period of time.
- (g) **Tax Benefits :** HUF is regarded as an independent assessee for tax purposes. The share of coparceners is not to be included in their individual income for tax purposes.

After knowing the merits let us see the limitations of Joint Hindu Family form of business organisation.

### 5.5.3 Limitation of JHF form of Business Organisation

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

### 5.5.4 Suitability of JHF form of Business Organisation

The Joint Hindu Family form of business organisation is suitable where the family inherits a running business and the members of the family want to continue that business jointly as a family business. Even otherwise, this form of business organisation is considered suitable for a business that requires limited financial and managerial resources and having a very limited area of operation. It is found that JHF are usually engaged in trading business, indigenous banking, small industry, and crafts etc.

### 5.5.5 Formation of JHF form of Business Organisation

A Joint Hindu Family business is formed as per the provision of Hindu law. It comes into existence on the death of the person who established the business. His successor automatically become the coparceners if they decide to continue it as a joint family business. The children become its members by birth. The senior most member of the family will become the Karta of the business. No legal formalities are required for its establishment. But it has to be registered with the Income tax department to avail the tax concessions involved.

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**MODULE - 2***Business Organisations***Forms of Business Organisation****INTEXT QUESTIONS 5.3***Notes*

1. Why should the liability of Karta be unlimited?
2. State whether it is a merit or a limitation of Joint Hindu Family business. Write 'M' for merit and 'L' for limitation in the box given against each statement.
  - (a) Young family member gains knowledge and experiences from other members.
  - (b) The death or insolvency of member does not affect the continuity of the business.
  - (c) The coparceners are not motivated to put their best efforts.
  - (d) The members get equal share in the profits irrespective of their participation.
  - (e) The Karta takes quick decision without any interference.
3. Distinguish between partnership and Joint Hindu Family business on the basis of membership.

**5.6 COOPERATIVE SOCIETY**

You have learnt about Sole Proprietorship and Partnership as different forms of business organisation. You must have noticed that while there are many differences among them in respect of their formation, operation, capital contribution and liabilities, there is one similarity that both are engaged in business to earn profit. However, there are certain organisations which undertake business activities with the prime objective of providing service to the members. Although they also earn some amount of profit, but their main intention is to look after some common interest of its members. They pool available resources from the members, utilise the same in the best possible manner and share the benefits. These organisations are known as Cooperative Societies. Let us learn in detail about this form of business organisation.

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

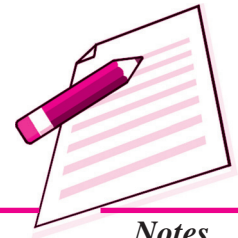
It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help and mutual help. The primary objective is to provide support to the members. People come forward as a group, pool their individual resources, utilise them in the best possible manner and derive some common benefits out of it.

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

### 5.6.1 Characteristics of Cooperative Society

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

- (a) **Voluntary Association :** Members join the cooperative society voluntarily i.e., by their own choice. Persons having common economic objective can join the society as and when they like, continue as long as they like and leave the society and when they want.
- (b) **Open Membership :** The membership is open to all those having a common economic interest. Any person can become a member irrespective of his/her caste, creed, religion, colour, sex etc.
- (c) **Number of Members :** A minimum of 10 members are required to form a cooperative society. In case of multi-state cooperative societies the minimum number of members should be 50 from each state in case the members are individuals. The Cooperative Society Act does not specify the maximum number of members for any cooperative society. However, after the formation of the society, the member may specify the maximum member of members.
- (d) **Registration of the Society :** In India, cooperative societies are registered under the Cooperative Societies Act 1912 or under the State Cooperative Societies Act. The Multi-state Cooperative Societies are registered under the Multi-state Cooperative Societies Act 2002. Once registered, the society becomes a separate legal entity and attain certain characteristics. These are as follows.
  - (i) The society enjoys perpetual succession
  - (ii) It has its own common seal
  - (iii) It can enter into agreements with others
  - (iv) It can sue others in a court of law
  - (v) It can own properties in its name
- (e) **State Control :** Since registration of cooperative societies is compulsory, every cooperative society comes under the control and supervision of the government. The cooperative department keeps a watch on the functioning of the societies. Every society has to get its accounts audited from the cooperative department of the government.



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- (f) **Capital :** The capital of the cooperative society is contributed by its members. Since, the members contribution is very limited, it often depends on the loan from government. and apex cooperative institutions or by way of grants and assistance from state and Central Government.
- (g) **Democratic Set Up :** The cooperative societies are managed in a democratic manner. Every member has a right to take part in the management of the society. However, the society elects a managing committee for its effective management. The members of the managing committee are elected on the basis of one-man one-vote irrespective of the number of shares held by any member. It is the general body of the society which lays down the broad framework within which the managing committee functions.
- (h) **Service Motive :** The primary objective of all cooperative societies is to provide services to its members.
- (i) **Return on Capital Investment :** The members get return on their capital investment in the form of dividend.
- (j) **Distribution of Surplus :** After giving a limited dividend to the members of the society, the surplus profit is distributed in the form of bonus, keeping aside a certain percentage as reserve and for general welfare of the society.

### 5.6.2 Types of Cooperative Societies

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

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

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- (f) **Credit Cooperative Societies :** These societies are started by persons who are in need of credit. Credit Co-operative Societies accept deposits from the members and grant them loans at reasonable rate of interest.



### DO AND LEARN

Based on the above discussion as well as your understanding so far about the cooperative society form of business organisation, now you can try to fill up the following table.



*Notes*

<i>Types of cooperative Societies</i>	<i>Who form the Society</i>	<i>Objectives of the Society</i>	<i>Function of the Society</i>
1. Consumers' Cooperative Societies			
2. Producers' Cooperative Societies			
3. Marketing Cooperative Societies			
4. Housing Cooperative Societies			
5. Farming Cooperative Societies			
6. Credit Cooperative Societies			

### 5.6.3 Merits of Cooperative Society

The cooperative society is the only form of business organisation which gives utmost importance to its members rather than maximising its own profits. After studying its characteristics and different types, we may now study the merits of this form of business organisation.

- (a) **Easy to Form :** Any ten adult members can voluntarily form an association get it registered with the Registrar of Cooperative Societies. The registration is very simple and it does not require much legal formalities.

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

### 5.6.4 Limitations of Cooperative Society

Although the basic aim of forming a cooperative society is to develop a system of mutual help and cooperation among its members, yet the feeling of cooperation does not remain for long. Cooperative societies usually suffer from the following limitations.

- (a) **Limited Capital :** Most of the cooperative societies suffer from lack of capital. Since the members of the society come from a limited area or class and usually have limited means, it is not possible to collect huge capital from them. Again, government's assistance is often inadequate for them.
- (b) **Lack of Managerial Expertise :** The Managing Committee of a cooperative society is not always able to manage the society in an effective and efficient way due to lack of managerial expertise. Again due to lack of funds they are also not able to derive the benefits of professional management.
- (c) **Less Motivation :** Since the rate of return on capital investment is less, the members do not always feel involved in the affairs of the society.
- (d) **Lack of Interest :** Once the first wave of enthusiasm to start and run the business is exhausted, intrigue and factionalism arise among members. This makes the cooperative lifeless and inactive.

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- (e) **Corruption**: In spite of government's regulation and periodical audit of the accounts of the cooperative society, the corrupt practices in the management cannot be completely ignored.

### 5.6.5 Suitability of Cooperative Society

You have already learnt that cooperative society form of business organisations is a voluntary association of persons who are not financially strong and cannot stand on their own legs to start and run the business individually. So to solve the common problem or to meet the common requirements, this form of business organisation is most suitable. Thus, people can join hands to get the consumer products, to build residential houses, for marketing the products, to provide loans and advances etc. This form of business organisation is generally suitable for small and medium size business operation.



### INTEXT QUESTIONS 5.4

- Define 'Cooperative Society' in your own words.
- Answer the followings in one or two words.
  - Who manages the cooperative society?
  - How many members are required to start a multistate cooperative society?
  - Which type of cooperative society is formed to solve the credit need of the people?
  - To whom the application should be made for seeking registration of a cooperative society?
  - What is the maximum limit of membership in a cooperative society?
- Match the following:

#### Column A

- Registration
- Membership
- Return on capital
- Democratic
- Liability

#### Column B

- Limited
- Management
- Open to all
- Compulsory
- Dividend

## MODULE - 2

### Business Organisations



*Notes*



## MODULE - 2

### Business Organisations



Notes

## Forms of Business Organisation



### WHAT YOU HAVE LEARNT

- On the basis of ownership and management there are different forms of business organisation. They are Sole Proprietorship, Partnership, Joint Hindu Family, Cooperative Society and Joint Stock Company.
- **Sole proprietorship** refers to a form of business organisation where a single individual owns and manages the business. He/she takes the profits and bears the losses. Merits of this form of business organisation include, easy to form and wind up, quick decision and prompt action, direct motivation, flexibility in operation. The businessman himself can give personal touch to each and every matter of the business that enables him to maintain the secrets of his business. In spite of all these merits, this form also suffers from the limitations of limited resources, lack of continuity, unlimited liability of the owner, limited managerial expertise. This form is not suitable for large-scale operations.
- **Partnership** is a form of business organisation in which two or more competent persons join hands to carry on any lawful business after entering into an agreement to share the profit and loss of the business. A partnership firm is easy to form and also flexible in its operation. It pools resources from the partners, makes their optimum utilisation by taking better decisions. It protects the interest of each and every partner and gets benefit out of the specialised knowledge and skills of individual partner. Since partners share the profits and losses they show keen interest in the affairs of the business. The major limitations of partnership form of business organisation are: unlimited liability, instability, limited capital, non-transferability of share and lack of harmony among the partners.
- In partnership firm we find different types of partners like Active partners, Sleeping partners, Nominal partners, Partners in profits, Limited partners, General partners. Partners by Estoppel and Partners by holding out.
- **Joint Hindu Family** form of business organisation is governed by Hindu Law. The members of the Hindu undivided family jointly own the business and the eldest member called Karta manages the business in the best possible manner. Every member called co-parcener gets an assured share in profit irrespective of their participation. The liability of co-parceners except the Karta is limited. The death or insolvency of any member does not affect the continuity of the business. This form of business organisation too suffers from certain limitations like limited resources, lack of motivation, scope for misuse of power by Karta and instability.
- **Cooperative society** is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help and mutual help.

## Forms of Business Organisation

- The membership of cooperative societies is voluntary and open to all. It has separate legal existence and is democratically managed. The cooperative societies are easy to form and have a stable life. They get assistance from the government in the form of loan, grants and subsidies. The government also provides tax concession. The liability of the members is limited upto their capital contribution. In spite of all these advantages, it also suffers from various limitations like insufficient capital, lack of managerial expertise. There is also lack of motivation in members due to absence of direct reward for individual efforts.
- According to the need of the people we find different types of cooperative societies in our country. Some of the important types are – Consumers cooperative societies, Producers’ cooperative societies, Marketing cooperative societies, Housing cooperative societies, Farming cooperative societies and credit cooperative societies.
- **Suitability: Sole proprietorship** is suitable for simple business involving less capital and low risk. Business requiring manual skill like handicraft, filigree work, jewelry etc. are generally organised in the form of sole proprietorship. **Partnership** form of business is suitable for construction business, providing legal services, medical services etc. It is also suitable where capital requirement is medium. Business like wholesale trade, professional services, mercantile houses and small manufacturing units can be run in partnership form. **Joint Hindu Family** form of business organisation is suitable where the family inherits a running business and the members want to continue the business jointly. It is generally found that some of the trading business, banking and finance in unorganised sector, small industry, art and crafts etc. are run in the form of Joint Hindu family business. **Cooperative Society** form of business organisation is generally started to solve the common economic problems or to meet the common requirements of the weaker sections of the community. It is suitable for getting consumer goods at cheaper price, building houses, marketing products, providing loans and advances to the members etc.



*Notes*



### KEY TERMS

Business Organisation	Karta	Partnership
Cooperative Society	Partner	Partnership Deed
Coparcener	Partner by Estoppel	Sole proprietorship
Firm	Partner by Holding Out	Unlimited Liability
Joint Hindu Family Business		

## MODULE - 2

### Business Organisations



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### TERMINAL EXERCISE

#### Very Short Answer Type Questions

1. Define sole proprietorship.
2. List any two situations in which sole proprietorship form of business organisation is found to be most suitable
3. Who is a partner by estoppel?
4. Distinguish between partnership and sole proprietorship business on the basis of membership.
5. State the meaning of the term 'Coparcener'.

#### Short Answer Type Questions

6. State the suitability of sole proprietorship form of business organisation.
7. Explain any two limitations of partnership form of business organisation.
8. What is meant by 'partnership deed'? Is it essential for partnership?
9. Compare the status of a minor in partnership firm with that in a Joint Hindu Family business.
10. Mention any four characteristics a cooperative society gets after getting the registration certificate.

#### Long Answer Type Questions

11. Describe any four different types of partners.
12. What is a Joint Hindu Family business? Describe its main characteristics.
13. Explain the various merits of a Joint Hindu Family form of business organisation.
14. Give the definition of cooperative society as per the Indian Cooperative Societies Act 1912. State any two characteristics of cooperative society form of business organisation.
15. State the different types of cooperative societies that exist in India.
16. **There is a saying that it is always better to have a written agreement. Keeping in view this saying it is always advisable for partners to have a written agreement. What is the name of this agreement and what are its contents in general?**
17. **You have gone through the various forms of business organisations. If you got an opportunity to start a business in the present scenerio which form of business organisation will you choose & why? Express your view with valid points.**



## ANSWERS TO INTEXT QUESTIONS

- 5.1** 2. (a) M (b) L (c) L (d) M (e) M
3. (a) - (iv) (b) - (i) (c) - (v) (d) - (iii) (e) - (ii)
- 5.2** 1. A minor can only share the profits of the business.
2. (a) Maximum 10 members can join a banking business in partnership form.  
 (b) Partnership deed is always in the writing form.  
 (c) There is a principal agent relationship among the partners.  
 (d) In a partnership Hari and Madhu contributed Rs. 10,000 each Madhus's liability would be unlimited in case of losses in firm's business..  
 (e) A person can acquire interest in a partnership firm by entering into an agreement.
3. (a) Limited partner (b) Nominal Partner  
 (c) Partner in profit or Minor partner (d) Sleeping Partner/dormant partner  
 (e) Partner by holding out.
- 5.3** 1. Since Karta has absolute power to manage the business as per his own will, he may misuse the authority for his personal gain. The clause unlimited liability restricts the Karta to do harm to the business.
2. (a) M (b) M (c) M (d) M (e) M
3. (a) Minimum two members are required in both the cases.  
 (b) Maximum 10 for banking and 20 for other business in case of partnership. Whereas there is no such limit fixed for Joint Hindu Family business.  
 (c) Membership is acquired by entering into agreement in partnership business. In Joint Hindu Family the membership is acquired by virtue of birth in the same family.
- 5.4** 2. (a) Managing committee (b) 50 (Individual members)  
 (c) Credit Cooperative society (d) Registrar of Cooperative societies  
 (e) Maximum limit is not fixed by the Act. It is the members who can decide about the maximum limit of membership in the society if they so want.
3. (a) - (iv) (b) - (iii) (c) - (v)  
 (d) - (ii) (e) - (i)



Notes

**MODULE - 2***Business Organisations***Forms of Business Organisation***Notes***DO AND LEARN**

Make a survey of twenty business organisations in and around your locality. Classify them under the four categories you have learnt in this lesson. Analyse their nature of business, size of the business, number of owners etc. in a tabular form.

**ROLE PLAY**

1. Kamal and Nirmal are two friends. Nirmal wanted to start a wholesale business in partnership with Kamal. Kamal did not accept his proposal and started his own shop of selling readymade garments in a different locality. Nirmal started his business in partnership with another friend Vimal. One day both Kamla and Nirmal met in a function. Here is an extract of the conversation that took place between them.

Nirmal : Hello, Kamal! How are you?

Kamal : Hello, I am fine. How is your partnership working?

Nirmal : It is running smoothly. Vimal is very sincere and cooperative. We are earning very good profit. But, still I miss you. Are you still not interested in partnership?

Kamal : No, I am happy as a sole proprietor.

(Nirmal talked about the merits of partnership and limitations of sole proprietorship; whereas Kamal highlighted the merits of sole proprietorship and limitations of partnership)

Put yourself in place of Nirmal and a friend in place of Kamal and continue the dialogue.

2. In a Caffe, Kanika met one of her friends Prashant after a long period of time. Both of them discussed about their College days and asked each other about their present work.

Kanika : Prashant, right now I am a partner in one of the reputed firms of Gujrat and the business is doing very well, what about you?

Prashant : Its Good Kanika. I am also working as an M.D in Hazira (India) Pvt. Ltd. one of the petro products manufacturing Company.

Kanika : It sound nice to listen MD. I and My partners were also thinking for quite a long time to convert our partnership firm into Pvt. Ltd. Co. but we are not sure, whether it would be possible or not, and now it is going to be different from partnership.

Prashant : Dont worry I tell you all aspect

And the conversation continues.

## 6

## COMPANY FORM OF BUSINESS ORGANISATION

*Notes*

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



### OBJECTIVES

*After studying this lesson, you will be able to:*

- explain the meaning and characteristics of Joint Stock Company;
- identify different types of Joint Stock Companies;
- differentiate between Public Company and Private Company;
- explain the merits and limitations of Joint Stock Company and its suitability;
- identify the factors influencing the choice of an appropriate form of business organisation;
- distinguish between Joint Stock Company and Partnership; Joint Stock Company and Cooperatives; and
- explain the concept of Multinational Corporation and identify its merits and limitations.



## MODULE - 2

### Business Organisations



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## Company Form of Business Organisation

### 6.1 JOINT STOCK COMPANY

In the previous lesson, you learnt in detail about four different forms of business organisation viz., Sole Proprietorship, Partnership, Joint Hindu Family Business, and Cooperative Society. You know that these forms are considered suitable for small and medium sized business. So if you want to set up a cement plant that requires a massive investment of crores of rupees, then what will you do?

You may think of forming a partnership firm for setting up the cement plant. But if you recall the limitations of Partnership form of business organisation, then definitely you will say- 'no'. Partnership may not be the suitable option for the business where huge capital investment is required. You know that there is a restriction on the membership of partnership, so it may not be possible to arrange the required amount of capital to set up a cement plant. Even if the people are capable of arranging the funds, nobody wants to take risk due to unlimited liability of partners. In such a situation company form of business organisation or Joint Stock Company may be the obvious choice whereby we can arrange large amount of capital easily from the members.

A Joint Stock Company or simply a company is a voluntary association of persons generally formed for undertaking some big business activity. It is established by law and can be dissolved by law. The company has a separate legal existence so that even if its members die, the company remains in existence. Its members contribute money for some **common purpose**. The money so contributed constitutes the **capital** of the company. The capital of the company is divided into small units called **shares**. Since members invest their money by purchasing the shares of the company, they are known as **shareholders** and the capital of the company is known as **share capital**.

In India, the joint stock companies are governed by the Companies Act, 1956. According to the Act, a company means 'a company formed and registered under this Act or an existing company'. An existing company means a company formed and registered under any of the previous Companies Acts. This definition is not exhaustive enough to reveal the basic features of the company. However, based on the definition given in the previous Companies Act and various judicial decisions, it can be defined as 'an artificial person created by law, having a separate legal entity, with a perpetual succession'.

### 6.2 CHARACTERISTICS OF JOINT STOCK COMPANY

You are now familiar with the concept of a company. Let us now study its characteristics.

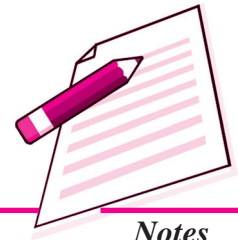
- (a) **Artificial Person** : A joint stock company is an artificial person in the sense that it is created by law and does not possess physical attributes of a natural person. It cannot eat or walk, smile or marry, read or write. However, it has a legal status like a natural person.

## Company Form of Business Organisation

- (b) **Formation :** The formation of a joint stock company is time consuming and it involves preparation of several documents and compliance of several legal requirements before it starts its operation. A company comes into existence only when it is registered under the Indian Companies Act. We shall learn in detail about the formation of joint stock company in the next lesson.
- (c) **Separate Legal Entity :** Being an artificial person, a company exists independent of its members. It can make contracts, purchase and sell things, employ people and conduct any lawful business in its own name. It can sue and can be sued in the court of law. A shareholder cannot be held responsible for the acts of the company.
- (d) **Common Seal :** Since a company has no physical existence, it must act through its Board of Directors. But all contracts entered by them shall have to be under the common seal of the company. This common seal is the official signature of the company. Any document with the common seal and duly signed by an officer of the company is binding on the company.
- (e) **Perpetual Existence :** The company enjoys continuous existence. Death, lunacy, insolvency or retirement of the members does not affect the life of the company. It goes on forever. Since it is created by law, it can only be dissolved by law.
- (f) **Limited Liability of Members :** The company form of business is able to attract large number of people to invest their money in shares because it offers them the facility of limited risk and liability. The liability of a member is limited to the extent of the amount of shares he holds. In other words, a shareholder can be held liable only to the extent of the face value of the shares he holds, and if he has already paid it, which is normally the case, he cannot be asked to pay any further amount. For example, if 'A' holds one share of Rs. 100 and has paid Rs. 75 on that share, his liability would be limited only upto Rs. 25.
- (g) **Transferability of Shares :** The members of the company (Public company) are free to transfer the shares held by them to others as and when they like. They do not need the consent of other shareholders to transfer their shares.
- (h) **Membership :** To form a joint stock company, a minimum of two members are required in case it is private limited company and seven members in case of public limited company. The maximum limit is fifty in case of private limited company. There is no maximum limit of membership for a public limited company.
- (i) **Democratic Management :** You know that people of different categories and areas contribute towards the capital of a company. So, it is not possible for them to look after the day-to-day management of the company. They may take part in deciding the general policies of the company but the day-to-day affairs of the company are managed by their elected representatives, called Directors.

## MODULE - 2

### Business Organisations



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**MODULE - 2***Business Organisations**Notes***Company Form of Business Organisation****INTEXT QUESTIONS 6.1**

1. If all the members of a joint stock company die in a road accident, then the company will be closed down. Do you agree with this statement? Give reasons in support of your answer.
2. Name the following in reference to a joint stock company.
  - (a) The smallest unit into which the capital of company is divided.
  - (b) The Act that governs the joint stock companies in India.
  - (c) The sum total of the money contributed by the members of a joint stock company.
  - (d) The official signature of a joint stock company.
  - (e) The elected representatives of the members who manage the day to day affairs of the joint stock company.

**6.3 TYPES OF JOINT STOCK COMPANIES**

We have a large variety of companies in our country, which differ in respect of their mode of incorporation, jurisdiction of functioning, nationality and limit on membership. Of these, the most important ones are those based on limits on membership, namely, (1) Private Company, and (2) Public Company. Let us learn more about these two types.

***(1) Private Company***

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

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

The private companies have to follow all these conditions noted above. It is compulsory for these companies to write "Private Limited" after their names. The ownership of these companies is confined only to well-known selected persons. It requires minimum of two persons to start a private limited company. Usually, whenever partnership firms

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are in need of more money to expand their business, they convert themselves into private Companies. It may be noted that private companies are exempted from various regulations of the Companies Act. Infact they combine the advantages of both the company and the partnership form of business organisation.

### (2) Public Company

For starting a business on a large scale, one needs a huge capital, which, even fifty members of a private company cannot provide. In such a situation, a public company is suitable. A public company means a company, which is not a private company. A public company must have the following features.

- (a) It can invite the public to subscribe to its shares and debentures by open invitation.
- (b) A minimum of seven members is required to establish a public company. There is no limit on the maximum number of its members.
- (c) There is no restriction on the transfer of shares i.e., the shareholders are free to sell their shares to the public.
- (d) The public company must have a minimum paid up capital of five lakhs rupees.

A public company must write public limited or simply limited after its name. Reliance Industries Limited, Bajaj Auto Limited, Hindustan lever Limited, Steel Authority of India Limited are examples of public companies.

In addition to the type of companies discussed above you must have come across many other types of companies like: Government company, Statutory company, Chartered company, Foreign company, Indian company, Multinational corporation, Holding company, and Subsidiary company.

Let us have a brief idea about all these.

- (a) **Government Company** : Any company in which at least 51% of the paid up capital is held by the Government is known as government company. Example: Indian Telephone Industry (ITI), Bharat Heavy Electronics Limited (BHEL) etc.
- (b) **Statutory Company** : A company created by a special Act of Parliament or state legislature is termed as statutory company. Example: Life Insurance Corporation of India (LIC), Securities Exchange Board of India (SEBI) etc.
- (c) **Chartered Company** : A company created under a special charter granted by the king or queen of England. Example- East India Company.
- (d) **Foreign Company** : A company which is incorporated in a country outside India and having business operation in India, is known as Foreign company. Example- Citi Bank, G.E. Capital, Honda Motors etc.

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- (e) **Indian/Domestic Company :** A company registered in India as per the Indian Companies Act is known as Indian/domestic company. Example- Associated Cement Company (ACC), Tata Iron and Steel Company (TISCO) etc.
- (f) **Multinational Corporation (Company) :** A company which is registered in one country but carries on business in a number of other countries. We shall discuss in details about multinational corporations in the last section of this lesson.
- (g) **Holding and Subsidiary Company :** If a company controls another company, the controlling company is termed as 'Holding Company' and the company so controlled is called a 'subsidiary company'.

A company may become a subsidiary company of another in the following circumstances:-

- (i) When more than 50% of the nominal value of its equity share capital is under the control of another company.
- (ii) When another company has control over the appointment of its Board of Directors.
- (iii) When it is subsidiary of a company which itself is a subsidiary of another company. For example- Company 'B' is a subsidiary of company 'A' and company 'C' is a subsidiary of Company 'B'. Then company C becomes subsidiary of Company A.

### 6.4 DISTINCTION BETWEEN A PRIVATE COMPANY AND A PUBLIC COMPANY

Having learnt the meaning of a private company and a public company, you should now be able to distinguish between the two. The following are some of the main points of distinction between a private company and a public company.

	<i>Basis of distinction</i>	<i>Private Company</i>	<i>Public Company</i>
1.	Minimum number of members	A minimum of two members is required for a private company.	A minimum of seven members is required for a public company
2.	Maximum number of members	The maximum number of members in a private company is 50.	There is no limit on maximum number of members in public company
3.	Minimum paid up capital	A private company must have a minimum paid up capital of Rs. One lakh.	It must have a minimum paid up capital of Rs. Five lakh.
4.	Identification	A private company must suffix 'Private Limited' to its name.	A public company must suffix 'Limited' to its name.

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5.	Transfer of Shares	The shareholders of a private limited company cannot transfer their shares	The shareholders of a public company can freely sell their shares to others.
6.	Invitation to the public to purchase shares and debentures	A private limited company cannot give open invitation to the public to subscribe to its shares and debentures.	A public company can invite the public to purchase its shares and debentures through the issue of prospectus.
7.	Commencement of business	A private limited company can start its business immediately upon its incorporation	A public limited company cannot start its business immediately after its incorporation. It has to obtain a certificate for starting or commencing its business.

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### INTEXT QUESTIONS 6.2

1. 'X' Company controls more than 50% of the nominal value of 'Y' Company's equity share capital. Hence 'X' Company is termed as holding company. State the other circumstances when a company can become a holding company.
2. Below are given certain characteristics of Joint stock company. Identify the characteristics of public limited company and private limited company from these statements and put tick mark in the circle of the boxes given after the statements.
  - (a) There can be maximum of 50 members.
  - (b) It can be started with minimum of seven members.
  - (c) Its minimum paid up capital is five lakh rupees.
  - (d) The shareholders cannot transfer its share.
  - (e) It can invite the public to subscribe to its share.

Private Limited Company				
	(a)		(b)	
	<input type="checkbox"/>		<input type="checkbox"/>	
(c)		(d)		(e)
<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>

Public Limited Company				
	(a)		(b)	
	<input type="checkbox"/>		<input type="checkbox"/>	
(c)		(d)		(e)
<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>

3. Complete the following incomplete words by taking clues from the statements given for each. Every blank represents one letter only. First one has been done for you.
 

(a) P ___ L ___ (PUBLIC)	(b) F ___ R ___ N Company
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- (c) ST \_\_\_ UT \_\_\_ Y Company      (d) \_\_\_ LD \_\_\_ NG Company  
 (e) M \_\_\_ L \_\_\_ N \_\_\_ IO \_\_\_ AL Company  
 (f) G \_\_\_ E \_\_\_ N \_\_\_ ENT Company

#### Clues

- (a) A Company which requires minimum of seven members.  
 (b) A company which is incorporated outside India.  
 (c) A company created by a special Act of Parliament.  
 (d) A company that holds more than 50% share capital of another company.  
 (e) A company which carries on business in more than one country.  
 (f) A company in which atleast 51% paid up capital is held by the Government.

### 6.5 MERITS OF JOINT STOCK COMPANY

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

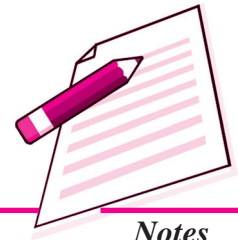
- (a) **Large Resources :** A joint stock company can raise large financial resources because of its large number of members and it can raise funds through debentures, public deposits, loans from financial institutions without much difficulty.
- (b) **Limited Liability :** In a joint stock company the liability of its members is limited to the extent of shares held by them. This attracts a large number of small investors to invest in the company. It helps the company to raise huge capital. Because of limited liability, a company is also able to take larger risks. This helps in making investment decisions easily.
- (c) **Continuity of Existence :** A company is an artificial person created by law and possesses independent legal status. It is not affected by the death, insolvency etc. of its members. Thus, it has a perpetual existence.
- (d) **Benefits of Large-scale Operation :** The joint stock company is the only form of business organisation which can provide capital for large-scale operations. It results in large-scale production consequently leading to increase in efficiency and reduction in the cost of operation. It further opens the scope for expansion.
- (e) **Liquidity :** The transferability of shares acts as an added incentive to investors as the shares of a public company can be traded easily in the stock exchange. The public can buy shares when they have money to invest and convert shares into cash when they need money.

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- (f) **Professional Management :** Companies, because of the complex nature of their activities and large volume of business, require professional managers at every level of organisation. Because of the size of their business and the financial strength they can afford to appoint such managers. This leads to efficiency in management of their affairs.
- (g) **Research and Development :** A company generally invests a lot of money on research and development for improved processes of production, designing and innovating new products, improving quality of product, new ways of training to its staff, etc.
- (h) **Tax Benefits :** Although the companies are required to pay tax at a high rate, in effect their tax burden is low as they enjoy many tax exemptions under Income Tax Act.

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## 6.6 LIMITATIONS OF JOINT STOCK COMPANY

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

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

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



### INTEXT QUESTIONS 6.3

- Mr. Mohit has invested Rs. 2 lakh in shares of a public limited company. After one year he noticed that the company does not perform well, and the market value of its shares is going down. He thinks, if this situation continues, he will lose his Rs. 2 lakh rupees and if required his house will be sold out to discharge his liabilities of the company. Is he thinking in the right direction. Give reason in support of your answer.
- Below are given certain statements. Put 'M' in the box given at the end of the sentence, if it is the merit and 'L' if it is limitation of joint stock company.
  - The liability of the members of joint stock company is limited.
  - The shares of the public limited company can be traded easily in the stock exchange.
  - A number of legal formalities have to be complied with in the formation of joint stock company.
  - The shareholders holding majority of shares take all decisions of the company.
  - A company can spend a lot of money on research and development for improved process of production, designing and innovating new products.

### 6.7 SUITABILITY OF JOINT STOCK COMPANY

A joint stock company is suitable where the volume of business is large, the area of operation is widespread, the risk involved is high and there is a need for huge financial resources and manpower. It is also preferred when there is need for professional management in its operations. In certain businesses like banking and insurance, joint stock company form is the most suitable. Now-a-days, it is a preferred form for most areas of business because of the preference for operating on large scale.

### 6.8 CHOOSING THE RIGHT FORM OF ORGANISATION

You have already learnt about different forms of business ownership, i.e., Sole Proprietorship, Partnership, Joint Hindu Family Business, Company and Cooperative

## Company Form of Business Organisation

Society. You must have noticed that no particular form of business organisation can meet all kinds of our requirements. Some may require more financial and managerial resources while others involve large risk. That is the reason why we find different forms of business organisations prevailing in our economy. So while selecting a form of business organisation, we analyse different factors and try to choose the most suitable form according to our financial and managerial capabilities. We will now study those factors which may help us in selecting the right form of business organisation.

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

A company enjoys better flexibility whenever more finances are required. It can raise more capital and include more members whenever needed. In a partnership, the number of members at any time cannot exceed 20. In sole proprietorship there is only one owner and availability of finances is also limited.

But flexibility in operations is maximum in sole proprietorship. He does not require approval of other members as in partnership or compliance with the provisions of the Act as in a company. Hence, the change in the nature of business or its operations is easiest in the case of sole proprietorship.

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*Notes*

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- (f) **Secrecy :** Sole trader is the master of his entire business. He does not need to share his secrets with any one. Partnership is organised on the basis of mutual agency and therefore all the partners have the right to know everything about the business. A company is required to file a number of documents and publish its annual reports. Therefore secrecy is the least in case of a company.
- (g) **Extent of State Control :** While it is not possible altogether to avoid compliance with governmental regulations the entrepreneur will always like to choose that form of business organisation which has minimum government interference. A company has to fulfill many legal formalities before it can commence its business. Even after the formation, it has to comply with various legal provisions. In sole proprietorship and partnership, the government control is comparatively less.

Following table presents a summary and comparisons of different characteristics of sole proprietorship, partnership and company.

<i>Characteristics</i>	<i>Most advantageous form</i>	<i>Least advantageous form</i>
(i) Availability of finances.	Company	Sole proprietorship
(ii) Cost of organising and dissolving.	Sole proprietorship	Company
(iii) Ease of organising and dissolving.	Sole proprietorship	Company
(iv) Ease of transferring or withdrawing ownership.	Company	Partnership
(v) Efficiency in management.	Company	Sole Proprietorship
(vi) Freedom to operate in any state.	Sole proprietorship	Company
(vii) Government controls and restrictions.	Sole proprietorship	Company
(viii) Length of life.	Company	Sole Proprietorship
(ix) Simplicity of operations.	Sole proprietorship	Company



### INTEXT QUESTIONS 6.4

- A Joint Stock Company is suitable where the volume of business is large, the area of operation is widespread and the risk involved is high. What are other conditions under which Joint Stock Company is more suitable. Write any two such conditions.
- There are a number of factors that determine the choice of a particular form of business organization. Name the form of organization i.e., either sole proprietorship or joint stock company which may be preferred keeping in mind the following factors:
  - It can raise huge capital and hire expert knowledge to manage a big business.

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- (b) Maximum secrecy can be maintained.
- (c) The government controls is very little.
- (d) Death or insolvency of a member does not affect the existence.
- (e) Flexibility in operations is maximum.

## 6.9 DIFFERENCES BETWEEN VARIOUS FORMS OF BUSINESS ORGANISATION

We have learnt about the various forms of business organisation. If we analyse their characteristics we find that each one is different from the other. Let us try to distinguish between some of these forms of business organisation.

### Difference between Partnership and Joint Stock Company

<i>Basis</i>	<i>Partnership</i>	<i>Joint Stock Company</i>
1. Formation	It is easy to form as registration is not compulsory.	It requires many legal formalities to be completed before the company comes into existence.
2. Operation	Governed by the Indian Partnership Act, 1932.	Governed by the Companies Act, 1956.
3. Membership	Minimum is two, maximum is 10 in banking business and 20 in other business.	In case of Private Company minimum is 2, maximum is 50; in case of Public company minimum is 7 and there is no maximum limit.
4. Legal Status	No separate legal entity.	Separate legal entity from that of its members.
5. Liability	Joint and several to an unlimited extent.	Limited to the face value of shares held.
6. Management	All or any one on behalf of all partners are entitled to manage.	Board of Directors is authorised to manage.
7. Transfer of Shares	Consent of all partners is required.	Shares are freely transferable.
8. Existence	Dissolves with the death, retirement or insanity of a partner.	Perpetual existence; unaffected by death, retirement, insolvency etc. of the shareholders.

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### Company Form of Business Organisation

9. Finance	Relatively limited scope for raising finance.	Vast and unlimited scope for raising finance.
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### Difference between Joint Stock Company and Co-operative Society

<i>Basis</i>	<i>Joint Stock Company</i>	<i>Co-operative Society</i>
1. Formation	Comes into existence when registered with the Registrar of Companies.	Comes into existence when registered with the Registrar of Co-operative Societies.
2. Membership	Members can be from the whole country or from any other country of the world. Minimum number of members for a Private company is 2 and for a Public company it is 7. The maximum membership for the former is 50 and for the latter is not fixed.	Members are mostly from a particular locality or a region. The minimum membership is 10 and maximum is not fixed.
3. Purpose	Usually run a business to earn profit.	To render services to its members in particular and to the society in general.
4. Operation	Governed by the Companies Act, 1956	Governed by the Co-operative Societies Act, 1912, Multi-state Cooperative Societies Act 2002 and State Co-operative Societies Acts.
5. Management	Managed by Board of Directors, elected by the shareholders. Each shareholder has as many votes as the number of share holders.	Managed by a Managing Committee elected by members on the basis of one member, one-vote.
6. Transfer of Interest	Shares are freely transferable and passed on to the legal heirs (except in case of private company).	Shares are not easily transferable, but can be passed on to legal heirs or reverted back to the society at the Member's discretion.

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7. Liability	Liability of its members is limited to the value of shares held.	Liability of its members is limited but the society may opt for unlimited liability.
8. Payment of Dividend	The rate of dividend is decided by the company every year and it may vary.	A fixed rate of dividend is payable to its members as per the provisions of the Cooperative Societies Act.

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## 6.10 MULTINATIONAL CORPORATION

In our day-to-day life we use different goods of Indian as well as foreign origin. The foreign goods are either imported to our country or these goods are produced in our country by the foreign companies. You must be thinking why foreign companies are coming to our country. Actually they came to India to produce goods and services and/or to sell their products. Similarly, Indian Companies are also extending their business operations across the boundaries of our country. This is called globalization, which means extension of economic activities across the boundaries of a country in search of world wide market.

### 6.10.1 Meaning and Features of Multinational Corporation

Simply speaking, a multinational corporation (also termed as multinational companies) is one which is registered as a company in one country but carries on business in a number of other countries by setting up factories, branches or subsidiary units. Such a company may produce goods or arrange services in one or more countries and sell these in the same or other countries. You might have heard about many Multinational Corporations (MNCs) running business in India, Hyundai Motor Company, Coca Cola Company, Sony Corporation, McDonald's Corporation, Citi Bank, etc.

All these corporations generally have production, marketing and other facilities in several countries. Their volume of sales, profits earned, and also the value of assets held by them are generally very large. They have set up their branches and subsidiary units in our country and also in other countries. They are controlled from the headquarters of these companies in the home country, which lay down broad policies to be pursued.

### Features of Global Enterprises (MNCs)

The main features of the multinational company are the following :

- 1. Centralised Management :** A multinational company has its headquarter in the home country. It expands its business in other countries by opening branches and subsidiary companies in other countries. The management of the business being carried out in other countries is in the hands of the head office. All the branches and subsidiaries have to work according to the policies laid down by the head office.

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2. **Worldwide Spread of Business :** The business of the multinational company is spread in many countries. This company fully exploits the local conditions prevailing in the host countries. This includes the availability of cheap labour and the use of raw material.
3. **Better Quality Products :** A multinational company has to compete on the world level, it has, therefore, to pay special attention to the quality of its products.
4. **Large Size :** A multinational company has huge assets. The value of the assets of IBM is approximately 8 billion dollars. Similarly, another company ITT has 800 branches in 70 countries.
5. **Access to International Market :** A multinational company easily establishes its identity in the international market because of its many products, good quality, research on a large scale, good marketing facilities, etc.
6. **Special Attention to Advertisement :** A multinational company pays special attention to advertisement. That is the secret of its success.

#### 6.10.2 Advantages of Multinational Corporation

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

- (a) **Investment of Foreign Capital :** Direct investment of capital by multinational corporation helps under-developed countries to speed up their economic development.
- (b) **Generation of Employment :** Expansion of industrial and trading activities by multinational corporation leads to creation of employment opportunities and raising the standard of living in host countries.
- (c) **Use of Advanced Technology :** With substantial resources multinational corporation undertake Research and Development activities which contribute to improved methods and processes of production and thus, increase the quality of products. Gradually, other countries also acquire these technologies.
- (d) **Growth of Ancillary Units :** Suppliers of materials and services and ancillary industries often grow in host countries as a result of the operation of multinational corporation.
- (e) **Increase in Exports and Inflow of Foreign Exchange :** Goods produced in the host countries are sometimes exported by multinational corporation. Foreign exchange thus earned contributes to the foreign exchange reserves of host countries.

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- (f) **Healthy Competition :** Efficient production of quality goods by multinational corporations prompt the domestic producers to improve their performance in order to survive in the market.

### 6.10.3 Limitations of Multinational Corporation

The advantages discussed above are no doubt beneficial to host countries. But there are several limitations of multinational corporation, which we should take note of:

- (a) **Least Concern for Priorities of Host Countries :** Multinational corporations generally invest capital in the most profitable industries and do not take into account the priorities of developing basic industries and services in backward regions of the host country.
- (b) **Adverse Effect on Domestic Enterprises :** Due to large-scale operation and technological skills, multinational corporations are often able to dominate the markets in host countries and tend to acquire monopoly power. Thus, many local enterprises are compelled to close down.
- (c) **Change in Culture :** Consumer goods, which are introduced by multinational corporations in the host countries, do not generally conform to the local cultural norms. Thus, consumption habits of people as regards food and dress tend to change away from their own cultural heritage.

### 6.10.4 Joint Ventures

Joint venture is a form of business, where two or more independent firms contribute capital and participate in business operations, these two organisations may be private or government organisations or a foreign company. In joint venture, business concerns join together for a specified purpose. It facilitates pooling funds, technical knowhow & managerial skills. The rewards and risks will be shared by the concerns in joint venture. e.g. Maruti Ltd. of India and Suzuki Ltd. of Japan joined hands to form Maruti Suzuki India Ltd. which is a joint venture concern.

#### Features of Joint Venture

- 1. Access to advanced Technology :** When two or more companies join together, there can be access to latest techniques of production. This will lead to cost reduction and improvement in quality and increased production.
- 2. Optimum Use of Capital :** Joint Venture helps in the optimum utilisation of capital. There will be least wastage of capital and other resources.
- 3. Pooling of Resources and Expertise :** The resources of two or more companies can be effectively pooled by forming a joint venture. This helps in large scale production and can avail economies of large scale production.

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4. **Innovation :** In the highly competitive market, the ideas and technology of two enterprises will help to innovative new ideas and products.
5. **Sharing of Risk and Reward :** The enterprises which join hands to form joint venture will share the reward in the form of increased profit. The partners in joint venture have to share the risk that may occur in business.

#### 6.10.5 Public Private Partnership (PPP)

Public Private Partnership means partnership between public sector and private sector in financing, designing and developing infrastructural facilities. In a PPP, the private sector may contribute money, expertise and technical knowhow. Infrastructures like power, transport, education, healthcare, waste management etc are maintained through PPPs.

#### Features of Public Private Partnership

1. PPP projects are for the benefit of public.
2. Government remains actively involved throughout the life of a PPP project.
3. PPPs are mainly used in government projects of higher priority.
4. In a PPP project, the funds, expertise and experience of both the private and public sectors are combined.
5. In a PPP project, the degree of responsibility and the level of risk are shared between private and public sector.

#### Merits of Public Private Partnership

1. PPPs approach helps in faster implementation of projects.
2. It helps in higher quality services as there is a combined expertise of public and private sector.
3. It helps to reduce costs due to efficient management practices.
4. In PPPs the risk is divided between the government and the private sector.
5. In PPPs, the funds are invested both by the public and the private sector. So government is relieved of the botheration to borrow money.
6. The government is accountable for the cost and quality of public services.

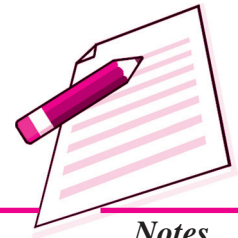
#### Demerits of Public Private Partnership

1. Private sector aims at profit maximisation, but such an approach may not be desirable for public works.
2. There is possibility of leakage of important secrets of the country.

3. Sometimes there may be delays in the completion of crucial projects because of the conflicts between the government and the private firm.



**INTEXT QUESTIONS 6.5**



*Notes*

1. State the general features of Multinational Corporation.
2. Following points distinguish a joint stock company, partnership and cooperative society from each other. Joint the points with the relevant form of business organization given in the circle by drawing arrows.

- (a) The different forms of business organization being governed by different Acts passed in the year –

(i) 1932

Joint Stock  
Company

(ii) 1956

Cooperative  
Society

(iii) 1912

Partnership

- (b) Minimum number of members required to form:

(i) 2

Public Ltd.  
Company

(ii) 7

Cooperative  
Society

(iii) 10

Partnership

- (c) Maximum number of members:

(i) 50

Cooperative  
Society

(ii) 20

Private  
Limited  
Company

(iii) No limit

Partnership

- (d) Management

(i) Managed by an  
Elected committee

Joint Stock  
Company

(ii) Managed by one  
or more members

Cooperative  
Society

(iii) Managed by elected  
board of directors

Partnership



**MODULE - 2***Business Organisations**Notes***Company Form of Business Organisation**

3. Multiple Choice Questions.
- i. A form of business organisation that has been set up jointly by two different business firms is known as:
 

a) Sole proprietorship	b) Joint venture
c) Co-operative society	d) Public company
  - ii. Name of the organisation set up as a result of the partnership between public sector and private sector is
 

a) Sole proprietorship	b) Public company
c) Public Private Partnership	d) Co-operative society

**WHAT YOU HAVE LEARNT**

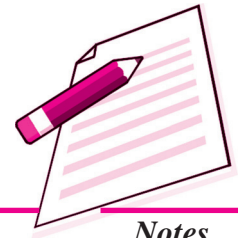
- A joint stock company is an artificial person, having a separate legal entity, with a perpetual succession.
- Characteristics of joint stock company:
  - ▶▶ It is an artificial person
  - ▶▶ Its formation involves a lot of legal procedures and it is time consuming.
  - ▶▶ It has a separate legal entity
  - ▶▶ It has an official signature known as common seal
  - ▶▶ It has perpetual existence
  - ▶▶ The liability of its members is limited
  - ▶▶ The members are free to transfer their shares
  - ▶▶ Joint stock company is managed in a democratic way
- Types of company
  - ▶▶ Private company
  - ▶▶ Public company
  - ▶▶ Government company
  - ▶▶ Statutory company
  - ▶▶ Chartered company
  - ▶▶ Foreign company

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- ▶▶ Indian company
- ▶▶ Multinational corporation (company)
- ▶▶ Holding company
- ▶▶ Subsidiary company
- Merits of joint stock company: A joint stock company can arrange large resources. Its members enjoy the benefits of limited liability. It has perpetual existence. The benefits of large scale business operation can only be derived from this form of organization. Its shares are easily transferable. It derives the benefit of professional management in its operation.
- Limitations of joint stock company: The formation of a joint stock company involves compliance with a number of legal formalities. It suffers from the limitations of excessive government control. It is very difficult to maintain secrecy in the business. All important decisions require the approval of Board of Directors or General body of the shareholders. So it takes more time in taking certain decisions. The joint stock companies are practically managed by a specific group of people. The shareholders who are scattered all over the country, generally do not take keen interest in each and every matter of their company.
- Suitability of joint stock company: A joint stock company is suitable where volume of business is large, area of operation is widespread, risk involved is high and there is a need for huge financial return and manpower.
- Choosing the right form of organisation: The following factors may be considered while choosing a suitable form of business organization: (a) Ease of formation; (b) Availability of resources; (c) Liability or risk; (d) Stability; (e) Flexibility; (f) Secrecy; (g) Extent of state control
- Multinational corporation: A business unit that is registered as a company in one country but carries on its business in a number of other countries by setting up factories, branches and subsidiary units is called a multinational corporation.
- Merits of Multinational corporation : (a) Investment of foreign capital; (b) Generation of employment; (c) Use of advanced technology; (d) Growth of ancillary units; (e) Increase in exports and inflow of foreign exchange; (f) Healthy competition with domestic companies
- Limitations of multinational corporations : (a) Least concern for priorities of host countries; (b) Adverse effect on domestic enterprises; (c) Change in culture of the people.
- A joint venture is an enterprise set up jointly by two or more business concerns. It helps in pooling the funds, technical knowhow and managerial skills.

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### Business Organisations



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### Business Organisations



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### Company Form of Business Organisation

- Access to advanced technology, proper use of capital, pooling of resources, expertise, innovation and sharing of risk and reward are the features of joint venture type of enterprise.
- A PPP is a partnership between a private sector enterprise and a public sector enterprise.
- Active government involvement, pooling of funds, expertise and experience, sharing of risk and responsibility etc. are the features of PPP form of enterprise.
- Faster implementation, high quality services, sharing of risk, accountability of the government are the merits of PPP.
- Demerits of PPP form of enterprise – leakage of important secrets of the country, conflicts between government and private enterprise.



### KEY TERMS

Artificial person	Indian company	Share
Chartered company	Multinational corporation	Share capital
Common seal	Perpetual existence	Shareholder
Foreign company	Private company	Statutory company
Government company	Public company	Subsidiary company
Holding company	Separate legal entity	



### TERMINAL EXERCISE

#### Very Short Answer Type Questions

1. In joint stock company what is meant by the term 'share'?
2. State the meaning of the term 'Company' as per the Companies Act 1956.
3. What is meant by multinational corporation?
4. State the difference between a public company and a private company as far as the commencement of business is concerned.
5. How do you identify a public company and a private company just by seeing their names?
6. What is meant by Public Private Partnership?
7. Name a form of organisation that is formed by combined efforts of two or more independent firms?

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#### Short Answer Type Questions

8. State how the company is as artificial person.
9. Enumerate the features of a public company.
10. Distinguish between private company and public company on the basis of members and paid up capital.
11. State the suitability of joint stock company form of business organisation.
12. What conditions are required to be fulfilled by a private company?
13. What is meant by a joint venture?
14. List any three merits of Public Private Partnership.



*Notes*

#### Long Answer Type Questions

15. Explain, why the joint stock company form of business organisation is advisable to undertake huge and risky projects.
16. Describe any five characteristics of joint stock company.
17. You were running your business in partnership, but now you have formed a joint stock company. What difference did you notice in respect of
  - (a) legal status,
  - (b) liability, and
  - (c) finance
18. Explain any five advantages of multinational corporation for the host country.
19. State any five factors required to be considered while choosing the right form of business organisation.
20. Discuss briefly the features of Joint Venture.
21. Explain the merits and demerits of Public Private Partnerships.
- 22. You are appearing as a candidate in an interview in a Public Ltd. Co. One of the members of the interview board asks you the difference between a Public Company and a Private Company. Express your views to satisfy the interview board with the help of any 5 points.**
- 23. A news about a Joint venture of Indian Company and Japanese Company made you to think about, what it is all about. You try to get some information from your self learning materials & some from internet. Explain in brief about your findings related to joint venture.**

**MODULE - 2***Business Organisations***Company Form of Business Organisation****ANSWERS TO INTEXT QUESTIONS***Notes*

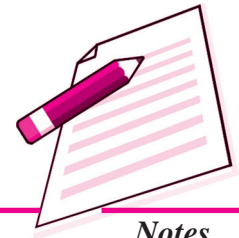
- 6.1** 1. No, since the company has perpetual existence. It can continue working with new members.
2. (a) Share (b) Companies Act 1956 (c) Share capital  
(d) Common seal (e) Directors
- 6.2** 1. (a) If the company has control over the appointment of the Board of Directors of another company  
(b) When its subsidiary company is the holding company of another company.
2. Private limited company (a) (d)  
Public limited company (b) (c) (e)
3. (b) FOREIGN (c) STATUTORY (d) HOLDING  
(e) MULTINATIONAL (f) GOVERNMENT
- 6.3** 1. No. The liabilities of the shareholders is limited. Again, he has the option to transfer or sell the shares to avoid further loss.
2. (a) M (b) M (c) L (d) L (e) M
- 6.4** 1. (a) Need for professional management (b) Huge financial requirement  
(c) More manpower requirement
2. (a) Joint stock company (b) Sole proprietorship  
(c) Sole proprietorship (d) Joint stock company  
(e) Sole proprietorship.
- 6.5** 1. (a) International Operation (b) Large size (c) Centralised control
2. (a) (i) 1932 – Partnership (ii) 1956 – Joint Stock company  
(iii) 1912 – cooperative society
- (b) (i) 2 - Partnership (ii) 7 – Public limited company  
(iii) 10 – cooperative society
- (c) (i) 50 – Private limited company (ii) 20 – Partnership  
(iii) No limit – Cooperative society
- (d) (i) Managed by elected committee – Cooperative society  
(ii) Managed by one or two members – Partnership  
(iii) Managed by elected board of directors – Joint stock
3. (i) b (ii) c



**DO AND LEARN**

1. Collect various information about atleast five multinational corporations and prepare a chart as given below

Name of the company					
Country where its head office is located					
Other countries it has operations in					
Goods and/or services it deals in					



*Notes*



**ROLE PLAY**

1. Sudhir and Sushil are two friends and belong to the same village. They met after a long time in a festival. Both of them used to be partners of a firm. But Sushil left the firm five year back and joined a public limited company as a director.

The following conversation took place between them.

Sudhir : Hello Sushil. How are you? How is your company going on?

Sushil : Hi Sudhir. I am fine. Our company is also doing very good business. This year our profit crossed five crore rupees.

Sudhir : That's good. But to earn such profit, your company must have invested huge amount in its activities. Isn't it? But from where did you get all this money?

Sushil : Actually in a public limited company, it is possible to collect large amount of money because the number of members is large. Another thing, they invest money without any risk because their liability is limited

Why don't you convert you partnership business in to a joint stock company, atleast a private limited company. (Sudhir was keen to know about the features, merits, limitations and suitability of joint stock company. Sushil explained to him. The conversion between both the friends was going on).

(Place yourself as Sudhir and one of your friends as Sushil. Enact these roles and make your study interesting).

2. You are working as a manager in an Indian Company for the last few years. You receive a call to join a Multinational Company, about which you informed to your seniors. About which they discussed with you.

Chief Manager : Satish, why do you want to leave our company. You are holding a good position and that too in a company of national level.

Satish : Sir, you are absolutely right, but I am getting an opportunity in Multinational Company.

Continue the discussion of Satish with Chief Manager so as to convince him to join MNC.



**MODULE - 2***Business Organisations**Notes***7****PUBLIC SECTOR ENTERPRISES**

You have learnt about various forms of business organisations, which primarily relate to private enterprises. Traditionally, business activities were left mainly to individual and private organisations, and the government was taking care of only the essential services such as railways, electricity supply, postal services etc. But, it was observed that private sector did not take interest in areas where the gestation period was long, investment was heavy and the profit margin was low; such as machine building, infrastructure, oil exploration, etc. Not only that, industries were also concentrated in some regions that had certain natural advantages like availability of raw materials, skilled labour, nearness to market. This led to regional imbalances. Hence, the government while regulating the business activities of private enterprises went in for direct participation in business and set up public enterprises in areas like coal industry, oil industry, machine building, steel manufacturing, finance and banking, insurance etc. These units are not only owned by central, state or local government but also managed and controlled by them and are termed as Public Sector Enterprises. In this chapter, you will learn about the nature and characteristics of public enterprises and the forms of their organisation.

**OBJECTIVES**

*After studying this lesson, you will be able to:*

- state the meaning of public sector enterprises;
- identify the main characteristics of public sector organisations;
- distinguish between public sector and private sector;
- describe different forms of organisation of public sector enterprises;
- state the features, merits and limitations of Departmental Undertakings, Public Corporations and Government Companies;

## Public Sector Enterprises

- explain the importance of public sector enterprises; and
- outline the current scenario of public enterprises.

### 7.1 MEANING OF PUBLIC ENTERPRISES

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

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

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

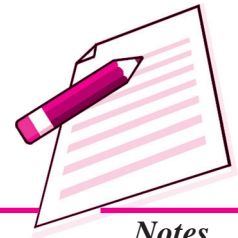
### 7.2 CHARACTERISTICS OF PUBLIC ENTERPRISES

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

- Government Ownership and Management :** The public enterprises are owned and managed by the central or state government, or by the local authority. The government may either wholly own the public enterprises or the ownership may partly be with the government and partly with the private industrialists and the public. In any case the control, management and ownership remains primarily with the government. For example, National Thermal Power Corporation (NTPC) is an industrial organisation established by the Central Government and part of its share capital is provided by the public.
- Financed from Government Funds :** The public enterprises get their capital from Government Funds and the government has to make provision for their capital in its budget.
- Public Welfare :** Public enterprises are not guided by profit motive. Their major focus is on providing the service or commodity at reasonable prices. Take the case of Indian Oil Corporation or GAIL India Limited. They provide petroleum and gas at subsidised prices to the public.
- Public Utility Services :** Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication etc.
- Public Accountability :** Public enterprises are governed by public policies formulated by the government and are accountable to the legislature.

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- (f) **Excessive Formalities** : The government rules and regulations force the public enterprises to observe excessive formalities in their operations. This makes the task of management very sensitive and cumbersome.

### 7.3 DIFFERENCE BETWEEN PRIVATE AND PUBLIC SECTOR ENTERPRISES

In the earlier lessons you have studied about the various forms of business organisation existing under private ownership or in private sector. By private sector, we mean, economic and social activities undertaken privately by a single individual or group of individuals. They prefer to do business in private sector basically to earn profit.

On the other hand public sector refers to economic and social activities undertaken by public authorities. The enterprises in public sector are set up with the main aim of protecting public interest. Profit earning comes next.

Besides the difference in the objective, the enterprises in both these sectors also differ in many other aspects. In this section let us know the differences between the enterprises of public sector and private sector.

<i>Basis of difference</i>	<i>Private sector enterprises</i>	<i>Public sector enterprises</i>
1. Objective	Maximisation of profit.	Maximise social welfare economic and ensure balanced development.
2. Ownership	Owned by individuals.	Owned by Government.
3. Management	Managed by owner and professional managers.	Managed by Government.
4. Capital	Raised by owners through loans, private sources and public issues.	Raised from Government funds and sometimes through public issues.
5. Area of operation	Operates in all areas with adequate return	Operates in basic and public utility sectors. on investment.



### INTEXT QUESTIONS 7.1

1. What is meant by public sector?
2. State whether the following statements are true or false and correct the statements if needed.

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- (a) The objective of private sector enterprises is welfare of the customers.
- (b) The public sector enterprises are managed by professional managers.
- (c) The private sector enterprises concentrate on area of public utility services.
- (d) The private sector enterprises are owned and managed by private individuals.
- (e) The public enterprises are totally funded by the public.

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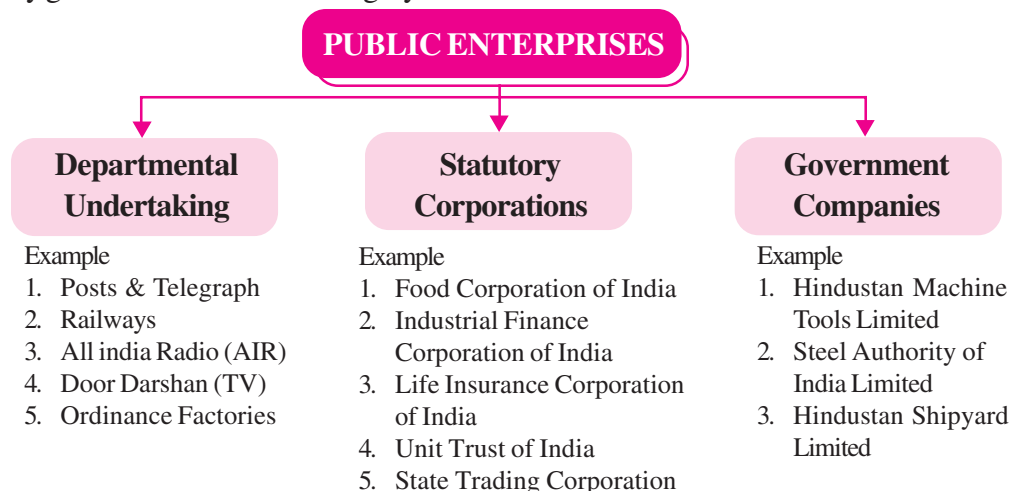
## 7.4 FORMS OF ORGANISATION OF PUBLIC ENTERPRISES

There are three different forms of organisation used for the public sector enterprises in India. These are (1) Departmental Undertaking; (2) Statutory (or Public) Corporation, and (3) Government Company.

**Departmental Undertaking** form of organisation is primarily used for provision of essential services such as railways, postal services, broadcasting etc. Such organisations function under the overall control of a ministry of the Government and are financed and controlled in the same way as any other government department. This form is considered suitable for activities where the government desires to have control over them in view of the public interest.

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

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



## 7.5 DEPARTMENTAL UNDERTAKINGS



Notes

Departmental undertakings are the oldest among the public enterprises. A departmental undertaking is organised, managed and financed by the Government. It is controlled by a specific department of the government. Each such department is headed by a minister. All policy matters and other important decisions are taken by the controlling ministry. The Parliament lays down the general policy for such undertakings.

### 7.5.1 Features of Departmental Undertakings

The main features of departmental undertakings are as follows:

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

### 7.5.2 Merits of Departmental Undertakings

The following are the merits of departmental undertakings :

- (a) **Fulfillment of Social Objectives :** The government has total control over these undertakings. As such it can fulfill its social and economic objectives. For example, opening of post offices in far off places, broadcasting and telecasting programmes, which may lead to the social, economic and intellectual development of the people are the social objectives that the departmental undertakings try to fulfill.
- (b) **Responsible to Legislature :** Questions may be asked about the working of departmental undertaking in the parliament and the concerned minister has to satisfy the public with his replies. As such they cannot take any step, which may harm the interest of any particular group of public. These undertakings are responsible to the public through the parliament.
- (c) **Control Over Economic Activities :** It helps the government to exercise control over the specialised economic activities and can act as instrument of making social and economic policy.
- (d) **Contribution to Government Revenue :** The surplus, if any, of the departmental undertakings belong to the government. This leads to increase in government income. Similarly, if there is deficiency, it is to be met by the government.
- (e) **Little Scope for Misuse of Funds :** Since such undertakings are subject to budgetary accounting and audit control, the possibilities of misuse of their funds is considerably reduced.

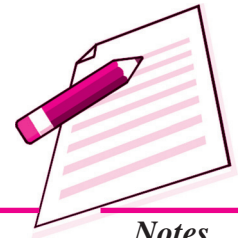
### 7.5.3 Limitations of Departmental Undertakings

Departmental undertakings suffer from the following limitations:

- (a) **The Influence of Bureaucracy :** On account of government control, a departmental undertaking suffers from all the ills of bureaucratic functioning. For instance, government permission is required for each expenditure, observance of government decisions regarding appointment and promotion of the employees and so on. Because of these reasons important decisions get delayed, employees cannot be given instant promotion or punishment. On account of these reasons some difficulties come in the way of working of departmental undertakings.
- (b) **Excessive Parliamentary Control :** On account of the Parliamentary control difficulties come in the way of day-to-day administration. This is also because questions are repeatedly asked in the parliament about the working of the undertaking.
- (c) **Lack of Professional Expertise :** The administrative officers who manage the affairs of the departmental undertakings do not generally have the business experience as well as expertise. Hence, these undertakings are not managed in a professional manner and suffer from deficiency leading to excessive drainage of public funds.
- (d) **Lack of Flexibility :** Flexibility is necessary for a successful business so that the demand of the changing times may be fulfilled. But departmental undertakings lack flexibility because its policies cannot be changed instantly.
- (e) **Inefficient Functioning :** Such organisations suffer from inefficiency on account of incompetent staff and lack of adequate incentives to improve efficiency of the employees.

It may be noted that departmental form of organisation for public enterprises is on its way to oblivion. Most undertakings such as those providing telephone, electricity services are now being converted into government companies, e.g., MTNL, BSNL, and so on.

<i>Merits</i>	<i>Limitations</i>
(a) Fulfillment of social objectives	(a) The Influence of Bureaucracy
(b) Responsibility to the public	(b) Excessive Parliamentary Control
(c) Control Over Economic Activities	(c) Lack of Professional Expertise
(d) Contribution to Government Revenue	(d) Lack of Flexibility
(e) Little Scope for Misuse of Funds	(e) Inefficient Functioning



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**INTEXT QUESTIONS 7.2**



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1. List any three services that are being taken care of by Departmental Undertakings.
2. Identify the following and categorise them into Departmental Undertakings, Statutory Corporations and Government Companies.
  - (a) Business Organisation established by the government and controlled by the Ministry concerned.
  - (b) Organisations incorporated under a special Act of Parliament or state legislature.
  - (c) It is managed by the government and is subject to budgetary, accounting and audit control.
  - (d) Organisation established by the government and registered under the companies Act.
3. Identify the Merits and Limitations of the departmental undertakings. Put their number in the boxes given below.
  - (a) The organisation fulfills the social and economic objectives of the government.
  - (b) Lack of flexibility, hence cannot take quick decision.
  - (c) The possibility of misuse of funds is limited.
  - (d) The organisation suffers due to inefficient and incompetent staff.
  - (e) The organisation is responsible to the public through the parliament.

Merits

○	○	
○	○	○

Limitations

○	○	
○	○	○

We have just discussed Departmental undertakings. Now we shall study about the second category of Public Enterprises, namely Statutory Corporation or Public Corporation.

**7.6 STATUTORY CORPORATIONS**

The Statutory Corporation (or Public Corporation) refers to such organisations which are incorporated under the special Acts of the Parliament/State Legislative Assemblies. Its management pattern, its powers and functions, the area of activity, rules and regulations

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for its employees and its relationship with government departments, etc. are specified in the concerned Act. Examples of statutory corporations are State Bank of India, Life Insurance Corporation of India, Industrial Finance Corporation of India, etc. It may be noted that more than one corporation can also be established under the same Act. State Electricity Boards and State Financial Corporation fall in this category.

### 7.6.1 Features of Statutory Corporations

The main features of Statutory Corporations are as follows:

- (a) It is incorporated under a special Act of Parliament or State Legislative Assembly.
- (b) It is an autonomous body and is free from government control in respect of its internal management. However, it is accountable to parliament and state legislature.
- (c) It has a separate legal existence. Its capital is wholly provided by the government.
- (d) It is managed by Board of Directors, which is composed of individuals who are trained and experienced in business management. The members of the board of Directors are nominated by the government.
- (e) It is supposed to be self sufficient in financial matters. However, in case of necessity it may take loan and/or seek assistance from the government.
- (f) The employees of these enterprises are recruited as per their own requirement by following the terms and conditions of recruitment decided by the Board.

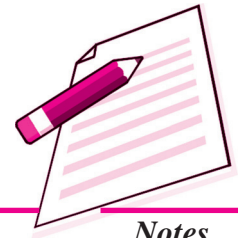
### 7.6.2 Merits of Statutory Corporations

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

- (a) **Expert Management :** It has the advantages of both the departmental and private undertakings. These enterprises are run on business principles under the guidance of expert and experienced Directors.
- (b) **Internal Autonomy :** Government has no direct interference in the day-to-day management of these corporations. Decisions can be taken promptly without any hindrance.
- (c) **Responsible to Parliament :** Statutory organisations are responsible to Parliament. Their activities are watched by the press and the public. As such they have to maintain a high level of efficiency and accountability.
- (d) **Flexibility :** As these are independent in matters of management and finance, they enjoy adequate flexibility in their operation. This helps in ensuring good performance and operational results.

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- (e) **Promotion of National Interests** : Statutory Corporations protect and promote national interests. The government is authorised to give policy directions to the statutory corporations under the provisions of the Acts governing them.
- (f) **Easy to Raise Funds** : Being government owned statutory bodies, they can easily get the required funds by issuing bonds etc.

### 7.6.3 Limitations of Statutory Corporations

Having studied the merits of statutory corporations we may now look to its limitations also. The following limitations are observed in statutory corporations.

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

<i>Merits</i>	<i>Limitations</i>
(a) Expert Management	(a) Government Interference
(b) Internal Autonomy	(b) Rigidity
(c) Responsible to Parliament	(c) Ignoring Commercial Approach
(d) Flexibility	
(e) Promotion of National Interest	
(f) Easy to Raise Funds	



### INTEXT QUESTIONS 7.3

1. State the features of statutory corporation mentioning its
  - (a) Incorporation
  - (b) Management
2. Rectify the errors (if any) in the following sentences and write the correct sentence in the specified space.
  - (a) Statutory Corporations are autonomous organisations.

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- (b) Statutory Corporations are registered under the Companies Act.
- (c) Statutory Corporations are motivated by profit.
- (d) The internal management of the Statutory Corporations is controlled by the Government.
- (e) The capital of Statutory Corporation is provided by private industrialists.

Having studied about Departmental Undertakings and Statutory Corporations we shall now study about Government Companies, which is the modern form of Public Enterprises.

### 7.7 GOVERNMENT COMPANIES

As per the provisions of the Companies Act, a company in which 51% or more of its capital is held by central and/or state government is regarded as a Government Company. These companies are registered under Companies Act, 1956 and follow all those rules and regulations as are applicable to any other registered company. The Government of India has organised and registered a number of its undertakings as government companies for ensuring managerial autonomy, operational efficiency and provide competition to private sector.

#### 7.7.1 Features of Government Companies

The main features of Government companies are as follows:

- (a) It is registered under the Companies Act, 1956.
- (b) It has a separate legal entity. It can sue and be sued, and can acquire property in its own name.
- (c) The annual reports of the government companies are required to be presented in parliament.
- (d) The capital is wholly or partially provided by the government. In case of partially owned company the capital is provided both by the government and private investors. But in such a case the central or state government must own at least 51% shares of the company.
- (e) It is managed by the Board of Directors. All the Directors or the majority of Directors are appointed by the government, depending upon the extent of private participation.
- (f) Its accounting and audit practices are more like those of private enterprises and its auditors are Chartered Accountants appointed by the government.
- (g) Its employees are not civil servants. It regulates its personnel policies according to its articles of associations.

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**7.7.2 Merits of Government Companies**

The merits of government company form of organising a public enterprise are as follows:

- (a) **Simple Procedure of Establishment :** A government company, as compared to other public enterprises, can be easily formed as there is no need to get a bill passed by the parliament or state legislature. It can be formed simply by following the procedure laid down by the Companies Act.
- (b) **Efficient Working on Business Lines :** The government company can be run on business principles. It is fully independent in financial and administrative matters. Its Board of Directors usually consists of some professionals and independent persons of repute.
- (c) **Efficient Management :** As the Annual Report of the government company is placed before both the houses of Parliament for discussion, its management is cautious in carrying out its activities and ensures efficiency in managing the business.
- (d) **Healthy Competition :** These companies usually offer a healthy competition to private sector and thus, ensure availability of goods and services at reasonable prices without compromising on the quality.

**7.7.3 Limitations of Government Companies**

The government companies suffer from the following limitations:

- (a) **Lack of Initiative :** The management of government companies always have the fear of public accountability. As a result, they lack initiative in taking right decisions at the right time. Moreover, some directors may not take real interest in business for fear of public criticism.
- (b) **Lack of Business Experience :** In practice, the management of these companies is generally put into the hands of administrative service officers who often lack experience in managing the business organisation on professional lines. So, in most cases, they fail to achieve the required efficiency levels.
- (c) **Change in Policies and Management :** The policies and management of these companies generally keep on changing with the change of government. Frequent change of rules, policies and procedures leads to an unhealthy situation of the business enterprises.

<i>Merits</i>	<i>Limitations</i>
(a) Simple procedure of establishment	(a) Lack of initiative
(b) Efficient working on Business lines	(b) Lack of business experience
(c) Efficient management	(c) Change of policies and management
(d) Healthy competition	



**INTEXT QUESTIONS 7.4**

1. The main objectives of establishing Government Companies are to ensure:
  - (a) Managerial autonomy
  - (b) \_\_\_\_\_
  - (c) \_\_\_\_\_
  
2. Classify the following statements as merit or limitation of Government Companies and put the respective numbers in the boxes given below:
  - (a) Its formation is simple and it is governed by Companies Act, 1956.
  - (b) It creates healthy competition in private sector.
  - (c) The Government Companies make delay in taking timely decisions.
  - (d) A change in Government leads to change in rules, policies and procedure of Government Company.
  - (e) It has financial and administrative autonomy.



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Merits

○	○
○	○

Limitations

○	○
○	○

**7.8 COMPARATIVE VIEW OF PUBLIC SECTOR ENTERPRISES**

<i>S.No.</i>	<i>Departmental Undertakings</i>	<i>Public Corporations</i>	<i>Government Companies</i>
1. Establishment	By a Ministry	By the Parliament under a special Act	By a Ministry with or without private participation
2. Legal Status	No separate entity distinct from the Government	Separate entity to sue and be sued	Separate corporate existence
3. Capital	Provided out of budgetary appropriation	Provided wholly by the Government	Part of it may be provided by private entrepreneurs



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4. Management	Government official from the Ministry concerned	Board of Directors	Board of Directors may include private individuals
5. Control and Accountability	Control vests with the Minister and the Ministry concerned	Parliament	Government (Ministry concerned)
6. Autonomy	No autonomy. Works as a part and parcel of government	No governmental interference in day-to-day affairs	Some freedom from governmental interference
7. Suitability	Defence, public utilities	Heavy industries and service providing enterprises with long gestation period.	All types of industrial and commercial enterprises

### 7.9 IMPORTANCE OF PUBLIC SECTOR ENTERPRISES

You know that all enterprises in our country are not public enterprises. There is mixed economy in our country and the private as well as the public sector contribute to the development of our economy. However, there are only some selected areas in which the government establishes its enterprises for a balanced development of the economy and promote public welfare. There are several areas where huge investment of capital is necessary but the margin of profit is either meager or it can be obtained only after a long period as in case of generation and supply of electricity, machine building, construction of dams, etc. The private businessmen hesitate to establish their enterprises in these areas but they cannot be neglected in public interest. As such these enterprises are established and run by the government. Similarly the public enterprises also help in balanced regional development by promoting industries in every part of the country. For example, with the establishment of Bhilai Steel Plant in Madhya Pradesh, several new small industries have come up in that state.

Industrial progress is of utmost importance for the development of the country and for this, it is necessary that some basic industries like oil, coal, gas, iron, steel, production of heavy electrical goods, etc., are to be fully developed. Public enterprises give impetus to the development of these basic industries and also help in the development of the private sector with their products and services. There are some industries which require heavy capital investment on account of technical reasons. Electricity, power, production of gas, heavy machinery tools, production of telephone etc., are such industries.

The development of public enterprises also prevents concentration of economic power in the hands of an individual, or a group of individuals. Not only that, in our country

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economic inequalities are increasing. Poor are becoming poorer and the rich more rich. The public enterprises can help in reducing inequalities with the help of various policies like utilising the earned profits in public welfare activities and by selling raw material to the small scale industries at lower prices.

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

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

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

### 7.10 CURRENT SCENARIO

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

At the commencement of the first five-year plan (1.4.1951) Government's investment was Rs. 29 crores in five central public sector enterprises. Now it has increased to Rs. 3,93,057 crores in 239 enterprises as on 31 March 2006. The public sector enterprises have been making substantial contribution to augment the resource of central government. During 2004-05 their contribution to the central exchequer was Rs. 1,10,599 crores.

There is no doubt that public enterprises have played a significant role in the Indian economy. But the overall performance of most of the public sector enterprises is not satisfactory. The rate of return on capital investment is very low. Most of them suffer from the limitations already discussed in the earlier sections. To improve the performance of the public enterprise, Government of India has taken several measures. On 24 July 1991 the Government of India announced its Industrial policy to improve the performance and portfolio of public sector enterprises. The new economic policies also emphasised on liberalisation, privatisation and globalisation of Indian economy. The role of public

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sector was redefined. In July 1997, Government identified nine central public sector enterprises as 'Navaratnas'. They are BHEL, BPCL, GAIL, HPCL, IOC, MTNL, NTPC, ONGC, SAIL. These public sector enterprises have been given autonomy for capital investment, to enter into joint ventures, to raise capital from domestic and international market etc. In October 1997, the Government granted enhanced autonomy and delegation of financial power to some other profit making public sector enterprises and categorised them as 'Miniratnas'. Presently there are 45 Miniratna Public Sector Enterprises functioning in India.

The Government has taken every step to revive and restructure the public sector enterprises to improve their performance, productivity and profitability. Major emphasis has been laid on the sick and chronically loss making enterprises, which are capable of being revived. These enterprises are referred to Board for Industrial and Financial Reconstruction (BIFR) to prepare appropriate revival or rehabilitation package. The government has set up a Board for Reconstruction of Public Sector Enterprises (BRPSE), which considers and advises the Government on the proposal of restructuring/ revival of sick and loss making units including the proposal for disinvestment or closure or sale. BRPSE has made recommendations in respect of 31 central public sector enterprises so far and out of them the Government has approved revival plan of 15 cases till 30 March 2006.



### INTEXT QUESTIONS 7.5

1. Enumerate the major goals achieved through public sector enterprises.
  - (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
  - (c) \_\_\_\_\_
  - (d) \_\_\_\_\_
  - (e) \_\_\_\_\_
2. (a) Expand the following:
 

(i) BHEL	(ii) BPCL	(iii) GAIL
(iv) HPCL	(v) IOC	(vi) MTNL
(vii) NTPC	(viii) ONGC	(ix) SAIL

  - (b) Under which category are all the above public sector enterprises placed by the Central Government.



## WHAT YOU HAVE LEARNT

- Business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings.
- Characteristics of Public Enterprises
  - ▶▶ Owned, managed and controlled by Government.
  - ▶▶ Funded by Government
  - ▶▶ Welfare oriented
  - ▶▶ Concentrate on public utility services
  - ▶▶ Responsible to parliament
  - ▶▶ Observance of Government formality is necessary
- There are three different forms of organisation used for the public sector enterprises. These are (1) Departmental Undertaking; (2) Statutory (or Public) Corporation and (3) Government Company.
- Departmental undertakings are organised, managed and financed by the Government. It is a part of the government and is managed like any other government department. It is financed through the government funds. It is subject to budgetary, accounting and audit control. So the possibility of misuse of funds is reduced. It fulfills the social and economic objectives of the government and is responsible to the legislature. It helps the government to exercise control over the specialised economic activities. Departmental undertakings suffer from limitations of bureaucratic functioning. Excessive parliamentary control, lack of flexibility, inefficient functioning are the other limitations of Departmental Undertakings.
- The Statutory Corporations are the organisations, which are incorporated under the special Acts of the Parliament/State Legislative Assemblies. These are autonomous bodies and are free from government control in respect of their internal management. However, they are accountable to parliament and state legislature. The capital is wholly provided by the government. They are managed by Board of Directors, which is composed of individuals who are trained and experienced in business management. The members of the board of Directors are nominated by the government.
- It is true that the greatest advantage of statutory corporation is its independence and flexibility, but it is found only on paper. In reality, there is excessive government interference in most of the matters. The amendments to their activities and rights



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can be made only by the Parliament. Since all these organisations face little competition, sometimes they ignore the commercial approach in managing their affairs.

- A company in which 51% or more of its capital is held by central and/or state government is regarded as a Government Company. These companies are registered under Companies Act 1956 and follow all those rules and regulations as are applicable to any other registered company. The capital is wholly or partially provided by the government. The Government Companies are formed simply by following the procedure laid down by the Companies Act. These companies are managed by the Board of Directors consisting of professionals and independent persons of repute. The government company can be run on business principles and it provides a healthy competition to private sector. In spite of all these advantages, these companies suffer from the limitations like lack of initiative in taking right decisions at the right time, lack of expertise in business management, frequent change of policies and management due to change in Government, etc.
- Importance of Public Sector Enterprises
  - ▶▶ Balanced regional development
  - ▶▶ Boost the basic industries of an economy
  - ▶▶ Concentrate on public welfare activities
  - ▶▶ Promote export
  - ▶▶ Price control of essential goods
  - ▶▶ Limit the influence of private monopoly.
  - ▶▶ Ensure security of the country.
  - ▶▶ Minimise economic inequalities.
- Current Scenario: At the commencement of first five-year plan Government's investment was Rs. 29 crores in five central public sector enterprises. Now it has increased to Rs. 3,93,057 crores in 239 enterprises as on 31 March 2006. The public enterprises have played a significant role in Indian economy. But the overall performance of most of the public sector enterprises is not satisfactory. The government is taking every step to revive and restructure the public sector enterprises to improve their performance, productivity and profitability. Major emphasis has been given on the sick and chronically loss making enterprises, which are capable of being revived. On 24 July 1991 the Government of India announced its Industrial policy to improve the performance and portfolio of public sector enterprises. The new economic policies also emphasised on liberalisation,

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privatisation and globalisation. The role of public sector was redefined. To grant autonomy and delegation of financial power to some of the profit making public sector enterprises Government has given them the status of Navaratnas and Miniratnas.



### KEY TERMS

Departmental Undertaking	Private sector	Public sector
Government Companies	Public Enterprises	Statutory Corporation



### TERMINAL EXERCISE

#### Very Short Answer Type Questions

1. Define Public Sector Enterprise.
2. What is meant by Public Corporation?
3. State the meaning of Departmental Undertaking.
4. What is a Government Company?
5. Name any two important goals to be achieved through public enterprises.

#### Short Answer Type Questions

6. Give any four features of Departmental Undertakings.
7. Distinguish between private sector and public sector enterprises (by giving any two points of distinction).
8. Explain (a) Fulfillment of social objectives and (b) Control over economic activities as merits of Departmental Undertakings.
9. How do public enterprises help in reducing the economic inequalities in the country?
10. Explain any two limitations of Statutory Corporations.

#### Long Answer Type Questions

11. What is meant by public sector enterprises? State in brief its features?
12. How are the public sector enterprises helping in the balanced development of the Indian Economy and promoting public welfare in the country?
13. What is a Government Company? How is it different from Statutory Corporation? Give any five such distinctions.

## MODULE - 2

### Business Organisations



Notes



**MODULE - 2***Business Organisations**Notes***Public Sector Enterprises**

14. Explain the merits of a Statutory Corporation over a Departmental Undertaking.
15. In a democracy like India, can we eliminate the public sector and give all the rights to the private sector? Give suitable arguments.
16. **While traveling on National Highway you noticed a Company named Hindustan Potash Ltd. Your father told you that it is a Government Company. But you were not satisfied. Therefore, your father explained you the features of a Government company to convince you. What are these features?**
17. **You have heard about various types of Public Sector Enterprises such as Departmental Undertakings, Public Corporations and Government Companies. Taking an example of all three give at least one name and two features of each.**

**ANSWERS TO INTEXT QUESTIONS**

- 7.1**
1. It refers to economic and social activities undertaken by public authorities.
  2. (a) False – The objective of public sector enterprises is welfare of the customer.  
(b) False – The public sector enterprises are managed by the Government.  
(c) False – The public sector enterprises concentrate on area of public utility service.  
(d) True  
(e) False – The public enterprises are financed from government funds and sometimes through public issues.
- 7.2**
1. (a) Railways                      (b) Postal Services                      (c) Broadcasting
  2. (a) Departmental undertaking                      (d) Statutory corporation  
(c) Government company                      (d) Government company
  3. Merits – (a), (c), (e)                      Limitations – (b), (d)
- 7.3**
1. (a) It is incorporated under a special Act of Parliament or State Legislature.  
(b) It is managed by a Board of Directors which is composed of individuals who are trained and experienced.
  2. (a) No change

## Public Sector Enterprises

- (b) Statutory corporations are incorporated under special Act of Parliament or state assemblies.
- (c) Statutory corporation are not motivated by profit.
- (d) The internal management of the statutory corporation is free from government control.
- (e) The capital of statutory corporation is provided by the government.

- 7.4** 1. (b) Operational efficiency (c) Competition to private sector  
 2. Merits – (a), (b), (e) Limitations – (c), (d)

- 7.5** 1. (a) Public welfare (b) Planned economic development of the country  
 (c) Regional balance (d) Import substitution  
 (e) Checking concentration of economic power

2. (a) (i) BHEL – Bharat Heavy Electricals Limited  
 (ii) BPCL – Bharat Petroleum Corporation Limited  
 (iii) GAIL – Gas Authority of India Limited  
 (iv) HPCL – Hindustan Petroleum Corporation Limited  
 (v) IOCL – Indian Oil Corporation Limited  
 (vi) MTNL – Mahanagar Telephone Nigam Limited  
 (vii) NTPC – National Thermal Power Corporation  
 (viii) ONGC – Oil and Natural Gas Corporation Ltd.  
 (ix) SAIL – Steel Authority of India Limited

(b) Navaratna

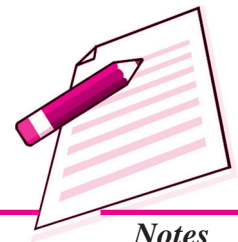


### DO AND LEARN

Find out from 10 residents of your locality to get information about which type of organisation they serve and categorise them in Private sector and Public Sector. Prepare a report stating the reasons for placing the respective organisations in different sectors.

## MODULE - 2

### Business Organisations



*Notes*

**MODULE - 2***Business Organisations***Public Sector Enterprises****ROLE PLAY***Notes*

1. Suresh and Ramesh are two close friends meeting each other after a long time. You are required to read the following and pick a role for yourself and the other for your friend and give suitable arguments.

Suresh : Hey, Ramesh! How are you? I am seeing you after a very long time.

Ramesh : Hello, Suresh! It is good to see you too.

Suresh : What are you doing presently?

Ramesh : I am working as an officer in Indian Railway.

Suresh : That's good. But I am in a Government Company.

Both of them started discussing about their own organisation.

In the light of the merits and limitations of Departmental Undertakings and Government Companies, you are required to continue the conversation with suitable argument.

2. There was a news about the good performance of Public Sector Organisations. That convince you, as a student of Business Studies. You decide to talk to your tutor about this during the PCP classes. You are Rajan and the conversation with you tutor started as follows :

Rajan : Sir, What is the reason that Govt. Organisations are performing well now a days in comparision to earlier years.

Tutor : Rajan you are absolutely correct. But do you know, that there are different types of organisation & all of them are not meant for earning profits.

Rajan : Is it so sir? Can you please tell something more about these organisations.

Tutor : Sure Rajan & the discussion continues.

## Module - III

# PREPARE FOR EMPLOYMENT

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**Marks 04**

**Hours 15**

Today we have a variety of opportunities to start our own business. These businesses may be in the form of small manufacturing unit, or trading unit. Small businesses offer a great opportunity for self-employment in village, towns and cities. Besides this, we can also provide various services to the people regularly and thereby become self-employed. Business also generates employment opportunities in the form of wage employment in government as well as private sector. Equipped with certain skills we can avail of various opportunities in offices as well in technical fields. The present module aims at developing amongst the learners an understanding of self-employment as well as wage employment.

### **Lesson 8. Self Employment**

### **Lesson 9. Getting Ready for Wage Employment**

## Success Stories



**Kavya Madhavan**  
**Enrolment No. 090008103065**

Kavya Madhavan is a highly acclaimed actress in the Malayalam film world. Making her debut as a child artiste, Kavya quickly managed to find a place in the hearts of Malayalees. However, all this was at the cost of dropping out of school at the Secondary level. Like many others, she too nurtured a dream of acquiring a college degree. Motivated to join the National Institute of Open Schooling (NIOS), Kavya Madhavan appeared for the Senior secondary level examination in Malayalam medium and emerged successful. But this was not achieved easily, she says.

Thanks to the Open Schooling system, Kavya Madhavan has now registered for B.Com in M.G. University, Kottayam, Kerala.



**Ganesh**  
**Enrolment No. Secondary Course: 25001292005**  
**Senior Secondary Course: 250012103570**

Ganesh has cleared the Secondary course of NIOS with first division and has now appeared in 4 subjects of Senior Secondary course. What differentiates Ganesh from other students is that he is suffering from a non-healing ulcer of bone infection. There is no treatment for his ailment; his lower part below the belt has not grown. The puss leaks from his body continuously. He cannot move, and even has no sensation in the lower part of his body. He has to be carried to be moved from one place to another.

However, support from his family members and the Chief Commissioner of Disabilities facilitated his enrolment as a student under Sarva Shiksha Abhiyan as a private candidate, thereby enabling him to clear Class 5 and Class 8. It was at this point that NIOS came to his rescue by providing the flexibility of studying at his own pace through credit accumulation. He could also study subjects of his own choice and was further allowed to appear for the examination in his house. UT Chandigarh continued to support him by providing him with the facility of tutors, who taught him Maths and Science.

With a keen interest in religion, he has read about the various *Puranas*, *Ramayana* etc., from which he has derived a lot of internal strength.

Ganesh is certainly determined to study further and wishes to pursue a course in Computer Science after clearing his Senior Secondary course from the NIOS.

## 8

**SELF EMPLOYMENT***Notes*

Having learnt about the nature and scope of business, business support services, business environment, modern mode of business, forms of business organisations etc. you may be thinking about earning your livelihood. At this stage you have to decide whether to take up a job in an organisation or to start your own business. When you accept an employment in any organisation, you have to perform various jobs as per the requirements of your employer and you may get a fixed amount of income as salary. But, instead of seeking a job, you can also opt to do something on your own to earn your livelihood. You may run a small retail shop, tailoring shop, restaurant, bakery and confectionery, beauty saloon, etc. in your locality. In other words, you may get engaged in trading or manufacturing on a small scale or providing some service for a price. Such economic activities are known as self-employment. In this lesson, let us learn more about the career option of self-employment in business.

**OBJECTIVES**

*After studying this lesson, you will be able to:*

- define the term 'self-employment';
- recognise the characteristics of self-employment;
- explain the importance of self-employment;
- enumerate the avenues of self-employment;
- explain the meaning and characteristics of small business;
- identify the different types of small businesses;
- describe the importance and scope of small business in India;



**MODULE - 3***Prepare for  
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- state the various policies of the Government for promotion of small business; and
- explain the various institutional support provided to small business in India.

**8.1 MEANING OF SELF-EMPLOYMENT**

You know that earning is necessary for a living. Your father, mother, brothers, sisters and others may be engaged in different economic activities through which they earn their livelihood. Have you ever observed their activities? What exactly do they do? Possibly some of them may be working for others in factories, shops, agricultural field etc. and get a fixed amount from their employers for the service rendered by them. These persons are engaged in an economic activity which is termed as wage employment or paid employment. But there are many persons who engage themselves in one occupation or some business which they start and manage on their own. They put in their best effort and take all types of risks to pursue their careers successfully. The entire earning of their work goes to them. All of us have seen small grocery shops, tailoring shops, medical stores etc. in our locality. These are owned and managed by a person, with or without the help of some assistants. Their economic activities are termed as self-employment. So when an individual engages in any economic activity and manages it on his own, it is known as self-employment.

From the above discussion we can analyse the characteristics of self-employment.

**8.2 CHARACTERISTICS OF SELF-EMPLOYMENT**

Following are the characteristics of self-employment:

1. Self-employment involves doing something on one's own to earn one's livelihood.
2. It involves ownership and management of activities by a person although he/she may take the help of one or two persons to assist him/her. Thus, self-employment may provide employment to other persons as well.
3. The earning from self-employment is not fixed. It depends on the income one can earn by producing or buying and selling goods or providing services to others at a price.
4. In self-employment, the owner alone has to take the profit and bear the risk of loss. So, we find a direct link between the effort and reward in self-employment.
5. It requires some amount of capital investment, although it may be small.
6. In self-employment, a person is free to take decisions in respect of running his business profitably and avail of any opportunity that may come up for expansion of his business. It gives complete freedom to work as per one's own will and within the parameters of the prevailing laws.

## Self Employment

Thus, self-employment may be defined as, an economic activity which one may perform on his own as a gainful occupation, and this may consist of producing and selling goods, buying and selling goods, or rendering services for a price.

### 8.3 IMPORTANCE OF SELF-EMPLOYMENT

Career is a way of making one's livelihood. Self-employment is also a career because one may employ oneself in business or in service activities and earn one's livelihood. With growing unemployment and lack of adequate job opportunities, self-employment has become very significant. its importance can be enumerated as follows.

1. **Advantage of Small Business :** Small-scale business has several advantages over large-scale business. It can be easily started, and requires small amount of capital investment. The self-employment involving activities on a small-scale is a good alternative to large scale business which has brought various evils like environmental pollution, development of slums, exploitation of workers, and so on.
2. **Preference over Wage Employment :** In self-employment there is no limit of earnings as is the case with wage employment. In self-employment one can use one's talent for own benefit. The decisions can be taken quickly and conveniently. All these factors act as strong motivators for self-employment to be preferred over wage employment.
3. **Developing the Spirit of Entrepreneurship :** Entrepreneurship involves taking risks because the entrepreneur tries to innovate new products, new methods of production and marketing. Self-employment, on the other hand, involves either no risk or very little risk. But, as soon as the self-employed person starts becoming innovative and takes steps to expand his business, he becomes an entrepreneur. Therefore, self-employment becomes a launching pad for entrepreneurship.
4. **Promotion of Individualised Services :** Self-employment may also take the form of providing individualised services like tailoring, repair work, dispensing of medicines etc. Such services are helpful in providing better consumer satisfaction. These can be easily started and run by individuals.
5. **Scope for Creativity :** It provides opportunity for development of creativity and skills in art and crafts, leading to preservation of the cultural heritage of India. For example, we can see creative ideas reflected in handicrafts, handloom products, etc.
6. **Reducing the Problem of Unemployment :** Self-employment provides opportunities of gainful occupation to those who otherwise remain unemployed. Thus it reduces the problem of unemployment.

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7. **A boon to Under-privileged in Respect of Higher Education :** Everyone may not be able to pursue higher education after Secondary or Senior Secondary examination due to one or the other reason. Such persons can start their career as self-employed in occupations that do not require higher education.

It may be noted that self-employment has been given high priority in government policies and programmes. A number of schemes have been initiated all over the country to encourage entrepreneurship and self-employment.



### INTEXT QUESTIONS 8.1

1. Define the term 'Self-employment' in your own words.
2. Which of the following examples indicate self-employment? Put a tick mark in the box if your answer is Yes.
  - (a) A worker working in a factory.
  - (b) A person running his stationery shop.
  - (c) A person working as manager in a bank.
  - (d) A person running a chemist shop.

### 8.4 AVENUES OF SELF-EMPLOYMENT

After learning the importance of self-employment you may be motivated to start your own enterprise even if it is on a small scale. But, what are the areas in which you can successfully run your enterprise? Before choosing a suitable career in self-employment you must have some idea about the avenues in which self-employment opportunities are available. Let us categorise the avenues of self-employment into the following broad areas.

1. Trading;
2. Manufacturing;
3. Professionals; and
4. Individualised services.

Let us discuss further about all these areas.

1. **Trading :** You know that trade involves buying and selling of goods and services. With small amount of investment one can start and run a small trading unit. You can think of starting a small grocery or stationery shop in your locality. If you are able to invest more capital and ready to take risk, then wholesale business is a

## Self Employment

good option for you. One can also take up some agency business or become a stockist. The real estate business which is booming now-a-days can also be a lucrative alternative.

2. **Manufacturing :** One can start a small industry of manufacturing bricks, or producing bakery items or confectionery. All these businesses require small amount of capital and simple equipment. Farming is another such area in which a person can work all alone or take the help of one or two persons. This is an age-old area of self-employment. Orchards, dairy, poultry, sericulture, fisheries, horticulture, etc. are good examples of avenues of self-employment.
3. **Professionals :** Occupations that require special knowledge and training in a particular field also provide opportunities of self-employment. Lawyers, doctors, chartered accountants, architects and journalists fall in this category. However one has to follow certain code of conduct framed by their association and need specialised knowledge and training.
4. **Individualised Services :** Tailoring, motor repairing, hair cutting, fashion designing, interior decoration etc. are some of the business activities, which provide individualised services to the consumers. These can be easily started and run by individuals. These activities are based on the personal skills of those who perform them. Blacksmiths, carpenters, goldsmiths are all self-employed persons.

You choose the area of your interest to pursue the career in self-employment. If you decide to start a small business of your own, you must have complete knowledge about the line you choose and the scope and importance of small business in our country, including the government policy and institutional support for its promotion. In the next sections, you will learn about these aspects of small business in detail.

### 8.5 MEANING OF SMALL BUSINESS

When somebody asks you, 'what is a small business', you would say that a business which is:

- small in size,
- requires low capital investment,
- employs small number of workers,
- volume or value of output is low, may be called as small business.

Yes! You are right. The size, capital investment, number of employees, volume of output as well as value of output etc. are the general parameters of measuring a business enterprise.

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We may define a small business as a business which is actively managed by its owners, operating within the local area and relatively small in size. However, the Government of India has considered the fixed capital investment in plant and machinery as the only criteria to define a small industrial unit in our country. Upto the year 1958, an industrial unit in which fixed capital investment was less than Rs. 5 lakh and employing workers of upto 50 if using power, and upto 100 if not using power was considered as a small business. This limit has been changed by the government from time to time. In the year 1960, the employment criterion was dropped. As per the latest changes with effect from 21 December 1999 the investment limit in plant and machinery of small scale sector has been raised upto Rs. 10 million (one crore). The plants and machinery may be held on ownership basis, on lease or on hire purchase. The limit of rupees one crore is subject to the condition that the unit is **not** owned, controlled or subsidiary of any other industrial undertaking.

### 8.6 CHARACTERISTICS OF SMALL BUSINESS

From the above discussion now we can identify the main characteristics of small business as:

- (i) A small business is usually owned and managed by one or a few persons.
- (ii) The owners take active participation in day-to-day activities of business.
- (iii) The participation of owners in the management helps in taking quick decision.
- (iv) The area of operation of a small business is limited. It generally caters to the need of the local people.
- (v) The small business units are generally labour intensive and thus require less capital investment.
- (vi) It generally uses local resources for its operation. The small-scale manufacturing units are usually located near the source of raw material, labour etc.
- (vii) Gestation period (the period that a business waits to get return on its investment) is short.
- (viii) The operation of a small business is flexible. It can easily change its nature, area of operation, process of production etc. as per the change in social, political and economic conditions.



### INTEXT QUESTIONS 8.2

1. State the meaning of small business in your own words. Give your answer in not more than 30 words.

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2. Identify the category (avenue) of self-employment from the following. Mention your answer in the box given against each statement.
- Samnan is a farmer having four acres of land. He has employed three people to look after his fields and orchards.
  - Ranjeet runs a small departmental store in the the central market of the city.
  - Gopal's mother is a doctor who runs her own clinic.
  - Karan's father takes orders and makes furniture.
  - Hari repairs gold chains and other ornaments.

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### 8.7 TYPES OF SMALL BUSINESS

In India we find different types of small business. They may be categorised on the basis of investment in fixed capital in plant and machinery or on the basis of nature or place of operation. Following are some of the main types of small business.

- |  |                                |
|--|--------------------------------|
| (a) Small-scale industries                               | (b) Tiny industries            |
| (c) Ancillary industrial undertakings                    | (d) Village industries         |
| (e) Cottage industries                                   | (f) Micro Business enterprises |
| (g) Small- scale Service and Business (industry related) |                                |
| (h) Trading units  |                                |

Let us have a brief idea of these small business.

- Small-scale Industries :** A small-scale industrial unit is one in which fixed capital investment in plant and machinery does not exceed Rs. One crore. In case of certain export promotion units this investment ceiling can be raised upto Rs. 5 crores.
- Tiny Industries :** A business unit whose total fixed capital investment in plant and machinery does not exceed Rs. 25 lakhs is called a tiny industry.
- Ancillary Industrial Undertakings :** When a small-scale industry supplies not less than 50% of its production to another industry, it is called as ancillary industrial undertaking. The fixed capital investment limit of Rs. One crore also applies to it. If an ancillary unit is owned by some other business unit, it losses it status of small business.
- Village Industries :** A unit that is located in rural area and whose fixed capital investment in plant and machinery does not exceed Rs. 50, 000 per artisan or worker is termed as village industry.



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- (e) **Cottage Industries :** These are small manufacturing units producing simple products involving some specific art or skill like handicrafts, filigree etc. They use simple equipments with indigenous technology for production. Cottage industries are carried on wholly or primarily with the help of members of the family either on a whole or part-time basis. These units are not defined by the ceiling of capital of investment.
- (f) **Micro Business Enterprises :** The fixed capital investment in plant and machinery of these enterprises does not exceed rupees one lakh.
- (g) **Small-scale Service and Business (Industry related) Enterprises (SSSBE):** In these businesses the investment limit in fixed assets of plant and machinery does not exceed Rs. 10 lakhs. The main business enterprises included under this category are – Advertising agency, marketing consultancy, Typing centre, Photo copying centre (Xeroxing), Industrial testing laboratory, Auto repair and garages, laundry and dry cleaning, tailoring, STD/ISD booths, beauty parlor, crèches, etc.
- (h) **Trading Units :** These are usually in the form of small retailers found in the market places.

### 8.8 IMPORTANCE OF SMALL BUSINESS IN INDIA

Having discussed the meaning, characteristics and different types of small business let us now look at its importance. Small business enterprises are found everywhere. They play a major role in the socio-economic development of any country. In view of India's scarce capital resource and abundant labour and natural resources, small-scale enterprises have been given an important place in the economic planning of the country. In India small-scale enterprises account for 35% of the gross value of the output in the manufacturing sector, 80% of the total industrial employment and about 45% of the total exports. Besides these contributions, the importance of small-scale business is increasing day by day due to the following factors.

1. The small business enterprises are capable of generating immediate and large-scale employment opportunities in our country.
2. They require less capital investment as compared to large scale business enterprise.
3. The cost of production is less due to use of local resources and less establishment and running cost.
4. The small industries help in effective mobilisation of the untapped resources of the country. With the help of local resources and indigenous technology, world-class products can be produced by village and cottage industries.
5. Small industries promote balanced regional development of the country. These can be easily set up at the source of resources that leads to overall economic development of that place.



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- The small industries help in improving the national image by exporting quality products to foreign country. The Indian handicrafts, handloom products, filigree, appliqué works have a high demand in international market.
- Small enterprises help in raising the standard of living of people. The people get employment or can start their own enterprises easily. They get variety of quality products for their daily consumption and use.

## 8.9 SCOPE FOR SMALL BUSINESS

The scope for small business is vast covering a wide variety of activities starting from retailing to manufacturing. There are some specific areas of economic activity which can be effectively and successfully managed by forming small business enterprises. Let us discuss about the scope for small business.

- Trading which involves buying and selling of goods and services requires less capital and time to start. This area of economic activity is dominated by small-scale entrepreneurs.
- The activities which require personalised service like motor repairing, tailoring, carpentry, beauty parlour etc. are run by establishing small business.
- It is the best option for those who do not like to be an employee, but become self-employed. People can work independently by running a small enterprise of their own.
- For products and services, which are of less demand or their demand is limited to any specific area, the small-scale business is most suitable for them.
- A large industrial unit cannot run smoothly without the support of small units. These industrial units often depend upon the small units (ancillary industrial undertaking) to get some parts or spares, which cannot be profitably produced by them.
- In the era of business process outsourcing (BPO), many new areas have opened up for small business enterprises.
- The business enterprises, which require constant touch of the owners with customers as well as the employees, can only be successfully run in the form of small enterprises.



### INTEXT QUESTIONS 8.3

- Name any two specific areas of economic activity, which can be effectively managed by small business enterprises.

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2. Identify the type of small scale industries on the basis of fixed capital investment in plant and machinery.
  - (a) Total amount of fixed capital investment in plant and machinery does not exceed Rs. 25 lakhs.
  - (b) The total amount of fixed capital investment in plant and machinery does not exceed Rs. One lakh.
  - (c) The total amount of fixed capital investment in plant and machinery is less than one Crore and more than Rs 25 lakhs.
  - (d) The total amount of fixed capital investment in plant and machinery does not exceed Rs. 10 Lakhs.
  - (e) The total amount of fixed capital investment in plant and machinery does not exceed Rs. 50,000 per artisan.

**8.10 GOVERNMENT POLICY TOWARDS SMALL BUSINESS**

The Government of India has given special importance to small business enterprises due to their vast potentiality for development of social and economic conditions of the country. Several kinds of assistance and support are announced from time to time keeping in view the changing economic conditions. The following are some of such steps taken by the Government for development of small business in India.

1. It provides liberalised credit policy like, less formalities to process the loans and advances, loans at concessional rate, etc.) for small scale industries.
2. To keep away from the competition with large scale industries, the Government of India has reserved about 800 items for exclusive production by small scale industries.
3. It provides concession and exemption in excise and sales tax to the small scale units. The excise exemption has raised from Rs. 50 lakh to Rs. One crore for small industries.
4. The Government also gives preference to the products of small enterprises while purchasing stationery and other items for its own consumption and use.
5. For promotion, financing and development of small-scale industrial enterprises several institutes like Small Industrial Development Bank of India (SIDBI), National bank for Agriculture and Rural Development (NABARD), District Industries Centres (DICs) etc. have been set up by the Government.
6. The Government of India has set up separate Ministry of Micro, Small and Medium Enterprises (<http://msme.gov.in>) for effective planning and monitoring of the development of small business enterprises in the country.

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7. To provide benefits of its plans and policies to large number of industries, it has lowered the investment limit from Rs. 3 crore to Rs. One crore.
8. The Government provides capital subsidy of 12 % for investment in technology in select sectors of small-scale business.
9. To encourage total quality management (TQM) the Government provides grant of Rs. 75,000 to each units that obtains ISO 9000 certification.
10. To provide finance, design and marketing support to handloom sector it has launched the Deendayal Hathkargha Protsahan Yojana.
11. The Government of India has permitted upto 24 % of total shareholding of small-scale units by other industrial units.
12. The Government provides land, power and water etc. at concessional rates to small business enterprises.
13. Special incentives are also provided for setting up of small enterprises in rural and backward areas.
14. The Government encourages to establish small-scale industry by providing developed land and industrial estates.

## 8.11 INSTITUTIONAL SUPPORT TO SMALL BUSINESS

To start and run a business enterprise one requires various resources and facilities. These may be in the form of technical, financial, marketing or training support. Such support is provided by the Government by establishing different institutions or organisations from time to time. Let us now learn about some of such institutions and their role in providing support.

1. **National Small Industries Corporation Ltd. :** The National Small Industries Corporation Ltd. (NSIC) was set up in the year 1955 to promote, aid and foster the growth of small industries in India. It provides wide range of promotional services to small-scale industries. It provides machinery to small-scale industries under hire purchase schemes and also on lease basis. It helps in export marketing of the products of small-scale industries. It also helps in development and upgradation of technology and implementation of modernisation programme of small-scale industries.
2. **State Small Industries Development Corporations :** The State Small Industries Development Corporations (SSIDCs) are set up in various states of our country to cater to the developmental needs of small, tiny and village industries. Their main functions include procurement and distribution of scarce raw materials, supply of machinery on hire purchase basis, and providing marketing facilities for the products of small-scale industries.

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3. **National Bank for Agriculture and Rural Development :** The National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 as an apex institution for financing agricultural and rural sectors. It provides financial assistance through Regional Rural banks and cooperative banks to agriculture, small-scale, cottage and village industries, handicrafts and other allied activities in rural areas.
4. **Small Industries Development Bank of India :** The Small Industries Development Bank of India (SIDBI) was set up in 1990 as a principal financial institution for promotion, financing and development of small-scale industrial enterprises. It acts as an apex institution for all banks providing credit facility to small-scale industries in our country.
5. **Small Industries Service Institutions :** The Small Industries Service Institutions (SISIs) are set up to provide consultancy and training to small enterprises. These institutions render technical support service and conduct entrepreneurship development programmes. They also provide trade and market information to small-scale industries.
6. **District Industries Centres :** For promotion of small industries in our country District Industries Centres (DICs) are set up at district level. They conduct industrial potential survey keeping in view the availability of resources. Their main function includes implementation of various schemes of central and state governments. They appraise the worthiness of various proposals of the entrepreneurs to establish new units, guide them in choosing suitable machinery, equipment and raw materials.



### INTEXT QUESTIONS 8.4

1. Mention any five supports provided by SISIs to small-scale industries.
2. Mention the full form of the following in the space given below.
 

(a) DIC	(b) SIDBI	(c) NABARD
(d) NSIC	(e) SSIDC	



### WHAT YOU HAVE LEARNT

- Any economic activity which one may perform on his own as a gainful occupation is termed as self-employment. Such an activity may consist of producing and selling goods, buying and selling goods, or rendering services for a price.

## Self Employment

- Importance of Self-Employment:
  - ▶▶ Advantage of small business
  - ▶▶ Preference over wage employment
  - ▶▶ Developing the spirit of entrepreneurship
  - ▶▶ Promotion of individualised services
  - ▶▶ Scope for creativity
  - ▶▶ Reducing the problem of unemployment
  - ▶▶ A boon to under-privileged in respect of higher studies
- Avenues of self-employment: Before choosing a suitable career in self-employment one must have an idea about the various avenues like trading, manufacturing, professional occupation and individualised services.
- A business which is small in size, requires less capital investment, employs less number of workers, volume or value of output is less, may be called as Small Business.
- Characteristic of Small Business: It is owned and managed by one or few persons. The owner takes active participation in day to day management. Small businesses are generally labour intensive and require less capital investment. These units use local resources and are established mainly to cater to the needs of local people. The operation of a small business is more flexible and requires smaller gestation period.
- On the basis of fixed capital investment in plant and machinery, small businesses in India are classified as (a) Small-scale industries; (b) Tiny industries; (c) Ancillary small industry; (d) Village industries; (e) Cottage industries; (f) Micro business enterprises; (g) Small- scale service and business (industry related) enterprises; and (h) Trading units.
- Importance of small Business in India: Small scale business contribute about 35% gross value of output in manufacturing sectors, 80% of total industrial employment and 45% of total exports. They generate employment opportunities, require less capital investment, promote balanced regional development, improve standard of living of the people and exports quality products.
- Scope for Small Scale Business: The scope for small scale business is vast covering a variety of areas like trading, personalised services, produce products and service for local area, etc.

## MODULE - 3

*Prepare for  
Employment*



*Notes*

## MODULE - 3

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**Notes**

### Self Employment

- The Government of India provides several assistance and support to small business enterprises. These include: liberalised credit policy, capital subsidy, concession and exemption in excise and sales tax, special support for promotion, financing and development of small-scale industries through SIDBI, NABARD, and DICs. It also provides land, power and water etc. at concessional rate to small business enterprises. It has established separate ministry for the over all development of small industries in our country.
- The Government provides technical, financial, marketing and training support to small business enterprises by establishing various organisations like NSIC, SSIDC, SIDBI, NABARD, SISI and DICs.



#### KEY TERMS

Ancillary small industry

Cottage industry

Gestation period

Micro business

Self-employment

Small-scale industry

Tiny industry

Village industry



#### TERMINAL EXERCISE

##### *Very Short Answer Type Questions*

1. What is meant by term 'Self-employment'?
2. State any two characteristics of small business.
3. What is tiny industry?
4. Mention any four types of business enterprises included under Small-scale Service and Business (Industry related) Enterprises.
5. Enumerate any four types of small-scale industries found in India.

##### *Short Answer Type Questions*

6. Mention any four characteristics of Self-employment.
7. Explain any two avenues of self-employment.
8. State any four characteristics of small business.
9. Describe the role of SIDBI and SISI in providing support to small business in India.
10. What are the areas in which small-scale business enterprises can be successfully established?



## Self Employment

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### Long Answer Type Questions

11. Explain any four points of significance of self-employment.
12. State and explain any four types of small industries.
13. Describe the various institutional support provided to the small business in India.
14. State any six assistance and support provided by the Government of India for development of small-scale business.
15. Describe the importance of small business in India.
16. **After passing Class 12, Apoorva wants to start her own manufacturing business on a small-scale. Her father has promised her to meet her initial financial requirement. She has advised that there number of a government agencies providing help in various fields and she can approach them. Name such agencies and state the nature of assistance these can provide in starting small businesses.**
17. **Amogh when sees his father, who is working in a reputed company on a high position, coming from office quite late and exhausted Most of the times he is tense because of work, he decides never to go for wage employment and will start his own busines in life. Explain him the various avenues of self employment so that he may start weighing advantages and disadvantages of each one of them.**



Notes



### ANSWERS TO INTEXT QUESTIONS

- 8.1** 2. Yes – ‘b’ and ‘d’
- 8.2** 2. (a) Manufacturing, (b) Trading, (c) Professional Occupation  
(d) Individualised Service, (e) Individualised Service
- 8.3** 1. (a) Trading, (b) Personalised services (or any other)
2. (a) Tiny Industry, (b) Micro Business Enterprises,  
(c) Small-scale Industry (d) SSSBE, (e) Village Industry.
- 8.4** 1. (a) Consultancy, (b) Training, (c) Technical support service  
(d) Entrepreneurship development programmes  
(e) Provides trade and market information
2. (a) District Industries Centre  
(b) Small Industries Development Bank of India  
(c) National Bank for Agriculture and Rural Development  
(d) National Small Industries Corporation  
(e) State Small Industries Development Corporations

**MODULE - 3****Self Employment***Prepare for  
Employment***Notes****DO AND LEARN**

Survey about 5 to 6 small business units in the nearby area and study in detail regarding the following:

- a) Avenue of Self-employment
- b) Capital investment
- c) Type of Small business
- d) Govt. support to these small businesses
- e) Problems faced by these units (if any)

**ROLE PLAY**

Ramesh was a brilliant student but his friend Suresh was not upto the mark. But both of them were very good friends. After completing Secondary course Ramesh went to the nearby city for higher studies. During the vacation when Ramesh came to his village he found Suresh moving here and there and that he has discontinued his studies. He was also looking very tense.

Here is the abstract of their conversation.

Ramesh : What happened to you? You look upset.

Suresh : I have discontinued my studies and now I don't want to be a burden on my parents. I want to earn my livelihood. I have to choose a suitable career.

Ramesh : Why do not you start a small business?

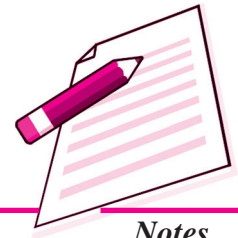
Suresh : Small business! I do not have any idea about it.

Ramesh : Okay. Come with me. I shall tell you about it in detail.

Ramesh explained to Suresh about the meaning, characteristics and scope of small business in our country. He also explained to him about the Government as well as various institutional support provided for development of small business.

Choose a role for yourself and one for your friend and continue the conversation.

## 9

**GETTING READY FOR WAGE  
EMPLOYMENT***Notes*

Once you decide to earn your livelihood by pursuing wage employment you should be ready to work as an employee; work under certain terms and conditions of employment; and get fixed amount of salary or wages as remuneration. But how will you enter into the world of employment? In the present employment situation of our country it is not an easy task to get into any job. It requires serious preparation in addition to having required qualification and experience for any job. You need to find out the vacant position of the jobs in different organisations, prepare and post your resume for the same and be ready to face the employment test. In this lesson you will learn in detail about all these points.

**OBJECTIVES**

*After studying this lesson, you will be able to:*

- identify the various sources of information about job vacancies;
- explain the meaning and role of employment exchange;
- state the procedure for getting the name registered in employment exchange;
- enumerate the various jobs offered through employment exchange;
- recognise the role of placement agencies in getting the jobs;
- describe the role of advertising media as source of information about the jobs;
- prepare a good bio-data/resume to offer your candidature for any post; and
- prepare yourself for any type of selection test or interview.

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### Getting Ready for Wage Employment

## 9.1 SOURCES OF INFORMATION ABOUT JOB VACANCIES

You must know some people who are employed in different factories, other business units, and offices. If you ask them as to how did they get the information about the vacancies in those offices, you will learn that they got the necessary information from various sources like:

1. Employment Exchanges
2. Placement Agencies
3. Newspapers and Magazines
4. Employment News
5. Internet
6. Leaflets
7. Notice boards of the Offices and Factories
8. Television and Radio
9. Mobile Phone
10. Friends and Relatives

Let us have a brief idea about all these sources.

1. **Employment Exchanges :** In our country employment exchanges have been set up by the government for bringing together job seekers and job-providers. The employment exchange maintains the list of job seekers and registers their names for different categories of jobs according to their qualification. When the employers approach the employment exchange for recruitment, it identifies the candidates from its list and informs them about these vacancies so that they can approach the concerned employers.
2. **Placement Agencies :** These are privately operated organisations whose main function is to introduce the job seekers to their prospective employers. Their role is similar to the government owned employment exchanges.
3. **Newspaper and Magazines :** The use of newspapers and magazines both at regional and national level, are the most commonly used mode of information for the candidates about the job vacancies. The employers usually advertise their vacancies and invite the prospective candidates to offer their candidature.
4. **Employment News :** The employment news/Rozgar Samachar is published by Ministry of Information and Broadcasting, Government of India in every week that contains the advertisement of vacancy position of jobs in different organisations. This is simultaneously published in English, Hindi and Urdu languages.
5. **Internet :** Internet is the most convenient source of getting information about the availability of vacancies. A number of organisations, now-a-days give offer through their websites to fill up the vacancies in their offices. By using internet one can search for various job vacancies as per his/her qualification and experience.

## Getting Ready for Wage Employment

6. **Leaflets :** In cities and towns advertisement for recruitment are sometimes given in leaflets and distributed through newspaper vendors. This is particularly suitable where the employer wants to engage the local people for specific jobs only.
7. **Notice Boards of Offices and Factories :** Information about various job vacancies are also displayed on the notice boards of government and private offices and near the factory gates.
8. **Television and Radio :** Sometimes informations about job vacancies are also telecasted through television. It may appear in special programmes or in the form of written message being scrolled during news and other programmes. The cable television operators also give advertisement in the local areas. The advertisements for job vacancies are broadcasted through radio, which is regaining its popularity now-a-days.
9. **Mobile Phone :** Information about job vacancies are sometimes received through mobile phone in the form of SMS. On receiving the message one may show interest to offer his/her candidature. Further information can also be obtained by following the instructions given in the SMS.
10. **Friends and Relatives :** Many times we also get information from our Friends and Relatives about the job vacancies in government, private and business enterprises. The existing staff of the offices may also inform others about the existing vacancies.

## 9.2 ROLE OF EMPLOYMENT EXCHANGES

The primary objective of Employment Exchanges is settlement of job seekers either through regular jobs or through self-employment. To achieve this objective the employment exchanges in India perform the following functions:

- (a) Registration and placement of job seekers so as to ensure a proper balance between demand and supply of labour;
- (b) Collect comprehensive Employment Market Information on a quarterly basis for creation of data base for use in effective management of the demand and supply of labour,
- (c) Undertake career counselling and vocational guidance with a view to effectively guiding the job seekers.
- (d) Conduct area specific specialised study or surveys to have an assessment of skills available and the marketable skills required for encouraging the job seekers for self-employment particularly in rural informal sector.
- (e) Arrange disbursement of unemployment allowance to certain specific categories of job seekers through the employment exchanges as decided by some of the State Governments.

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### Getting Ready for Wage Employment

There are more than 940 Employment Exchanges run by the State Governments to provide support to the job seekers. These include State Employment Exchange (S.E.E) District Employment Exchange (DEE), Rural Employment Bureau (REB), University Employment Information and Guidance Bureau (UEI &GB) etc. The Employment exchanges are controlled by Directorate General of Employment and Training (DGE&T).

#### 9.2.1 Procedure of Registration

The procedure of getting one's name registered with the employment exchange is as given below: -

1. A candidate can visit any Employment Exchange during specified hours on any working day. He can get from the employment exchange a blank form/ card for registration to be filled up. This card includes entries for the name, father's name, residential address, qualifications, whether general or SC/ST category, N.C.O. Code No., job desired, place where the candidate wishes to serve, salary expected, work experience and other related information.
2. Certain documents have to be enclosed with the card, such as proof of age, photocopies of educational qualification, experience, as well as a photocopy of Proof of residence like driving license, Voter's identity Card, PAN card number, passport or ration card. The candidates are required to bring all certificates/ documents in original and a set of photocopies of all the above documents. The photocopies are retained at the Employment Exchange.
3. Having filled up the card, and with the enclosures ready, you are to see the Employment Officer with your original certificates and copies. He will verify and attest the copies and your signature on the Card and return the original certificates.
4. The card as attested above will be kept in the Employment Exchange for record and making future calls for employment, and a registration card, bearing code no. of the job (NCO), date of registration, and your specimen signatures will be handed over to you. This registration card is to be renewed after every three years. In case of any correspondence with the employment exchange you are to mention your registration number.

It may be mentioned here that in the present employment scenario, the role of Employment Exchanges are not significant. A large number of recruiting agencies like Staff Selection Commission, Railway Recruitment Boards, Banking Service Recruitment Boards etc. have come up and they have restricted the area of operations of the Employment Exchanges. In fact today almost all the major establishments both in Government and outside have their own recruitment agencies. The judgments of the Supreme Court have made it obligatory on the part of the employers to advertise the vacancies in other media and consider candidates not only submitted by the employment exchanges but also those responding to the open advertisements for selection of candidates. Therefore, Employment Exchanges are left with limited categories that too at the lower levels of appointment.



## Getting Ready for Wage Employment

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### 9.2.2 Kinds of Jobs Available through Employment Exchanges

The Employment Exchanges sponsor the names of registered applicants for different types of jobs. The list of some of such jobs/posts for which the Employment Exchanges generally sponsor the names is as follows:

Aya	Meter Reader
Barber	Motor Mechanic
Booking Clerk	Nurses
Caretaker	Office Assistant
Carpenter	Operation Theatre Technician
Data Entry operator	Peon
Doctors	Pharmacist
Electrician	Physiotherapist
Instructor (Steno / Steno typist)	Plumber
Journalist	Programmer (Computer Software)
Laboratory Assistant	Receptionist
Laboratory Attendant	Safai Karamchari
Laboratory Technician	Sales representative
Librarian	Sanitary Inspector
Library Attendant/Assistant	Security Guards
Lift operator	Stenographer
Mali	Teachers (Aided and Primary schools)
Messenger	Telephone Operator
Typist	Travel Agent
X-Ray Technician	Translator



*Notes*



### INTEXT QUESTIONS 9.1

1. Which source of information about job vacancy you find convenient and why?
2. Mention any three functions of Employment Exchanges.

### 9.3 ROLE OF PLACEMENT AGENCIES

The Placement Agencies could be Private Employment Agencies or Management Consultants. Private Employment Agencies bring together the employers and suitable candidates available for a job. Private agencies advertise the vacancies in the

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newspapers, periodicals and Internet. They prepare the data bank of all the prospective employers and job seekers. This data bank helps them to find out the suitable employer for a job seeker and vice versa. They keep on informing the job seekers periodically about the employers and the availability of jobs according to their qualifications, skills and experience. Some placement agencies also help the candidates in preparing their bio-data and other documents.

The placement agencies also screen the applicants against the requirements specified by the employer. They supply a list of candidates, and the organisation only conducts the final round of interview. These agencies function primarily in the Metropolitan cities and they charge a fee from the employer as well as employee for their services. Fake placement agencies are also found in different parts of the country. These fake agencies collect money from the jobseekers and arrange fake interviews. Job seekers, therefore may be careful in utilizing their services.

Management Consultants specialize in the placement of executives at middle and top level of management. These are basically executive searching agencies. These agencies work at a nation wide level and they charge a substantial amount of fee from employer as well as employee. Some of the nationally known Management Consultants are ABC Consultants, Ferguson Associates, The Search House and Analytic Consultancy Bureau.

The placement agencies basically help in informing the availability of jobs in private sectors. Most of the small and medium size business enterprises rely upon the placement agencies for all types of manpower requirement. The big enterprises often advertise the vacancies directly through newspapers and internet. The job seekers can register their name with the placement agencies for the post of office assistant, typist, salesperson, marketing executives, accounts assistant, computer operators etc.

### 9.4 ROLE OF ADVERTISING MEDIA

You learnt about the role of Employment Exchanges and Placement Agencies in helping the job seekers to get the job of their liking. The advertising media also play an important role in informing the job seekers about the job vacancies and procedure to be followed in applying for the same. You know that advertisements for the job vacancies can be given in print media and electronic media. Print media includes daily Newspapers, Employment News, Journals and Magazines etc. Similarly electronic media mainly includes Internet, Television and Radio.

#### 9.4.1 Print Media

Newspapers are the most common print medium for advertisements of job vacancies. All small and big companies advertise their job vacancies in popular newspapers both at regional level and national level. The Employment News is a weekly publication that only carries advertisements for job vacancies. Some of the popular newspapers carry their employment news editions on weekly basis.

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The advertisement for job vacancies in print form receives tremendous response from the job seekers because it contains details about the eligibility criteria, proforma of application form, necessary instruction to fill up the application form etc.

### 9.4.2 Electronic Media

With the advancement of Information and Communication Technology, electronic media has become the most common and convenient source of recruitment. There are so many websites that provide information about employment opportunities. Some of such sites are [www.naukri.com](http://www.naukri.com), [www.monsterindia.com](http://www.monsterindia.com), [www.careerindia.com](http://www.careerindia.com), [www.placementindia.com](http://www.placementindia.com). They provide the facility of searching various jobs as per:

- the category (like computer, academic, engineering, sales and marketing, finance etc.)
- the required post ( fitter, electrical, office assistant, teachers etc.)
- the place of job (i.e. the city or state within which the job seeker wants to search job)
- the experience(number of years of experience)
- expected salary (annual package from 2 to 3 lakhs, 3 to 5 lakhs, 5 to 10 lakhs etc.)

The job seekers can find out the information about various types of job on the basis of the above criteria just by visiting the websites of different placement agencies. The job seekers can also post their resume to these placement agencies to find out suitable job for them. They get information about the availability of jobs as per their qualification and experience through email and accordingly take the action to contact the employers for interview. The employers can also use those resumes and directly contact the job seekers as per their requirement.



### INTEXT QUESTIONS 9.2

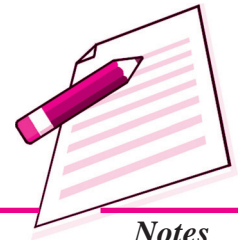
1. List any three functions of placement agencies.
2. List the criteria on the basis of which one can search the job vacancies through internet.

## 9.5 APPLYING FOR A JOB

In the earlier sections of this lesson you have learnt the various sources from where you could get the information about the availability of job vacancies, qualification and experience required and details about the employer. Now suppose for a particular

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## Getting Ready for Wage Employment

post you would like to offer your candidature. What would you do? Obviously you have to prepare an application containing your qualification and experience and other details to justify yourself as the most suitable candidate for that post. This brief account of one's professional or work experience and qualifications is termed as the Bio-data (Biographic Data) or Resume, Curriculum Vitae (CV).

### *9.5.1 Preparation of a Bio-data*

Let us learn how to prepare a Bio-data. In most of the cases the employers want to receive the application in their prescribed proforma that makes their job easier in screening the applications. In that case you need not to be worried about preparing your own bio-data in different style to attract the attention of the employer. But in other cases, mostly for jobs in private sector you should pay special attention to the style, language, presentation as well as contents of your bio-data. Your bio-data should contain factual details. Avoid preparing lengthy bio-data. Briefly present your qualifications, responsibilities, experience and achievements etc.

Your bio-data should have four basic sections. The first being your name and contact details, the second your educational qualifications (academics and technical), then your work history (responsibilities, experience and achievements etc.) and finally details regarding references. The list enclosures may be given at the end of your bio-data. In brief, your bio data should have the following points: -

1. Full Name (in Block Letters)
2. Father's/Husband's Name
3. Date of Birth
4. Residential Address
5. Details of Educational Qualifications
6. Details of Technical or Professional Qualifications, if any
7. Experience
8. Name of References
9. List of Enclosures
10. Signature of Candidate

The above points may be presented in different format and style. Now-a-days the employer wants to scan a bio-data quickly rather than reading page after page about your qualifications and achievements. Therefore, be brief and clear with just enough details to convey your message. A brief guide to help you to arrange the above-mentioned details in a proper order is as follows.

## Getting Ready for Wage Employment

1. Begin your resume with your name, address, phone number, and email address, generally centered on the page.
2. Describe the type of position you are seeking in a sentence or two under a heading labeled 'Objective'.
3. Now, give your educational details - the name of the school, college, institute, board, percentage of marks secured, year of passing the examinations etc. in summary form.
4. Details of any technical education or skills you have may be mentioned. It may include other information about any such skills or experience like computer skills, additional training, foreign language or any other professional association you may belong to.
5. Work experience with job description and responsibilities handled should be described.
6. Personal details like marital status, date of birth, Father's/Husband's name or family details, hobbies and interest can be given under separate heading as 'Personal Details'.

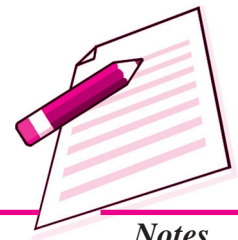
### 9.5.2 Covering Letter

When applying for a job, the bio-data should be accompanied with an appropriate covering letter. You must be thinking how to write a covering letter. In this section let us learn about different aspects of writing a covering letter.

- (a) **The Opening :** This is where you tell the employers 'who you are', 'why are you writing' and 'how you came to know about the vacancy'! The 'who are you' part is a brief introduction of yourself. Just mention the basic facts about you. In the 'why you are writing' part you mention which position you are applying for. Then be sure to mention how you heard about the organization or the job. You might write "This is with reference to your advertisement in Hindustan Times dated 29 January 2014 regarding the vacancy of a trainee in your sales department".
- (b) **Suitability of Your Candidature :** The objective of this part of the letter is to mention the reason why the employer should see you as a viable candidate. It is best to start with a statement that provides an overview of your qualifications and emphasizing that they match their requirements. A typical sentence may be "As a trained Graduate in Management I offer the following skills and accomplishment".
- (c) **About the Organisation :** In this section of the letter you may tell something positive about the organisation and mention why you would like to be a part of them by working there. You might mention the reputation of the organization, past record, sales records, size, corporate culture, management or anything that they

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take pride in. Prospective employers like to know that you have chosen them for a reason and they are not just one of hundreds of the companies you are applying to.

- (d) **Request for further Action :** This is the closing paragraph of the letter. The closing paragraph is about thanking the employer for spending time to read your letter or for considering you as a candidate for a job. It is an important thing to end the letter in a courteous way by taking the initiative to follow up.

Finally check your letter for typographic, misspellings and grammatical errors. Now you are ready for 'complimentary close'. Do not forget to put your signature at the end of your letter.

#### 9.5.3 Some Do's and Don'ts When Applying for a Job

So you have just seen that applying for a job means all about having your bio data and covering letter as the best sales documents about you. The following list of do's and don'ts will help you in preparing your application in a better way.

- (a) Follow all the instructions given in the advertisement. If it says send three photographs or three copies of resume, do send as asked! The employer may have his own reasons to ask you to do that.
- (b) Make sure your application is sent and received on time. Many companies do not even acknowledge late applications as they reflect on the poor time management skills of the applicants.
- (c) Do include all documents in one application. Make sure all your documents are in order and tied up properly with your covering letter on top.
- (d) Don't use the same covering letter every time you apply for a job. Write a fresh covering letter every time you apply by making changes appropriate for the vacancy you are applying for. Do not customise it.
- (e) Don't assume that your application has been received. Confirm from the employer or the placement agency if they have received your application. Applications may be misplaced in post even e-mail should be confirmed.
- (f) Don't include written references in your application. Include them only if asked for.
- (g) Try to get all the facts before applying for a job and tailor your application accordingly.
- (h) If your application is not considered then do find out the reason. Learn from it. Knowing your weaknesses will help you to improve while applying second time.



**INTEXT QUESTIONS 9.3**

1. What are the informations one should give in the opening part of the covering letter.
2. Name the different basic sections a bio-data should contain.

**9.6 EMPLOYMENT TESTS**

The selection test for employment usually held in the form of written test, physical fitness and interview. Let us learn about these tests in brief.

**9.6.1 Written Test**

Most of the organisations particularly in government sector conduct written test for the selection of candidates. This test may be conducted to test the subject knowledge or general aptitude of the candidates. Descriptive or multiple-choice questions are framed for the written test. To test the general aptitude questions are asked from current affairs, general science, reasoning, arithmetic, languages etc. The job seeker must prepare seriously and make thorough practice for the written test.

**9.6.2 Physical Fitness Test**

In certain categories of jobs like Defence, Police and Forest services physical fitness of the candidate is essential. So they conduct physical fitness test for selection of right candidate. In almost all cases medical test is also conducted by giving offer for appointment. This test is arranged to know whether the candidate is suffering form any serious disease that might affect the normal functioning of his job.

**9.6.3 Interview**

To judge the communication skill, presentation skill, subject command, leadership quality, personality etc. the employers usually arrange for interview. This may be done in the form of group discussion and personal interview. For group discussion, small groups are formed to discuss on any specific topic. During the discussion the employer judge the communication and leadership qualities of the candidate. The employer can observe the candidates' performance sitting in the discussion room or through at close circuit television. This process can also be carried out in teleconferencing mode in which the employer can observe the process sitting at distant places even sitting in a foreign country.

In personal interview the prospective employer and employee interact with each other by using different mode. Here the prospective employer tries to evaluate the candidate from different angles like his/her personality, communication skill, subject command, judgment, honesty, integrity, tolerance, patience, politeness, promptness etc. The personal interview can be held in the form of:

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- (a) Telephonic Interview
- (b) Interview through Teleconference
- (c) Chatting through Internet
- (d) Face to face interaction

Face to face interview is the most common form of personal interview in which the candidate is asked to interact with the interview board. The interview board is headed by a chairperson and comprises of senior officers from the same organisation and outside experts. The other forms of personal interview like telephonic interview, interview through teleconferencing and chatting through internet are common in corporate sector.

**9.7 PERSONAL INTERVIEW**

The main purpose of holding personal interview is to assess the suitability of the candidate for a particular post. So it is very important for you to prepare for the interview physically, mentally and psychologically. In this section you shall learn about the different aspect of personal interview that would help in to face the interview board comfortably and confidently. Let us discuss those points by classifying the entire procedure into three different stages – (i) Preparing for the interview; (ii) On the day of the interview; and (iii) During the Interview. Let us learn in detail.

***(i) Preparing for the Interview***

At this stage you are advised to do the following:

1. Keep yourself well informed about current affairs, important current national and international problems and issues, and topics of general interest through regular reading of newspapers and listening to radio and watching the discussions on television.
2. Gather information about the organisation, its main activity, background, expansion / takeover plans etc. All these informations can be obtained from the Annual Report of the organisation or from its website.
3. Know the job profile of the post applied for.
4. Refresh your area of specialisation. A revision of your own subject of studies is desirable.
5. List out your strength and weakness.
6. Visit the site of interview, if possible. Prior visit will help to ensure punctuality on the day of interview and also will reduce nervousness.
7. Put all your documents and certificates including the call letter for the interview in a folder.

## Getting Ready for Wage Employment

### (ii) On the Day of the Interview

1. Have a good sleep in the previous night and wake up early in the morning.
2. Do your daily chores.
3. Ensure that your appearance is neat and tidy. Use well-pressed clothes, well-polished footwear.
4. Carry your document folder and reach the interview site on time.
5. After reaching the site go to the washroom, comb your hair and watch your appearance.
6. Then wait at the interview place for your turn.
7. During the waiting time you can even ask for the literature of the company and read it.

### (iii) During the Interview

Take care of the following points inside the interview chamber.

1. Entry to the interview room is most important. Knock, greet, and close the door while facing the interviewer as gently as possible. Walk in confidently. Do not sit till you are asked to. If the interviewer gives a hand, give him warm, confident and firm handshake. Remember first impression is very important. In your entry you are being observed for your gait, confidence and manners.
2. The body language of the candidate is observed carefully. Sit properly and bend forward slightly to show an attitude of interest and attention. Do not fiddle with anything - pen, paper, spectacles, other items on table like paperweight etc. Fidgeting, twitching, scratching etc. show lack of confidence and concentration.
3. While answering questions the following points need to be observed.
  - Listen, think and then talk.
  - Do not be in hurry to answer. Take your own time.
  - If you have not heard or understood the question, politely ask for a repeat. Do not assume things and give wrong position.
  - If you do not know the answer, tell frankly that you do not know.
  - If you make a mistake, admit it gracefully.
  - Be brief and clear in your reply. No one likes a talkative person.
  - Do not tell a lie. Be honest in your response.
  - Do not get angry and lose your Control even if the questions are insulting or irrelevant. Remember it may be asked to check your patience or attitude.

## MODULE - 3

*Prepare for  
Employment*



*Notes*

## MODULE - 3

### Prepare for Employment



#### Notes

### Getting Ready for Wage Employment

- Do not interrupt. Maintain eye contact.
- Avoid words like 'I mean', 'Okay' etc.
- Display enthusiasm, courage and energy while answering the questions. This shows that you are genuinely interested in the job.
- Ask questions if you are asked to ask.
- Be well mannered during the whole interview. Words like 'Thank you' 'I beg your pardon' 'yes please' at appropriate places reflect your manners.
- Be natural. Don't try to copy anyone.
- At the end of the interview, thank the interviewer politely with smile.
- Your picking up things from the table, getting up and leaving the room is also observed. Do these movements confidently.
- Walk confidently. Open the door while facing the interviewer and close the door after you leave.
- Do not forget to wish the receptionist or secretary before you leave the premises.

Analyze the interview to know what went wrong. Accept your failure and get ready for next interview.

<i>Some typical questions asked at an interview</i>	<i>What do interviewers look for in a candidate?</i>	<i>Some common reasons for rejection at an Interview</i>
<ul style="list-style-type: none"> <li>• Why do you consider yourself suitable for this job?</li> <li>• Tell me something about yourself or your family background.</li> <li>• What are your strength and weaknesses?</li> <li>• Why do you want to join this company?</li> <li>• Why have you chosen this line/field?</li> <li>• What are your goals in life?</li> <li>• What are your hobbies and how do you spend your free time?</li> <li>• What are your salary expectations?</li> </ul>	<ul style="list-style-type: none"> <li>• Personality</li> <li>• Knowledge of the subject/intelligence</li> <li>• Education and experience</li> <li>• Communication Skills</li> <li>• Past achievements</li> <li>• Personal qualities like honesty, integrity, tolerance, patience, politeness, promptness etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Poor physical projection</li> <li>• Lack of courtesy/manners</li> <li>• Lack of sincerity</li> <li>• Dishonesty</li> <li>• Poor communication skills</li> <li>• Disorganized and vague answers</li> <li>• Telling lies</li> <li>• Non punctuality</li> <li>• Lack of knowledge/intelligence</li> <li>• Loud voice</li> <li>• Under/over confident</li> <li>• Poor grooming</li> </ul>

## Getting Ready for Wage Employment



### INTEXT QUESTIONS 9.4

1. Name two terms/phrases a candidate should avoid during an interview.
2. Name three term/phrases one may use during an interview to show his/her good manners.
3. Name the different forms of personal interview

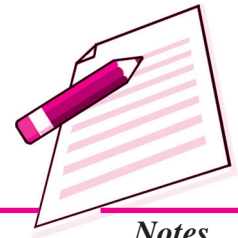


### WHAT YOU HAVE LEARNT

- The various sources of information about job vacancies are (a) Employment Exchanges, (b) Placement Agencies, (c) Newspapers and Magazines, (d) Employment News, (e) Internet, (f) Leaflets, (g) Notice boards of the Offices and Factories, (h) Television and Radio, (i) Mobile Phone, and (j) Friends and Relatives.
- Employment Exchange helps the job seekers in registering and sponsoring their names for various job vacancies. It also undertakes career counselling and vocational guidance to the job seekers. It collects comprehensive 'employment market information' on a quarterly basis for creation of data base for use in effective management of the demand and supply of labour. It conducts area specific specialised study or surveys to have an assessment of skills available and the marketable skills required for encouraging the job seekers for self-employment
- The Placement Agencies bring together the employers and suitable candidates available for a job. They advertise the post, prepare the data bank of job seekers and inform them as per the availability of post. Some placement agencies also perform the screening of applications on behalf of the employers. The Management Consultants perform the placement of executives at middle and top level of management.
- The advertising media also play an important role in informing the job seekers about the job vacancies. The advertising media may consist of print media and electronic media. Print media includes daily Newspapers, Employment News, Journals and Magazines etc. Similarly electronic media mainly includes Internet, Television and Radio.
- While applying for a job one should give more attention to prepare a well balanced bio-data. A standard bio-data should have four basic sections – (a) Name and contact details; (b) Educational qualifications (academics and technical); (c) Work history (responsibilities, experience and achievements etc.); and (d) Details regarding references.

## MODULE - 3

*Prepare for  
Employment*



*Notes*

## MODULE - 3

*Prepare for  
Employment*



*Notes*

### Getting Ready for Wage Employment

- When applying for a job, the bio-data should be accompanied with an appropriate covering letter. This letter contains four parts. The opening part contains the information about candidate, why is he writing and how he came to know about the vacancy. The second part contains the suitability of the candidate for that particular post. The third part highlights the reasons for choosing that organisation to serve there. Finally, the candidate makes a formal request to consider his application and taking suitable action.
- The selection test for employment is usually held in the form of written test, physical fitness and interview. The interview may be taken in the form of group discussion and personal interview. The personal interview may be arranged in the form of (a) Telephonic Interview; (b) Interview through Teleconference; (c) Chatting through Internet; and (d) Face to face interaction.



#### KEY TERMS

Bio-data	Curriculum Vitae	Employment Exchanges
Employment News	Internet	Interview
Management Consultants	Personal Interview	Physical Fitness Test
Placement Agencies	Resume	



#### TERMINAL EXERCISE

##### *Very Short Answer Type Questions*

1. Enumerate any four sources of information of vacancies of job.
2. State the role of management consultants in the process of recruitment.
3. What is meant by the term 'resume'?
4. Name any four personal qualities of a job seeker.
5. What are the qualities an interviewer can judge from 'Group discussion'?

##### *Short Answer Type Questions*

6. Employment Exchanges are not playing significant role in the process of recruitment. Do you agree with this statement? Give reasons.
7. Explain any two sources that provide information about job vacancies.
8. State the functions performed by placement agencies in the process of recruitment.
9. State any four points one should mention in his/her bio-data.



## Getting Ready for Wage Employment

10. Describe the role of print media in providing information about the vacancies in job position.

### Long Answer Type Questions

11. Briefly describe the procedure for getting the name registered in employment exchanges.
12. Explain the role of employment exchanges in India.
13. Describe the role of electronic media in helping the job seekers to get the jobs of their liking.
14. What are the points one should consider while preparing a covering letter for sending bio-data to a company?
15. Describe in brief the interview form of selection test.



## ANSWERS TO INTEXT QUESTIONS

- 9.1** 2. (a) Registration and placement of job seekers  
(b) Career counselling and vocational guidance  
(c) Collection of information about employment market
- 9.2** 1. (a) Prepare the data bank of employers and job seekers  
(b) Advertise the vacancies  
(c) Help the job seekers in preparing their bio-data
2. (a) Category of jobs      (b) Post      (c) Place of job  
(d) Expected salary
- 9.3** 1. (a) Brief introduction of the applicant  
(b) Purpose of writing the application  
(c) Sources of information about the vacancy
2. (a) Name and contact details      (b) Educational qualifications  
(c) Work history      (d) Details regarding references
- 9.4** 1. (a) I mean      (b) Okay
2. (a) Thank you      (b) I beg your pardon      (c) Yes please
3. (a) Telephonic Interview      (b) Interview through Teleconference  
(c) Chatting through Internet      (d) Face to face interaction

## MODULE - 3

*Prepare for  
Employment*



*Notes*

**MODULE - 3***Prepare for  
Employment***Notes****Getting Ready for Wage Employment****DO AND LEARN**

- (1) Visit the nearest Employment Exchange and watch the process of registration of name.
- (2) Familiarize yourself with the important documents to be filled up to get vocational guidance in Employment Exchange.
- (3) Take out one week's newspapers and identify the job vacancies for which you qualify after passing 10+2 examination.

**ROLE PLAY**

Meena and Reena are two friends. After completing the studies Meena joined in a nationalised bank as an officer and Reena started an export business. Reena did very well in her business at the beginning. But after a period of three years she observed that her business is not yielding good result and finally decided to wind up the business. Both the friends met each other after a gap of five years. They started interacting.

Meena : Hi! Reena. What are you doing now?

Reena : Nothing. I am trying to get into some job. But I am not successful till now.

Meena : What is the problem?

Reena : I don't know. I am doing very well in the written test. But during the personal interview I failed each time.

Meena : Okay, my friend. Don't worry. I will give some tips. Definitely you will be successful next time.

Both the friends started discussing the various points to be considered while preparing for the personal interview.

Assume the role of Meena and ask your friend to play as Reena and continue the conversation.

## QUESTION PAPER DESIGN Class : Senior Secondary

**Subject : Business Studies**

**Time : 3 Hours**

**Marks : 100**

### 1. Weightage by Objectives

<i>Objective</i>	<i>K</i>	<i>U</i>	<i>A</i>	<i>Total</i>
Percentage of marks	20%	40%	40%	100%

### 2. Weightage to form questions

Total no. of questions 30 for 100 marks paper.

<i>Form of questions &amp; their marks</i>	<i>VLA</i>	<i>LA</i>	<i>SA2</i>	<i>SA1</i>	<i>MCQ</i>
	5	5	5	5	10

### 3. Distribution of marks

*100 marks paper*

$$1 \times 10 = 10$$

$$3 \times 5 = 15$$

$$4 \times 5 = 20$$

$$5 \times 5 = 25$$

$$6 \times 5 = 30$$

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$$30 \quad 100$$


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### 4. Time allocation

*Total time*                      **180 minutes**

LA2 (6 marks)                      50 minutes

LA1 (5 marks)                      45 minutes

SA2 (4 marks)                      35 minutes

SA1 (3 marks)                      30 minutes

MCQ (1 marks)                      10 minutes

Reading & Revision                      10 minutes

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180

### 5. Weightage by Content

Weightage allocated to each module in curriculum.

I	Business Around Us	8	V.	Functions of Management	20
II.	Business Organisations	8	VI.	Business Finance	20
III.	Preparing for Employment	4	VII.	Marketing	20
IV.	Business Management : Nature and Scope	10	VIII.	Trade and Consumer Protection	10

**Total Marks**

**100**

# CURRICULUM BUSINESS STUDIES

(319)

## RATIONALE

Business is a dynamic process that brings man, money, machine and materials together to produce goods and services that not only fulfills our basic needs but also provides us comfort and makes our lives easier. If we look into the past we realize that the procedures and practices followed in business in those days were completely different from modern days. Today, the use of modern technology in every field of business, whether it is production or distribution, has made the business globally competitive. It is more sensitive and mostly affected by the consumption pattern of the people, government's policies and changes in information and communication technology, better transportation facility, etc. It is more exposed to risk and uncertainties than what it was in past. Therefore, a systematic effort is required to understand, analyze, manage and respond to the changes that affect the functioning of business in the present day society.

Keeping in mind the above, the curriculum in the subject of Business Studies at Senior Secondary level is designed to cater to the needs of the learners of National Institute of Open Schooling (NIOS). It aims at creating an interest and understanding in the area of trade, and its auxiliaries, management, finance, marketing, consumer protection and would enable the learners to acquire the necessary knowledge to enter into the area of self-employment as well as wage employment.

The entire course content of Business Studies is divided various modules. Learning experiences considered essential for business studies are described in these modules. These modules contain nature and scope of business, business practices in past and the modern trends, forms and formation of business organisation,

management, finance, and marketing. It also covers details about the environment in which business operates and highlights upon consumer protection.

The modules on preparing for employment has been designed to impart knowledge in the area of employment. The objective is to make the learners aware about the world of employment so that after gaining knowledge they can either start their own venture or become employed somewhere else to earn their livelihood.

## COURSE OBJECTIVES

The basic objectives of teaching Business Studies at senior secondary level are to enable the learners:

- To promote an understanding about different aspects of Business;
- To acquaint with the forms and formation of different types of business organisation;
- To acquire preliminary knowledge about procedures and practices of business being followed in various business transactions;
- To apply the understanding on Business in their day-to-day life;
- To acquaint with some modern techniques used in the field of Business and the effect of Science and Technology in the modern business world;
- To develop some basic knowledge and understanding about the world of work that would prepare them to feel confident to enter into the field of self-employment as well as wage employment;
- To pursue higher studies in the field of Business and allied areas.

## COURSE STRUCTURE

<i>S.No.</i>	<i>Modules</i>	<i>Study hours</i>	<i>Marks</i>
1.	Business Around Us	20	8
2.	Business Organisations	20	8
3.	Preparing for Employment	10	4
	<b>Sub Total (a)</b>	<b>50</b>	<b>20</b>
4.	Business Management : Nature and Scope	25	10
5.	Functions of Management	50	20
6.	Business Finance	50	20
7.	Marketing Management	50	20
8.	Trade and Consumer Protection	25	10
	<b>Sub Total (b)</b>	<b>200</b>	<b>80</b>
	<b>Grand Total (a + b)</b>	<b>250</b>	<b>100</b>

**Note :** The learner will prepare **TUTOR MARKED** assignments in module i to iii for 20 marks and TMA will have 20 percent weightage. 80 percent weightage will be for modules iv to viii. The question paper will be from module iv to viii and will be of 100 marks and for a duration of 3 hours.

## COURSE DESCRIPTION

### MODULE 1 : BUSINESS AROUND US

**08 Marks**

**20 Hours**

#### Approach

Business plays a vital role in our lives, not only by providing us various goods and services but also by offering many opportunities to earn our livelihood. This module has been designed to help the learner to identify the scope of business activities and to understand the evolution of business over time.

#### 1.1 Nature and Scope of Business

- Economic Activities – Business, Profession and Employment
- Characteristics of Business
- Objectives of Business
- Significance of Business
- Classification of Business Activities

#### 1.2 Support Services to Business

- Meaning and importance of support services
- Types of support services and their nature.
  - ▶▶ Banking
  - ▶▶ Insurance
  - ▶▶ Transport
  - ▶▶ Warehousing
  - ▶▶ Communication

#### 1.3 Business Environment

- Meaning and Importance of Business Environment
- Dimension of Business Environment
- Economic Environment of Business
- Social Environment of Business
- Political and Legal Environment of Business
- Technological Environment of Business

- Demographic Environment of Business
- Recent Developments in Indian Economy
- Concept and Importance of Social Responsibility
- Social Responsibility towards various interest groups
- Business Ethics

#### 1.4 Modern Modes of Business

- E-business,
- E-commerce,
- E-banking,
- E-post,
- Outsourcing of Services.

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### MODULE 2 : BUSINESS ORGANISATIONS

**08 Marks**

**20 Hours**

#### Approach

Business can be done by an individual, a small group of persons or collectively by a large number of persons. Even the government also participates in running businesses. So on the basis of ownership different forms of businesses are found in our society. The formation and operation of all these businesses differ according to the ownership of the business. To acquaint the learners with business ownership and formation of different business organisations, this module has been designed.

#### 2.1 Forms of Business Organisation

- Meaning of forms of Business Organisation
- Different forms of Business Organisation: Sole proprietorship, Joint Hindu Family, Partnership, Co-operative Societies – Meaning, Characteristics, Merits, Limitations, Suitability and Formation

#### 2.2 Company Form of Business Organisation

- Meaning, Characteristics and Types of Joint Stock Company

- Merits, Limitations and Suitability of Joint Stock Company
- Choosing the right form of business organisation.
- Multinational Company - Meaning, Features, Advantages and Limitations

#### 2.3 Public Sector Enterprises

- Concept of Private and Public Sector
- Forms of Public Sector Enterprises- Departmental Undertaking, Public Corporation, Government Company
- Role and Importance of Public Sector Enterprises

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### MODULE 3 :PREPARING FOR EMPLOYMENT

**04 Marks**

**10 Hours**

#### Approach

Today we have a variety of opportunities to start our own business. These businesses may be in the form of small manufacturing unit, or trading unit. Small businesses offer a great opportunity for self-employment in villages, towns and cities. Besides this, we can also provide various services to the people regularly and thereby become self-employed. Business also generates employment opportunities in the form of wage employment in government as well as private sector. Equipped with certain skills we can avail of various opportunities in offices as well in technical fields. The present module aims at developing amongst the learners an understanding of self-employment, as well as wage employment.

#### 3.1 Self-employment

- Meaning and importance of self-employment
- Characteristics of self-employment
- Avenues for self employment, manufacturing, trading, providing services
- Meaning and characteristics Small Business



- Importance and scope of Small Business in India
- Government's policies towards small Business in India
- Institutional Support to small Business in India

### 3.2 Getting Ready for Wage Employment

- Various sources
  - ▶▶ Employment exchange- meaning, procedure of registration, types of job offered
  - ▶▶ Placement agencies-meaning, concept, jobs offered
  - ▶▶ Advertising media-print and electronic types of job offered
- Getting ready for employment-preparing bio-data, preparing for employment test, preparing for interview.

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## MODULE 4 : BUSINESS MANAGEMENT : NATURE AND SCOPE

**10 Marks**

**25 Hours**

### Approach

Success of a business depends on how efficiently it is being managed and run. In today's world, a manager plays a significant role in the survival and growth of business. He/She should be equipped with sound knowledge of management nature, principles and scope of management. This module aims at equipping the learners with the fundamental knowledge about management of a business.

#### 4.1 Fundamentals of Management

- Concept, Characteristics and Importance of Management
- Nature of management – as a science, as an art, as a process, as a discipline, as a group, as an activity

- Levels of Management
- Principles of Management
- Functions of Management

---

## MODULE 5 : FUNCTIONS OF MANAGEMENT

**20 Marks**

**50 Hours**

### Approach

Management plays a very significant in the success of an enterprise. For the managers have to plan organise direct control and co-ordinate its various activities. This lesson aims at preparing the learners with fundamental modules of the different functions of management.

#### 5.1 Planning and Organising

- Meaning, features and importance of planning
- Steps in Planning
- Meaning and process of Organising
- Organisation Structure

#### 5.2 Staffing

- Staffing- meaning and importance
- Process of staffing
- Recruitment and selection
- Training

#### 5.3 Directing

- Directing- meaning and importance
- Elements of directing- communication, supervision, motivation, leadership

#### 5.4 Co-ordination and Controlling

- Coordination- Meaning, and significance
- Controlling- meaning and nature
- Importance of controlling
- Process of control

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## MODULE 6 : BUSINESS FINANCE

**20 Marks**

**50 Hours**

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### Approach

Finance is an essential pre-requisite to start and run a business. So it is required to realize the need of finance, amount of financial requirement for a business, from where and how finance has to be raised by a business. This module discusses the kinds of requirements of funds by a business and various alternatives available to obtain those funds.

### 6.1 Financing of Business

- Meaning of Business Finance
- Importance of Business Finance
- Types of Business Finance- Short term, Medium term and Long term Finance
- Methods of Raising Capital:
  - ▶▶ Short term Capital: Trade Credit, Bank Credit (Loans and Advances, Cash Credit, Overdraft, Discounting of bills), Factoring, Advance from Customers, Installment credit,
  - ▶▶ Long term Capital: Issue of Share, Issue of Debenture, Loans from Financial Institutions, Public Deposits, Retention of Profits, Leasing, FDI, GDR, ADR

### 6.2 Sources of Long term Finance

- Nature and Importance of Long-term finance
- Sources- Capital market, Special Financial Institutions, Banks, Non-Banking Financial Companies, Mutual Funds, and Retained profits.
- Foreign Sources of Finance- External Borrowings, Foreign Investment, NRI-financing

### 6.3 Financial Planning

- Meaning and objectives of Financial Planning

- Concept of Capital Structure
- Concept of Capitalization
- Determining Fixed and Working capital requirement
- Dividend and its determinants

### 6.4 Indian Financial Market

- Meaning of Financial market
- Capital market and Money market
- Primary market and Secondary market
- Stock Exchange– Role and Functions,
- Stock Exchanges in India
- Role of SEBI

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## MODULE 7 : MARKETING MANAGEMENT

**20 Marks**

**50 Hours**

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### Approach

Business exists to satisfy the wants of consumers. The products should be made available to consumers in the form they like, at the place of their convenience, at a price they are willing to give and it should be attractive to the consumers. Only then can a business survive and be successful. This module has been designed to develop amongst the learners an insight into marketing aspect of business.

### 7.1 Introduction to Marketing

- Meaning of Marketing
- Importance of marketing
- Marketing vs. Selling
- Objectives of Marketing
- Functions of Marketing

### 7.2 Marketing-mix

- Concept of Marketing-mix
- Product-meaning, classification

- Pricing- Factors and approaches
- Place- channels of distribution- meaning, types and factors affecting the choice of an appropriate channel
- Promotion – meaning and concept of promotion mix

### 7.3 Advertising and Salesmanship

- Advertising- meaning, difference between advertising and publicity, objectives, media
- Salesmanship - Meaning, role, qualities of a good salesman
- Sales promotion- meaning, objectives and tools used

- Recent trends in distribution- Direct marketing, Tele-marketing, Internet marketing

### 8.2 External Trade

- Meaning, importance and types
- Difficulties faced in external trade
- Export trade procedure
- Import trade procedure
- Export promotion measures

### 8.3 Consumer Protection

- Meaning of consumer
- Consumer protection-meaning and importance
- Rights and responsibilities of Consumers
- Mechanism for Consumer Protection

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## MODULE 8 : TRADE AND CONSUMER PROTECTION

**10 Marks**

**25 Hours**

### Approach

Trade and consumer protection are related in the sense that the consumers buy goods and services from the traders offering the same. This module has been developed in such a manner that the learners are able to understand the different ways in which internal or domestic trade is organised and the procedure to external trade as well as the various aspects of consumer protection.

### 8.1 Internal Trade

- Meaning and characteristics of Internal trade
- Types of middlemen and their role- Wholesaler; Retailer
- Large Scale retail stores

### Scheme of Evaluation

The learners will be evaluated through Public examination as well as Continuous and Comprehensive Evaluation in the form of Tutor Marked Assignments (TMAs).

<i>Examination</i>	<i>Marks</i>	<i>Duration</i>	<i>Paper</i>
Public Exam.	100	3 Hour	One
TMA	20	Self-paced	

TMA will be treated as a learning tool only i.e., to help the learners to know their progress and prepare well for the public examination. The subject teachers at study centers will evaluate the TMA and the awards of TMA will be reflected on the mark sheets separately.

## Success Stories

### Jaspal Singh

**Enrolment No.: Secondary - 27020212195**

**Senior Secondary – 92279300066**



Forced to discontinue his tenth class in 1993 in order to earn a livelihood to support his family, when his parents met with an accident, Jaspal Singh resumed his studies in 2003 by enrolling for the Secondary level course in NIOS. The flexibility of the NIOS system enabled him to pursue his studies along with his vocation. He acquired skills in fashion designing while working as a freelancer in garment export houses.

Having completed his Senior Secondary course from the NIOS and moved by the desire to continue studies, Jaspal Singh has managed to obtain admission to a three year course in Fashion Management at the University of Thames Valley, London.

### Ms. Sudha

**Enrolment No. : 27029182593**



Ms. Sudha was a only housewife until such time that her husband passed away and she was offered the job of a constable in the Delhi Police. She then took up the job to support the family consisting of her two children.

Sudha who had not completed her schooling was motivated by her children to join the NIOS. She then passed the Secondary examination from NIOS in April 2009. A resident of Sant Nagar, Burari, Delhi and posted at the Rohini Court, Delhi, Sudha today feels more confident and empowered by the qualification acquired by her through the NIOS.

# Student Feedback Form

## Senior Secondary Course

Name.....

Enrolment No.....

Subject: Business Studies (319)

Book No: 1

Dear Learner,

We, at the National Institute of Open Schooling, are always trying to make our courses relevant to your needs. In order to get appropriate feedback from you so that we can improve the study material accordingly, we are enclosing this form. Please fill in the form and post it back to us at the following address:

**Director (Academic)**  
National Institute of Open Schooling  
A-24/25, Institutional Area,  
Sector 62, NOIDA-201307 (U.P)

1. When did you receive the study material (indicate month and year)?

Month       Year

2. How much did you use the material? (Mark ✓ against the most appropriate one)

Extensively                       Selectively   
Not much                       Not at all

3. How much time (in hours) do you spend every day for study?

4. Did you find the material useful? (Mark ✓ against the most appropriate one)

Very much                       To some extent                       Very little

5. What other reference material do you consult?

**Title**

**Publishers**

Title	Publishers





12. Which format of **“What You Have Learnt”** did you like best? (Please tick mark)
- Point wise
  - Flow chart
  - Given in a paragraph
13. Did you remember the Key Terms given at the end of each lesson? Yes/No
14. Did you find the **"Do and Learn"** section interesting and useful? Yes/No
15. How did you like the section "Role Play"?
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
16. Did you aware about the electronic media programmes of NIOS which may be used alongwith the print material? Yes/No
17. Do you watch NIOS video programmes telecast on Gyan Darshan everyday from 06:30pm to 07:00pm and on DD-I every Friday from 05:02 to 05:25 am? Yes/No
18. If No, why?
- Non availability of the telecast
  - Not aware about it
  - Not useful
  - Timing is not suitable
19. What is your opinion about these programmes?
- \_\_\_\_\_
- \_\_\_\_\_
20. Did you complete the Sample Question Paper independently? Yes/No
21. Did you face any difficulty in doing the Question Paper? Yes/No
22. If yes, please specify your difficulties.
- \_\_\_\_\_
- \_\_\_\_\_

Any other things you would like to share with us: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## *Mukta Vidya Vani*



Mukta Vidya Vani is a pioneering initiative of the National Institute of Open Schooling (NIOS) for using Streaming Audio for educational purposes. This application of ICT will enhance accessibility as well as quality of programme delivery of NIOS Programmes. This is a rare accomplishment of NIOS as the first Open and Distance Learning Institute to start a two way interaction with its learners, using streaming audio and the internet.

Keeping in mind the fact that the transmission is done through the web, the NIOS website ([www.nios.ac.in](http://www.nios.ac.in)) has a link that will take any user to the Mukta Vidya Vani. Mukta Vidya Vani thus enables a two way communication with any audience that has access to an internet connection, from the studio at its Headquarters in NOIDA, where NIOS has set up a state-of-art studio, which will be used for this purpose as well as for recording educational audio programmes meant for NIOS learners, though others can also take advantage of this facility.

Mukta Vidya Vani is a modern interactive, participatory and cost effective programme, involving an academic perspective along with the technical responsibilities of production of audio and video programmes, which are one of the most important components of the multi channel package offered by the NIOS. These programmes will attempt to present the topic/ theme in a simple, interesting and engaging manner, so that the learners get a clear understanding and insight into the subject matter.

NIOS has launched a scheme to motivate the learners to participate in the Mukta Vidya Vani by sending their Audio CD's to the respective regional centre on various subjects such as-

1. Poetry / Shloka recitation
2. Story telling
3. Radio Drama
4. Music
5. Talks on various topic related to the NIOS curriculum including Painting, Vocational Subjects etc.
6. Quiz
7. Mathematics puzzles etc.

The selected CD can be webcast on Mukta Vidya Vani and the winner participant be rewarded suitably.

Learners may visit the NIOS website and participate in live programmes from 2pm to 5pm on all week days and from 10.30am to 12.30pm on Saturdays, Sundays and all Public Holidays. The Subject Experts in the Studio will respond to their telephonic queries during this time. A weekly schedule of the programmes for webcast is available on the NIOS website. The Studio telephone number are 0120-4626949 and Toll Free No. 1800-180-2543.

