

1

Business, Trade and Commerce

Economic and Non-economic Activities:

An individual performs many activities in his day-to-day life. For Example, going to office, spending time with children, watching TV, etc. All the activities performed by an individual can be classified as economic activities and non-economic activities.

Economic Activities:

Activities which are undertaken by people with an objective of earning livelihood are known as economic activities. For example, a worker working in a factory, a teacher teaching in school. Economic activities can be further classified as business, profession and employment.

- **Business:** It is an economic activity which is concerned with the purchase or production and sale of goods or provision of services with a view to earn income in the form of profit by satisfying the needs of the people.
- **Profession:** It includes those activities which require expert knowledge and special skills to be applied by individuals. in their occupation- Profession includes professional activities which are subject to guidelines or codes of conduct laid down by professional bodies. Those engaged in profession are called professionals and they earn income by charging professional fee.
- **Employment:** It refers to the occupation in which people work for others and get remuneration in the form of wages/salaries. Those who are employed by others are called employees and the one who employs is called employer

Basis	Business	Profession	Employment
Meaning	Business is an economic activity, conducted to earn a profit.	The profession is also an economic activity under which a person uses his knowledge and provide services.	Employment is an economic activity, conducted to earn remuneration.
Nature	A person invests his capital and starts a business. He may or may not have the proper skills or knowledge.	A professional has to take formal education and training before starting his profession.	A person works for another person or organisation to get his livelihood.
Formal education	A businessman may or may not take formal education. It is not required.	Formal education is a must for a professional to enter into a profession.	It depends upon the type of employment whether a specific formal education is required.
Returns	A businessman gets to profit from the business.	A professional gets fees for the services rendered.	An employee gets remuneration in the form of a wage or salary.



Capital requirement	More capital is required to run a business. Capital is brought by a businessman.	Comparatively less capital is required to carry out a profession. The required capital is brought by a professional.	Employees need not invest money in the business. He does not require capital.
Registration	A businessman need not register with a particular body or association. But it is always better for the businessman to get the membership of the associations like Chamber of Commerce.	A professional has to register under the respective body or association e.g. A Lawyer has to register himself with the Bar Council of India before carrying out his profession.	An employee does not require registering himself with specific associations.
Decision making	Businessman is free to take his decisions.	A Professional can take his own decisions as he is the owner.	The employee has no right to make decisions in the organisations unless he is asked.
Risk	Risk is involved in every business.	Limited risk is involved in the case of self-employed professionals.	Risk is involved as long as the job continues.
Commencement	It can be started after completing certain legal formalities	It can be started after receiving a certificate of practice.	It can be started after receiving specific qualifications.
Transfer of Ownership	It can be transferred to another person with necessary legal formalities.	It cannot be transferred to anyone else as certain qualification and training is a must.	It cannot be transferred from one person to another.
Examples	Builder, Grocery Shop, Shopping mall, etc.	Doctor, Architect, Lawyers, etc.	Receptionist, Clerks, etc.

Non-economic Activities:

Activities which are undertaken to satisfy social and psychological needs are called non-economic activities. These are concerned with love, sympathy, patriotism, sentiments, etc. For example, cooking food for family, fighting for independence of a country, etc.

❖ Characteristics of Business:

- **Economic Activity:** Business is an economic activity as it includes exchange of goods and services with the purpose of earning money or livelihood.
- **Production or Procurement of Good & and Services:** Every business enterprise produces the goods or acquires them from producers to sell them to consumers and earn profit in the process. A businessman can also provide services to the consumer for a value and earn profits.
- **Sale or Exchange of Goods and Services for Value:** Directly or indirectly business involves transfer or exchange of goods and services for value. If goods are produced not for purpose of sale, it cannot be called as business activity.
- **Profit Earning:** The primary objective of business is to earn profit. For this, businessmen make all possible efforts to increase the volume of sales and reduce cost.

- **Uncertainty of Return:** In business, the returns on amount invested are not certain. Also, there is always a possibility of loss.
- **Dealing of Goods and Services on Regular Basis:** Business deals in good & and services on regular basis. One single transaction of sale or purchase does not constitute business.
- **Element of Risk:** Business involves an element of risk. It implies the uncertainty of reward or possibility of loss.

Classification of Business Activities:

Into two broad categories, various business activities can be classified:

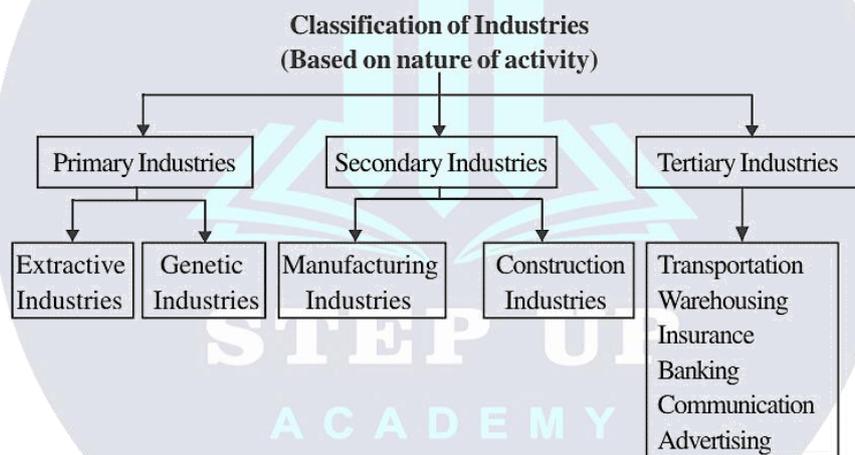
- Industry
- Commerce

❖ **Industry:**

The sector where raw material gets converted into useful products is called industry. Activities related to production & processing as well as activities related to rearing & reproduction of animals or other living species are all included in the industry. The purpose of industry is to create form utility by converting raw materials into useful forms of finished products.

An industry may produce consumer goods or capital goods. Goods such as bread, butter, cloth, radio, etc. are consumer goods. These goods are directly used by the consumer. Goods such as machinery, cement etc. are called capital goods as these are used further in the production process to make useful products.

Industry can be classified into three broad categories:



❖ **Primary Industry:**

This is also known as extractive industries. It includes activity connected with the production of wealth directly from natural resources such as water, air, & land etc. Primary industry includes activities like extraction & processing of natural resources etc. These industries are further subdivided as follows:

- **Extractive industry:** These industries extract or draw out products from natural sources. Raw materials that are mostly products of the soil are some basic supply of extractive industries. Manufacturing industries transform these products into many other useful goods. Some of the examples of extractive industries include farming, mining, lumbering, hunting & fishing operation.
- **Genetic industry:** The industries involved in the activities of rearing & breeding of living organism i.e. birds, plants, animals etc. are known as a genetic industry. For example, rearing of cattle for milk, dairy farms, poultry farms, rearing of plants in the nursery, growing fish in ponds etc. are included in the genetic industry.

❖ **Secondary Industry:**

This industry is concerned with converting raw material into finishing product. The materials which have already been extracted at the primary stage is the concern of the secondary industry. Such materials are processed to produce goods for final consumption or for further processing by other industrial units in these industries.



Secondary industries may be further divided as follows:

- **Manufacturing industries:** These industries are engaged in the process of conversion of raw materials or semi-finished goods into finished goods. These industries create from the utility by changing the form of raw materials into finished products.
- **Construction industries:** These industries are concerned with the construction of buildings, dams, roads etc. These industries use the products of manufacturing industries such as cement, iron & steel, lime etc.

❖ **Tertiary Industry:**

These industries are concerned with providing those services which facilitate a flow of goods & services. This industry helps in the activities of the primary & secondary industry.

Commerce:

We can refer to commerce as all those activities which help directly or indirectly in the distribution of goods to the ultimate consumer. There will be no use of producing goods unless & until these goods reach the ultimate consumer. Goods are produced at one place & consumers are scattered at different places. Commerce can be classified into two broad categories:

Trade: Trade is an integral part of commerce. It includes buying & selling of goods & services. The trade segment of commerce brings together the manufacturer & the consumer, i.e. it is a link between the manufacturer & the consumer.

Trade can be classified into two types:

- ❖ **Internal trade:** It refers to buying & selling of goods or services within the geographical boundaries of a country. It is also known as home trade or domestic trade. Under internal trade, goods & services are bought & sold in the home currency only.

The internal trade can be two types:

- **Local Trade:** Buying and selling within a local area.
- **State Trade:** Buying and selling within a single state. That is intra-state trade.
- **National Trade:** Buying and selling between the states. That is Inter-state trade.
- ❖ **External trade:** When the buying & selling of goods & services is beyond the geographical limits of the country it is called external trade. It is also known as trade between two or more countries. In external trade, the market is very wide.

External trade is of the following types:

- **Imports:** It refers to the purchase of goods and services from other countries.
- **Exports:** Selling goods and services to other countries.
- **Entreport:** Importing goods and services from one country and exporting to some third country.

❖ **Aids to Trade:**

The activities which help in the smooth flow of trade are known as aids to trade. These activities make buying & selling of goods easier. These help in removing various hindrances of trade which arises in production & distribution of goods.

The common aids to trade are:

- **Transport and Communication:** Transportation helps in the movement of raw material and finished products from the place of production to the place of consumption. Communication enables easy interaction by one party with the another who are far away from each other. It assists in removal of the hindrance cause due to place.
- **Banking and finance:** It helps business activities to overcome the problem of finance by lending loans and credit facilities since business can't survive if funds are not available for procuring material. It assists in removal of the hindrance cause due to finance.



These factors are not under the control of the business and result in declining profits of the business.

❖ **Nature of Business Risk:**

- Business risk arises due to uncertainties. Uncertainty is when it is not known what is going to happen in future. Examples of uncertainties that affect a business are, change in government policy, change in demand, change in technology, etc.
- Risk is an essential part of the business. The risk involved in a business can be reduced to some extent but it is not possible to eliminate the risk involved.
- Every business has risk which varies in severity based on the type of business. For example a large corporation or business will carry more risk as compared to small scale businesses.
- Businesses take risk with the motive or expectation of earning profit.

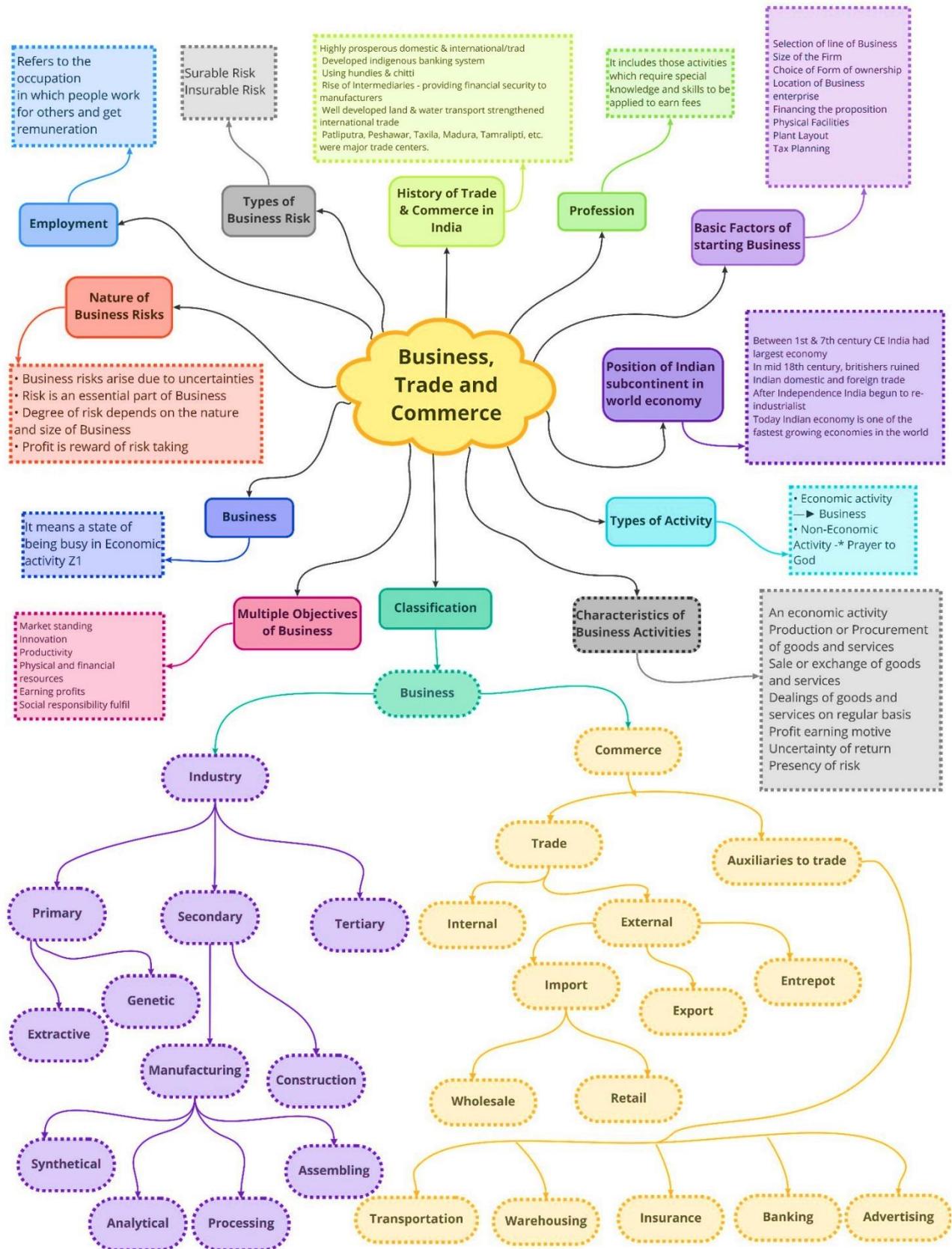
❖ **Types of Business Risk:**

- **Strategic Risk:** Strategic risks are such that can happen to a business at any time. This could be due to the change in customer preferences. Hence, businesses need to have a real time feedback system for recognising customer feedback.
- **Compliance Risk:** Compliance risk relates to the risk that arises from the changing rules by a regulatory body or government that a company needs to adjust accordingly and implement the same in their operations.
- **Financial Risk:** Financial risk is related to the financial health of the business. It relates to the companies ability to carry on operations in case of non-payment by some clients.
- **Operational Risk:** Operational risk is where there is a risk arising from the execution of the processes or operations of the business. It can be due to sudden breakdown of machinery or the system which can result in delay in operations, that can be detrimental to the business.
- Before starting a new business venture, an entrepreneur must carefully consider various aspects. He or she must evaluate each aspect, considering the various positive and negative consequences. The following are some of the important factors that must be considered while starting a business.

❖ **Factors to start a Business:**

- **Selecting the line of business:** The line of business is the foremost decision that involves choosing the kind of product to produce, analysing its existing and future market demand, profit considerations and the level of technical knowhow possessed by the entrepreneur.
- **Scale of the business:** Once the line of business is selected, the entrepreneur needs to decide the scale of the business, i.e., the business size, whether to operate on large scale or small scale.
- **Location:** The choice of business location is dependent on numerous factors such as easy and cheap availability of raw material and labour, well-connected transportation facilities, and power and other infrastructural facilities. Generally, locations where good infrastructure is available are preferred.
- **Financial requirement:** Finance is required for every aspect of business—from the purchase of raw material and machinery to further investment for the growth of the business. Therefore, while starting a business, the availability of alternatives to raise funds must be carefully analyzed.
- **Efficient workforce:** A competent and trained workforce is the basic input to carry on various business activities. In this regard, the entrepreneur must appropriately identify the requirement of human resources for the business, both at the worker level and at the managerial level.
- **Physical requirements:** These requirements include machinery, other equipment, tools and technology that add to the efficiency of a business. The entrepreneur must carefully consider and decide the physical requirements on the basis of the nature and production scale of the business.

Class : 11th Business Studies
Chapter - 1 : Business, Trade and Commerce





Important Questions

Multiple Choice Questions-

- Which one of the following is NOT the objective of the business?
 - Investment
 - Innovation
 - Creation of customers
 - Profit-making
- Which one of the following is an economic activity in which specialized knowledge is required?
 - Profession
 - Business
 - Employment
 - None of the above
- Commerce includes activities relating to trade and _____ to trade.
 - Auxiliaries
 - Subsidiaries
 - Supporting
 - None of the above
- Bad debts due to non-payment of debt by the debtor are an example of which type of business risk?
 - Human
 - Natural
 - Physical
 - Economic
- Which of the following is an economic cause of business risks?
 - Demand for goods
 - Competition
 - Price
 - All of the above
- Business risk is not likely to arise due to
 - Power failure
 - Employee dishonesty
 - Changes in government policy
 - Good management
- The word marketing standing is concerned with _____
 - Position of an enterprise
 - Supply of the product
 - Customers
 - Competitors
- Why a business should earn a profit?
 - To provide a return to investors
 - To increase the reputation of the business
 - To provide funds for future growth
 - All of the above
- Which one of the following is NOT an Auxiliary to trade?
 - Mining
 - Warehousing
 - Insurance
 - Transport
- Which of the following is not a natural cause of business risks?
 - Earthquake
 - Strikes
 - Famine
 - Heavy Rains
- Which of the following is not concerned with the profession?
 - Manufacturing goods and services
 - Specialised body of knowledge and skill
 - Code of conduct
 - Formal Training
- Which of the broad categories of industries covers oil refinery and sugar mills?
 - Primary
 - Secondary
 - Tertiary
 - None of the above
- Which of the following is an instrument of exchange, which was prominent in the subcontinent?
 - Copper
 - Hundi
 - Gold
 - Silver
- The occupation in which people work for others and get remunerated in return is known as:
 - Profession
 - Employment
 - Business
 - None of the above

15. The industries which provide support services to other industries are known as
- Primary industries
 - Commercial industries
 - Tertiary industries
 - Secondary industries

Very Short:

- What are the different types of economic activities?
- Name one economic pursuit, in which expertise is required.
- Name the industries that furnish support to other fellow industries.
- Can fishing be contemplated as a primary industry?
- What is the reward that a businessman earns for bearing risk?
- Sort the following into a business concern, employment and profession.
 - Farmer
 - Clerk
 - Lawyer
 - Doctor
- Under which type of industry do oil refinery and sugar mills are classified?

Short Questions:

- What is the difference between Business and Profession?
- Mention the risks that are involved in the business.
- What are the objectives of the business?
- What is Commerce and its significance in modern life?
- What are the differences between primary and secondary industry?
- How does a trader get rid of the hindrance of a person?
- Insurance is known as the tertiary industry. Explain.

Long Questions:

- Explain in detail the social objectives of the business in today's context.
- Can profit be the sole objective of a business? Explain the reasons in favor and against the profit objective of the business.

Case Study Questions-

- Read the following passage and answer the questions given below

Saransh and Vishal have their pharmaceutical factory in Jaipur. Their main focus is providing quality products at reasonable prices. They procure the services of a renowned medicine specialist Mr. Andrews from Germany who gives them feedback about the quality of their products. Because of increasing competition with foreign Pharmaceutical Companies, their market share is decreasing and they are suffering huge losses.

To ensure their existence in the market, their management is concentrating on full usage of machines, and reducing wastage, and effective promotion of their products to increase the sales.

(i) "Mr. Andrews from Germany who gives them feedback about the quality of their". Identify the economic activity Mr. Andrews performs.

- Business
- Profession
- Employment
- Partnership

(ii) "Because of increasing competition with foreign Pharmaceutical Companies, their market share is decreasing..." Name the type of risk related to the above-stated line.

- Speculative risk
- Foreign risk
- Pure risk
- All of the above

(iii) Pharmaceutical industry is an example of which of the following types of secondary industries?

- Genetic
- Analytical
- Synthetic
- Processing

(iv) Match the different manufacturing industries with their suitable examples.

Nature and Purpose of Business:

Column I	Column II
1. Analytical Industry	i. Cement
2. Synthetic Industry	ii. Television
3. Processing Industry	iii. Oil refining
4. Assembling Industry	iv. Sugar



- (a) 1. (i), 2. (iii), 3. (iv), 4. (ii)
 (b) 1. (iii), 2. (i), 3. (iv), 4. (ii)
 (c) 1. (iv), 2. (i), 3. (iii), 4. (ii)
 (d) 1. (iii), 2. (i), 3. (ii), 4. (iv)

(v) "To ensure their existence in the market, their management is concentrating..." Which economic objective is indicated in this statement?

- (a) Survival
 (b) Profit
 (c) Growth
 (d) Diversification

2. Read the following passage and answer the questions given below.

Oorza Limited is the manufacturer and trader of electrical goods. The company's efficient management team, and effective marketing strategies have enabled it to carve a niche in the industry, allowing it to stand out. But, over the past few years, its profit margins and customer loyalty have been going down. After analysis of the reasons for lowering performance, the company executives suggested how CSR can improve profits. They understand that CSR can promote respect for their company in the marketplace which can result in higher sales, and enhance employee loyalty. Also, CSR activities focusing on sustainability issues may lower costs and improve efficiency as well. The company followed the CSR initiatives and is able to regain its market position and increase its goodwill.

- (i) Which objective will be fulfilled by the company through CSR?
 (a) Economic
 (b) Social
 (c) Legal
 (d) Personal

(ii) Identify which of these is not a role of profit as stated above.

- (a) Survival of business
 (b) Enhancing goodwill
 (c) Increasing efficiency
 (d) Enhancing customer loyalty

(iii) Match the following services to trade with the hindrances which they remove.

Column I	Column II
1. Transport	i. Information
2. Insurance	ii. Storage
3. Warehousing	iii. Place
4. Advertising	iv. Person

- (a) 1. (iv), 2. (iii), 3. (ii), 4. (i)
 (b) 1. (iii), 2. (ii), 3. (iv), 4. (i)
 (c) 1. (iii), 2. (iv), 3. (ii), 4. (i)
 (d) 1. (iii), 2. (iv), 3. (i), 4. (ii)

(iv) Identify the term which is related to uncertainties about the returns and chances of losses in the business.

- (a) Risk
 (b) Market trend
 (c) Natural calamities
 (d) Market standing

(v) "...may lower costs and improve efficiency as well." If the company is able to achieve it, which business objectives are accomplished by the company?

- (a) Profit maximization
 (b) Social responsibility
 (c) Growth and expansion
 (d) All of the above

ANSWER KEY

Multiple Choice Questions-

- Investment
- Profession
- Auxiliaries
- Human
- All of the above
- Good management
- Position of an enterprise
- All of the above
- Mining
- Strikes
- Manufacturing goods and services
- Secondary
- Hundi
- Employment
- Tertiary industries

Very Short Answer-

1. There are various types of economic activities. Namely,
 - Profession
 - Business
 - Employment
2. Profession is an economic pursuit, in which expertise is required.
3. Tertiary industries are involved in furnishing support to all the primary and secondary industries.
4. Yes.
5. When a businessman bears the risk, the reward that he'll get is – earning the profit.
6.
 - Farmer – Business
 - Clerk – Employment
 - Lawyer – Profession
 - Doctor – Profession
7. Secondary industry

Short Answer-

1.

Business	Profession
In the business, capital investment is necessary according to the size and nature of the business.	In the profession, limited capital is required for the establishment of the business enterprise.
Here, profits are uncertain.	Here, the risk factor is not to that extent.

2. Every aspect has its own risk factors. So does business has too. Namely,
 - Business risks arise due to a few uncertain and unexpected situations
 - It is a quintessential part of any business
 - However, profit is the reward for bearing the risks
3. Objectives of business are mentioned below:
 - **Innovation:** Every business concern must come up with novice ideas, inventions and implement them; which are helpful for survival and growth.
 - **Productivity:** Productivity is certainly determined by contrasting the value of the output with the value of the input.

➤ **Earning Profits:** Any business entity that is operating must earn a reasonable amount of profits in order to sustain survival and growth.

4. Commerce is the control of business among economic agents. Usually, it refers to the exchange of commodities, services or items of value, among companies or entities.

The significance of Commerce are:

- Commerce acts as a catalyst between the manufacturers and customers.
- It establishes employment opportunities.
- It encourages trade in the global level.
- Assists in the growth of developing the industries.
- Helps during exigencies like the natural calamities – earthquake, flood, drought etc.

5.

Primary	Secondary
Pursuits that are concerned with the extraction and manufacturing of natural resources.	These industries manufacture raw materials to produce the commodities for final utilisation.
Classified as follows: <ul style="list-style-type: none"> • Extractive industries • Genetic industries 	Classified as follows: <ul style="list-style-type: none"> • Manufacturing industries • Construction industries
Example: Mining, fishing	Example: Oil refinery, Sugar mill

6.

- Getting rid of hindrance of a person by making the commodities obtainable to the customers from the manufacturers via trade.
- Transportation removes hindrance of a location by transporting the commodities from the place of manufacturing to the market place for selling purpose.
- However, insurance removes the hindrance of perils of loss or damage of commodities due to fire, theft and accidents etc.,
- Advertising removes the hindrance of the data by keeping the customers informed regarding the commodities and services that are obtainable in the market place.

7. Insurance is the support service to both the primary and secondary industries.



The tertiary industry is the section of the economy that contributes services to its customers, including a broad array of businesses such as schools, financial institutions and restaurants. It is also called as the tertiary sector or service industry/sector.

Long Answer-

1. **Social Objectives:** Business does not exist in a vacuum. It is an integral part of society and it can achieve its economic objectives only by having deep roots in the society. According to Henry Ford, "The purpose of business is not only earning profit but also discharging responsibilities towards the society," A business must be guided by social objectives since it is a part of the society and gets men, materials, and machines from the society only.

The decision taken by the business has a great influence on the socio-economic conditions in the country. Business is not merely an economic entity, it is a social institution as well. Therefore, it is in the interest of business to pursue certain objectives that are expected by people.

The social objectives of the business are as follows:

1. **Better Quality Goods at Fair Prices-** The business must provide better quality products as desired by the customers. Quality means purity as in the case of food items and medicines or safety as in the case of electrical goods or durability as in the case of TV and refrigerator. Consumers prefer the products which are of satisfactory quality and are available at reasonable prices.

In fact, consumers have become increasingly conscious of quality and want value for money. Therefore, an important objective of a business is to produce and supply goods of proper quality to satisfy the expectations of consumers. The prices charged for the goods should also be reasonable.

2. **Fair Trade Practices-** Anti-social practices include hoarding, black marketing, and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Such practices are not only illegal but bring a bad name to the business community. Therefore, businessmen must avoid such means of making money. The business should follow fair business practices all the time.

3. **Generation of Employment-** Every business should grow and expand its operations to create new frontiers of employment for society. The business has tremendous scope for the generation of employment opportunities. Business must provide employment without any discrimination on account of caste, creed, religion, or sex. Business is expected to give special consideration to handicapped and weaker sections of society in the matter of employment. Business firms that pursue this objective can improve their public image.
4. **Employment Welfare-** Employees are a valuable asset and they make significant contributions towards the success of the business. It is an important responsibility' of the business to promote the welfare of the employees. Businesses must recognize the dignity of labor and treat employees as partners rather than as mere working hands. Businesses must provide good working conditions, housing, transport, and medical facilities besides fair wages to their employees.

2. **Can profit be the sole objective of a business? –** Despite the indispensable role in business, profit cannot be the all and all of the business. Profit maximization objective is undesirable and social accountability is also the responsibility of business. According to Urwick, "Earning of profits cannot be the objective of a business any more than eating is the objective of living."

A business unit is an economic entity in which various factors of production are used. Capital is one of the factors of production and the reward for investing capital is given in the form of profit. Therefore, a business should not be run only to maximize the reward of one factor of production, i.e., the capital. Besides earning profits, it should also aim at the satisfaction of customers, the welfare of workers, community service, etc.

The argument in favor of profit as the sole objective: Earning profits is essential for a business due to the following reasons:

1. It is a sign of healthy business as profit is the chief motivating factor in business.
2. It would provide sufficient return to the investors of capital. Profit is considered to be an index of success in business.

3. It would provide funds for reinvestment in the business.
4. A profit-making concern enjoys goodwill in society.
5. The assets of the business would be used for maximizing profits. Misuse of assets would thus be avoided.

Arguments against profit maximization: Profit maximization should not be the sole motive of any business. The arguments against profit maximization are as under:

1. Profit maximization ignores the interests of labor, customers, and society.
2. Unfair means such as hoarding, black marketing, or adulteration may be followed to maximize profits.
3. The long-term interest of the business may be ignored to maximize profits in the short-run.
4. In the present-day environment, a business can't be effective with the sole objective of profit maximization. It must also set objectives in areas like customer satisfaction, social responsibility, environmental protection, research, and development, etc.

The profit-making and social service objectives of the business are not contradictory to each other, they go hand in hand. According to Henry Ford, "Mere money chasing is not business. The businessman who keeps his customers satisfied by service will definitely earn good profits.

To conclude earning profits through service to society is the real objective of the business.

Case Study Answers-

1.

- (i) (b) Profession

Explanation: A profession is an occupation founded upon specialized educational training, the purpose of which is to supply disinterested objective counsel and service to others, for a direct and definite compensation, wholly apart from expectation of other business gain. A profession is not a trade and not an industry.

- (ii) (a) Speculative risk

Explanation: Speculative risk is a category of risk that, when undertaken, results in an uncertain degree of gain or loss. In particular, speculative risk is the possibility that an

investment will not appreciate in value. Speculative risks are made as conscious choices and are not just a result of uncontrollable circumstances.

- (iii) (d) Processing

Explanation: Secondary Industries which are essentially manufacturing or assembling industries. It receives raw materials from primary industries and processes them to commodities for the customers. Example: Food manufacturing, Textile manufacturing etc.

- (iv) (b) 1. (iii), 2. (i), 3. (iv), 4. (ii)

Explanation: Analytical industry is the industry which analysis and separates different elements from the same materials.

Synthetic industries are those industries that combine various ingredients and make a new product like Cement, fragrance and plastics.

The process industries are those industries where the primary production processes are either continuous, or occur on a batch of materials that is indistinguishable.

Assembling industry: These industries are engaged in bringing together various components or parts of bicycles, television, radio and these are some examples of assembling industries.

- (v) (a) Survival

Explanation: Business survival refers to keeping the business operating for a certain amount of time. Most businesses initially aim to survive their first year. Profit refers to any money left over after all costs have been taken away from any revenue made by a business.

2.

- (i) (b) Social

Explanation: Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

- (ii) (d) Enhancing customer loyalty

Explanation: Customer loyalty is an ongoing positive relationship between a customer and a business. It's what drives repeat purchases and prompts existing customers to choose your company over a competitor offering similar benefits.



(iii) (c) 1. (iii), 2. (iv), 3. (ii), 4. (i)

Explanation: Traders act as link between consumers and producers. Traders remove hindrance of persons by making goods available to consumer from producers.

(iv) (a) Risk

Explanation: Business risk is the exposure a company or organization has to factor(s) that will lower its profits or lead it to fail. Anything that threatens a company's ability to achieve its financial goals is considered a

business risk. There are many factors that can converge to create business risk.

(v) (a) Profit maximization

Explanation: Profit maximisation is a process business firms undergo to ensure the best output and price levels are achieved in order to maximise its returns. Influential factors such as sale price, production cost and output levels are adjusted by the firm as a way of realising its profit goals.



2

Forms of Business Organisation

Introduction:

A business enterprise is an organization which is engaged in some business or commercial activity. Every business enterprise is a separate and distinct unit of business.

If one is planning to start a business or is interested in expanding an existing one, an important decision relates to the choice of the form of organization. The most appropriate form is determined by weighing the advantages and disadvantages of each type of organization against one's own requirements.

There are different forms of business organizations from which a choice has to be made:

1. Sole proprietorship
2. Joint Hindu family business
3. Partnership
4. Joint stock Company
5. Cooperative Societies

❖ Sole Proprietorship

A business which is owned, managed and controlled by a single individual, who is the recipient of all profits and bearer of all risks, is known as sole proprietorship. The term sole proprietorship defines itself evidently, as sole means only and proprietor refers to owner. Thus, a sole proprietor is one and only owner of this type of business organisation. It is a popular form of business organisation.

❖ Features of Sole Proprietorship:

- **Formation and Closure:** Hardly any legal formality is required to start a sole proprietary business. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.
- **Unlimited Liability:** The liability of the owner is unlimited. In case of losses and repayment of debt, personal property of the owner can also be used if the assets of firm are insufficient.
- **Sole Risk Bearer and Profit Recipient:** In sole proprietorship firm, whole risk is borne by a single individual. Because of this, he is personally liable for all losses and the sole receiver of profits.
- **Control:** The sole proprietorship firm is owned, managed and controlled by a single individual. All the decisions are taken by him solely.
- **No Separate Entity:** A sole proprietorship firm has no legal identity apart from that of its owner. As a result, the owner is held responsible for all the activities of business.
- **Lack of Business Continuity:** Since the owner and the business are same, therefore death, insanity, imprisonment, physical ailment or bankruptcy of sole trader will affect the continuity of the business.

❖ Merits of Sole Proprietorship

- **Quick Decision-making:** Sole proprietor enjoys freedom in making business decisions. Thus, he can capitalize on market opportunities by taking quick decisions.



- **Secrecy or Confidentiality of Information:** Sole trader is not expected to share his business decisions and secrets with anybody.
- **Direct Incentive:** Direct relationship between efforts and reward provide maximum incentive to the sole trader to work hard.
- **Sense of Accomplishment:** If a business is successful, it contributes to the satisfaction of the sole proprietor and creates a sense of accomplishment and confidence, which motivates him to work harder.
- **Easy to Form and Close:** An important merit of sole proprietorship is the possibility of entering and exiting business with minimal legal formalities.

❖ Demerits of Sole Proprietorship

- **Limited Resources:** In such types of business, funds are limited to the owner's personal savings and his borrowing capacity.
- **Limited Life of Business:** Illness, death or insolvency of the proprietor affects the business and can lead to its closure.
- **Unlimited Liability:** Sole trader is personally liable for all the business debts. In case of heavy loss, he may be liable to sell his personal property also.
- **Limited Managerial Ability:** Sole trader's managerial ability is limited and due to lack of finance, he cannot afford to employ experts. He cannot be an expert in all the aspects of a business, therefore certain tasks could not be performed by him in an optimum manner.

Joint Hindu Family Business

Joint Hindu Family business or Hindu Undivided Family (HUF) business is that form of business organization which is owned and managed by the members of HUF. It is the oldest form of business organization and can be found only in India. This type of business is governed by Hindu Law. The business is controlled by the head of the family, who is the eldest member of family and is called Karta. All members have equal ownership right over the property and they are known as Co-parceners. Three generations of a family can be members of HUF.

❖ Features of HUF Business:

- **Formation:** At least two members and an ancestral property is the basic requirement for the formation of Joint Hindu Family business.
- **Liability:** The liability of Karta (senior most male co-parcener) is unlimited, but the liability of other members is limited to the extent of their share.
- **Control:** The business is controlled by the eldest member of the family known as Karta.
- **Continuity:** After the death of Karta, the next eldest member takes his position and thus, the business continues.
- **Minor Members:** Under Joint Hindu Family business, an individual becomes member by taking birth in the family. Hence, a minor can also be a member of HUF business.

❖ Merits of HUF Business:

- **Effective Control:** In an HUF business, the Karta has absolute decision-making power. This facilitates quick and flexible decision-making.
- **Continued Business Existence:** An HUF business has continued existence. Its existence is not affected by the death of Karta, as the next eldest member takes up his position.
- **Limited Liability:** The liability of the co-parceners is limited to the extent of their share in the family business.
- **Increased Loyalty and Cooperation:** The members of an HUF business are loyal to each other and are willing to cooperate and work towards a common goal, as all of them belong to the same family.

❖ Demerits of HUF Business:

- **Limited Resources:** The HUF business depends to mainly on the ancestral property. This creates the problem of limited capital.

- **Unlimited Liability of Karta:** In HUF, the liability of the Karta is unlimited. His personal assets can also be used to discharge the debts of the business. This prevents him from taking bold decisions and limits the growth of the business. The Karta is also burdened with the task of decision-making and managing the business.
- **Dominance of Karta:** The Karta has vast powers in the management of the family business. If the Karta misuses his powers and tries to dominate the family, then the other co-parceners may protest. This may create conflict in the family and lead to business disintegration.
- **Limited Managerial Skills:** A Karta has absolute decision-making power related to all aspects of the business. However, he cannot be an expert in all the areas of management. If he does not take the help of other co-parceners, then his unwise decisions will affect the business adversely. Because of these limitations, this form of business organization is on decline.

Partnership

A partnership is a form of organization in which two or more persons agree to cooperate to advance their mutual interests in a business venture. This form of organization is an improvement over sole proprietorship as it ensures greater capital investment, varied professional and managerial skills and sharing of risks.

❖ Definition of partnership:

- **According to LH Haney,** "Partnership is the relation between persons competent to make contracts who have agreed to carry on a lawful business in common with a view to private gain".
- **According to The Indian Partnership Act, 1932 (Sec 4),** "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

❖ Features of Partnership:

- **Formation:** As per Indian Partnership Act, 1932 a partnership firm can be formed on the basis of an agreement between the partners. The registration of partnership firm, for its formation, is not compulsory.
- **Liability:** The liability of all the members of a partnership firm is unlimited. The partners are individually and collectively liable to pay back the debts of the firm.
- **Risk Bearing:** The partners bear the risks involved in the business jointly. If a business sustains loss, then partners share the loss in the same ratio in which they share profits.
- **Decision-making and Control:** Each partner has a right to participate in management and decision making of the organisation. The activities of partnership firm are managed through joint efforts of all the partners and decisions are taken by mutual consent.
- **Continuity:** Existence of firm is affected by death, retirement, lunacy, madness and insolvency (bankruptcy) of any of its partner. It suffers from lack of continuity.
- **Membership:** There must be at least two persons to form a partnership and all such persons must be competent to contract. Maximum number can be 50 as per Companies Act, 2013.
- **Mutual Agency:** There must exist a mutual agency relationship among the partners. "Mutual agency relationship means that each partner is both an agent and principal.

❖ Merits of Partnership:

- **Ease of Formation and Closure:** It is very easy to form a partnership firm. Only an agreement among the partners is required to form it. Similarly, it is very easy to close such a firm.
- **Balanced Decision-making:** In partnership, decisions are taken jointly by partners after consulting each other. Partners oversee different functions generally in areas of their expertise. Thus, wise and balanced decisions are likely to be made.
- **Sharing of Risks:** In partnership, risk gets distributed among partners, which reduces anxiety, burden and stress on individual partners.



- **Secrecy:** The partnership firm is not required to publish its accounts and submit its reports. Therefore, the firm is able to maintain confidentiality of information.
- **More Funds:** It is possible to raise larger amount of funds through partnership, as each member contributes to the capital of the firm.

❖ Demerits of Partnership:

- **Unlimited Liability:** The liability of partners is unlimited and they are liable individually as well as jointly.
- **Limited Resources:** There is a limit to number of partners in a partnership firm, therefore, capital investment is also limited.
- **Possibility of Conflicts:** Decision making authority lies with all the group members. There may be difference in opinions on certain issues, which may result in dispute.
- **Lack of Continuity:** Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partners. Thus, it lacks continuity.
- **Lack of Public Confidence:** Partnership firms are not required to publish their financial reports and accounts. Thus, they lack public confidence.

❖ Types of Partners:

- **Active or Working Partner:** Such type of partner contributes capital and takes active part in the management of the firm.
- **Sleeping or Dormant Partner:** Such type of partner contributes capital but does not take active part in the management of the firm.
- **Secret Partner Such partner:** Contributes capital and takes active part in business. But his association with the firm is hidden from 1691 the general public.
- **Nominal Partner:** A nominal partner is one who allows the use of his name and goodwill for the benefit of the firm and can be BOCH represented as a partner.
- **Partner by Estoppel:** A partner by estoppel is one who by his So words or conduct gives an impression to others that he is a partner of the firm.
- **Partner by Holding Out:** A partner by 'holding out' is one who is actually not a partner, but allows himself to be represented as one by the other partners.

❖ Comparative View of Different Types of Partners:

Type	Capital Contribution	Management	Share in Profits/Losses	Liability
Active Partner	Contributes capital.	Participates in management.	Share the profits/losses.	Unlimited
Sleeping or dormant partner	Contributes capital.	Does not participate in management.	Share the profits/losses.	Unlimited
Secret partner	Contributes capital.	Participates in management.	Share the profits/losses.	Unlimited
Nominal partner	Does not Contribute capital.	Does not participate in management.	Generally, does not share the profits and losses.	Unlimited
Partner by Estoppel.	Does not Contribute capital.	Does not participate in management.	Does not share the profits and losses.	Unlimited
Partner by Holding Out.	Does not Contribute capital.	Does not participate in management.	Does not share the profits and losses.	Unlimited

❖ Types of Partnership:

Partnership can be classified on the basis of two factors, viz., duration and liability.

❖ On The Basis of Duration:

- **Partnership at Will:** The time period or the purpose of this form of partnership is not mentioned at the time of its formation. It can continue for any length of time, depending upon the will of the partners.
- **Particular Partnership:** It is a partnership formed for a specific time period or to achieve a specified objective. It is automatically dissolved on the expiry of the specified period or on the completion of the specific purpose.

❖ On The Basis of Liability:

- **General Partnership:** In this form of partnership, the liability of all the partners is unlimited. This is the traditional and most common form of business.
- **Limited Partnership:** In limited partnership, the liability of at least one partner is unlimited, while other partners enjoy limited liability. This type of partnership was initially not identified in the Indian Partnership Act of 1932. It gained recognition after the introduction of new Small Enterprise Policy in 1991. This policy allowed the formation of this partnership so that small entrepreneurs can raise capital from cautious investors.
- **Limited Liability Partnership (LLP):** This form of partnership came into existence with the passing of Limited Liability Partnership (LLP) Act of 2008. It is a corporate form of organization that provides the benefits of limited liability and allows the partners the flexibility of organizing internal structure as per the mutual agreement between them. The liability of each partner is limited to the capital contributed by them.

Partnership Deed

The written agreement containing the terms and conditions of the partnership is known as partnership deed. The partnership deed contains provisions relating to various matters such as.

- Name of firm.
- Nature and location of business.
- Duration of business.
- Investment made by each partner.
- Distribution of profit and loss.
- Duties and obligations of the partners.
- Salaries and withdrawals of the partners.
- Terms governing admission, retirement and expulsion of a partner.
- Interest on capital and interest on drawings.
- Procedure for dissolution of the firm.
- Preparation of accounts and their auditing.
- Method of solving disputes.

❖ Registration of Partnership Firm:

Registration means getting the name of partnership firm registered with the Registrar of Firm of the area in which the place of business of the firm is situated or proposed to be situated. It is optional for a partnership firm to get registered. However, it should be registered as it provides a conclusive proof of the existence of the firm.

Also, non-registration renders the following limitations to a partnership firm,

- A partner of an unregistered firm cannot file a suit against the firm or other partners.
- The firm cannot file a suit against third parties.
- The firm cannot file a case against the partners.



Cooperative Societies

Cooperative society is a voluntary association of persons, who have joined together for promoting their economic interests. It is necessary for such societies to be compulsorily registered under Cooperative Societies Act, 1912. To form a cooperative society, consent of ten adult persons is required. The capital of a society is raised from its members through issue of shares. A distinct legal identity is achieved by the society through registration.

❖ Definitions of Cooperative Society:

- **According to EH Calvert**, "Cooperative society is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of an economic interest for themselves".
- **According to the Indian Cooperative Societies Act, 1912**, "Cooperative organisation is a society which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles."

❖ Features of Cooperative Society:

- **Voluntary Membership:** A cooperative society is essentially a voluntary association of persons. There is no compulsion to become a member of the cooperative society. Any person is free to join and exit any time after serving a notice.
- **Legal Status:** After registration, a cooperative society becomes a distinct entity independent of its members. Its registration is compulsory and is done by the Registrar of Cooperative Societies.
- **Limited Liability:** The liability of members is limited to the extent of the amount contributed by them as capital.
- **Control:** In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. Members have voting rights to choose the managing committee.
- **Service Motive:** The primary aim of a cooperative society is to provide service to its members. Its motto is to earn profits for the benefit of its members. Thus, it lays emphasis on the value of mutual help and welfare.

❖ Merits of Cooperative Society:

- **Equality in Voting Status:** One Man One Vote principle is applicable in cooperative societies. Irrespective of capital contribution, each member has only one vote.
- **Limited Liability:** The liability of every member is limited to the extent of his share in the society's capital. Therefore, the personal assets of the members cannot be used to repay business debt.
- **Stable Existence or Continuity:** Cooperative society, being a separate legal entity, is not affected by death, lunacy or bankruptcy of the members.
- **Economy in Operations:** The members generally offer honorary services to the society. Thus, it helps in reducing costs. As the customers or producers themselves are members of society, the risk of bad debt is quite low.
- **Support from Government:** The society gets support from the government in the form of low taxes, subsidies and low interest rates on loans.
- **Ease of Formation:** It is quite easy to form a cooperative society. Any ten adults can join together and form a cooperative society. The legal formalities are very few, simple and governed by the provisions of Cooperative Societies Act, 1912.

❖ Demerits of Cooperative Society:

- **Limited Resources:** A cooperative society is formed usually by people with limited means. Also, lesser rate of earnings discourages members to invest large amounts in the society. Therefore, a cooperative society has limited resources.
- **Inefficient Management:** A cooperative society cannot afford to employ expert professional managers at high salaries due to limited funds.

- **Lack of Secrecy:** It is difficult to maintain secrecy about the operations of a cooperative society due to open discussion in the meetings and disclosure obligation as per Section 7 of the Societies Act.
- **Government Control:** The day-to-day working of a cooperative society is bound by rigid rules and regulations of the government. Keeping accounts, regular audits and inspections is essential. Reports have to be submitted to the Registrar. The interference in functioning affects the freedom of society.
- **Differences of Opinion:** They arise when personal interests start dominating the welfare motive. Conflicts in viewpoints may lead to difficulty in decision-making.

❖ Types of Cooperative Society:

- **Consumer's Cooperative Society:** It is established to protect the interest of consumers. It seeks to eliminate middlemen by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturers or wholesalers in bulk and sells them to the members at reasonable price. Profits (if any) are distributed among the members on the basis of their capital contribution or purchases.
- **Producer's Cooperative Society:** The main aim of this society is to help small producers who cannot easily collect various inputs of production and face problems in marketing. It purchases raw materials, tools, equipment and other items in large quantity and provide these to their members at reasonable price and also buy their output for sale. Profits are distributed among the members on the basis of the contributions to total pool of goods produced and sold. Amul is an example of producer's cooperative society.
- **Marketing Cooperative Society:** It performs various marketing functions such as transportation, warehousing, packing, grading, marketing research, etc for the benefit of its members. So The production of different members is pooled together and sold by the society at a good price. It eliminates middlemen and improves the competitive position of its members. The profits are distributed among members according to each member's contribution to the pool of output.
- **Farmer's Cooperative Society:** In such a society, small farmers join together and pool their resources for cultivating their land collectively. It provides better quality seeds, fertilizers, machineries and other modern techniques for cultivation of crops.
- **Credit Cooperative Society:** Such society comprises of persons who seek financial help in the form of loans. They provide loans to their members on easy terms and reasonably low rate of interest, out of the amount collected as capital and deposits made by the members.
- **Cooperative Housing Society:** The main aim of this type of society is to provide houses to people with limited means/income at reasonable price and also gives them the option of paying in instalments. It constructs flats or provides plots to members on which the members themselves can construct the houses as per their choice.

Joint Stock Company

Joint stock company is a voluntary association of persons having separate and distinct legal entity, perpetual succession, common seal, and registered under the Companies Act, 2013 or any other previous companies act. The shareholders are the owners of the company. The Board of Directors is the chief managing body elected by shareholders. Its capital is divided into smaller parts called shares, which can be transferred freely from one shareholder to another (except in private company).

According to Prof. Haney, "Joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

❖ Features of Joint Stock Company:

- **Artificial Person:** It is an artificial person created by law. It acts as a natural person who can buy or sell properties, enter into contracts, can lend and borrow money, sue and can be sued in its own name.
- **Separate Legal Entity:** It acquires a separate legal entity, from the day of its incorporation, which is quite distinct from its members. Its assets and liabilities are separate from those of its members.



- **Formation:** The formation is time consuming, expensive and complex process as it involves preparation of several documents and compliance to several legal requirements. Registration of a company is compulsory under the Companies Act, 2013.
- **Perpetual Succession:** Its existence is not affected by the entry or exit of the members. It is created by law and the law can only bring it to an end, by completing a legal procedure called 'winding up'
- **Control:** The management and control of the affairs of the company is undertaken by the Board of Directors. The Board of Directors are appointed by voting. The shareholders do not have the right to be involved in the day-to-day running of the business.
- **Liability:** The liability of the members is limited to the extent of capital contributed by them. In the event when debts of the company exceed its assets, the members are only liable to the extent of the unpaid amount on shares held by them.
- **Common Seal:** Being an artificial person, the agreements entered by Board of Directors on behalf of the company are validated by a common seal. It is equivalent to official signature.
- **Risk Bearing:** Risk is spread over a large number of shareholders. In the condition of financial difficulties, all shareholders in a company have to contribute to the extent of their unpaid share in company's capital.

❖ Merits of Joint Stock Company:

- **Limited Liability:** The shareholders are liable only to the extent of the amount unpaid on the shares held by them.
- **Transfer of Interest:** Easy transferability of shares increases the attractiveness of shares for investment.
- **Perpetual Existence:** Existence of a company is not affected by death, insanity, retirement, resignation and insolvency of its members.
- **Scope for Expansion:** A company can collect huge amount of capital from unlimited number of members, because of limited liability, easy transferability and chances of high return. Capital can also be attracted from banks or financial institutions. Hence, there is greater scope of expansion.
- **Professional Management:** A company can afford to pay high salaries to specialists and professionals. As each department is headed by an expert, greater efficiency is observed in company's operations and decision-making.

❖ Demerits of Joint Stock Company:

- **Complexity in Formation:** The procedure of formation of a company is very long and complex process and consumes much time and effort. It is expensive and requires lot of legal formalities to be fulfilled.
- **Lack of Secrecy:** According to the Companies Act, a public company is required to publish and file its annual accounts and reports. Therefore, it is very difficult to maintain secrecy in case of public company.
- **Impersonal Work Environment:** Separation between ownership and control and absence of a direct link between efforts and reward leads to a lack of personal interest and incentive. Also, it is difficult for the owner and top management to maintain personal contact with employees, customers and creditors. This creates an impersonal work environment.
- **Numerous Regulations:** Excessive legal provisions and compulsions affect the functioning of a company. A number of regulations are imposed on company such as audit, voting, etc by different agencies like Registrar of Companies, SEBI, etc. This reduces freedom of operations of a company.
- **Delay in Decision-making:** Companies are managed by the Board of Directors, followed by top, middle and then lower level management. Due to these channels, approval of various proposals gets delayed. Factors such as red-tapism and bureaucracy do not permit quick decisions and prompt actions.
- **Oligarchic Management:** Company is said to be democratically managed, but actually it is managed by few people, comprising the Board of Directors. Sometimes, they ignore the interest of shareholders and company and work for their personal benefit.

- **Conflict in Interest:** There are much chances of conflict of interests among the stakeholders of a company. For example, employees may want higher salaries, consumers want better products, etc.

TYPES OF COMPANIES

❖ Private Company:

According to the Companies Act, 2013, a private company means a company which,

- Restricts the right of its members to transfer shares, has minimum 2 members and maximum 200 members, excluding present and past employees.
- Does not invite public to subscribe to its share capital.
- Must have a minimum paid up capital of 1 lakh or such higher amount as may be prescribed from time to time.

❖ Public Company:

According to the Companies Act, 2013, a public company means a company which,

- Has a minimum of 7 members and there is no limit on the maximum number of members.
- Does not restrict the right of its members to transfer its shares.
- Is not prohibited from inviting the general public to subscribe to its shares, debentures or public deposits.
- Has a minimum paid up capital of 5 lakh or such higher capital, as may be prescribed.
- A private company which is subsidiary of a public company is also treated as a public company.

❖ One Person Company (OPC):

According to the Company Act 2013, a One Person Company (OPC) means a company which,

- Has only one person as its member.
- Is the special form of private company.
- Must have atleast one director.
- Only Indian citizen can incorporate an one person company.
- Has to appoint another person as nominee.
- Must have a minimum paid-up capital of 1 lakh. If the paid-up share capital of OPC exceed 50 lakh or its annual turnover exceeds 2 crore, then it will cease to be an OPC.

Formation of a Company

Formation of a company is a complex process involving several legal formalities and procedural decisions. The formation of a company involves the following stages.

1. Promotion,
2. Incorporation,
3. Capital Subscription,
4. Commencement of Business,

❖ Promotion:

It is the first stage in the formation of a company. It refers to the sum total of activities by which a business enterprise is brought into existence. It is a process of planning and organising necessary resources so that a profitable concern can come into existence. The person or a group of persons who perform the work of promotion and form a company is/are known as promoters.

❖ Functions of a promoter:

- **Identification of Business Opportunity:** The first and foremost function of a promoter is to identify a business idea. For example, production of a new product or service.
- **Feasibility Studies:** After identifying a business opportunity, the promoters undertake detailed studies of technical, financial and economic feasibility of a business.
 - **Technical Feasibility:** This feasibility study is undertaken to determine whether it is technically possible to produce the product or not.



- **Financial Feasibility:** This feasibility study is undertaken to determine whether the promoters would be able to arrange the necessary finance needed to float the venture.
- **Economic Feasibility:** This feasibility study is undertaken to determine whether it would be profitable to manufacture the product or not.
- **Name Approval:** After selecting the name of the company, the promoters submit an application to the Registrar of Companies for its approval. The proposed name will not be accepted by the Registrar, if-
 - It resembles the name of an existing company.
 - It is misleading.
 - It violates the provisions of 'The Emblem and Names (Prevention of Improper Use) Act, 1950.

In such cases, the proposed name is not accepted but some alternate name may be approved. So, three names, in order of their priority are given in the application to the Registrar of Companies.

- **Fixing up Signatories to the Memorandum of Association:** Promoters have to decide about the directors who will be signing the Memorandum of Association.
- **Appointment of Professionals:** Promoters appoint merchant bankers, auditors, etc. to assist them in the preparation of necessary documents, which are required to be submitted with the Registrar of Companies.
- **Preparation of Necessary Document:** The following documents are to be necessarily prepared by the promoters
 - **Memorandum of Association (MOA):** It is the principal document or the charter of the company.
 - **Articles of Association (AOA):** They are the rules for the internal management of affairs of a company.
 - **Consent of Proposed Director:** A written consent of proposed directors is required for their agreement to act as directors and buy qualification shares.
 - **Agreement:** If a company proposes anybody to appoint him/her as Managing Director/whole time Director/Manager, then such agreement is to be submitted to the Registrar.
 - **Statutory Declaration:** A statutory declaration is to be submitted to the Registrar stating that all legal requirements have been complied with.
- **This declaration can be signed by a:**
 - Advocate of High Court or Supreme Court, or
 - Practicing Chartered Accountant
 - Person named in the Articles as Director, Manager or Secretary.
- **Payment of Fees:** The promoter has to pay the necessary fees for registration of the company. The amount of fees depends upon the authorized capital of the company.

❖ **Principle Documents Require To Be Prepared By The Promoter:**

Two most important documents required to be prepared by promoters are given below-

❖ **Memorandum of Association (MoA):**

A Memorandum of Association (MoA) is a legal document which defines the relationship of a company with shareholders. It describes the company's name, physical address of registered office, names of shareholders and the distribution of shares. It is the most important document of the company and no company can undertake the activities that are not contained in the MoA. It specifies certain clauses that are mentioned below.

- **Name Clause** It contains the legal and recognized name of the company which has been approved by the Registrar of Companies.
- **Registered Office Clause** It shows name of the state in which the office of the company will be located. The exact address is not required, however, it should be given to the Registrar within 30 days of the incorporation of the company.

- **Objective Clause** This clause summarizes the objectives for establishing the company. The objects of the company are classified into the following sub-clauses
- **Liability Clause** It states the extent to which shareholders of the company are liable to the debt obligations of the company in the event of the company being wound up.
- **Capital Clause** This clause states the company's authorized share capital, the different categories of shares and the nominal value of the shares. A company cannot issue share capital in excess of the amount specified in this clause.
- **Association Clause** In this clause, the signatories to the MoA state their intention to be associated with the company and also give their consent to purchase qualification shares.

❖ **Articles of Association (AOA):**

The Articles of Association (AOA) is a document that contains the purpose of the company as well as clearly defined duties and responsibilities of its members. These are the by laws of a company that define the mode and manner in which the company's business is to be carried on. Companies Act, 2013 prescribes certain tables which can be considered as model tables for drafting the articles.

- **Incorporation:** It implies the registration of a company as a body corporate under the Companies Act, 2013. The following steps are taken by the promoters to get the company incorporated
- **Capital Subscription:** A public company can raise the required funds from the public by means of issue of shares and debentures. For doing the same, it has to issue a prospectus which is an invitation to the public to subscribe to the capital of the company.

❖ **Commencement of Business:**

To commence business, a public company has to obtain a Certificate of Commencement of business. For this, the following documents have to be filed with the Registrar of Companies.

- A declaration that 90 per cent of the issued amount has been subscribed.
- A declaration that all directors have paid in cash in respect of allotment of shares made to them.
- A declaration that no money is payable to the applicants, due to company's failure to obtain permission to deal in securities on a stock exchange.
- A statutory declaration that the above requirements have been completed and must be signed by the Director or Secretary of the company.

CHOICE OF FORM OF BUSINESS ORGANISATION:

The important factors determining the choice of organization are listed below:

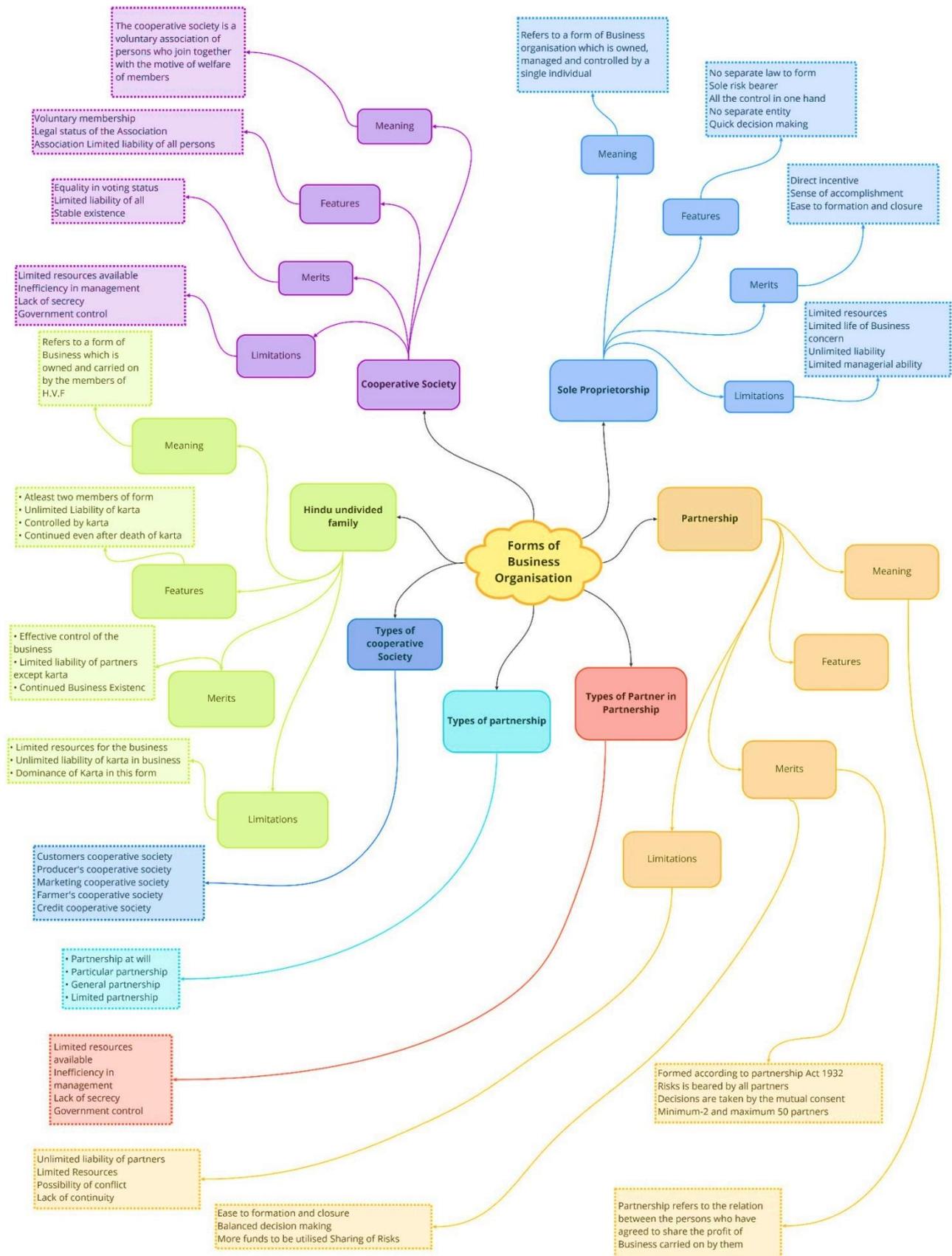
- **Cost and Ease in Setting up the Organisation:** Setting up costs are low and the legal requirements are minimal in sole proprietorship and partnership form of business. Since cooperative societies and companies have to be compulsorily registered, their formation is quite lengthy and expensive.
- **Liability:** In case of sole proprietorship and partnership firms, the liability of the owners/ partners is unlimited. But in the case of cooperative societies and companies, the liability of the members is limited. Hence, from the point of view of liability, the company form of organisation is more suitable.
- **Continuity:** The continuity of sole proprietorship and partnership firms is affected by death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in case of organisations like Joint Hindu Family business, cooperative societies and companies. In case the business needs a permanent structure, company form is more suitable. For short-term ventures, sole proprietorship or partnership may be preferred.
- **Management Ability:** A sole proprietor may find it difficult to have expertise in all functional areas of management. In partnership, different partners may have different managerial abilities. In a company, expert professionals can be appointed to look after the different aspects of business.



- **Capital Considerations:** Companies are in a better position to collect large amounts of capital by issuing shares to a large number of investors. Partnership firms also have the advantage of combined resources of all partners. But the resources of a sole proprietor are limited. Thus, if the scale of operations is large, company form may be suitable whereas for medium and small sized business, one can opt for partnership or sole proprietorship.
- **Degree of Control:** If direct control over operations and absolute decision making power is required, sole proprietorship may be preferred. But if the owners do not mind sharing control and decision-making, partnership or company form of organization can be adopted.
- **Nature of Business:** If direct personal contact is needed with the customers, such as in the case of a grocery store, sole proprietorship may be more suitable. For large manufacturing units, where direct personal contact with the customer is not required, the company form of organization may be adopted. Similarly, in cases where services of a professional nature are required, partnership form is much more suitable.



Class : 11th Business Studies
Chapter - 2 : Forms of Business Organisation





Important Questions

Multiple Choice Questions-

- Which of the following statement is NOT true about a minor partner?
 - He has to bear losses also
 - He can inspect books of accounts
 - He has an option to continue with a firm even after attaining majority
 - He shares only profits
- _____ company needs to have only two directors.
 - Public Company
 - Sole Proprietorship
 - Private Company
 - None of the above
- Which of the following contract is signed by the promoters with the third party on behalf of the proposed company?
 - Preliminary contracts
 - Provisional contract
 - Prospectus
 - Memorandum of association
- Which one of the following is the CORRECT sequence of stages in the formation of a company?
 - Promotion, incorporation, capital subscription, the commencement of business
 - Incorporation, capital subscription, promotion, the commencement of business
 - Promotion, the commencement of business, incorporation, capital subscription
 - Promotion, Incorporation, Certificate of commencement, capital subscription
- Which of the following business enterprises does not have a separate legal entity?
 - Sole Proprietorship
 - Partnership
 - Company
 - Cooperative Society
- _____ company does not invite the public to subscribe to its share capital.
 - Both Private and Public Company
 - Public Company
 - Private Company
 - None of the above
- Which of the following cooperative society is established to help small producers in selling their products?
 - Producer cooperative society
 - Marketing cooperative society
 - Credit cooperative society
 - Consumers cooperative society
- The maximum number of partners allowed in the banking business are
 - Ten
 - No limit
 - Twenty
 - Two
- At least 10 adults, no maximum limit in case of _____
 - Joint Hindu Family
 - Cooperative Society
 - Company
 - Partnership
- It is a form of business organization which is owned, managed, and controlled by an individual who is the recipient of all profits and bearer of all risks. Identify the concept.
 - Sole Proprietorship
 - Cooperative Society
 - Joint Hindu family business
 - Partnership
- What do you understand by the term unlimited liability?
 - The personal assets of the owner can be sold when the assets of the business are not enough to
 - The personal assets of the owner cannot be sold at all
 - The personal assets of the owner can be sold, according to the wish of the creditors
 - The personal assets of the owner can be sold, only to a limited extent
- Provision of residential accommodation to the members at reasonable rates is the objective of:
 - Housing Cooperative
 - Producers Cooperative
 - Sleeping Partner
 - Credit Cooperative

13. Hindu Succession Act was passed in _____
- 1960
 - 1956
 - 1952
 - 1932
14. A prospectus is issued by
- Public company
 - Private company
 - Statutory Corporation
 - Departmental undertaking
15. A partner whose association with the firm is unknown to the general public is called
- Active partner
 - Nominal partner
 - Secret partner
 - Sleeping partner
- b) b) In Ram Hari & co. Ltd, Ram & Hari declare Gopal as a partner with knowing that Gopal remain silent then Gopal will be liable to third parties for any loss.
- c) What type of partner is Geeta if she only contribute capital, share profit and loss if any?
- d) What type of partner is Giri in Ram Hari & co. Where he is an outsider but represent himself as a partner.
4. Explain the forms: sole proprietorship, H.U.F & Joint stock company on the basis of following points: Liability, members & Continuity
5. Explain the concept of mutual agency in partnership with suitable example.
6. What is meant by partner by estoppel OR Mr. Singh is in 'lighting' business for the post 15 years. To help his friend, Mr Yadav, a beginner he projected himself as a partner before Mohd. Abdul, a whole sale dealer of fancy lights. Mohd. Abdul gave Mr. Yadav the stock without asking for payment and gave him credit limit of one month. Will Mr. Singh be liable to Md. Abdul if Mr. Yadav does not pay him on time? Classify Mr. Singh's role here along with an explanation
7. What is secret partner
8. Write a short note on producer co-operative society
9. Explain a co-operative organisation in democratic setup.
10. Shiv, Anandi & John were partners John died in a car accident Both Shiv & Anandi decided to admit his son Ryan who was 16 years old as partner. Can they do so? Justify.

Very Short :

- By whom are the Board of Directors elected in the Joint Stock Company?
- Mention 2 necessary conditions that form a Joint Hindu Family business.
Ancestral property to be inherited by him or her
- Which company has no restrictions on the transfer of shares?
- Who regulates a Joint Hindu Family business?
- Mention 2 types of trading concern in which sole proprietorship is feasible.
- Who is a secret partner?
- Which is the business organisation that is found only in India?
- Mention the names of the systems that regulate the membership in Joint Hindu Family.

Short Questions:

- Differentiate sole proprietorship and partnership form of business.
- What is partnership deed and mention in brief the provisions contained in partnership deed?
- Partners in firm has different roles and liabilities, Identify and explain the type of partner in a firm from the given examples:
 - Rama is a partner in a business who has no actual interest in business trade or its profits but she is Paid fee by the firm for lending its name to firm.

Long Questions -

- Explain the important characteristics and differentiate between the various types of business enterprises.
- What is the scope of setting small business and also give reasons for considerable scope of setting small scale businesses in our country?
- Discuss the main types of partners.
- Explain the various types of partnerships.

Case Study Questions -

- Manish is a student pursuing final year B.Tech. from IIT Kharagpur. His father Mr. Sambal Singh who owned a small general store in Jaipur had a heart attack and became completely paralysed. There was no other source of income for the



family, so, Manish left his studies and decided to take charge of his father's general store. While checking the books of accounts, he found that his father had taken a loan of ₹ 2 lakhs from Bank of Baroda to be repaid this year only, but the business is running into losses due to his father's illness. Hence, his mother advised him to close the business and to look for a job outside.

On the basis of the given case, answer the following questions:

- (i) The form of business organisation formed by Sambal Singh is:
- Joint Stock Company
 - Partnership
 - Sole Proprietorship
 - Co-operative Society
- (ii) Which of the following shows a merit and a demerit of the type of business organisation mentioned in the above case?
- Secrecy, Limited liability
 - Sole recipient of profits and no diffusion of risk
 - Secrecy and direct incentive
 - Limited resources and unlimited liability
- (iii) "Loan of ₹ 2 lakhs from Bank of Baroda to be repaid this year only, but the business is running into losses." Identify the nature of liability of the owner in the stated line.
- Limited
 - Unlimited
 - No liability
 - Partial liability
- (iv) "decided to take charge of his father 's general store." As per the stated line, what will be the status that Manish holds in the business of his father?
- Partner
 - Employee
 - Trustee
 - Owner
2. **Direction:** Read the following text and answer the questions on the basis of the same:
- Madhu, Himanshu and Mayank, after completing B.E. in civil engineering, have jointly taken a project of constructing three government school buildings in a village near Agra within the time period of 6 months. As per the written agreement between them, only Madhu and Mayank will contribute the capital, and take all managerial decisions, whereas Himanshu will contribute capital only but will not be actively involved in management.
- (i) What type of a partner Himanshu is?
- Active
 - Dormant
 - Nominal
 - Secret
- (ii) If the partners are not able to complete the project effectively and efficiently, then who will be held liable for the losses incurred on account of noncompletion of project?
- Madhu
 - Himanshu
 - Madhu and Mayank
 - All of these
- (iii) Specify the kind of partnership mentioned in the above case.
- Limited partnership
 - Particular partnership
 - Partnership at will
 - General partnership
- (iv) Name the written agreement which defines the terms and conditions of such partnership.
- MOU
 - MOA
 - Partnership deed
 - Partnership registration

Answer Key

MCQ Answers :

- Answer:** (a) He has to bear losses also
- Answer:** (c) Private Company

- Answer:** (a) Preliminary contracts
- Answer:** (a) Promotion, incorporation, capital subscription, the commencement of business

5. **Answer:** (a) Sole Proprietorship
6. **Answer:** (c) Private Company
7. **Answer:** (a) Producer cooperative society
8. **Answer:** (a) Ten
9. **Answer:** (b) Cooperative Society
10. **Answer:** (a) Sole Proprietorship
11. **Answer:** (a) The personal assets of the owner can be sold when the assets of the business are not enough to
12. **Answer:** (a) Housing Cooperative
13. **Answer:** (b) 1956
14. **Answer:** (a) Public company
15. **Answer:** (c) Secret partner

Distribution of profit	Profit is shared among partners.	The entire profit is enjoyed by the proprietor alone.
Capital	It has got more capital because there are more members.	It has limited capital because the capital is contributed by one person only.
Secrecy	In a partnership business, secrets are open to each partner.	Business secrecy is maintained.
Personal touch	It does not have personal touch as much as the sole trader has with his customers.	It is located amidst consumers, so it has personal contact and touch with them.

Very Short Answers:

1. **Answer:** The shareholders elect the Board of Directors in the Joint Stock Company.
2. **Answer:** At least 2 members in a family
3. **Answer:** Public company has no restrictions on the transfer of shares.
4. **Answer:** Karta
5. **Answer:** Single person art studio, a local grocery, or an IT consultation service.
6. **Answer:** Secret partner is a partner whose membership in a partnership is maintained secret from the public.
7. **Answer:** Joint Hindu Family is the business organisation that is found only in India.
8. **Answer:** Dayabhaga law and Mitakshara law

Short Answers -

1. **Answer:** Difference between Partnership and Sole Trader:

Points of Difference	Partnership	Sole Trader
Specific Act	It is governed by Partnership Act 1932.	There is no specific Act.
Number of member	The minimum number of partners is two and the maximum number in the case of banking business is ten and in other business is twenty.	It is owned and carried on by only one person. He may employ other persons or take help from the members of his family.
Agreement	It arises only by agreement among partners.	No agreement is required in a sole proprietorship.

2. **Answer:** Partnership Deed: A partnership agreement contains the terms and conditions relating to partnership and the rules and regulations governing its management. It may be oral or in writing. A written agreement of partnership is called 'Deed of Partnership'. A partnership deed contains all the details on which partnership has been formed. These terms and conditions are also known as articles of partnership.

A partnership deed usually contains the following details:

1. The names and addresses of the partnership firm and its partners.
2. The nature of the business proposed to be carried on by the firm.
3. The duration of the partnership.
4. The amount of capital contributed by each partner.
5. The rate of interest payable to partners on their capital or to be paid by partners on the amount drawn by them.
6. The mode of maintaining accounts and operation of the bank account.
7. Rights and duties of the partners for the management of the business of the firm.
8. The ratio in which profits will be shared by the partners.
9. The amount of salary and/or commission payable to the partners
10. Arbitration clause for settlement of disputes between the partners,
11. Mode of dissolution and settlement of accounts.



3. **Answer:** (a) Rama is a nominal partner in a firm who has no genuine interest in the firm's trade or earnings, but is paid a fee by the firm for providing its name to the firm.
- (b) Ram & Hari declare Gopal as a partner in Ram Hari & Co. Ltd, knowing that if Gopal remains silent, Gopal will be accountable to third parties for any losses.
- (c) Geeta is a sleeping partner if she merely contributes capital and shares profit and loss if any.
- (d) Giri in Ram Hari & co, Where he is an outsider but represent himself as a partner-Partner by Estoppel.
4. **Answer:** The difference between sole proprietorship, H.U.F & Joint stock company is given below:

Basis	Sole Proprietorship	HUF	Joint Stock Company
Liability	Unlimited Liability	Karta's culpability is boundless and his personal property is used to pay off his debts. Coparceners' liability is restricted to their part of the risk, which is precisely defined and precise.	Members' responsibility is restricted to the amount of money they contribute to a corporation. Members can only be requested to contribute to the loss up to the amount of unpaid share that they own.
Member	Owner is the member	To start a joint hindu family business, at least two family members are required. At the time of birth, one becomes a member.	In a public corporation, the minimum number of employees is seven and the maximum number is unlimited; in a private firm, the minimum number of employees is two and the maximum number is 200.
Continuity	Death, insanity, incarceration, physical illness and bankruptcy all have an impact on a firm and can lead to its closure.	Company operations are not halted and business continuity is not jeopardised.	It will only be decommissioned after a precise procedure known as winding up is finished. Members may come and leave, but the company remains in existence.

5. **Answer:** The legal relationship between participants in a partnership in which each has

authorisation powers and the authority to engage the partnership into business contracts is known as mutual agency. To put it another way, each partnership member has the capacity to make business decisions that commit or tie the partnership as a whole to a business deal with a third party or entity. Even though the partnership agreement expressly forbids it, a grocery store partner who purchases a delivery vehicle makes a legally binding contract in the name of the partnership. On the other hand, if a law firm partner bought a snowmobile for the firm, such behaviour would be illegal.

6. **Answer:** Partner by Estoppel is a legal term that refers to a legally binding partnership that can exist even though there is no formal partnership agreement in place. A person who advertises himself or herself as a partner in a firm through conduct or words, or enables himself or herself to be represented as such, is accountable for the credit or loans received by the firm on the basis of such representation. Also known as partnership presumption. The partner does not contribute to the capital or administration of the company, yet his responsibility is limitless.
7. **Answer:** A secret partner is a person or partner who is not publicly known in a venture or business. He contributes money to the cause. He's a part of the management team, but only behind closed doors. He also shares in the profits and losses of the firm. His, and others', responsibilities are infinite.
8. **Answer:** Producers' Cooperative Societies were formed to safeguard the interests of small farmers. Producers interested in obtaining inputs for the creation of items to meet consumer demand are among the members. Profits are divided based on their contributions to the society's overall pool of products produced or sold.
9. **Answer:** A cooperative society is a voluntary group of people who get together for the common good of its members. The cooperative society is governed by the premise of "one man, one vote." Each member has the same number of votes. As a result, democratic values govern cooperative society.
10. **Answer:** Yes, they can admit Ryan as a partner to the partnership firm's advantages with the permission of the partners. A minor is a person who is under the age of eighteen. Because a minor is incapable of forming a legally binding contract.

He is unable to become a partner in a firm. A minor can, however, be added to the advantages of an established partnership business with the agreement of all other partners. It's unrealistic to expect him to absorb the losses. His responsibility will be limited to the amount of money he has put into the business. He will be unable to engage fully in the running of the company.

Long Answers

1. Answer: Characteristics of Business Enterprises:

The main characteristics of various types of business enterprises are given below –

1. Public Sector Enterprises: Public enterprises or public sector enterprises are those enterprises that are owned and operated by the government. The capital of such enterprise is contributed by the central government, state government, or the local government.

Their characteristics are as follows:

- (a) **State ownership:** Public enterprises are owned by the government. Even where private entrepreneurs are permitted to invest capital, more than 50 percent of capital is in government hands.
- (b) **Government control:** The management and control of public enterprise exclusively rest with the government. Parliamentary control is exercised over public enterprises.
- (c) **Service motive:** The public welfare or service is the main objective of public enterprise though it may also earn profits. There is usually benevolent management in public enterprises.
- (d) **Public accountability:** The capital of public enterprise is supplied from the public exchequer or government department in charge of public money. Therefore, public enterprises are accountable to the general public.

2. Private Sector Enterprises: The characteristics of private sector enterprises are as follows:

- (a) **Private ownership:** It is owned and managed by a private enterprise or group of individuals. The entire share capital is provided by these businessmen.

- (b) **No state participation:** There is no participation by the Central or state governments in the establishment and ownership of a private-sector enterprise.

- (c) **Independent management:** The management and control of a private-sector enterprise are vested in the hands of one or more private businessmen.

Management is accountable to the owners (their elected representatives). There is no interference by the government in internal management.

- (d) **Profit motive:** The main object of a private-sector enterprise is to earn profits rather than to render service to society.

3. Joint Sector Enterprises: The characteristics of joint sector enterprises are as follows:

- (a) **Mixed ownership:** The government, private entrepreneurs, and the investing public jointly own a joint sector enterprise.

- (b) **Combined management:** The management and control of a joint sector enterprise lie with the nominees or representatives of the government, private businessmen, and the public.

- (c) **Share capital:** The shares of the government, private businessmen and the public in the capital are 26 percent, 25 percent, and 49 percent, respectively. The aim is to pool the financial resources and technical knowledge how of the state and the private individuals.

Comparison Between Private, Public, And Joint Sector Enterprises:

Point of Distinction	Public enterprise	Private enterprise	Joint sector
1. Ownership	Government-owned	Private persons	Government and private both
2. Management	By government officials	By private owners or professional managers	Both government and private individuals
3. Capital	51 percent or more by the government	By private investors	Government and private both



4. Purpose	Service to the society	Earning profits	Profit and social objectives
5. Government control	Control by Parliament	No strict control by Parliament	Mayor may not be
6. Audit	By Comptroller and Auditor General. Compulsory in all cases	By practicing chartered accountants. Not compulsory in all cases	By qualified auditors
7. Accountability	To the public	To the owner authority	To both government and private

2. **Answer:** Scope of setting up small business enterprises:

There is considerable scope for setting up small scale units due to the following reasons –

1. **Limited Demand:** The demand for certain products is local and seasonal. In such cases, it is not economical to attempt a scale of operation which exceeds local demands. Brick kilns, hair cutting saloons, restaurants, etc. are examples of such cases. In the case of perishable goods also, the size of firms tends to be small. In certain cases, the nature of the production process favors small units.
2. **Specialised Service:** When an enterprise supplies specialized services, small scale firms are more suitable. Beauty parlors, interior decorators, and tailoring shops are examples of this type. A small firm can understand its customers and can provide personal attention which may not be possible in a large-scale enterprise. Similarly, firms providing professional services like eye clinic, tax consultancy, chartered accountancy, etc. are also organized as a small scale because they must maintain personal touch with their clients. Thus, small firms are required to cater to individual tastes and fashions and to render personalized services to consumers.
3. **Flexibility:** Certain businesses are subject to wide variations in demand, e.g. manufacture of jewellery, ready-made garments, etc. In such cases, greater flexibility of operations is required. Small firms can be more flexible due to simple technology and low overheads. They are capable of being adapted to changing tastes and fashions. They can easily

make changes in products and can shift to new lines of business whenever the need arises. Therefore, small firms are more suitable for manufacturing and selling specialty items that may be popular for only a short period of time.

4. **Employee relations:** When close rapport with employees is essential to provide high-quality products to the customers, small scale unit is in a better position. The owners, also the managers of such business have the most valuable advantage of being close to the employees. They know better their problems and can take necessary remedial measures quickly and efficiently.
5. **Introduction of New Products:** Before starting the production of a new product on a commercial scale, it is always desirable to test it in the market. In the initial stages, the requirements of customers and management are uncertain and unknown. Therefore, operations are usually carried on a small scale when new products or ideas are being introduced in the market. This also helps to reduce the risk.
6. **Direct Motivation:** Small scale enterprises foster individual initiative and skill. The identity of ownership and management serves to curb misconduct as mistakes bear directly on one's property and income. There is maximum incentive to put the resources to best use because the resulting gains accrue directly to the owner. Red: tapis is absent and prompt decisions are possible.
7. **Human Inertia:** Many businessmen do not want to expand their business due to fear of loss of freedom. Growth may involve more work and worry. People who want to lead a comfortable and simple life may be satisfied with the small scale of business.
8. **Shield to Big Business** Many small firms serve as ancillary units or feeders to large firms. Such units also provide a training ground for entrepreneurs. Small firms also provide some guarantee against the emergence of new competition. A threat to the big firms. They provide superficial evidence that monopoly does not exist in the industry.
9. **Social Utility:** Small scale industries are helpful in generating self-employment for a large number of persons. These industries

are also useful in preventing the concentration of income and wealth. They facilitate the economic development of rural and backward areas. Small firms use local resources and their social cost is comparatively low.

10. **State Assistance and Patronage:** Small scale industries get several concessions from the government on account of their social benefits. The government provides then loans on concessional rates of interest. Technical, managerial, and marketing assistance is also provided. The government has reserved several products for exclusive production in the small scale sector. Several institutions have been set up to protect and promote the growth of small scale industries in the country.

3. **Answer:** A partnership firm can have different types of partners with different roles and liabilities. There can be the following types of partners:

- Active Partner
- Sleeping or Dormant Partner
- Secret Partner
- Nominal Partner
- Partner by estoppel
- Partner by holding out
- Minor Partner

1. **Active Partner:** Those partners who contribute capital and also takes an active part in the management of the firm are called active partners. These partners act as agents of the firm and have unlimited liability. All other partners are responsible for their deals.

2. **Sleeping or dormant partner:** Those partners who contribute capital only but do not take an active part in the affairs of the business are called sleeping partners. They have shared in the profit loss of the firm and also have unlimited liability. But they do not come face to face with the third party.

3. **Secret Partner:** This type of partner contributes capital and takes an active part in the management of the firm's business. He shares in the profit and losses of the firm and has unlimited liability. However, his connection with the business of a partnership firm is not known to the outside world.

4. **Nominal Partner:** Those partners who neither invest money nor have shared in the profit and loss and also have no role in the administration of the firm. The firm makes them partners to gain from their personal goodwill. They have unlimited liability also.

5. **Partner by estoppel:** A person who by his words or conduct, represents himself as a partner becomes liable to those who advance money to the firm on the basis of such representation. He cannot avoid the consequences of his previous act.

6. **Partner by holding out:** When a person is declared as a partner and he does not deny this even after becoming aware of it, he becomes liable to third parties who lend money or credit to the firm on the basis of such a declaration.

7. **Minor Partner:** A minor is a person who has not completed 18 years of age. Minor may be admitted as a partner only for the benefits of the partnership with the mutual consent of all the partners. On being so admitted, a minor can impact and copy the books of accounts but could not take an active part in the management. His liability is limited to the intent of his share in the capital and profit of the firm.

4. **Answer:** A partnership can be classified on the basis of two factors:

- Duration,
 - Liability.
- On the basis of duration, there can be two types of partnership:
- Partnership at will,
 - Particular partnership
- On the basis of liability, the two types of partnership are:
- Partnership with limited liability
 - Partnership with unlimited liability.

On the basis of Duration:

1. **Partnership at will:** It is a partnership formed for an indefinite period. It can continue for any length at any time depending upon the will of the partners. It can be dissolved by any partner by giving notice to the other partners of his desire to quit the firm.

2. **Particular Partnership:** It is a partnership formed for a particular objective. It is formed for a specific time period or to achieve

3

Private and Public Sector Enterprises

❖ Private Sector Enterprises:

It implies all those enterprises which are owned and managed by individuals or group of individuals. e.g., Reliance Industries Ltd, Wipro Ltd, etc. The various types of organisations in private sector are — Sole proprietorship, partnership, Joint Hindu Family business, Company, Cooperative societies and Multinational Corporation.

❖ Public Sector Enterprises:

It implies all those enterprises which are managed/owned partly or wholly by Central or State Government or by both. They supply goods and services at reasonable price and are operated on more or less self-supporting basis. Public enterprises are formed by the government to take decisions and to participate in economic activities on behalf of it.

They contribute towards the economic development in the competitive and liberalised world. They are accountable to public through Parliament, and public funds are used by them for their activities. e.g., Air India, Indian Railways, etc.

❖ Forms Of Organising Public Sector Enterprises:

Departmental Undertaking: It is the oldest and most traditional form of organising public sector enterprises. It may be run either by the Central Government or by State Government. It is managed by the government officials, and rules of Central/State Governments are applicable. It has no separate legal existence. It functions under the overall control of one ministry or department of government, and is managed by the concerned minister. e.g., railways, post and telegraph department, defense, telephone services, etc.

❖ Features:

- They are financed from the Government Treasury and an annual appropriation for them is made in the budgets of the government.
- They are subject to accounting and audit controls applicable to other government activities.
- The staff of departmental undertakings are government servants and they are headed by civil servants and Indian Administrative Service (IAS) officers. They are recruited and compensated as per the rules of civil services and are transferable from one ministry to another.
- They are major sub-divisions of government departments. They are not a separate entity. Thus, they are subject to direct control of the ministry.
- Their management is directly under the concerned ministry. Thus, they are accountable to it.

❖ Merits:

- The control on departmental undertaking is very effective, as it is subject to parliamentary control.
- They are subject to accounting and audit controls. Thus, they have high degree of public accountability.
- The revenue of departmental undertaking is deposited in the Treasury of the Government. So, these undertakings help in increasing the government revenue.
- They are most suitable for operations where national security is concerned, because of direct control of the concerned ministry.



❖ **Limitations:**

- The departmental undertaking works under strict parliamentary control. There is too much interference of ministers and top officials. This reduces the flexibility and efficiency of the undertaking.
- Heads of the departments of these enterprises do not have decision-making powers. Decisions can only be taken after approval from concerned ministry. This leads to delay in decision-making.
- Due to interference and inflexibility, the bureaucrats are conservative and cautious. Therefore, they are unable to take advantage of business opportunities.
- A number of rules and regulations and lengthy channels of operations cause delay in decision-making and consequently, urgent matters suffer. This leads to red tapism and bureaucracy.
- Constant interference from the concerned ministry and the politicians unduly affects the working of to the public enterprises.
- Such enterprises are insensitive to consumers' needs and do not provide adequate services.

Public or Statutory Corporation

It is a corporate body created by the legislature with defined powers, functions and is financially independent with a clear control over a specified area. It has the power of governance as well as considerable amount of operational flexibility like private enterprises. 10 e.g., Air India, State Bank of India, Life Insurance Corporation of India, etc.

❖ **Features:**

- They are formed by a Special Act of Parliament. The Act defines their powers, objects and privileges.
- They can sue and be sued, enter into contracts and purchase or sell property in their own name as it has the status of body corporate.
- They are independently financed. They are financed by borrowings from the government or from public and through revenue generated by sale of goods and services. They can also make use of their revenues.
- They are free from government accounting and audit control because they are not financed from the central budget of the government.
- The employees of such enterprises are not government or civil servants. Their conditions, procedures, rules and regulations of work are prescribed under the provisions of the act itself.

❖ **Merits:**

- They are free from undue interference from government control. Thus, they enjoy freedom in functioning and have operational flexibility.
- As they are not financed from central budget, the government do not interfere in their financial matters.
- Due to autonomous set up, they have their own rules and regulations, policies and procedures for their independent functioning. But the Act may provide few matters and issues which require approval from particular ministry.
- With a combination of initiative of private enterprises and power of government, they prove to be of value in economic development.

❖ **Limitations:**

- Autonomy exists on papers only. In reality, all operations and actions are subject to many rules and regulations.
- Government and political interference has always been there in major decisions, especially where huge funds are involved.
- Government often appoints advisors to the Corporation Board. This affects the freedom in decision-making and leads to disagreements. This further delays the decision.
- Corruption is rampant in these corporations, as the officials may misuse their autonomy and indulge in unfair practices.

Government Company

A government company is registered and governed by the provisions of the Indian Companies Act. They are established for purely business purposes and in true spirit compete with companies in the private sector. The government exercises control over the paid up share capital of the company. e.g., Steel Authority of India.

According to Indian Companies Act, 1956, 'a government company means any company in which not less than 51 per cent of the paid up capital is held by the Central Government or by any State Government or partly by Central Government and partly by one or more State Governments.

❖ Features:

- The government company is incorporated under the prevailing Indian Companies Act.
- The government company has a separate legal existence. Thus, it can buy and sell property and enter into contract in its own name.
- The management is according to the provisions of Indian Companies Act.
- Government companies are exempted from the accounting/ audit rules and procedures. However, an auditor is appointed by the Central Government and an annual report is to be presented in Parliament/ State Legislature.
- The government company obtains its funds from government shareholding and can also raise the funds from the capital market.
- The company can file a suit in court of law against any third party and be sued.
- The employees of a government company are appointed according to the rules and regulations as provided under the Memorandum and Articles of Association of the company.

❖ Merits:

- A government company can be established by fulfilling the requirements of the Indian Companies Act. No separate act in Parliament is required.
- Government company is relatively free from government and political interference. It can function freely and smoothly under the general vigilance of the government.
- Government company has a separate legal entity.
- The government company provides goods and services to consumers at a reasonable price. It helps to control market and curb unhealthy business practices.

❖ Limitations:

- Government is the only shareholder in some of the companies. Thus, provisions of the Companies Act do not have much relevance.
- A government company evades constitutional responsibility, as it is not answerable directly to Parliament for non-performance of duties.
- The independent character of a government company exists in paper only. Politicians, ministers and government officials interfere in its working. Executive agencies of the government can materially reduce its autonomy.

Changing Role of Public Sector

❖ Development of Infrastructure:

- It is a prerequisite for industrialization in any country
- Without proper transportation and communication facilities, fuel and energy, and basic and heavy industries, the industrialisation process cannot be sustained. Only the government had the ability to collect vast sums of money, coordinate industrial building, and train technicians and workers.
- Expansion of rail, road, sea and air transport has contributed to pace of industrialisation and ensured future economic growth.



❖ **Regional Balance:**

- The government is in charge of ensuring that all regions and states develop in a balanced manner and that regional inequities are eliminated. Attention will be paid to the reasons for the delay, and public-sector industries will be purposefully established.
- Four big steel facilities were built in underdeveloped areas to help promote economic growth, generate jobs, and develop ancillary industries.

❖ **Economies of Scale:**

- Because large-scale companies demand a large capital investment, the government was forced to step in to take advantage of economies of scale.
- Electric, power, natural gas, petroleum and telephone Industries required a larger base to function economically which was only possible with government resources and mass scale production.

❖ **Concentration of Economic Power:**

- New private sector industrial conglomerates should be willing to engage in heavy sectors, resulting in a wealth concentration in a few hands.
- The public sector has the ability to establish massive industries that demand significant investment
- This prevents wealth and economic power from being concentrated in the private sector.

❖ **Import Substitution:**

- Importing heavy machinery, which is necessary for a robust industrial basis, was challenging.
- At the time, public-sector heavy engineering firms were founded to aid in the import substitution process.
- Several public sector enterprises, such as STC and MMTC, have also played a major role in increasing the country's exports.

Government Policy Towards Public Sector Since 1991

- In 1991, the government implemented four important reforms in the public sector as part of its new industrial policy.
- In the 1956 resolution on industrial policy, 17 industries were reserved for the public sector. Atomic energy, armaments and communication, mining, and railways were the sole industries retained for the public sector in 1991. Only three industries, atomic energy, armaments, and rail transportation, were reserved solely for the public sector in 2001.
- The sale of equity shares to the private sector and the general public is referred to as disinvestment. The goal was to collect funds and foster more public and worker participation in the ownership of these businesses.
- All public sector units were referred to the Board of Industrial and Financial Reconstruction, which determined whether a sick unit should be rebuilt or closed down. In a few cases the board has reassessed revival and rehabilitation plans, as well as winding up for a number of units.
- Improvement of performance using a Memorandum of Understanding (MOU) system in which managements are given more authority but are held accountable for specific outcomes. Public sector units were given explicit targets and operational autonomy to meet those targets under this approach

Global Enterprises Or Multinational Corporations (mncs):

A Multinational Corporation is one which operates in two or more than two countries. Such companies have branches, factories, offices, etc in different countries. In simple words, it can be stated that a Multinational Company is a huge industrial organisation which extends its industrial and marketing operations through a network of its branches in several countries. Their branches are also called Majority Owned Foreign Affiliates (MOFA). Few examples of MNCs are Coca Cola, Hyundai, Reebok, L'oreal, Samsung, Sony, etc.

❖ Features:

- **Huge Capital Resources:** The assets and sales of MNCs are quite huge. They operate on large scale and have the ability to raise funds from many sources. They may issue equity shares, debentures or bonds to the public. They can also avail loans from financial institutions and international banks. Investors and banks of the host country are interested in investing in them. Thus, they enjoy credibility in capital market and are able to raise, huge capital resources.
- **Centralized Control:** An MNC operates in more than one country. It has its branches, factories and offices in several countries. It operates through network of branches and subsidiaries in host countries and controls the operations with a centralized system in home country.
- **Foreign Collaboration:** MNCs may collaborate with companies in the public and private sector. Big industrial houses wanting to diversify and expand have gained by collaborating with MNCs in terms of patents, resources, foreign exchange, etc. At the same time, these foreign collaborations have given rise to the growth of monopolies and concentration of power in few hands. In their collaboration agreements, generally, there are restrictive clauses related to technology, pricing, dividends, payment, tight control by foreign technicians, etc.
- **Advanced Technology:** In the production methods, they possess technological superiorities. They are able to conform to international standards and quality specifications. This leads to industrial progress of the home country of such corporations. Computerization and other inventions are due to the technological advancements provided by them.
- **Expansion of Market Territory:** Their operations and activities extend beyond the physical boundaries of their own countries. Their international image expands their market territory enabling them to become international brands. Due to their giant size, they occupy a dominant position in the market.
- **Marketing Strategies:** They use aggressive marketing strategies in order to increase the sales in short period. They have effective advertising and sales promotion techniques. Because of a well-established brand, promoting sales is not difficult for them.
- **Product Innovation:** Due to a huge capital base, these enterprises are involved in qualitative research. They are able to have highly sophisticated research and development departments. They are continuously engaged in developing new products of better quality and superior design of existing products.

Joint Ventures

When two or more firms join together for a common purpose and mutual benefit, it is known as a joint venture. The two organisations may be private, government-owned or a foreign company. Joint ventures share technology, capital, human resources, risks, rewards, etc. In broader sense, a joint venture is the pooling of resources and expertise by two or more business, to achieve a particular goal. obey buza e.g., Maruti and Suzuki, Bharti and Airtel, etc.

Joint ventures are formed due to the following reasons,

- Business expansion
- Development of new products
- Moving into new markets in another country

❖ Features:

- Joint venture is a short-term partnership between two firms.
- It is a temporary business activity.
- In joint venture, profits and losses are shared in agreed proportion. If there is no agreement, profits and losses are shared equally.
- The joint venture agreement will be automatically terminated after completing the venture.
- At the end of the venture, all the assets are liquidated and liabilities are paid-off.

❖ Merits:



- **Increased Resources and Capacity:** Joining hands with other enterprises helps in tapping up more resources and this enhances the capacity to grow and expand.
- **Access to New Markets and Distribution Networks:** When two enterprises join their hands, they are free to enhance or expand their market. For example, Indian company and Chinese company form a joint venture. This will help Indian company to sell its products in China also and the same advantage can be derived by the Chinese company too. Establishing their own retail outlets may prove to be very expensive.
- **Access to Technology:** Companies who do not have the capacity to develop their own technology, join their hands with other companies to access their technologies. This helps in improving the quality of products, thereby saving time, energy, investment, etc.
- **Low Cost of Production:** Most of the international companies invest in India because of the presence of lower cost of production. International corporations obtain quality products for their global market at a low price because of low cost of raw materials, labour, technical workforce, management, professional and excellent manpower in the field of science, law, etc.
- **Established Brand Name:** When two business firms enter a joint venture, one of the involved parties can derive the benefits from the other's goodwill, which has been established in the market since long. Due to this fact, there is a ready market for the launch of product. Thus, a lot of investment required for marketing is saved.
- **Innovation:** Joint venture allows business to come naman up with new and creative products. This helps in S raising the sale of innovative products in the market. Specially foreign partners who have new ideas and technology come up with innovative products.

PUBLIC-PRIVATE PARTNERSHIP (PPP, P3 OR P3):

Infrastructure development has been a key responsibility of the government. Due to the shortage of funds, government alone would not be able to fulfil this demand. To overcome this issue, Public-Private Partnership (PPP) came into the picture.

Public-Private Partnership means partnership between public sector and private sector in financing, designing and developing infrastructural facilities. It refers to the participation of private sector in government projects. In such projects, the private sector contributes money, technical know how and managerial expertise. It is basically a joint venture between public sector and private sector.

PPP is formed for the following projects

- Power
- Transport
- Water
- Healthcare Sort
- Education
- Telecommunications etc.

❖ Features:

- **Facilitate Partnership between Public Sector:** and Private Sector PPP is an arrangement between public sector and a private party, in which private sector provides service and/or asset to the public at large.
 - a) Public Service:** It is service that government is obligated to provide to its citizens. e.g., provision of electricity, water, etc.
 - b) Public Asset:** It is an asset which is linked to the delivery of public service. e.g., public road, bridges, flyovers, etc.
- **Operations or Management for a Specified Time Period:** PPP arrangement is for a specific period

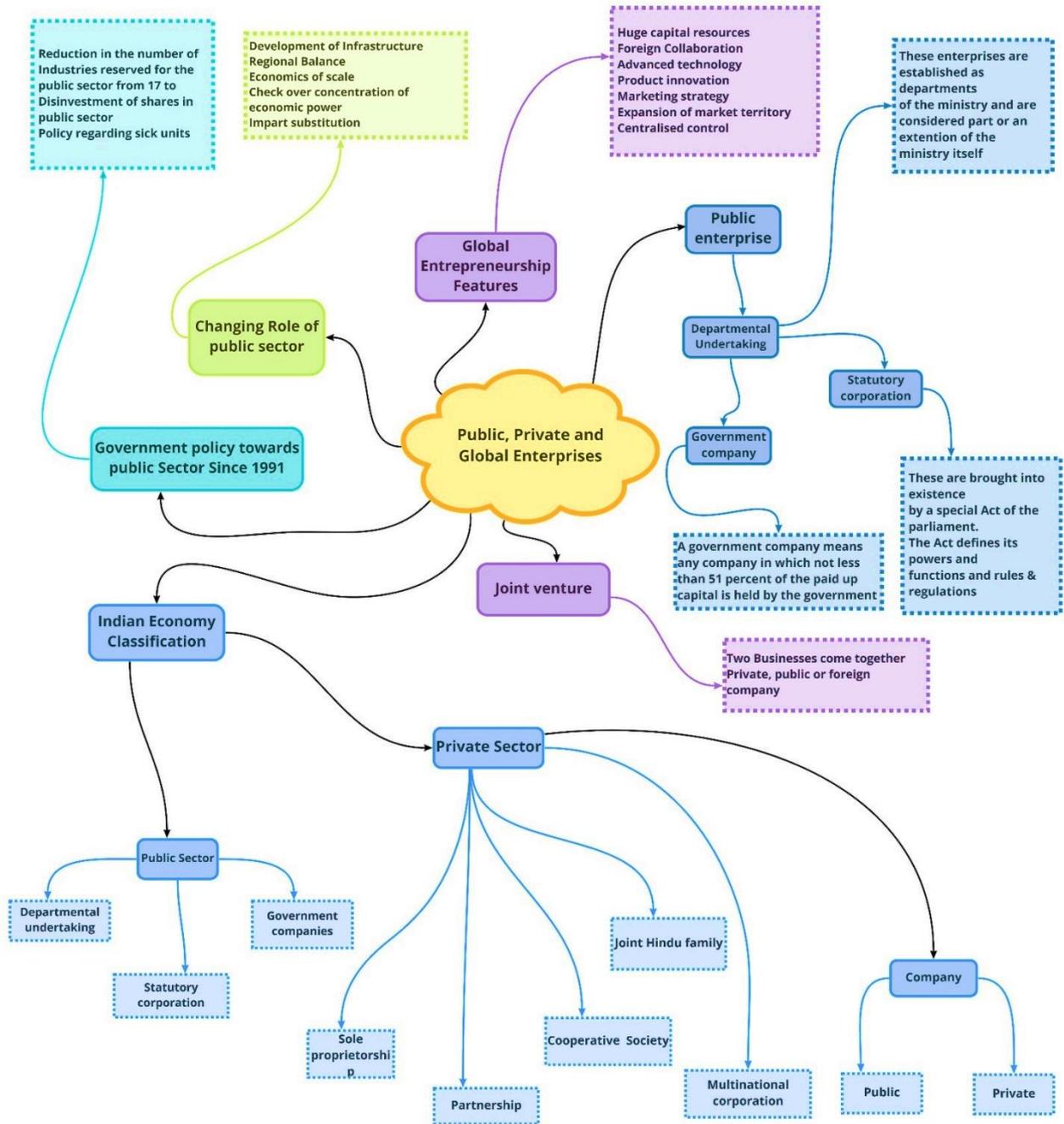
and at the expiry of such period, such partnership comes to an end.

- **Suitable for Big and High Priority Projects:** PPP is suitable for big projects where gestation period is long and also for high priority projects aimed at creating public goods, like in infrastructure sector. is DEDE The government may provide subsidy, support a project by providing tax breaks, and guarantee annual revenues for a fixed period to the private parties.
- **Sharing of Revenues:** Revenue is shared between the government and private enterprise in an agreed ratio.
- **Risk Sharing:** Risk of the project is also shared between the government and the private party.





Class : 11th Business Studies
Chapter- 3 : Public, Private and Global Enterprises



Important Questions

Multiple Choice Questions-

- The minimum number of members to form a public company is.
(a) 5
(b) 21
(c) 12
(d) 7
- _____ consists of business owned by individuals or a group of individuals
(a) Public Sector
(b) Private Sector
(c) Service Sector
(d) None of the above
- Reconstruction of sick public sector units is taken by
(a) BIFR (Board of Industrial and Financial reconstruction)
(b) MOU (Memorandum of Understanding)
(c) FERA (Foreign Exchange Regulation Act)
(d) IDBI (Industrial Development Bank of India)
- Stages in the formation of a public company are in the following order
(a) Promotion, Incorporation, capital subscription, the commencement of business
(b) Incorporation, Capital of Business, Capital Subscription Commencement of Business, Promotion
(c) Capital Subscription, Promotion, Incorporation, Commencement of Business
(d) Promotion, the commencement of business
- Departmental Undertakings are suitable in case of
(a) National security
(b) Commercial undertakings
(c) Industrial undertakings
(d) Infrastructural Facilities
- Which one of the following is NOT a public sector undertaking?
(a) Partnership
(b) Departmental undertaking
(c) Government companies
(d) Statutory corporation
- In the industrial policy resolution ____, the Government of India has specified the approach towards the development of the industrial sector.
(a) 1956
(b) 1948
(c) 1932
(d) 2009
- Indian economy is _____
(a) Closed Economy
(b) Private Economy
(c) Mixed Economy
(d) Fully Developed Economy
- Preliminary Contracts are signed
(a) After commencement of business
(b) After incorporation but before the capital subscription
(c) Before the incorporation
(d) After incorporation but before
- Statutory corporations are _____
(a) Private enterprises
(b) Sole Proprietorship
(c) Public enterprises
(d) None of the above
- Which of the following comes under the private sector?
(a) Joint Hindu Family
(b) Partnership
(c) Sole Proprietorship
(d) All of the above
- Application for approval of name of a company is to be made to
(a) Government of the State in which Company is to be registered
(b) Registrar of Companies
(c) SEBI
(d) Government of India
- Which one of the following is the disadvantage of MNCs?
(a) Disregard national Priorities
(b) Bringing foreign exchange
(c) Improved standard of living
(d) Bringing Advanced Technology



14. Steel Authority of India Limited is a public enterprise. Identify this form of public enterprises
- Government Company
 - Statutory Corporation
 - Departmental Undertaking
 - Multinational Company
15. _____ not been constituted as autonomous or independent institutions and as such are not independent legal entities.
- MHRD
 - Departmental undertakings
 - Indian Institute of foreign trade
 - All India Ratio

Very Short :

- What are the different types of PSEs?
- Mention the types of business enterprise which operates in more than one nation.
- What are the objectives of a public sector enterprise?
- Provide 2 features of a public-private partnership.
- What are the features of an MNC?
- What is a Joint venture?
- What is a departmental undertaking?

Short Questions:

- What are the major objectives of public enterprises?
- Differentiate between Private and Public Sector Enterprises.
- Mention, in brief, the significant features/characteristics of Global Corporations.
- Explain the term Foreign Collaboration in brief.
- What do you mean by the term "Disinvestment of Shares"?
- What is Departmental Undertaking? Mention its advantages and disadvantages.
- What are statutory/public corporations? Present their advantages and disadvantages.
- What is a Government Company? Define its merits and demerits.
- Present a comparative view of different forms of public enterprises.
- What are the objectives of privatizing public sector enterprises?

Long Questions:

- The role of the public sector is not satisfactory. What are the suggestions for improvement in public sector operations?
- Define Multinational Corporations and their role in the economic development of a nation.
- Write down the full form of the following: BIFR, MOU, MNC, MOFA, VRS, NRF, PSES, IMF, IBRD.
- State some danger of MNC towards the domestic economy?

Case Study Questions:

- Mr. Gajendra is a businessman dealing in the sale of electronic items. His daughter Gauri is working in Kotak Mahindra Bank and his son, Sarvesh is working in State Electricity Board. Mr. Gajendra applied for a home loan with Kotak Mahindra. He was impressed with the efficient work culture of the bank as he got the loan in a short period of time, much before his expectations. He also applied for electricity connection in State Electricity Board. Even after six months, he could not get any satisfactory response for the delay in getting his connection from concerned authorities. Gauri told her father that public sector and its work culture is different from that of private sector. It could not compete with private sector in terms of efficiency and in terms of profits as well.
 - His daughter Gauri is working in Kotak Mahindra Bank. Identify the sector, in which Gauri is working
 - Public sector
 - Private sector
 - Both (a) and (b)
 - Neither (a) nor (b)
 - 'It could not compete with private sector in terms of efficiency and in terms of profits as well.' The reason for this is their -----
 - Motive
 - Autonomy
 - Management
 - All of these
 - his son, Sarvesh is working in State Electricity Board' Identify the form of business organisation state Electricity Board is related to ?
 - Departmental Undertaking
 - Statutory Corporation
 - Government Company
 - Private Sector Company

- (iv) What is the reason behind delay in decision making in the form of business employing Sarvesh?
- Red-tapism
 - Employee absenteeism
 - Mismanagement
 - Conflict of interest

2. **Direction:** Read the following text and answer the questions that follow:

To pool resources and expertise of Tech Top Computer Ltd. India, Shizuka Computers Ltd. of Japan has signed an agreement with Tech Top Computers Ltd. to form a new business entity Techzuka Computer Ltd. in India. Both the business parties have subscribed the shares of new company in agreed ratio. The new venture has proved to be in interest of both the companies. Such an alliance has enabled both the companies to take advantage of new opportunities by pooling their resources. Tech Top Computers Ltd. is benefitted by cheap and abundant raw material of India, learning professional management practices, and technically qualified workforce of Shizuka Computers Ltd. Tech Top Computers Ltd. is able to find markets both in India as well as Japan because their products are innovative, and available at competitive rates.

'Both the business parties have subscribed the Shares of the new company in agreed ratio'

..... benefitted by learning professional

management practices and technically qualified workforce of Shizuka Computers Ltd.'.

- (i) Identify the kind of business enterprise formed by Shizuka Computers Ltd. and Tech Top Computers Ltd.
- Cooperative Society
 - Partnership
 - Joint Venture
 - MNC
- (ii) The type of business venture formed is _____ venture.
- Equity-based
 - Contractual
 - Human-resource-based
 - Technology-based
- (iii) Which of the following benefits of such type of partnership is not mentioned in above passage
- Increased resources
 - Access to new markets
 - Established brand name
 - Innovation
- (iv) This has resulted in which of the following:
- Access to new market
 - Established brand name
 - Low cost of production
 - Both (b) and (c)

ANSWER KEY

MCQ Answer-

- Answer:** (d) 7
- Answer:** (b) Private Sector
- Answer:** (a) BIFR (Board of Industrial and Financial reconstruction)
- Answer:** (a) Promotion, Incorporation, capital subscription, the commencement of business
- Answer:** (a) National security
- Answer:** (a) Partnership
- Answer:** (a) 1956
- Answer:** (c) Mixed Economy
- Answer:** (c) Before the incorporation
- Answer:** (c) Public enterprises
- Answer:** (d) All of the above

- Answer:** (b) Registrar of Companies
- Answer:** (a) Disregard national Priorities
- Answer:** (a) Government Company
- Answer:** (b) Departmental undertaking

Very Short Answer :

- Answer:** The different types of Public Sector Enterprises or PSEs are:
 - Statutory Corporation
 - Departmental Undertaking
 - Statutory Corporation
- Answer:** Companies that operate a business in more than one nation are called Multinational Companies (MNCs). However, such companies have their headquarters in one country where all



the primary business activities take place. For instance, Capgemini, Amazon, etc.,

3. **Answer:** To accomplish rapid economic enhancement through industrial growth

To prevent the development of monopoly and concentration of the economic power in the private hands

4. **Answer:** The private sector's role in the partnership is to make maximum use of its skills in managing tasks, innovation and operations to run the business effectively.

The public partners in a public-private partnership (PPP) are the government organisations, i.e., municipalities, government departments, ministries or state-owned enterprises. The private partners can be either local or international and include businesses or investors with financial or technical skills that are relevant to the project.

5. **Answer:**

- Product innovation
- Foreign collaboration
- Advanced technology
- Huge capital resources

6. **Answer:** A joint venture is a business arrangement in which two or more persons give their consent to pooling their resources for the purpose of completing a particular task. This task can either be a new project or any other business pursuit. In a joint venture (JV), each of the participants is accountable for profits, losses and costs related to it.

7. **Answer:** Departmental undertaking is a form of organisation in the public sector where a public enterprise is allowed to function as a full-fledged division. It is maintained, organised and financed by the government. For e.g. India Posts functions as a department within the Ministry of Communication.

Short Answers:

1. **Answer:** Public enterprises are guided by several socio-economic and political objectives.

Importance/Need/Objectives of Public Enterprises: Public enterprises have got the following motives:

1. **Economic Motive/Objectives:**

- (a) Availability of essential commodities of life in sufficient quantity at cheaper rates: These industries aim at supplying essential commodities at cheaper rates to the people. Mother Dairy and Delhi

Milk Scheme in Delhi are its examples. Water, electricity, and gas supply are also in this category.

- (b) **Establishment of basic industries:** In order to accelerate the pace of economic growth, basic industries are a must. These industries require heavy expenditure and carry a lot of risks. This is why private entrepreneurs hesitate in establishing basic industries. These industries are iron and steel, locomotives, aircraft, and ship-building, etc.

- (c) **Balanced regional development:** Private industries are not keen to set up industries in remote and backward regions due to a lack of facilities and infrastructure. It leads to the haphazard and unbalanced development of the country. Public enterprises aim at balanced regional development of the country in addition to their economic motive.

2. **Social Motive:** Involvement of the government in these enterprises is because of the social welfare of the people. Satisfying the basic needs of the people at cheaper rates shows the social motive of these enterprises. They help to check malpractices on the part of private entrepreneurs.

3. **Political Motive:** Ministers, Members of Parliament and Legislative Assemblies try to establish a public enterprise in their constituencies for political gain. This results in the growth of the area, and the states of the politician, and thus political motive is achieved and regional imbalance takes place.

4. **Reduced wasteful expenditures:** Wasteful expenditures can be reduced with the nationalization of industries, because under private ownership company may not be managed efficiently, so expenditures of 11 that company may be excessive. Therefore, there is a need for nationalization.

5. **Self-Reliance:** These enterprises save valuable foreign exchange through import substitution. In addition, public sector enterprises export goods on a large scale to attain the goal of economic self-reliance.

6. **Infrastructure:** Transport, communication, irrigation, power, etc. can be developed only on a large scale, with huge resources but a private owner cannot have huge resources. So

there should be a nationalization of infrastructure.

2. **Answer: Difference between Private and Public Sector Enterprises:**

Basis of Comparison	Private Sector Enterprise	Public Sector Enterprise
1. Ownership	It is owned and controlled by private individuals.	It is owned and controlled by the Central or State Govt
2. Profit motive	The profit motive is very important and essential for its survival.	The profit motive is not the main guiding factor. It serves social objectives as well.
3. Purpose	The motivating factor is to earn profits.	Its main objective is to promote public welfare.
4. Social Objectives	Social objectives are not seriously undertaken.	It is guided by social objectives like the development of backward regions, the creation of employment, and the equitable distribution of wealth.
5. Efficiency	Quick decision-making promotes efficiency.	Decision-making is not fast. There is red-tapism. bureaucratic control has reduced its efficiency.
6. Government Control	It is not subject to strict financial control by the Government	It is subject to strict financial control by the Government.
7. Management	It is managed by professional managers.	It is managed mostly by Government officials.
8. Public Accountability	It is accountable to the owners.	It is accountable to the public through Parliament.

3. **Answer: Features of Global Corporation:** The important features of most multinational corporations are as under:

1. **Giant-Size:** The assets and sales of MNCs run into billions of dollars and they make huge profits through their operations. For example, the physical assets of IBM are worth around 8 billion dollars. The sales turnover of some global corporations exceeds the gross national product of several developing countries.
2. **International Operations:** An MNC operates in many countries through a parent corporation in the home country. It runs its operations through a network of branches, subsidiaries, and affiliates in host countries. Production, marketing, and other operations are scattered in different countries to get the economies of local operations.
3. **Centralized Control:** An MNC has its headquarters in the home country in order to control the branches and subsidiaries. The local management of branches and subsidiaries operate within the policy framework of the parent corporation. This is possible due to the fact the parent-company holds 40% to 100% of the equity of the subsidiary company.
4. **Oligopolistic Power:** Many multinational corporations enjoy oligopolistic power. They occupy a dominant position in the market. Through the process of merger and takeover of other firms, an MNC may acquire a huge economic power. This makes it oligopolistic in character because of which it has a dominant position in the market. For example, Hindustan Lever Limited acquired Tata Oil Mills to improve its market shares.
5. **Collective Transfer of Resources:** A multinational corporation facilitates a multilateral transfer of resources. Such transfer takes place in the form of a "package" which includes technical know-how, machinery, and equipment, raw materials, management expertise, etc.
6. **Professional Management:** These corporations employ professional skills, specialized knowledge, and training. These managers have specialized training and skills in different functional areas like finance, marketing, and human resources.



7. **International Market:** MNCs have access to international markets as a result of vast resources and superior marketing skills. Because of this, MNCs are in a position to sell whatever products they manufacture in different countries throughout the world.

4. **Answer: Foreign Collaboration:** Enterprises having equity participation V of foreign units is known as foreign collaboration. It is an enterprise jointly owned, managed, and controlled by Indians and foreigners. These enterprises are enjoying the vast resources of the country and abroad. It combines the financial resources and managerial and technological expertise of two or more countries.

The amount of profit is shared (between the Indian owner and the foreign partner. The government these days has liberalized its policies regarding foreign participation in Indian i: enterprises. According to New Industrial Policy, 1999 approval will be given for direct foreign investment up to 51% equity in high priority industries and automatic permission will be given to foreign technology agreements in identified high priority industries.

5. **Answer: Disinvestment of Shares-**The major plank of the privatization program in India has been the disinvestment of government shareholdings in a select number of public enterprises. The rationale behind this program is to raise a non-inflationary form of finance for the budget.

The program commenced in 1991-92 and till 1995-96 the „ government had disinvested a part of its equity in 40 public sector enterprises and had raised an amount of Rs. 10,915 crore through the various rounds of disinvestment undertaken between this period. The shares were offered to financial institutions, mutual funds, private sector enterprises, and the general public as well.

The Union Government constituted Disinvestment Commission in August 1996 to advise it on the disinvestment program of public sector enterprises. The government referred 40 public sector undertakings to the Commission for advice about disinvestment. The government has now been taking steps to implement the report of the Disinvestment Commission.

To ensure transparency in the Disinvestment program, bids are invited for the sale of shares of selected public enterprises and the shares are sold to the highest bidder. During 2000-01, the Government raised Rs. 1,869 crores through disinvestment in public undertakings as compared to Rs.

1,829 crores during 1999-2000 and Rs. 5,371 crores during 1998-99. The target of disinvestment for the year 2002-03 was Rs. 0 crores.

6. **Answer:** Departmental Undertaking – It works as the ministry or a department of the government. The budget of these departmental organizations is presented to the parliament just like other ministries. Indian Railways and Post and Telegraph departments are its examples.

Departmental organizations are entirely owned and controlled by either the Central Government or by a State Government.

Advantages of Departmental Undertaking: Departmental organization enjoy the following merits:

1. **Service Motive:** These enterprises are formed with a service motive. Public interest and social welfare hold priority for them. These undertakings also help to reduce the burden of tax on the public.

2. **National Importance:** Activities that have got national importance are performed by these departmental organizations. The risk of misuse of public money minimized due to strict budget, accounting, and audit.

3. **Secrecy:** These organizations are capable of maintaining secrecy. because these are under the control of the government. The government can avoid disclosure of facts on the plea of public interest.

4. **Proper Management:** These enterprises are managed by qualified government staff. Their work is systematic. They are properly v managed and supervised. Such control and management keep the government official alert.

Disadvantages of Departmental Undertaking – Departmental organization suffer from the following disadvantages:

1. **Least profit earning venture:** Departmental organization is owned and controlled by the government. It is formed with a service motive, so it does not remain an excellent profit earning venture.

2. **Red tape:** Employees follow the beaten track. They do not take much interest in the work. They are careless and bother much for their salaries. Officers worry much for their status and respect. Decisions are generally delayed due to bureaucratic procedures and political considerations.

3. **Lack of competent workers:** Government employees are not much efficient in business affairs. They have sufficient administrative experience but not experienced enough to manage the activities of, the enterprise. Promotion to the higher rank is based upon seniority, so competent employees are not recruited.
 4. **Political evils:** Every important decision in the departmental organization has a political motive. It is managed and controlled by the minister, who is the representative of a political party. The minister has to look after the interest of his party.
 5. **Lack of competition:** Generally departmental organizations have the status of monopoly. Lack of competition makes them incompetent. In the absence of competition and profit motive, there is little incentive for hard work and efficiency. There is hardly any link between reward and performance.,
7. **Answer:** Statutory/Public Corporations: Public corporations are; formed by the special act of Parliament or Legislative Assemblies. Their existence is separate from the government. This is why these corporations are called autonomous bodies. Though these corporations are independent in financial matters, even then they remain under the control of the government. It is an autonomous body fully financed by the government.

According to Morrison, "Public corporation is a combination of public ownership, public accountability, and business management for the public end." Examples of such corporations are Air India, Life Insurance Corporation of India, etc.

Merits/Advantages of Statutory Corporations – Public corporations enjoy the following merits:

1. **Free from government control:** These are autonomous bodies, which are not under the direct control of the government.
2. **Service motive:** These corporations are also formed in the public interest for social welfare like other public enterprises. Service motive dominates their activities.
3. **Independent decision:** Public corporations are independent in making their own decisions, policies, and plans.
4. **Efficient management:** These corporations are benefited from efficient management because they are managed by a competent board of directors, who are professional in

their attitude and work. As changes in government do not affect its stability, it can take long term policy decisions.

5. **Economic self-independence:** Public corporations are financially independent. They have to arrange their own finances. It is free from political interference by ministers and bureaucrats.

Demerits/Disadvantages of Statutory Corporations – Public corporations have got the following disadvantages:

Red Tape: Like other public enterprises and government departments public corporations are also victims of red-tapism.

Rigid structure: The constitution of such a corporation is rigid. The objects and powers of such corporations cannot be changed without amending the statute, which is a time-consuming and cumbersome process.

Theoretical autonomy: The autonomy of these corporations exist only on paper. In actual practice, interference by political bosses and ministers gives the wrong signal to their autonomy. Red-tapism and bureaucratic control reduce the flexibility of operations.

8. **Answer:** Government Company – A Government company is a company in Which not less than 51 percent of paid-up capital is held by the Central Government or State Government jointly by both Governments. It is formed and registered under the Companies Act 1956.

Merits of a Government Company: A government company enjoys the following benefits:

1. **Internal autonomy:** A government company is a separate entity and so can manage its affairs on its own. There is the absence of direction. parliamentary and ministerial control. Thus, it is an autonomous body. It can be operated on commercial principles. It can manage its affairs independently.
2. **Flexibility in operations:** It can be operated on commercial principles because of independence in respect of internal management, finance, and appointment of person.
3. **Collaboration:** It is the only form of organization by which the Government can make use of managerial skill, technical know-how, and expertise of the private sector.
4. **Easy formation:** It is relatively easy to form a government company as no statute is required to be enacted. It can be created by the executive decision of the Government.



5. **Expert management:** Since the annual report on the working of the enterprise is placed before the Parliament or the State Legislature, the management of a government company tends to be cautious, and efficient to avoid its criticism.
6. **Sound management policies:** It cannot afford to follow unsound policies because its working can be compared with similar companies in the private sector.

Demerits of a Government Company-The government companies usually suffer from the following weaknesses:

1. **Board composed with yes men:** The Board of Directors of a government company usually consists of politicians and civil servants which may not be able to follow sound business principles.
2. **Theoretical autonomy:** The independent character of a government company exists in paper only. Government officials, ministers, and politicians often interfere with its work.
3. **Lacking responsibilities:** A government company evades the constitutional responsibilities which other state enterprises owe to the Parliament. The Parliament is not, taken into confidence for its creation as government decision is sufficient in this regard. The accounts of a government company need not be audited by the Comptroller and Auditor General of India. Thus, it concentrates more power in the hands of the Government than a statutory corporation.
4. The practice of forming government companies has been regarded as a fraud on the Companies Act because the Government is empowered to specify the provisions of the Company Act to be followed or applied and modifications if any.

9. Answer: A comparative view of different forms of Public Enterprises:

Basis of comparison	Departmental Organisation	Statutory Corporation	Government Company
1. Formation	It is formed by a Ministry Concerned.	Formed by Special Act of Parliament or State Legislature	It is established Under the Companies Act by a Ministry with or without private sector participation.

2. Ownership	The departmental organization is wholly under Government Department.	It is wholly owned by the Government Central or State.	At least 51 percent of paid-up share capital owned by the Government.
3. Legal Status	No separate entity is distinct from the Government Department.	It enjoys a separate legal entity.	Separate legal entity as per Companies Act 1956.
4. Control /Management	Control vested with Government officials from the Ministry concerned.	Control is exercised by the Nominated Board of Directors.	Board of Directors as required under Companies Act 1956.
5. Staffing System	Staff mainly consists of Civil Servants- Govt. Service	It is managed by professionals under a contract of service (not Govt. Service)	Managed by professionals under a contract of service (not Govt. Service)
6. Financing	Budgetary allocation, can't borrow from the general public.	Separate arrangements can borrow also.	Separate arrangements can borrow also.
7. Autonomy	It enjoys no autonomy. Sufficient autonomy.	Govt does not interfere in day-to-day affairs.	Sufficient autonomy Government does not interfere so much in operations.
8. Public Accountability (Parliamentary control)	Highest	Higher	High accountability for investors and creditors.
9. Suitability	The public utility, defense, etc.	Industrial and Commercial Undertakings,	Industrial and Commercial undertakings, providing for the participation of domestic and foreign private capital.

- 10. Answer:** The primary objectives of privatizing public sector enterprises are following:
 Releasing the large amount, to utilize on other social priority areas.
 Reducing the huge amount of public debt and interest burden.

Transferring the commercial risk to the private sector.
Freeing these enterprises from government control.

Long Answers:

- Answer:** Suggestions for the improvement of Public enterprises- In order to make public sector enterprises more efficient and prone to public welfare the government set up various committees from time to time. Some important committees set up by the government are as under:

Name of Committee	Year of Inception of Committee/Commission
(1) Chagla Commission	1958
(2) Krishna Mohan Gupta Committee	1959
(3) Administrative Reforms Committee	—
(4) F. Mohammad Committee	1980
(5) Arjunsen Gupta Committee	1998

The annual evaluation is made by the Standing Conference of Public Enterprises (SCOPE) of all committees made by the government. Some of the main and important suggestions offered by the various committees are as follows:

- Labour policy:** Public enterprises should design their labor policy in such a fashion that there should be a cordial relationship between the workers and the management. Actions should be initiated in such a fashion to minimize industrial disputes.

Appointments should be based not on pulls and pressures but on ability and expertise. Efficient workers must be suitably rewarded. The compensation of employees should be linked with their productivity. Workers must have a sense of belonging to their organization. There should be only one trade union in an industry whose role is to maintain industrial peace.
- Price policy:** The government has realized that the price policy of public enterprises should be based on the existing price structure because there is no clear-cut perception about the price policy of public sector

enterprises. Prices of commodities must commensurate to the public. The seventh plan emphasized that public enterprises must generate at least a 10% profit margin. So, the price should be determined with a view to raising the level of profitability in the government monopolies and promote public welfare.

- Commercial outlook:** In any case; public sector enterprises must generate the surplus which may be plowed both in the form of investment for economic development. This is possible only when the cost is reduced and productivity is raised. It will benefit the consumer and the entire society. So, the public enterprises must adopt a commercial outlook by which there would be coordination between national and profitability.
- Autonomy to public enterprises:** Public sector enterprises should have complete autonomy and minimum possible government interference in operation and routine matters. Politicians should not be appointed to control public sector enterprises. However, incompetent and able politicians are available, they should better be appointed as honorary consultants. In no case, should they be directly involved in the control and management of the enterprises?

Only professionals should be appointed as managers. They have been given greater autonomy so as to make them more efficient and competitive.
- Inspection of public enterprises:** Public Sector Enterprises Bureau has been established for the annual inspection of public enterprises for preparing their annual progress reports offering guidelines to public enterprises. Public enterprises are also inspected by Public Accounts Committee and Estimates Committee. Every public enterprise should publish a comprehensive report of its functioning, so that people may come to know of their performance. The government lays down performance targets for the management of public sector enterprises.

Dr. Lanka Sundram suggested that "Parliamentary committees be appointed for inspection of public enterprises." Accepting this suggestion the government set up the Parliamentary Committee of Public



Undertaking in 1963 which controls the public sector enterprises.

6. **Proper auditing:** According to the Administrative Reforms Committee, there should be three or four audit boards established under the direct control of the Comptroller and Auditor General so that accounts of public enterprises should be properly audited. Any lapse in this regard must be brought to the notice of the government by an independent auditor.
7. **Full utilization of productive capacity:** The public sector enterprises should fully utilize their productive capacity; the Productive capacity of the existing enterprises should be raised only if at least 85% of the existing capacity is being utilized. Thus new industries and enterprises should be established only after complete utilization of the existing productive capacity.

2. **Answer:** Definition of Multinational Corporation (MNC): A Multinational Corporation refers to an organization that has its headquarters in one country and business operations in other countries. This means that this type of organization will have business across many countries. An MNC has its registered office in one country (called home country) and it carries its business operations in a number of foreign countries (called host countries).

A multinational corporation controls production and marketing facilities in more than one country. For instance, Coca-Cola is a company registered in the U.S.A., has production and marketing operations in many countries of the world.

Role of MNCs – Multinational companies have been playing an important role in several developing economies including India.

Multinationals can offer the following gains to the host country:

1. **Investment of Foreign Capital:** MNCs can help the developing economies to secure capital from the developed countries as they suffer from a shortage of capital required for rapid industrialization. They facilitate the transfer of capital from countries where it is abundant to countries where it is scarce. Thus, MNCs can help increase the investment level and thereby the pace of development of the host country. Since liberalization, India has attracted foreign investment worth several billion dollars.

2. **Advanced Technology:** The developing countries have old and obsolete technology. MNCs can be used as vehicles for the transfer of superior technology to developing countries. Advanced technological know-how, improved skills, and consultancy help the developing countries to improve the quality of products and reduce costs.
3. **Creation of Job Opportunities:** The MNCs set up facilities for the production and distribution of goods and thereby create employment opportunities in the host country. Multinationals offer excess leisure pay scales and career advancement opportunities to managers, technical and other staff.
4. **Utilization of Idle Resources:** The MNCs help in the utilization of idle resources of the host country and thus generate income for the country.
5. **Creation of Healthy Competition:** MNCs increase competition and break domestic monopolies. The inefficient firms are forced to either improve or withdraw from the market. Many Indian companies now compete with multinationals after liberalization through improved technology.
6. **Professional Management:** The MNCs kindle a managerial revolution in the host countries by professional management and the employment of the latest management techniques. The host countries are thus able to develop a culture of professional management. Multinationals build up a knowledge base through management techniques like MBO and corporate planning.
7. **Growth of Domestic Firms:** The MNCs can help the growth of domestic firms to supply them materials, components, etc. Over the years, several ancillary units have grown to provide support to the MNCs.
8. **Higher Standard of Living:** Because of their superior technology, MNCs provide a large variety of quality products to the people in the host country. This helps to increase their standard of living.
9. **Integration with the World Economy:** The MNCs facilitate the integration of the economy of the host country with the world market. They encourage international brotherhood and cultural exchanges in the host country.

3. Answer:

BIFR	Board of Industrial and Financial Reconstructions
MOU	Memorandum of Understanding
MNC	Multi-National Corporation
MOFA	Majority Owned Foreign Affiliates
VRS	Voluntary Retirement Scheme
NRF	National Renewal Fund
PSES	Public Sector Enterprises
IMF	International Monetary Fund
IBRD	International Bank for Reconstruction and Development

4. Answer: Dangers from MNC:

- Creation of Monopoly:** MNC joins hands with big business houses and gives rise to monopoly and concentration of economic power in host countries.
- Threat to National Sovereignty:** These corporations tend to interfere in the political affairs of host nations. Some MNCs like IT1 are accused of overthrowing governments in countries such as Chile.
- Alien Culture:** MNCs tend to vitiate the cultural heritage of local people and propagate their own culture to sell their products. For example, MNCs have encouraged the consumption of synthetic food, soft drinks, etc. in India.
- Depletion of Natural Resources:** MNCs cause rapid depletion of some of the non-renewable natural resources in host countries.

2.

- (i) c) Joint Venture

Solution: The kind of business enterprise formed by Shizuka Computers Ltd. and Tech Top Computers Ltd. is Joint Venture.

- (ii) a) Equity-based

Solution: The type of business venture formed is Equity-based venture.

An equity joint venture (EJV) is an agreement between two companies to enter into a separate business venture together. Each partner participates in gains and losses according to the percentage equity ownership they have in the joint venture.

- (iii) c) Established brand name

Solution: Established brand name: To be an established brand, the brand should have also developed a place within its category. It has to be known, have some specific character traits that its customers would clearly associate with the brand. Any brand that has been around awhile runs the risk of becoming stale or lazy.

- (iv) c) Low cost of production

Solution: This has resulted in Low cost of production. A low-cost producer is a company in a specific industry that can produce goods at a lower cost than other producers. That is, the producer has a higher profit margin on the sale of a product than competitors. This often leads to the producer charging lower prices for products to achieve higher sales than competitors.

Case Study Answers:

1.

- (i) b) Private sector

Solution:

Gauri is working in private sector.

The private sector refers to the part of the economy that isn't controlled by the state. It includes any for-profit businesses run by individuals or companies. Businesses controlled by the government are part of the public sector, while charities or other non-profits are part of the voluntary sector.

- (ii) d) All of these

Solution: The reason for this is their motive, autonomy and management.

- (iii) a) Departmental Undertaking

Solution: Departmental Undertakings are





4

Business Services

Introduction:

Business services are those services which are used by business enterprises for the production or sale of goods and services.

Goods: are those physical or tangible (which can be touched) products which are capable of being delivered to the purchaser and involves the transfer of ownership from the seller to the purchaser. e.g., a toy, a movie CD, etc.

Services: are identifiable and intangible activities that provide satisfaction of wants. Service is an act which can't be taken home, but its effect can be surely be carried. e.g., services of a doctor, a beautician, etc.

In today's competitive world, business enterprises are much dependent on business services, as these services help the enterprises to carry on their activities smoothly.

❖ Nature of Services:

- **Features:** Services are explained by five I's namely; Intangibility, Inconsistency, Inseparability, Inventory and Involvement.
- **Intangibility:** Services are intangible i.e., they cannot be touched. They can only be experienced.
- **Inconsistency:** The second important characteristic of services is inconsistency.
- **Inseparability:** Production and consumption of services take place simultaneously. It is possible to manufacture a chair today and sell it later but in case of services it has to be simultaneous.
- **Inventory:** Services have no inventory as they can't be stored.
- **Involvement:** Consumer gets involved in production of services and gets the opportunity to get the services modified as per his specific requirement.

❖ Types of Services:

- **Social Services:** These services are provided voluntarily to achieve certain goals. For example, health care and education services provided by NGOs.
- **Personal Services:** Services which are experienced differently by different customers are called personal services. For example, tourism, restaurants etc.
- **Business Services:** Services used by business enterprises for the conduct of their business activities. For example, banking, insurance, communication, warehousing and transportation.

Banking:

Bank means a company accepting deposits of money from public (for lending and investment), repayable on demand and withdrawal by cheque or otherwise.

Types of Banks:

❖ Commercial Bank:

A commercial bank is that financial institution which accepts deposits from the public and offers loans for the purpose of consumption or investment. These banks pay interest on deposits and charge more interest on loans, thereby, enabling them to earn profits. They are governed by Indian Banking Regulation Act, 1949.



more than the amount to his credit upto a specified limit. Overdraft is granted when the borrower has a current account with the bank. This facility is provided against the security of some assets or on the personal guarantee of the borrower. Interest is charged on the exact amount overdrawn by the current account holder.

- **Cash Credits:** It is a revolving credit arrangement wherein the bank allows the borrower to borrow money upto the specified limit. The bank places the specified amount to the credit of the borrower's bank account. The borrower withdraws money as and when required. Interest is charged only on the amount actually withdrawn by the borrower. Cash credit limit is decided by the bank on the basis of the borrower's assets and personal reputation.
- **Discounting the Bills of Exchange:** The customers who enjoy a good goodwill can get their trade bills discounted by the bank. The banks credit the amount of the trade bill to the customer's account after deducting discount charges for the period until the due date.
- **Term Loans:** Term loans are granted by banks for a fixed period of time, against the security of an asset. This loan can be repaid in monthly quarterly/half yearly/yearly instalments.
- **Consumers Credit:** Bank grant loans to consumers to purchase houses, cars, computers, etc. The amount of loan is repaid in Equal Monthly Instalments (EMI).

❖ **Services provided by commercial banks:**

Banks offer a wide range of services to their customers. These services are referred to as "banking services". Following are the description of such services.

- **Issue of Bank Draft:** A bank draft is a type of cheque which is drawn by a bank either on its own branch or on another bank. In order to remit money through a bank draft, a person first obtains the bank draft from the bank, fills in a form and pays the amount of the draft along with the prescribed commission. He, then sends the bank draft to the receiver by post. The receiver then deposits it in his bank. The bank collects the payment from the concerned bank and credits it to the customer's account.
- **Pay Order or Banker's Cheque:** It means the bank draft which is payable within the city or town. It may be called as a local bank draft. Banks issue pay orders for local use and issue bank drafts for outstations. The commission charged for a pay order is lesser as compared to bank draft.
- **Real Time Gross Settlement (RTGS):** It is a fund transfer system under which transfer of funds takes place from one bank to another on a Real Time and Gross basis. Web Settlement on 'Real Time' means that there is no waiting period and 'Gross' settlement means the transaction is made on one-to-one basis. It is the fastest possible system for transfer of money.
- **National Electronic Funds Transfer (NEFT):** It is a countrywide system by which 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 branch in the country.
- **Other Services:** Banks also provide e-banking services to its customers.

❖ **e-Banking:**

e-Banking or electronic banking is a service provided by banks that enables a customer to conduct banking transactions, such as checking accounts, paying bills etc over the internet, using a personal computer, mobile telephone or handheld computer. e-Banking includes a range of services like Electronic Funds Transfer (EFT), Automated Teller Machine (ATM), Electronic Data Interchange (EDI), Credit Cards and Electronic or Digital Cash.

Benefits of e-banking to Customers are:

- e-banking provides 24 hours, 365 days a year services to the customers.
- It lowers the transaction cost and provide unlimited access to the customers.
- It inculcates a sense of financial discipline and promotes transparency.
- Customers can make the transactions from office, home or while travelling.

Benefits of e-banking to Bank are:

- e-banking provides competitive advantages to the bank.
- It provides unlimited network to the bank.
- It also helps in reducing the burden of bank by establishing the centralised database.

❖ Digital Payments:

Digital payment can be defined as a way of paying for services or goods via an electronic medium without the use of cash or cheque. It is also known as electronic payment system or e-payment system.

Types/ Methods of Digital Payments:

- **Banking Cards:** These cards have been the most used digital payment modes till now. Credit cards, debit cards and prepaid cards are the main types of cards with authentication of PIN and OTP for severe payments. RuPay, Visa and Master cards are some of the example of card payment systems. Banking cards can be used for online purchases, in digital payment apps, point of sale machines, online transactions, etc.
- **Unstructured Supplementary Service Data (USSD):** The innovative payment service *99# works on USSD channel. This method can be used to carry out mobile banking transactions without the use of mobile internet data. This service can be used to initiate fund transfer and to make balance queries.
- **Aadhaar Enabled Payment System (AEPS):** It is a way to make financial transactions from the bank account with the help of your biometric authentication. AEPS can be used for all banking transactions such as balance enquiry, cash withdrawal, cash deposit, payment transactions, etc.
- **Unified Payment Interface (UPI):** UPI android apps enable all bank account holders to send and receive money from their smart phones without the need to enter bank account information.
- **Mobile Wallet:** It is a virtual wallet that stores payment card information on a mobile device. Mobile wallets are convenient way for a user to make in-store payments and can be used at merchants listed with mobile wallet service provider.
- **Point of Sale (PoS):** Terminals It refers to those machines that are installed at all stores where purchases are made by customers using credit/debit cards. It is usually a hand held device that reads banking cards.
- **Internet Banking:** It refers to the process of carrying out banking transactions online. Internet banking is usually used to make online fund transfers via NEFT (National Electronic Fund Transfer), RTGS (Real Time Gross Settlement) or IMPS (Immediate Payment Services).
- **Mobile Banking:** Mobile banking is referred to the process of carrying out banking transactions through a smartphone. The scope of mobile banking is only expanding with the introduction of many mobile wallets, digital payment apps, UPI and own apps of banks.
- **Bharat Interface for Money (BHIM) App** It is a mobile app developed by National Payments Corporation of India (NPCI), based on Unified Payment Interface (UPI). The app supports all Indian banks through immediate payment service infrastructure and allows the user to instantly transfer money between bank accounts of any two parties.

Other Types of Banks:

Apart from commercial banks, other specialised types of banks are also there. These are

- ❖ **Cooperative Banks:** These banks have a common ownership and generally provide short-term loans to the agricultural sector. They are formed by a group of individuals to extend credit to their members. These are governed by State Cooperative Societies Act.
- ❖ **Specialised Banks:** These banks are established to cater to certain specific needs of the target groups. Foreign exchange banks, industrial banks, etc are examples of specialised banks. These banks provide financial aid to industries, heavy turnkey projects and foreign trade.
- ❖ **Central Bank:** This bank is the apex bank of the country. It supervises and controls the functioning of other banks. It plays an important role in the banking and monetary system of the country. Reserve Bank of India is the Central Bank of our country.



Insurance:

It is a contract where one party who takes the responsibility of the risk of other party in exchange of some fixed amount which is called premium.

❖ Principles of Insurance:

- **Principle of the utmost good faith:** It means that no material or important facts should be concealed by both the parties to the insurance contract.
- **Principle of insurable interest:** It means that there must be such a relationship between the insured and the subject matter of insurance that the insured stands to benefit by its safety and to lose by its loss.
- **Principle of Indemnity:** It means that the insured person can get only the compensation against actual loss and he cannot make profit out of it.
- **Proximate causes:** When the loss is the result of two or more causes, the proximate cause, i.e., the direct, the most dominant and most effective cause of loss should be taken into consideration. The insurance company is not liable for the remote cause.
- **Principle of subrogation:** It means that if the insured compensate the insured person then all the rights related to the subject matter of insurance get transferred to the insurer.
- **Principle of contribution:** If the same subject matter, except life is insured by more than one person, then the actual loss will be shared by all the people.
- **Principle of mitigation:** It means that the insured should try to minimise the loss of the subject matter of the insurer even if it is insured.

❖ Types of Insurance:

- **Life Insurance:** Life Insurance is defined as a contract in which the insurer, in consideration of a certain premium, either in a lump sum or by other periodical payments, agrees to pay to the assured, or to the person for whose benefit policy is taken, the assured sum of money, on the happening of specified event contingent on human life or at the expiry of certain period.

❖ Main Elements of Life Insurance Contract are

- It must have all the essentials of a valid contract.
- The contract of Life Insurance is a contract of utmost good faith.
- In Life Insurance, the insured must have insurable interest in life insured.
- It is not a contract of indemnity.

❖ Types of Life Insurance

- **Whole Life Policy:** Under this amount payable will not be paid before the death of the assured. It will be payable to legal heir (s).
- **Endowment Life Insurance:** Under this sum assured is given in full payment after completion of policy / death of insured, whichever is earlier.
- **Joint Life Policy:** When a policy taken up by two or more persons, it is called joint life policy.
- **Annuity Policy:** When policy money is payable monthly, it is called annuity policy.
- **Children Endowment Policy:** It is a policy for children to meet higher education or marriage expenses.

❖ General Insurance

- **Fire Insurance:** It is a contract whereby the insurer, in consideration of a premium paid, undertakes to make good any loss or damage caused by a fire during a specified period upto the amount specified in the policy.
- **Marine Insurance:** It is an agreement whereby the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed against marine losses. It provides protection against any loss by marine perils or perils of the sea.

- Health Insurance
- Vehicle Insurance
- Burglary Insurance and
- Cattle Insurance
- Crop Insurance
- Fidelity Insurance
- Ship Insurance
- Cargo Insurance
- Freight Insurance

Communication:

Communication services are responsible for the transmission of required information to the concerned parties. It is communication due to which business is able to establish a link with outside world viz., suppliers, customers, competitors, etc and able to share ideas and information. Communication services should be fast, accurate and effective in order to meet the demands of business world. Postal and telecom are the two main communication services which help a business.

❖ Postal Services:

The Postage and Telegraph Department provides various postal services throughout the country. The Government of India has divided the whole country into 22 postal circles. These circles manage the day-to-day working and perform various services through post offices, subpost offices and branch post offices. Postal department provides various facilities which are explained below.

❖ Financial Services:

Financial services were initiated in the post offices due to lack of banking facilities in the country. The details of such facilities are as follows.

- **Public Provident Fund (PPF):** Any adult residing in India can open a Public Provident Fund Account in a post office and in specified banks. The account holder is required to deposit every year an amount ranging between 500- 1 lakh in his PPF account. Interest is credited every year at the prescribed rate.
- **Kisan Vikas Patra (KVP):** It is a saving scheme in which invested money is doubled in eight years and seven months. The 'Kisan' in Kisan Vikas Patra does not mean that it is only for farmers. It is meant that the revenue mobilised by this scheme will be used by the government in welfare schemes for farmers.
- **National Savings Certificate (NSC):** One can buy NSC from the post offices. The term of NSC is five years. A new NSC with a maturity of ten years has been introduced. The principal amount alongwith accumulated interest is paid on maturity.

❖ Mail Services:

The postal department provides facilities for transmission of post cards, inland letters, parcels, etc from one place to another. Various types of mail services offered by the Post and Telegraph Department are described below

- **Registered Post:** It is a postal facility under which it is ensured that the mail is either delivered to the address or it comes back to the sender by paying registration charges. The registered mail is marked 'Registered s Post' on its face, to differentiate it from the ordinary mail.
- **Parcel Post Parcels:** of specified size and weight can be sent to domestic and international locations under this service. Postal charges for parcels depend on the weight of the parcel and are reasonably low. Charges for foreign parcel post are higher than that for inland parcel post.
- **Speed Post:** This service is designed for very fast delivery of mail. The Post and Telegraph Department guarantees that all internal mail received upto 5 pm at the specified post offices will be delivered within 24 hours. If it fails to do so, the extra fee charged for this service will be refunded.



❖ Other Services Offered by Post Office

- **Greeting Post:** Through post offices, greeting cards can be send to friends and relatives on different occasions.
- **Media Post:** Business units can send postcards envelopes, etc to their present and prospective customers to build up their brand.
- **Direct Post:** Business units can send addressed or unaddressed direct post to advertise their business.
- **e-Bill Post:** Customers of BSNL, Airtel etc. can deposit their bills at the concerned post office.
- **International Money Transfer:** A collaboration between Postal Dept. and Western Union Financial Services, USA has enabled customers to remit money to 185 countries through a post office.

Telecom Services:

In today's world, the dream of doing business across the world is only possible with the presence of telecom infrastructure. It is the backbone of every business activity. Considering potential of this sector, Government of India created a vision of becoming IT super power by the year 2025. It has developed new Telecom Policy Framework 1999 and Policy 2004 to provide high level and universal services to all uncovered areas of the country. The various types of services offered by telecom service providers are as follows

- ❖ **Cellular Mobile Services:** They include mobile telecom services like voice and non-voice messages, data services and PCO services by utilising any type of network equipment within their service area. They can also provide direct inter connectivity with any other type of telecom services.
- ❖ **Cable Services:** They are linkages and switched services within a licensed area of operation to operate media services. They are essentially one-way entertainment related services.
- ❖ **VSAT (Very Small Aperture Terminal) Services:** They are satellite-based communication service. They offer highly flexible and reliable communication solution in both urban and rural areas. VSAT offers the assurance of reliable and uninterrupted service. This service can also be used to provide innovative applications such as tele-medicine, online newspapers, tele-education, etc.
- ❖ **DTH (Direct to Home) Services:** They are satellite-based media services provided by cellular companies. One can receive media services directly through a satellite with the help of a small dish antenna and a set top box. The service provider of DTH services provides a bouquet of multiple channels.

Transportation:

It is the movement of people, animals and goods from one location to other. It includes land, air and water ways for the movement of people and goods within and outside the country. In context to business transactions, transportation removes the hindrance of place i.e., it makes goods available to the consumer by transferring it from the place of production to the place of consumption. Thus, it is necessary to develop our transportation system in order to keep pace with the requirements of our economy.

Warehousing:

A warehouse is a commercial building for storage of goods. They are used by manufactures, importers, exporters, wholesalers, etc to store their goods until they are sold. Warehouses help the businessmen to keep their stocks in safe custody during dull season. In this way, it has created time utility. Initially, warehouses were viewed as static unit for keeping and storing goods. However, in today's world, warehouses are not just storage service providers. They have become logistical service providers in a cost-efficient manner. They make availability of right quantity, at the right place, in the right time, in the right physical form and at the right cost.

❖ Types of Warehouses:

- **Private Warehouses:** They are owned by the manufacturers to store the goods manufactured by them until they are sold out. The benefits of such warehouses include control, flexibility and improved dealer relations.
- **Public Warehouses:** They are licensed by the government and are subject to government regulations in respect of method of operations. Anybody can keep his goods in the public warehouses by paying

necessary charges. The owner of a public warehouse stands as an agent of the owner of goods. These warehouses provide certain facilities also like transportation by rail and road. They provide certain benefits like flexibility in the number of locations, no fixed cost and capability of offering value added services, etc.

- **Government Warehouses:** They are fully owned, licensed and managed by the government. The government manages them through organizations set up in the public sector. Food Corporation of India (FCI), State Trading Corporation (STC) and Central Warehousing Corporation (CWC) are its examples.
- **Cooperative Warehouses:** They are created by the members of cooperative societies to facilitate the interest of certain marketing cooperative societies or agricultural cooperative societies.

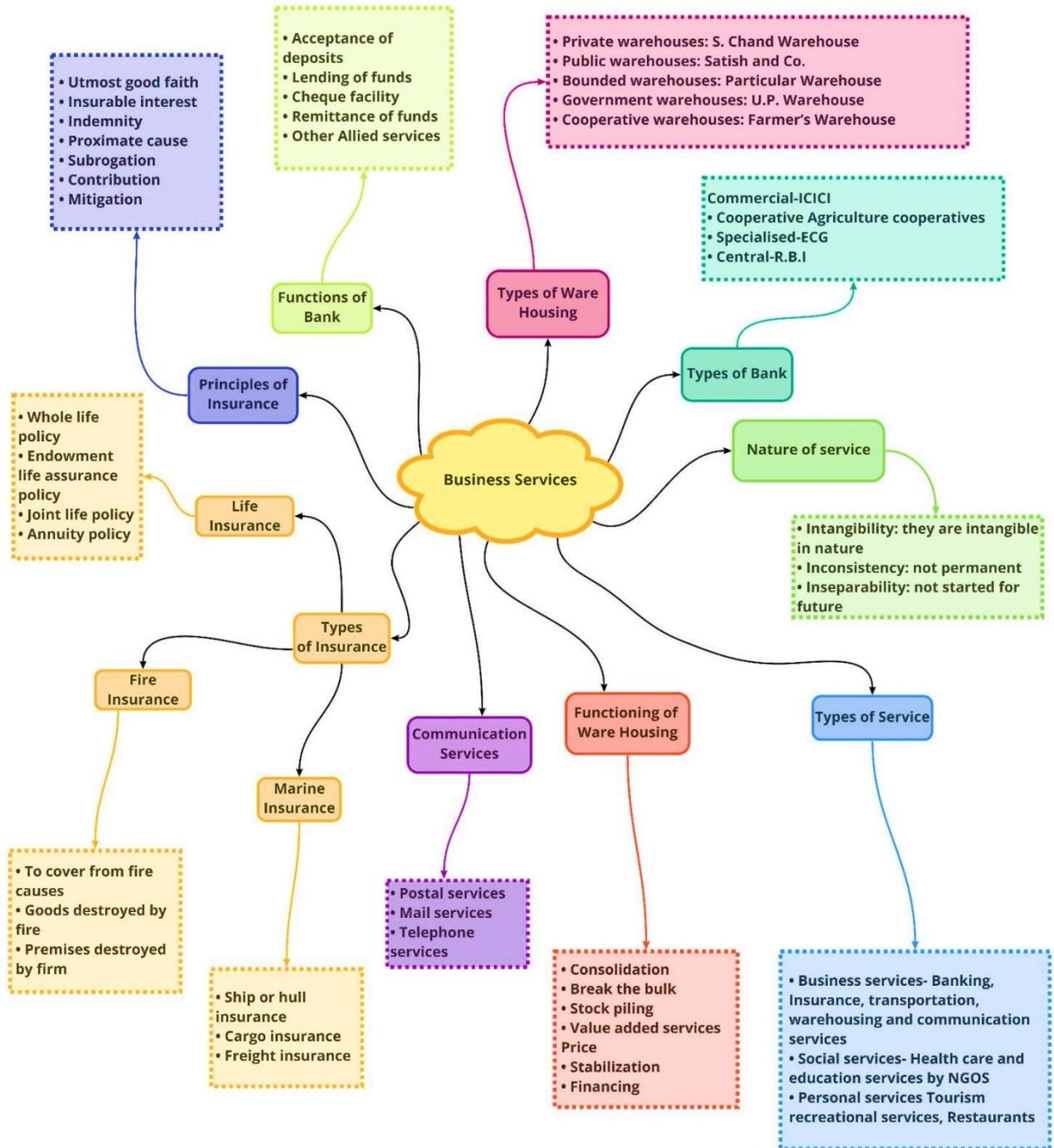
❖ Functions of Warehousing:

- **Storage:** This is the basic function of warehousing. Surplus commodities which are not needed immediately can be stored in warehouses. They can be supplied as and when needed by the customers.
- **Price Stabilization:** Warehouses play an important role in the process of price stabilization. It is achieved by the creation of time utility by warehousing. Fall in the prices of goods when their supply is in abundance and rise in their prices during the slack season are avoided.
- **Risk bearing:** When the goods are stored in warehouses they are exposed to many risks in the form of theft, deterioration, exploration, fire etc. Warehouses are constructed in such a way as to minimize these risks. Contract of bailment operates when the goods are stored in wave-houses. The person keeping the goods in warehouses acts as boiler and warehouse keeper acts as boiler. A warehouse keeper has to take the reasonable care of the goods and safeguard them against various risks. For any loss or damage sustained by goods, warehouse keeper shall be liable to the owner of the goods.
- **Financing:** Loans can be raised from the warehouse keeper against the goods stored by the owner. Goods act as security for the warehouse keeper. Similarly, banks and other financial institutions also advance loans against warehouse receipts. In this manner, warehousing acts as a source of finance for the businessmen for meeting business operations.
- **Grading and Packing:** Warehouses nowadays provide the facilities of packing, processing and grading of goods. Goods can be packed in convenient sizes as per the instructions of the owner.

STEP UP
ACADEMY



Class : 11th Business Studies
Chapter- 4 : Business Services



Important Questions

Multiple Choice Questions-

- _____ arrangement by which a bank allows its customer to borrow money up to the specified limit.
(a) Cash Credits
(b) Pass Book
(c) Cash Book
(d) Account Payee
- Insurance is a contract between _____ and _____.
(a) Insurer, insured
(b) Agent, insurance
(c) Insured, insurance
(d) Insurer, family
- A person gets his stock worth Rs. 50,000 insured for Rs. 70,000. A fire occurs and the whole stock gets damaged. The Insurance Company admits a claim of Rs. 50,000 only and not Rs. 70,000. Identify the principle of insurance being applied?
(a) Principle of Indemnity
(b) Principle of Insurable Interest
(c) Principle of Subrogation
(d) Principle of Contribution
- In which year Insurance Act was amended in India?
(a) 1940
(b) 1928
(c) 1938
(d) 1945
- Which of the following is not applicable in life insurance contracts?
(a) Indemnity contract
(b) Unilateral contracts
(c) Conditional Contracts
(d) None of the above
- In which year Children's Money Back plan was introduced?
(a) 1985
(b) 1988
(c) 1995
(d) 1989
- It is a type of saving bank account in which excess of a particular limit gets automatically transferred to a fixed deposit account.
(a) Multiple deposit option account
(b) Current account
(c) Recurring deposit account
(d) Salary account
- _____ banks are included in the second schedule of RBI.
(a) Scheduled
(b) State
(c) Commercial
(d) Corporation
- Bankers are not only dealers of money but also leaders in
(a) Industry development
(b) Service development
(c) Trade development
(d) Economic development
- In which year Crop Insurance scheme was introduced in India?
(a) 1978-79
(b) 1985-86
(c) 1948-49
(d) 1990-91
- From the following which of these is covered under Marine Insurance?
(a) Whole Life policy
(b) Liability Insurance
(c) Endowment policy
(d) Act only
- The fee charged by the insurer on account of providing services is called
(a) Premium
(b) Profit
(c) Dividend
(d) Instalment
- Which of the following is covered under the life Assurance policy?
(a) Money Back Policy
(b) Declaration policy
(c) Act only
(d) Cargo Insurance



14. Which of the following is not a function of General Insurance?
 - (a) Risk sharing
 - (b) Assist in capital formation
 - (c) Cattle insurance
 - (d) None of the above
15. Which bank is known as Apex Bank of India?
 - (a) The Reserve Bank of India
 - (b) The State Bank of India
 - (c) The Central Bank
 - (d) The Bank of India

Very Short Questions-

1. Mention the 5 I's of services?
2. What is Insurance?
3. Mention the name of two companies that offer DTH services in India.
4. What is Banking?
5. What are the types of insurance policies?
6. Mention 6 functions of warehousing.
7. What are the 3 significant types of insurance that are involved in Marine insurance?
8. Expand RTGS and NEFT.
9. What are the principles of insurance?
10. What are the types of warehouses?

Short Questions –

1. Explain the need and benefits of services.
2. What are the various types of financial services? Explain in brief.
3. What are the various types of life insurance policies undertaken by the policyholders?
4. Differentiate Life Insurance and Fire Insurance.
5. Explain the term Double Insurance and Re-Insurance and differentiate the two.
6. What is the role or advantages of insurance in business?
7. What do you understand by the term Merchant Bankers? Mention in brief the services provided by Merchant Bankers.
8. Define Reserve Bank of India and its important functions.
9. Explain the term E-banking and the services of E-banking in today's economic world.
10. Banking is the lifeblood of the economy. Mention the role or importance of Banking in the economy.

Long Questions –

1. Define the term internet and its various benefits and uses in the modern world.
2. Explain the various types of Banks?
3. What do you understand by insurance? How is it facilitates business?
4. What is Business Finance? Explain the various types of business finance and their uses in business.
5. Explain the various types of banks and their important functions:

Assertion Reason Type Question-

1. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
2. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.

Case Study Questions –

1. **Direction:** Rohan Mishra after completing his graduation in Telecommunications from a reputed Engineering College came back to his native town in Bhilwara, Rajasthan. He decided to help his father who owns a textile mill in Gulabpura, Bhilwara but he did not find it interesting. He wanted to do something in the telecom sector. His father did not know much about such services so, Rohan explained him about various telecom services available.
 - (a) Telecom service that utilizes any type of network equipment connected through fiber optic cables laid across length and breadth of the country.
 - (b) Type of mobile telecom services including voice and non-voice messages and data service.
 - (c) Linkages and switched services within a licensed area of operation to operate media services.
 - (d) Satellite based media service provided by cellular companies through dish antenna and a set top box.
 - (e) Satellite based communication services which can be used to provide innovative applications such as online newspaper, tele-education, etc.

On the basis of above paragraph, answer the following questions.

- (i) Which of the following is not an example of telecom services?
- Postal services
 - Mobile services
 - Cable services
 - Radio paging services
- (ii) Identify the telecom service indicated in point (a) given above.
- Cellular mobile services
 - Fixed-line services
 - Radio paging services
 - Cable services
- (iii) "Linkages and switched services within a licensed area of operation to operate media services." This best suits to which of the following options:
- Cellular mobile services
 - Direct to Home services
 - Radio paging services
 - Cable services
- (iv) "Linkages and switched services within a licensed area of operation to operate media services." Q. Satellite based communication services which can be used to provide innovative applications such as online newspaper, tele-education, etc. This is _____ services.
- VSAT services
 - Direct to Home services
 - Cellular Mobile services
 - Cable services

2. **Direction:** Read the following text and answer the questions that follow:

Shipra Oswal is a software professional working in T.K.Industries Ltd. at Kerala. Her parents are residing in Agra. Due to family emergency, her father asked her to send ` 4 lakhs in his saving bank account in SBI at the earliest. Shipra is having her bank account with Bank of Baroda but she has not opted for digital payment system or e-banking services. She approached her bank manager Mr.

Vivek Mishra, for remittance of the amount to her father's account. He told her that she can adopt Electronic Fund Transfer options: RTGS or NEFT. He advised her to apply for virtual banking services enlisting its benefits and started her mobile banking services from the same day. Shipra successfully transferred the amount to her father using RTGS.

- (i) '...her to apply for virtual banking services'. Which of the following is not true about Virtual banking?
- Banking using electronic media
 - No face to face interaction of customer with bank employees
 - A customer can transfer funds using Bank Draft
 - Payment of bills using personal digital assistant
- (ii) Which of the following is not the method of digital payment?
- Debit card
 - Credit card
 - ATM
 - Cash credit
- (iii) What is the full form of RTGS?
- Real Time Great Solution
 - Rupee Transfer Gross Settlement
 - Real Time Gross Settlement
 - Regular Transfer Gross Settlement
- (iv) The reason why Shipra chose RTGS, not NEFT is:
- Minimum transaction value of NEFT is ₹ 5 lakhs
 - In RTGS, payment is not subjected to any waiting period
 - RTGS operates on deferred Net Settlement
 - In NEFT, payment is not subjected to any waiting period

Answer Key

MCQ Answers –

- Answer:** (a) Cash Credits
- Answer:** (a) Insurer, insured
- Answer:** (a) Principle of Indemnity
- Answer:** (c) 1938
- Answer:** (a) Indemnity contract



6. **Answer:** (c) 1995
7. **Answer:** (a) Multiple deposit option account
8. **Answer:** (a) Scheduled
9. **Answer:** (d) Economic development
10. **Answer:** (b) 1985-86
11. **Answer:** (b) Liability Insurance
12. **Answer:** (a) Premium
13. **Answer:** (a) Money Back Policy
14. **Answer:** (c) Cattle insurance
15. **Answer:** (a) The Reserve Bank of India

Very Short Answers –

1. **Answer:** Inconsistency, Inventory, Intangibility, Involvement and Inseparability
2. **Answer:** Insurance is a contract, embodied by policy, in which an individual or entity receives financial security or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured.

Also Check: Important for Emerging Modes of Business

3. **Answer:** Tata Sky and Airtel are the two companies that offer DTH services in India.
4. **Answer:** A bank is a financial institution authorised to receive deposits and make loans. Banks may also give financial services, such as currency exchange, wealth management, and safe deposit boxes. There are two types of banks. Namely, commercial/retail banks and investment banks.
5. **Answer:** There are 5 types of insurance policies. Namely,
 - Whole life policy
 - Joint life policy
 - Annuity policy
 - Endowment life assurance policy
 - Children's endowment policy

6. **Answer:** Functions of warehousing:

- Consolidation
- Stockpiling
- Value-added services
- Price stabilisation
- Financing
- Break the bulk

7. **Answer:**

- Ship or hull insurance
- Freight insurance
- Cargo insurance

8. **Answer:**
RTGS – Real Time Gross Settlement
NEFT – National Electronic Funds Transfer

9. **Answer:** 7 principles of insurance are,

- Utmost good faith
- Insurable interest
- Indemnity
- Proximate cause
- Subrogation
- Contribution
- Mitigation

10. **Answer:**

- Private warehouse
- Public warehouse
- Bonded warehouse
- Government warehouse
- Cooperative warehouse

Short Answers –

1. **Answer:** The need for Service Sector: Modern trade is the symbol of modern civilization. It has crossed every barrier and reached even the distant and remote parts of the world. It has touched every man. The economic welfare of mankind has been made possible by trade. The physical distribution of goods requires series of interrelated activities, which help in the flow of goods from the producer to the final consumer.

Service sector ensures the smooth supply of goods and services. The service sector consists of a series of interrelated activities concerned with producers to consumers. Service facilities help ensure the supply of the right quantity of the right products to the right place at the right time.

Benefits of Services:

1. **Quick and economical services to customers:** Efficient service to customers is the only way to have an edge over the competitors. Customer satisfaction can be gained by providing quick, economical, and efficient services to consumers.
2. **Minimisation of cost:** The distribution costs are part of the price of goods. The costs of transportation, insurance, warehousing, and financing increase the price of the commodities. The efficient and cheap supply of these services minimizes the cost, which is beneficial to consumers.

3. **Additional sales volume:** The service sector through its efficient transportation, communication, warehousing, and advertising facilities helps increase demand and supply of sales. These services provide knowledge about the commodity and also help in their distribution. Services improve the faith and loyalty of customers.

4. **Stabilisation of prices:** Transportation helps in the transfer of goods from areas of abundant supply to the areas of scarcity, so the price remains almost the same everywhere. Warehousing adjusts the supply according to demand to avoid violent fluctuations in prices.

5. **Removal of time and place barrier:** There is a time gap between the production and consumption of the commodities. The warehousing services keep the commodity in their safe custody for the period between production or purchases and sale. This service protects goods from damage and destruction. Modern transport facilities have enabled the movement of commodities from one place to other places.

2. **Answer:** Types of Financial Services: In addition to the traditional financial services of Banking and Insurance the following new financial services have emerged.

1. **Merchant Banking:** Services of intermediary regarding the issue, management, underwriting corporate restructuring are referred to as merchant banking. They provide growth of the capital market and help in developing an investment climate in the country.

2. **Loan Syndication:** The approach of borrowers to several banks willing to syndicate a loan, specifying the amount, and the tenure of the loan is termed as loan syndication.

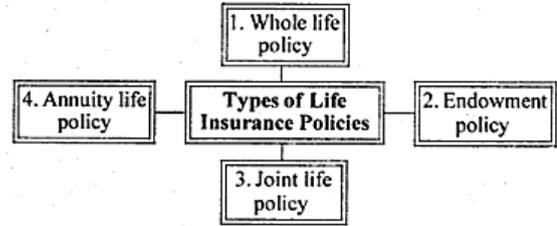
3. **Venture Capital:** Subscribing the equity shares of borrowers in return for part of ownership.

4. **Factoring:** The practice of selling accounts receivable to other companies or agencies for raising funds is termed factoring.

5. **Leasing:** The legal agreement by which the user of an asset may make payment of lease rent to the owner of the asset in return of use. At the end of the agreement, the lessee takes possession of the assets.

6. **Mutual Funds:** A company that pools funds from individuals to invest in shares or debentures and in short-term securities.

3. **Answer: Types of Life Insurance Policies:** The life insurance corporation has got different policies suiting to the needs of different persons. These policies are as Under:



1. **Whole life policy:** This policy reins throughout the whole life of the assured. The sum assured becomes payable to the beneficiary only after the death of the insured. The amount of premium is comparatively lesser in this policy. The period of the policy is indefinite. Its payment is made to the dependents of the insured only.

2. **Endowment policy:** This policy is for a fixed amount and specified period. If the policyholder survives for the period of the policy he is paid the specified amount of the policy with a bonus. An endowment policy provides both protection as well as savings for old age.

3. **Joint life policy:** This life policy is taken by two or more persons jointly. These persons may be partners of the firm, employees of an organization, members of the family, etc. According to the terms of the policy, the premium is paid jointly. On the death of anyone member of the group, the entire amount of the policy or the amount as per agreement is paid.

4. **Annuity life policy:** In this policy, the amount of the policy is paid before the maturity of the policy after one year or the year or the expiry of the fixed period. The entire amount of the policy is paid on the death of the policyholder or after the expiry of the period of the policy, whichever is earlier.

4. **Answer:** Difference between Life Insurance and Fire Insurance:

Points of difference	Life Insurance	Fire Insurance
I. Element of safety/investment	It has got both the element of safety and investment.	It has got an element of safety only.



2. Surrender value	The assured can surrender the policy before its maturity.	The insured cannot surrender the policy.
3. Contract of indemnity	It is not a contract of indemnity.	It is a contract of indemnity.
4. Number of years	The life insurance policy is taken for many years.	Fire insurance policy is taken for one year. It has to be renewed after one year if it has to be continued.
5. Insurable interest	It must be present at the time of the contract	It must be present both at the time taking policy and at the time of loss.

5. **Answer: Double Insurance:** Any person is free to take more than one insurance policy for the same property or goods. But he cannot recover more than the amount of loss actually suffered because a contract of insurance is a contract of indemnity.

Reinsurance: When an insurer risks that are beyond his control, he may get the whole or a part of his risk reinsured with other insurers. This is known as reinsurance.

Points of difference	Double Insurance	Reinsurance
1. Meaning	Ensuring the same risk with two or more companies is Double Insurance.	It is a contract of sub-insurance between the insurer and the reinsurer.
2. Filing Claim	A claim can be filed with all insurers but restricted to an actual loss in case of fire and marine policies.	The insured will claim compensation from the original insurer, who will claim compensation from reinsurers.

3. Contribution	The contribution will be made by each insurer in proportion to the sum insured.	Reinsurers are not directly required to contribute to losses.
-----------------	---	---

6. **Answer:**

Role/Advantages of Insurance In The Business: The future is always uncertain. Uncertainties in the business make plans futile and investments valueless. In order to minimize risk different types of insurance policies are taken. Insurance policies are advantageous in the following respects:

Role/Advantages of Insurance in the Business:

1.	Protection
2.	Indemnity
3.	Diffusion of Risk
4.	Social utility
5.	Industrial Development

- 1. Protection:** Insurance provides protection against the risk of loss. In case of life insurance the loss of an individual cannot be compensated but the receipt of the insured amount from Life Insurance Corporation helps him in standing. Insurance enables the businessman to carry on business with confidence and peace of mind.
- 2. Indemnity:** The loss caused by fire and other mis happenings is compensated by the insurance company. Insurance, as such is the protection against losses and businessman feels secured and free from anxiety.
- 3. Diffusion of Risk:** The burden of loss is distributed among a large number of persons through insurance. The impact of loss on one industry is not unduly heavy, that can be transferred by the insurance company to others.
- 4. Social utility:** Insurance provides safety to the common man. It is a means of social security. It also generates employment opportunities.
- 5. Industrial Development:** The insurance companies collect a huge amount as a premium. These funds are invested in industrial ventures and cause industrial development.

7. **Answer:** Merchant Bankers: Merchant bankers or lead managers undertake the management of new capital issues of companies. A merchant banker helps the company intending to raise fresh capital in drafting the prospectus (or statement in lieu of prospectus), the arrangement of underwriters, selection of brokers, publicity, the appointment of the registrar to the issue, etc. In India, several banks have specialized divisions or subsidiaries for offering merchant banking services.

Merchant bankers provide a wide variety of financial services to the corporate sector. They look into various legal and procedural aspects involved in the issue of securities and the raising of loans. They also provide consultancy in matters of investment, capital restructuring, valuation, merger, acquisition, etc.

8. **Answer:** Reserve Bank of India: It was incorporated on April 1, 1935 as a shareholders' bank. The majority of shares were held by the central government. After independence, the Reserve Bank of India was nationalized on April 1, 1949. Reserve bank of India performs the following important functions:

Functions of Reserve Bank of India:

A. Primary functions:

1. Issuing currency notes (except one rupee note, which is issued by the ministry of finance)
2. Bank of the government
3. Working as the banker of banks
4. Controlling bank rate or rate of interest
5. Controlling exchange rate.

B. Subsidiary functions:

1. Dealing in foreign exchange
2. Discounting bills of different banks
3. Dealing in government securities
4. Accepting deposits without interest
5. Managing clearing houses
6. Managing agricultural credit
7. Extending short-term loans to banks and financial institutions
8. Regulating developmental, industrial, and commercial activities in India.

9. **Answer:** E-Banking (Electronic Banking): Many banks have introduced electronic banking services for their customers. Like IDBI Bank, UTI Bank, Global Trust Bank, Citibank, State Bank of India, etc. They make use of computers and

satellites for the transfer of funds and communication. E-banking includes the following services:

1. **EFT (Electronic Fund Transfer System):** It is a cost-saving scheme for the convenience of customers. Under the schemes accompany may transfer wages and salaries from its bank account to the personal accounts of its employees. Similarly, a company can distribute dividends to its shareholders electronically. This is a very safe method of transfer of money as compared to banker's draft, traveler's cheque, etc.
2. **ATMs (Automated Teller Machines):** Many banks have installed ATMs in big cities. An ATM renders a teller's job 24 hours a day. It is a self-service terminal that renders the facility of withdrawal and deposit of money to the bank customers. Each customer is given a separate plastic card to avail of the services at the ATM.

The customer has to insert the plastic card into the terminal and enter his identification code. The machine would then respond to the customer's instruction of giving cash, taking a deposit, and handling other banking transactions.

3. **Credit Card:** The card issued to selected customers to enable them to make payment of credit bills of the credit limit. It is also called plastic money as it allows the credit cardholder to withdraw money without making any deposit into the bank. It allows an overdraft facility to the customer up to a specified limit. The cardholder can use the card for making payments for goods and services to the suppliers having Internet service is provided in India by many companies like VSNL, Bharti Telecom, and MTNL known as Internet Providers.

Any individual or organization can open an account with any Internet Service Provider who will give an account number for a monthly or yearly charge. Then the user may have access to the internet and the e-mail through it.

4. **Debit Card:** This is the card issued to the holder of a bank account against the balance amount in the account to facilitate and simplify the payment, withdrawal, and transfer of money any time, anywhere through the computer is known as a debit card.



10. **Answer: Role/Importance of Banking In National Economy:**

As capital is the lifeblood of trade, commerce, and industry, so banking, in the same way, is the lifeblood of the economy. The importance of banking can be justified on the following grounds:

The modern economy is helpless without banking services. Banking as the lifeblood of the economy has assumed the following significance.

1. **Credit creation:** Banks accept deposits, retain a nominal percentage of the deposit as a cash reserve, and the best major part is lent to trade, industry and commerce at a higher rate of interest. It is known as credit creation.
2. **Mobilisation of savings:** Banking accept surplus savings and return together with interest, whenever required. It inculcates the habit of savings among people. It is responsible for capital formation.
3. **Safe custody of valuables:** The banks provide locker services and keep our valuables like ornaments, notes, documents, etc. safe, we can take them from banks whenever required.
4. **Promotion of foreign trade:** Finance is the lifeblood of all trading activities, even foreign trade. Banks are the source of funds, help in the payment and transfer of money, provide foreign exchange, issue letter of credit, and provide assistance to foreign trade in many ways.
5. **Social and national welfare:** Surplus funds of the people are accepted as deposits by banks and lent to trade, commerce, and industry for productive purposes. It promotes the welfare of the people.

Long Answers –

1. **Answer:** Internet is a worldwide or global network of computers, connected through telephone lines and other high-speed links. It is a facility of communicating and sharing information with millions of people all over the World. Internet Service is provided in India by many companies like VSNL, Bharti Telecom, and MTNL, known as internet service providers.

Any individual or organization can open an account with any internet service provider who will give an account number for a monthly or yearly charge. Then the user may have access to the internet and the e-mail through its information in a variety of forms.

Benefits/Uses of the Internet: Nowadays the internet is being used in every place and every sphere of life, whether it is a share market, shopping complex, companies, organization, departments, or Government understandings. There are a lot of buyers and sellers who use the internet as their buying and selling market. A newspaper or magazine can be read out through it. Seminars, conference, workshop, meeting, the conversation is also possible on the internet.

Thus, the benefits/uses of the internet can be classified as follows:

1. **Sharing information:** The first and foremost use of the internet is to share information. Company employees and many other people can share research and business data among colleagues and like-minded individuals
2. **Communication:** Internet facility is also used for communication. Through the internet individuals can make communicate directly in various “chat-sessions” and E-mail facilities. With the help of modern technology people can talk face-to-face with the help of a Digital Camera which is possible only with the internet.
3. **Marketing of products:** Various Multinational Companies (MNC’s), departmental stores, shopping complexes, manufacturers, organizations, etc. used the internet for selling their products. Buyers also used interest to buy different kinds of goods from different corners of the world.
4. **Entertainment:** The Internet is a good source of entertainment. It offers a lot of entertainment programs as you can play any game by downloading it on your computers. You can come to know the latest Hollywood and Bollywood information about your favorite stars and films. You can hear songs and see films on the internet.
5. **Making of queries:** The Internet provides the facility to make queries regarding various places, products, films, books, personalities, institutions, etc. That’s why a high and suitable institute, college, or school with its features and co-curricular activities can be approached.
6. **Feedback and suggestions:** Through the internet, many institutions and governments can take feedback and suggestions about their decisions and orders (e.g. Daily voting

regarding decisions in Hindustan Times and Aaj Ki Baat).

7. **Other uses:** The Internet facility is also used to find out vacancies and provide opportunities. It can also be used for matrimonial and many more things.

2. **Answer:**

Banks can be classified into the following:

- Commercial Banks
- Cooperative Banks
- Specialized Banks
- Central Banks

1. **Commercial Banks:** These banks perform all kinds of banking business. They accept deposits from the public and provide short term loans and advances to customers. They act as financial intermediaries or dealers in debt. Commercial banks are regular banks.

In India, there are three types of commercial banks:

1. Public Sector Commercial Banks
2. Private sector commercial banks
3. Foreign Banks

2. **Cooperative Banks:** These banks are formed and set up the principles of cooperations. They are registered under Cooperative Societies Act. They provide credit and other facilities to their members. The members may be farmers, small scale traders, etc. They accept deposits from the members and grant loans to them at low rates of interest.

3. **Specialised Banks:** Specialised banks are foreign exchange banks, industrial banks, development banks, export-import banks catering to specific needs of these unique activities. They provide financial aid to industries, heavy turnkey projects, and foreign trade.

4. **Central Bank:** Central bank is the apex institution that supervises and controls the entire banking system of the country. Every country has a central bank. The Reserve Bank of India is the central bank of our country. A central bank does not deal directly with the public and its aim is not to earn profits. It also acts as a government banker. It controls and coordinates the currency and credit policies of any country. It maintains the exchange rate. It is the custodian of foreign currency reserves of the country.

3. **Answer:** Insurance is a means of spreading risks. It involves the pooling of risks. A group of people who are subject to an insurable risk contributes regularly and the fund so created is utilized to compensate those unfortunate few members of the group who actually suffer a loss due to some unexpected density:

In other words, Insurance is a social device for pooling and dividing risks among a large number of persons.

Importance of Insurance: Insurance plays a very important role in business. It provides the following advantages of businessman:

1. **Protection against risks:** It provides protection against risks of loss. By providing security against heavy risks and losses, insurance stimulates the expansion of trade and industry.

2. **Division of labor:** It facilitates the division of labor. A businessman can concentrate fully on his own business because his risks are taken over by an insurance company that is a specialist in risk-bearing.

3. **Ability to face competition:** It helps in improving the efficiency of business because an insured businessman feels more safe and active. Insurance contributes to the survival and continuity of business.

4. **Better utilization of capital:** In absence of insurance facilities businessmen will have to maintain large reserves to face risks due to loss. Insurance avoids the need for such reserves and the fund so released can be invested to generate additional wealth.

5. **Facility for loan:** Insurance companies provide loans and underwriting facilities to businessmen and also invest in industrial securities. After insuring his goods, the creditworthiness of the businessman increases.

4. **Answer:**

Business Finance: Ours is a developing economy. Agriculture is the dominant source of income. The 11m citations of agriculture here and the exploding population results in mass unemployment and non-utilisation of resources. The remedy lies in the rapid growth of the business. consisting of trade, industry, and commerce. The establish is out. nursing and growth of the trade, industry, and commerce owe to the finance. It is rightly said that finance is the lifeblood of business.



The ancient business was very small in size, so own funds and loans from friends and relatives were sufficient to carry on business activities. Modern business has assumed a large size. It has become complicated and complex. Mechanization, specialization, and tough competition are their common features. Own funds are incapable of meeting present financial requirements. This is why, we have developed new sources of finance such as shares, debentures, public deposits, and institutional finance.

Types of Business Finance: Finance is required at every stage of the business. We need different types of finance for different purposes. On the basis of purpose the finance can be classified as under:

Manufacturers require long term finance more than the traders, who purchase and sell goods for-profit motive. More long-term finance will be required if the size of the business is larger.

(1) Special features of long term finance:

1. Finance required for a period of more than 5 years is known as long-term finance. According to certain authorities, finance for a period exceeding ten years is known as long term finance.
2. Long-term finance is required for making investments in fixed assets, such as land, building, plant, machinery, vehicles, equipment, furniture, etc.
3. Long term finance meets the long term financial needs of the business. These needs are the permanent needs of the business.
4. Fixed assets purchased out of long term finance are revenue-generating.
5. Long term finance once invested in the business cannot be taken without dissolving the business or scaling down the business.
6. Long-term finance is acquired through the issue of shares, debentures, or loans from specialized financial institutions.

(2) Medium Term Finance:

Medium-term finance, also known as medium-term capital is required for a period ranging between 2 to 5 or 2-10 years (The period of finance depends upon the nature and purpose of the business).

Medium-term finance is required for the following business activities:

1. Introduction of a new product.

2. Expenses on the modernization of business.
3. Advertising campaign.
4. Investment in permanent working capital.
5. Adopting new methods and techniques of production.

Medium-term finance is raised through debentures, banks, public deposits, and financial institutions. Medium-term finance is required by manufacturing industries more than trading industries. Medium-term expenditures are also treated as capital expenditure because it is supposed to be revenue-generating.

3. **Short Term Finance:** Short term finance, also known as, short term capital or working capital is required for a period not exceeding one year. It is required to meet the day-to-day needs of the business. Short term finance is used again and again in the business, so it is also known as circulating capital.

Uses of Short Term Finance:

The short term finance is required for the following business activities:

1. Meeting short-term financial needs of the business.
2. Purchase of raw material.
3. Payment of direct expenses i.e. expenses on acquiring and manufacturing goods i.e. carriage, freight, wages, power and manufacturing expenses, etc.
4. Payment of selling, distribution, and administrative expenses. Trading concerns require more short term finances than manufacturing concerns. Lesser short term finance will be required if the gap between production and sale is lesser. Small factories need lesser short term finance than a large manufacturing enterprise.

5. **Answer:**

1. **Commercial Banks:** These banks perform all types of the banking business. They accept deposits from the public and provide short-term loans and advances to customers. They act as financial intermediaries. State bank of India is the largest commercial bank in India. These banks have been established to assist trade commerce and industry.

2. **Agricultural Banks:** Agriculture needs both short-term and long-term loans. Short-term loans are required for purchasing seeds, manure, tractor, cattle, and tube wells, etc. These short-term needs are met by cooperative banks. Long-term financial needs are regarding the purchase of a land, tractor, other equipment and for installation of tube wells., Long-term financial needs are met by land mortgage banks also known as an agricultural bank. These banks are very helpful for the fanning community.
3. **Industrial Banks:** These banks provide long-term funds, so their requirement cannot be effectively met by commercial banks. They assist in the promotion of new industrial units. Unfortunately in India, we do not have a sufficient number of industrial banks. In place of industrial banks, we have the industrial development bank of India and various financial corporations to meet the financial needs of industrial enterprises. In western countries like the UK and the USA, there is a large number of industrial banks.
4. **Exchange Banks:** These banks provide finance for foreign trade. Many Indian commercial banks provide exchange services also. Most foreign banks work as exchange banks in India. These banks are City banks, Bank of Tokyo, Grindlays Bank, Chartered Bank, etc. These banks deal in foreign exchange and assist importers and exporters.
5. **Indigenous Banks:** Before independence financial needs of fanners and small business units were met by indigenous banks in rural areas. These are money lenders who accept deposits and grant loans. The working of these banks is so simple that farmers and borrowers may approach them at any time. Borrowers have to pledge their ornaments, land, and valuables for borrowing funds.

These banks are virtually exploiter of poor rural people. In spite of our development in financial fields by establishing big banks and financial corporations, indigenous banks are still serving the needs of the poor masses.

Special features of Indigenous banks:

1. Loans can be granted for any purpose.
2. Loans are granted at a higher rate of interest.
3. Loans may be granted without security and a pledge.

4. (They are easily accessible.
5. Their method of work is simple.
6. They may not observe business rules and regulations.
7. Central Bank: Reserve Bank of India: Every country has a central bank responsible for the overall control of cash and credit money in the economy. In India, the Reserve Bank of India works as the Central Bank of the country.

Case Study Answers –

1.

- (i) a) Postal services

Solution: Telecommunication means transferring signals over a distance. Services that offer voice, internet, television, networking, and data services over a large area are known as telecom services. They can either be wired or wireless. Postal services is not an example of telecom services.

- (ii) b) Fixed-line services

Solution: A fixed-line can be seen as a connection to an end customer, by means of a cable, through which a user can make phone calls or connect to the Internet. Fixed-lines are clearly separate from the mobile phone network, by which end users are connected to the network via wireless transmission technologies.

- (iii) d) Cable services

Solution: Cable services are referred to in the above paragraph. A subscription television service that uses cables to carry signals between local distribution antennas and the subscriber's location.

- (iv) a) VSAT services

Solution: Satellite based communication services which can be used to provide innovative applications such as online newspapers, tele-education, etc. This is VSAT services.

2.

- (i) c) A customer can transfer funds using Bank Draft

Solution: A customer can transfer funds using Bank Draft is not true about Virtual banking. A virtual bank works when a customer, first of all, opens an account with the virtual bank.



(ii) d) Cash credit

Solution: Cash credit is not the method of digital payment. Cash credit is a type of short-term working capital loan extended by financial institutions, which allows the borrowers to utilise money without holding a credit balance in an account.

(iii) c) Real Time Gross Settlement

Solution:

- RTGS: Real Time Gross Settlement.
- The term real-time gross settlement (RTGS) refers to a funds transfer system

that allows for the instantaneous transfer of money and/or securities. RTGS is the continuous process of settling payments on an individual order basis without netting debits with credits across the books of a central bank.

(iv) b) In RTGS, payment is not subjected to any waiting period

Solution: The reason why Shipra chose RTGS, not NEFT is that In RTGS, payment is not subjected to any waiting period.



5

Emerging Modes of Business

Meaning:

In this age of internet, the world commerce has gradually started linking with it. This has brought a new concept of commerce called e-commerce/e-business. Now we are capable of reaching the users of Internet all over the world simply by opening a shop on the Internet. The Internet users can order for the goods, receive their delivery and make their payment while sitting at their home on the Internet.

E-Business:

Is one of the biggest examples of how the business world has evolved in modern times. The conduct of trade, commerce and industry via the computer network using the internet is called e-business or electronic business. It is a broad term that encapsulates all business functions and transactions that are conducted electronically, and not merely sales. From e-commerce to digitally conducted product development, production, inventory management, finance, human resource management, and accounting - all come under the purview of e-business.

❖ Benefits of e-Business:

As mentioned in the chapter, students will also gain knowledge of the reasons why the e-business model has surfaced and achieved popularity. Here are some benefits of e-business:

- **Easy and Fast to Set Up:** Mostly, setting up an electronic business requires high-speed internet connectivity, computer devices, and advanced software system
- **Not Limited by Geographical Boundaries:** There are no geographical barriers in an e-business. Anyone can buy things from anywhere, provided the business has services in that region.
- **Government Subsidies:** To promote digitalization, the government often provides subsidies and other advantages to e-businesses.
- **The movement towards a paperless Society:** The use of the internet has significantly decreased reliance on paperwork.
- **Easy to launch new products:** Any firm may use e-business to bring a new product into the market. On the Internet, you may get detailed information on the product. As a result, consumers and other business people may learn about the new product while sitting at home.
- **Easy Distribution Process:** Through e-business, many different sorts of information and services may be obtained on a computer. This has streamlined and reduced the cost of the distribution system.
- **Lower Investment required:** Business owners and business people do not need a large showroom or a large investment to run an e-business. All you need is a computer and access to the Internet.
- **Elimination of Middlemen:** Wholesalers and merchants have been vanishing since the advent of e-Commerce. The majority of manufacturers have now begun to have direct contact with clients. As a consequence, consumers pay less for items.



❖ Limitation of e-Business:

Despite being one of the fastest emerging modes of business, e-business has some drawbacks as well. The limitations of e-business according to emerging modes of business are:

- **Lack of Trust:** The disadvantage of e-business is it lacks direct communication between the seller and the buyer. The consumer is unable to touch and feel the product in real-time. This can result in distrust and apprehensions
- **Security Threats:** The personal and financial data of consumers are always on stake if the e-business does not have proper security measures. It is easier for scammers to lure online buyers into a lucrative deal and do fraud
- **Delivery Issues:** Longer delivery times than traditional business is another limitation of this model
- **Technology Capability and Competency of E-business Participants are Required:** E-business necessitates a high level of computer literacy among the parties involved. This obligation can also be blamed for the so-called digital divide. The term "digital divide" refers to the separation of society based on one's familiarity or lack thereof with digital technologies.
- **Ethical Fallouts:** Companies utilise an 'electronic eye' to keep track on your computer files, email account, and internet visits, among other things, so as to gain knowledge about your interests, preferences etc. It's unethical in a number of ways.

BASIS FOR COMPARISON	TRADITIONAL COMMERCE	E-COMMERCE
Meaning	Traditional commerce is a branch of business which focuses on the exchange of products and services, and includes all those activities which encourages exchange, in some way or the other.	e-Commerce means carrying out commercial transactions or exchange of information, electronically on the internet.
Processing of Transactions	Manual	Automatic
Accessibility	Limited Time	24 × 7 × 365
Physical inspection	Goods can be inspected physically before purchase.	Goods cannot be inspected physically before purchase.
Customer interaction	Face-to-face	Screen-to-face
Scope of business	Limited to particular area.	Worldwide reach
Information exchange	No uniform platform for exchange of information.	Provides a uniform platform for information exchange.
Resource focus	Supply side	Demand side
Business Relationship	Linear	End-to-end
Marketing	One way marketing	One-to-one marketing
Payment	Cash, cheque, credit card, etc.	Credit card, fund transfer etc.
Delivery of goods	Instantly	Takes time

❖ Resources Required for Successful e-Business Implementation:

- **Computer system:** The presence of computer system is the first requirement of e-Business. The computer can be linked with Internet by just pressing its keys.
- **Internet connection:** Internet connection is very essential and now a days we can get this facility by sitting at home.
- **Preparing the web Page:** Web page has the greatest importance in the use of e-Business. It is also known as Home Page. Any product that is to be shown on Internet is displayed on web page.

- **Effective telecommunication system:** e-business requires an effective telecommunication system in the form of telephone lines etc.

❖ **Scope of e-Business:**

It can be understood by the view point of the parties involved and making transactions:

- **B2B Commerce:** It is that business activity in which two firms or two business units make electronic transaction. For example- one can be producer firm and other a supplier firm.
- **B2C Commerce:** Business to customer. In this one party is a firm and other party is a customer. On one hand a customer can seek information through Internet about products, place orders, get some items and make payments and on the other hand the firm can make a survey any time to know who is buying and can also know the satisfaction level of customers. In modern times, call centers can provide this information.
- **Intra-B Commerce Within Business Commerce:** Under it, the parties involved in the electronic transaction are the two departments of same business. For Example, through internet it is possible for the marketing department to interact constantly with the production department and get the customized goods made as per the requirement of customers.
- **C2C Commerce:** Customer to Customer Commerce – Under it, both the parties involved in electronic transaction are customers. It is required for the buying and selling of those goods for which there are no established markets. For example-selling old car through internet.
- **C2B Commerce:** C2B Commerce provides the Consumers with the freedom of shopping at will. Customer can make use of call centers to make toll free calls to make queries and lodge complaints.
- **B2E Commerce:** Companies reporting to personnel recruitment, interview and selection and training etc. via B2E Commerce.

Process of Online Trading

Registration ® Placing an order ® Payment mechanism

❖ **Step 1: Registration:**

- When you register with an online retailer, you create an 'account', by filling up the registration form.
- A "password" must be entered among the numerous details since the areas relating to an individual's "account" and "shopping basket" are password protected.

❖ **Step 2: Placing an Order:**

- You can add products to the shopping cart by dragging and dropping them.
- A shopping cart is an online record of what an individual has added to his cart while visiting an online store.
- Once you've decided what you want to buy, you may 'checkout.'

❖ **Step 3: Payment Mechanism:**

Purchases through online shopping may be done in a number of ways.

- **Cash-on-Delivery:** Payment for things ordered online can be made in cash when the goods are delivered physically.
- **Cheque:** The online merchant may arrange for the customer's cheque to be picked up. After realization, product delivery may be attempted.
- **Net-banking Transfer:** Modern banks provide to their customers the facility of electronic transfer of funds over the Internet using Immediate Payment Service (IMPS), NEFT and RTGS.
- **Credit or Debit Cards:** The holders of credit cards can enjoy making purchases on credit. The amount owed by the cardholder to the online seller is assumed by the card issuing bank, which then transfers the transaction's amount to the seller's credit.



- A debit card permits the holder to make purchases up to the amount of money in the linked account. The moment a transaction is made, the amount due as payment is deducted electronically from the card.
- **Digital Cash:** This type of currency has no physical qualities, but it allows you to utilize real money in an electronic format, such as through e-wallets or PayTm.

❖ E-Business Risks:

- **Transaction Risks:**
 - Either the seller or the customer may refuse an order being made or placed. This might be cited as default on order taking/giving.
 - The supposed delivery doesn't take place, or is delivered at the incorrect address, or product apart from ordered is delivered. This can be thought of as "default on delivery."
 - The vendor doesn't get payment for the things provided, despite the fact that the customer states that payment was created. This might be cited as 'default on payment'.
 - As a result, order taking/ giving in e-business may pose a danger to the vendor or the client.
- **Data storage and Transmission Risks:**
 - Data in the systems and on the way is vulnerable to a variety of threats.
 - Important data may be stolen or altered for nefarious purposes or merely for fun/ adventure
 - Antivirus software's installed and updated on a regular basis prove useful in scanning files and discs, protecting data files, folders, and systems against virus attacks.
 - Data could be intercepted during transmission. Cryptography can be used for this. It refers to the process of encrypting data and transforming it to cyphertext, an unreadable format. Only those with a secret key may decipher (or decrypt) the message into 'plaintext.'
- **Risks of Threats to Intellectual Property and Privacy Include:**
 - Once the material is available on the internet, it is no longer considered private. It got more difficult to protect it from being copied after that.
 - Data provided during online transactions may be shared with others, who may begin flooding one's inbox with advertising and promotional materials.

Outsourcing

Many activities have to be performed for the successful conduct of business-like productions, buying, selling, advertising etc. When the scale of business is small, the businessman used to perform these activities easily. However, with the enlargement of scale of business, this job has become tedious. Therefore, in order to overcome the difficulties connected with the performance of many activities and to get the benefit of specialization, these services are now obtained from outside the organization. This is called outsourcing of services or BPO.

❖ Advantages of Outsourcing

To understand better the concept of outsourcing, you must study in-depth the advantages of outsourcing as mentioned in the chapter.

- **Cost Advantage:** By outsourcing, companies can save their cost, time and effort in hiring and training a permanent in-house skill.
- **High-Quality Services:** Only a skilled expert with in-depth knowledge in the respective field is assigned the task to ensure improved quality and fewer errors
- **No Setup Cost:** In an offshore model, where the company outsources to an overseas agency, there is typically no cost involved in setting up the infrastructure or owning the latest software.
- **Reduced Labour Cost:** Companies outsource because the labour cost is cheaper in the outsourcing country.
- **Encourage Entrepreneurship, Employment, and Exports:** the concept of outsourcing promotes entrepreneurship, employment, and exports in the country where the outsourcing is performed.

- **Passage to High-Quality Services:** Only skilled individuals are assigned to specific tasks, resulting in better service and fewer mistakes.

❖ **Disadvantages of Outsourcing:**

- **Poor Quality:** Not hiring the right outsourcing company can often result in inferior-quality services and extension of project delivery deadlines
- **Lack of Communication & Control:** In an offshore model, poor communication and lack of control over business operations are major impediments
- **Security Threats:** Business-critical data is often under the threat of security breaches
- **Less Customer-Centric:** Because an outsourced merchant serves numerous firms, they lack focus on the duties of a single company.
- **Ethical Issues:** Outsourcing provides jobs and wealth for another country rather than the founding country.

❖ **Business Process Outsourcing:**

As a company grows, the complexities and scope of its business also increase. As such, it becomes cumbersome and costly to manage diverse functions and operations efficiently. To overcome the challenges of the scale of business and leverage the potential of specialization, many companies choose Business Process Outsourcing (BPO). The scope of BPO is broad and can range from financial services to customer support, advertising, courier, software solutions, etc.

❖ **Need for BPO:**

- **Obtaining Good Quality services:** If a company attempts to perform all the activities itself, there is every possibility of quality of services being affected adversely. In order to avoid this difficulty, the need for obtaining services from outside is felt.
- **Avoiding Fixed Investment in Services:** If a company attempts to get these services from within the organization itself, it has to establish different departments for this purpose which involves huge investment. Therefore, it appears justified to get these services from outside the organization at a little cost.
- **Smooth running of business:** outsourcing of services is needed in order to run the business smoothly. The attention of businessman gets distracted from various small things and will be focused on the main activity.

❖ **Scope of BPO:**

In modern business many outside services are used. Out of these services, the following are the important ones:

- **Financial Services:** These services mean those outside services which help the company in some way or other in the management of finance.
- **Advertising services:** Advertisement is very necessary for increasing sales. If this service is obtained from outside agency, it will cost less, and the quality of advertisement will also be good.
- **Courier services:** These services mean delivering goods, documents, parcels from company to customers and vice-versa.
- **Customer support service:** These services mean delivering goods to customers and to give after sale services also. Generally, the manufacturers of TV, Fridge, AC etc. use these services.

❖ **KPO (Knowledge Process Outsourcing):**

KPO refers to obtaining high end knowledge from outside the organization in order to run the business successfully and in cost effective manner. Unlike conventional BPO where the focus is on process expertise, in KPO the focus is on knowledge expertise.



❖ **Need of KPO:**

In today's competitive environment focus is to concentrate on core specialization areas and outsources the rest of activities. Many companies have come to realize that by outsourcing the non-case activities not only costs are minimized and efficiency improved but the total business improves because the focus shifts to key growth areas of business.

❖ **Features of KPO:**

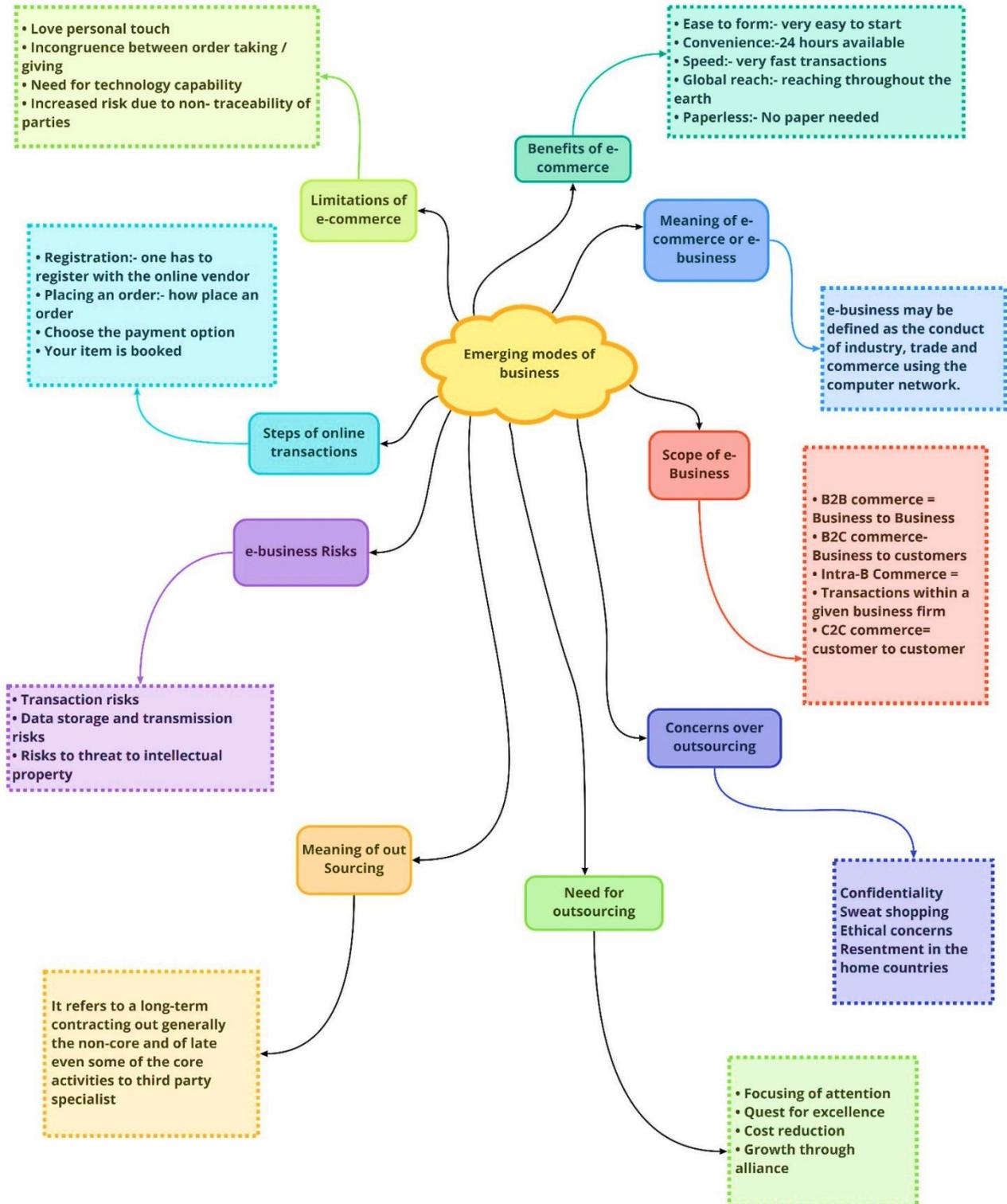
- It is the upward shift of BPO
- It focuses on knowledge expertise instead of process expertise.
- It provides all non-case activities.
- It has no pre-determined process to reach a conclusion.
- It offers an alternative career path for the educated.

❖ **Scope of KPO/ Services covered KPO:**

- Research and Technical analysis.
- Business and Technical analysis.
- Business and Market research.
- Animation and Design.



Class : 11th Business Studies
Chapter- 5 : Emerging modes of business





Important Questions

Multiple Choice Questions-

- Selling electronic goods through Flipkart or eBay.com is a _____ type of e-business transaction.
 - B2B Activities
 - C2C Activities
 - C2B Activities
 - B2C Activities
- B2C variant of e-commerce enables a business to be in touch with its _____.
 - Managers
 - Customers
 - Creditors
 - Employees
- Expand VPN
 - Virtual Public Network
 - Virtual Popular Network
 - Virtual Private Network
 - Virtual Personal Network
- The use of EDI (Electronic Data Interchange) technology to send and receive commercial documents like purchase order etc is an example of
 - B2B
 - C2C
 - B2C
 - Intra B
- _____ refers to contracting out some of its activities to a third party which was earlier performed by the organisation.
 - Outsourcing
 - BPO
 - E-Commerce
 - E-Banking
- Factoring is _____ type of outsourcing service.
 - Financing
 - Advertising
 - Courier service
 - Customer support
- Both Sellers and buyers are business firms, under _____ type of e-commerce transaction.
 - B2C Commerce
 - C2B Commerce
 - C2C Commerce
 - B2B Commerce
- Which one of the following is NOT an example of transactional risk?
 - Hacking
 - Default on order taking
 - Default on payment
 - Default on delivery
- The annoyance in terms of some onscreen display
 - Firms interaction with its customers
 - Firms interaction with other business firms
 - Firms interaction with its own departments
 - None of the above
- An important C2C area of interactive commerce can be the formation of _____.
 - Consumers forum and pressure group
 - B2B Commerce
 - Banking
 - Insurance
- Which of the following is a limitation of e-business?
 - Ethical fallouts
 - Risk
 - Low personal touch
 - All of the above
- It is not an application of e-business
 - Online bidding
 - Online procurement
 - Online trading
 - Contract R&D
- Formation of Consumers Forum and Pressure groups is an example of
 - C2C
 - B2B
 - B2C
 - Intra B
- Principle types of outsourcing services are:
 - Courier service
 - Advertising
 - Financing
 - All of the above
- _____ transactions have business firms at one end and its customers on the other end.

- (a) C2C Commerce
- (b) B2B Commerce
- (c) B2C Commerce
- (d) C2B Commerce

Very Short-

1. What is 'e' in e-business?
2. Define e-commerce.
3. What is Intra B Commerce?
4. State a significant feature of outsourcing.
5. What is the scope of the business based on the business function?
6. What is the scope of the business based on the parties involved in the electronic transaction?
7. Expand B2B Commerce.
8. Expand B2C Commerce.
9. Expand C2C Commerce.
10. What is Traditional Business?

Short Questions -

1. What is "e" commerce?
2. Jyoti wanted to sell her mobile phone but did not get any buyer. On her friend's suggestion she posted the mobile on sale on www.olx.com and found a buyer within two days. Name the type of e-business.
3. Ram stays in a hostel in the USA and his parents stay in Mumbai. Ram's birthday is in five days and his parents wish to give him a pair of branded shoes. How can they give gifts?
4. What do you mean by Intra-B Commerce?
5. Briefly state the scope of e-business on the basis of business function?
6. Distinguish between e-commerce and e-business.
7. Explain briefly points in opposition with outsourcing?

OR

Explain any four limitations of electronic mode of doing business. Are these limitations severe enough to restrict its scope? Give reasons for your answer.

8. State three benefits of e-business?
9. State three limitations of e-business?
10. In detail explain the features of outsourcing?

Long Questions -

1. Elaborate the steps involved in online trading.

2. Explain Nature and the need for outsourcing services.
3. www.olx.in, www.quicker.com etc are examples of websites used to conduct business. Dipti's sofa set got spoiled in the rain. Her friend suggested that she should change the fabric so that it looks new and put it for sale on www.olx.com Dipti followed her friend's advice and got her sofa repaired so that it looks better and uploaded nicely clicked pictures on www.olx.com in without disclosing the fact that it was damaged from inside. She found a customer and sold it for Rs.9,000. After one week the buyer found the real state of the sofa set and called Dipti but she did not answer any of the calls.
 - (i) Name the type of business in the above case.
 - (ii) Which values did Dipti ignore while selling her sofa set?
 - (iii) Explain two advantages and disadvantages of e-commerce
4. Explain briefly the benefits of e-business.
5. Difference Between e-Business and Traditional Business.
6. Explain risks involved in e-business in detail?

Case Study Questions-

1. **Direction:** Read the following text and answer the questions that follow:

Mr. Mehra is working at the post of General Manager in AU Small Finance Rajasthan. He is transferred to Hyderabad. So he sold his old sofa, and bed through OLX. In Hyderabad, he bought a new sofa and small bed of his choice according to the space of the room placing online order to Godrej Furniture. On receiving the delivery of the items, he found colour defect in the sofa so he filed an online complaint with customer care cell of Godrej Furniture. The head of customer grievances cell forwarded this complaint mail to the Marketing manager and Production manager for further action. In enquiry, it was found that M/s Touchwood Furniture Dealers, distributor of Godrej Furniture in Hyderabad made the 'default on delivery' while taking online order from Godrej Furniture for making delivery to its online customers.

- (i) 'So he sold his old sofa, and bed through OLX.' Identify in the type of e-business model involved in the transaction mentioned here.
 - a) Business to Customer
 - b) Business to Business
 - c) Customer to Customer
 - d) Customer to Business



- (ii) "M/s Touchwood Furniture Dealers, distributor of Godrej Furniture in Hyderabad made the 'default on delivery' while taking online order from Godrej furniture for making delivery to its online customers."

Identify the limitation of e-business stated here.

- Lack of personal touch
 - Time-consuming
 - Risk arising due to anonymity and no traceability of parties
 - Fraudulent trading
- (iii) "...he found colour defect in the sofa so he filed an online complaint with customer care cell of Godrej furniture."

Identify the type of e-business model involved in transaction mentioned here.

- Business to Customer
 - Business to Business
 - Customer to Customer
 - Customer to Business
- (iv) "The head of customer grievances cell forwarded this complaint mail to the Marketing manager and Production manager for further action."

Identify the scope of e-business mentioned in this case.

- Customer to Customer
- Business to Business
- Intra B
- Customer to Business

2. **Direction:** Read the following text and answer the questions that follow:

Utsav Sharma, an entrepreneur is planning to enter into a new business of manufacturing laptop bags with an inbuilt lock facility and solar charger. Being highly complex and tedious, its manufacturing operations need to be well planned. He decides that the complete bag will be manufactured at his own factory but its advertisement campaign can be given to Vigyapan Agency so that he can focus on key functions.

- (i) Identify the mode of business followed by Utsav to focus on key functions of business.

- Outsourcing
- e-business
- Agency
- Joint venture

- (ii) Outsourcing of advertising services will come under the scope of _____.

- BPO
- KPO
- Both BPO and KPO
- Horizontal service provider

- (iii) Vigyapan Agency is a:

- Captive service provider
- Vertical service provider
- Horizontal service provider
- All of the above

- (iv) Which one of the following is not the need of outsourcing?

- Focusing of attention
- Quest for excellence
- Cost reduction
- Sharing of trade secrets

Answer Key

MCQ Answers-

- Answer:** (b) C2C Activities
- Answer:** (b) Customers
- Answer:** (c) Virtual Private Network
- Answer:** (a) B2B
- Answer:** (a) Outsourcing
- Answer:** (a) Financing
- Answer:** (d) B2B Commerce
- Answer:** (a) Hacking
- Answer:** (a) Firms interaction with its customers
- Answer:** (a) Consumers forum and pressure group
- Answer:** (d) All of the above
- Answer:** (d) Contract R&D
- Answer:** (a) C2C
- Answer:** (d) All of the above
- Answer:** (c) B2C Commerce

Very Short Answer-

1. **Answer:** 'e' stands for electronic in e-business.
2. **Answer:** E-commerce, also called as electronic commerce or internet commerce, refers to the purchasing and selling of commodities or services utilising the internet and the transfer of money and data to perform these transactions.
3. **Answer:** Intra B Commerce refers to transactions between the people who are a part of one enterprise only. This is broadly due to Intra B Commerce has become feasible for the firms to get into the flexible production of goods.
4. **Answer:** An important feature of outsourcing is: The activities that are not indistinctive can be certainly outsourced; however, distinct pursuits cannot be outsourced
5. **Answer:** The scope of business based on the basis of function are – finance, marketing, manufacturing and personnel management as well as the managerial pursuits like – organising, planning, controlling.
6. **Answer:** Scope of the business based on the parties involved in the electronic transaction are B2B which is an enterprise's interactions with other businesses, B2C, i.e., an enterprise's interactions with its customers and Intra-B or a firm's internal processes.
7. **Answer:** B2B Commerce – Business to Business Commerce
8. **Answer:** B2C Commerce – Business to Consumers Commerce
9. **Answer:** C2C Commerce – Consumers to Consumers Commerce
10. **Answer:** Traditional business is a local shop which gives its services or goods to its local consumers. It is a set-up where consumers will have to visit the shop physically to purchase the goods.

Short Answers –

1. **Ans:** E-commerce refers to a company's online interactions with its customers and suppliers. Other electronically conducted company tasks such as production, inventory management, product development, accounting, finance, and human resource management are included in e-business.
E-commerce (electronic commerce) refers to the purchasing and selling of goods and services, as well as the transmission of payments and data, over an electronic network, most commonly the internet. Business-to-business (B2B), business-to-

consumer (B2C), consumer-to-consumer, and consumer-to-business transactions are all a part of e-commerce. Examples of E-commerce are Amazon, Flipkart etc.

E-business is a more comprehensive phrase that encompasses a wide range of electronic business transactions and services, including 'e-commerce' operations.

2. **Ans:** It is a form of C2C commerce. Consumers are the source of the business, and consumers are the ultimate destination. This form of business is best for dealing with items for which no recognized market mechanism exists.

For example eBay, Quikr, etc where consumers sell their goods and services to other consumers are a form of C2C. The payment intermediary is another technology that has arisen to facilitate C2C activity.

3. **Ans:** They can use E-commerce for this situation. Companies like Amazon, Flipkart are examples of B2C type of E-commerce.

In the above case, Ram's parents can order the shoes for him, and in the address column, they can fill in the details of Ram's USA address. For payment, Ecommerce sites provide various payment options such as online payment, cash on delivery etc. So in this case, as the shoes are a gift from Ram's parents to him, they can make the online payment, and add Ram's address in the address column. E-commerce websites provide diverse varieties of goods, and ordering from them is much faster, convenient and easier as against traditional methods of buying.

Though his parents could also courier the gift, but due to time limitations, practicing this option is not possible.

4. **Ans:** Intra-B Commerce refers to the type of e-commerce, where parties involved in the electronic transactions are from within a given business firm. It is partly owing to the usage of intra-B commerce that today's businesses are able to engage in flexible manufacturing. The use of computer networks allows the marketing department to communicate with the production department on a continuous basis, allowing for the creation of personalized products according to the needs of each unique customer.

For example Virtual Private Network (VPN) technology would mean that employees do not have to come to the office. Instead, the office comes to them, and they can work from anywhere they

global market, while on the other hand, it gives the buyer the option to select products from virtually any area of the globe.

- **Flexible Business Hours:** Because the internet is constantly available, you may set your own business hours. The time limitations that location-based firms face are broken down by e-business.
- **Speed And Efficiency:** Online ordering systems can process payments and orders in real-time, usually faster, more accurately and cheaper than human workers.

9. **Ans:** The three limitations of e-business are:

- (a) **Online security concerns:** Many scammers prey on those who conduct business online. Additionally, hackers have an easier time obtaining someone's financial information. It has a few concerns with security and integrity. This creates skepticism among potential clients.
- (b) **Product delivery time:** Product delivery takes time. This lag time often discourages customers. Though efforts are made by the companies to lessen the delivery time. For example, Amazon now assures one-day delivery.
- (c) **Lack of Personal Touch:** As a person cannot touch or feel the product, there are always doubts regarding the quality, size, design, etc. Hence, the sense of humanity and trustworthiness is absent from an e-business paradigm.

10. **Ans:** Features of Outsourcing are:

Interchangeable Activities: Common or undifferentiated activities can be outsourced whereas unique and distinct activities cannot be outsourced as it needs personal efforts and touch of the management.

Explicit, formal, and codifiable knowledge is required: Although an IT programmer's job can be outsourced, a CEO's position requires management, technical, and human relations skills.

Measurable Activity: You can't outsource something you can't quantify.

Activity is not interconnected to other jobs: A fungible, specialized, and measurable job may not be outsourced if it is linked to other key operations within the company.

Long Answers -

1. **Ans:** The process of online trading is explained below:

Step 1 - Registration:

- When you register with an online retailer, you create an 'account.'
- A "password" must be entered among the numerous details since the areas relating to one's "account" and "shopping basket" are password protected.

Step 2 - Placing an order:

- You can add products to the shopping cart by dragging and dropping them.
- A shopping cart is an online record of what one has added to his cart while visiting an online store.
- Once you've decided what you want to buy, you may 'checkout.'

Step 3 - Payment Mechanism:

Online purchases can be made in a variety of ways.

- **Cash-on Delivery: Payment for the goods ordered** online may be made in cash at the time of physical delivery of goods.
- **Cheque:** The online vendor may arrange for the customer's cheque to be picked up. The delivery of products may be undertaken after realization of the amount paid.
- **Net-banking Transfer:** The funds can be transferred electronically through facilities such as NEFT, RTGS etc.
- **Credit or Debit Cards:** Credit cards allow its holder to make purchases on credit. The amount owed by the cardholder to the online seller is assumed by the card-issuing bank, which then transfers the transaction's amount to the seller's credit. A debit card permits the holder to make purchases up to the amount of money in the linked account. The moment a transaction is made, the amount due as payment is deducted electronically from the card.
- **Digital Cash:** This type of currency has no physical qualities, but it allows you to utilize real money in an electronic format, such as through e-wallets or PayTm.

2. **Ans:** The nature of outsourcing is:

- Activities that are interchangeable or fungible: They can be outsourced, whereas



activities that are unique cannot be outsourced.

- Explicit, formal, and codifiable knowledge is required: Although an IT programmer's job can be outsourced, a CEO's position requires management, technical, and human relations skills.
- Measurable Activity: You can't outsource something you can't quantify.
- Activity is not interconnected to other jobs: If a fungible, specialized, and measurable position is linked to other key operations within the organization, it cannot be outsourced.

Need for outsourcing:

(a) Delimiting the scope of business:

- Business firms are realizing the usefulness of focusing on just a few areas where they have distinct capabilities or core competence, and contracting out the rest of the activities to their outsourcing partners.
- Delimiting the scope of business enables them to focus their attention and resources on select activities for better efficiency and effectiveness.

(b) Quest of excellence:

- In two ways, outsourcing allows the company to strive for excellence. One, due to their narrow focus, individuals excel in the activities that they can do best.
- They also succeed by increasing their capabilities by outsourcing out the remaining tasks to people who excel at them.

(c) Cost reduction:

- Division of labour and specialisation improve quality while also lowering costs.
- This occurs when outsourcing partners benefit from economies of scale by providing the same service to multiple organisations.
- Cost reduction is also aided by differences in the prices of various production inputs across countries.

(d) Growth through Alliance:

- To the extent one can avail of the services of the others, the investment requirements are reduced.

- As a result, a company can grow quickly because the same quantity of investible funds creates a big number of firms.
- Inter-organizational information sharing and collaborative learning are facilitated by outsourcing.

(e) Economic development:

- Outsourcing, more offshore outsourcing stimulates entrepreneurship, employment and exports in the host countries (i.e., the countries from where outsourcing is done).

3. **Ans:** (i) C2C business.

(ii) Dipti gave false information about the product. Due to a lack of personal touch, one cannot feel the product before buying. Hence values of honesty and transparency was ignored by Dipti.

(iii) The advantages and disadvantages are :

Advantages of e-commerce

- No geographical boundaries: Anyone, at any moment, can order anything from anywhere. On the one hand, it provides access to the worldwide market for the seller, while on the other side, it allows the buyer to select products from nearly any area of the globe.
- Workable business hours: Since the internet is always available. E-business eliminates the time constraints that local enterprises face.

Disadvantages of e-commerce

- Online security concerns: There are many scammers who prey on those who conduct business online. Additionally, hackers have an easier time obtaining a person's financial information. It has a few concerns with security and integrity. This instills skepticism in the minds of certain potential clients.
- Product delivery time: Product delivery takes time. This lag time often discourages customers. On the other hand, businesses are attempting to address these difficulties by offering extremely short delivery times.

4. **Ans:** The benefits of e-business are:

- **Easy to set up:** We can set up an online business even by sitting at home if we have the required software, a device, and the internet.
- **Cheaper than traditional business:** It is less expensive to start an e-company than it is to start a traditional firm. Furthermore,

transaction expenses are significantly reduced.

- **There are no geographical limitations:** Anyone can order anything from anywhere at any time. On the one hand, it provides access to the worldwide market for the seller, while on the other side, it allows the buyer to select products from nearly any area of the globe.
- **Workable business hours:** Since the internet is always available. E-business eliminates the time constraints that local enterprises face.
- **Speed and Efficiency:** Online ordering systems can process payments and orders in real-time, usually faster, more accurately, and cheaper than human workers.
- **Transition to a paperless society:** The internet has significantly reduced reliance on paperwork. Administrative reforms aimed at speeding up the process of giving permissions, approvals, and licenses are being implemented using e-commerce platforms.

5. **Ans:** The differences Between e-Business and Traditional Business:

Basis	Traditional Business	E-Business
Ease of formation	Difficult	Simple
Physical presence	Required	Not required
Location requirements	Proximity to a raw material source or a market for the products.	None
Cost of setting up	High	Low as no requirement of physical facilities.
Operating cost	Fixed costs connected with procurement, storage, production, remarketing, and distribution facilities are high.	Low because of reliance on a network of relationships rather than resource ownership.

Nature of contact with suppliers and the customers	Indirect through intermediaries.	Direct
Nature of internal communication	Hierarchical; From top level Management to middle level Management to lower level Management to operatives	Non-hierarchical, Allowing direct vertical, horizontal and diagnostic communication.
Response time for meeting customers/internal requirement	Long	Instantaneous
Shape of organizational structure	Vertical/tall due to hierarchy or chain of command	Because of the directness of the order and communication, it is horizontal/flat.
Business processes and length of the cycle	Sequential precedence succession Relationship i.e. Purchase- production/operation- marketing- sales. The, business processes cycle is therefore, longer	Simultaneous (concurrency) different processes. Business cycle is therefore shorter.
Opportunity for interpersonal touch	Much more	Less
Opportunity for physical pre-sampling of the product	Much more	Less
Ease of going global	Less	Much cyberspace is truly without boundaries



Government patronage	Shrinking	Much as IT Sector is among the top most priorities of the government
Nature of human capital	Semi skilled and even unskilled manpower needed	Technically and professionally qualified personnel needed
Transaction risk	Low due to arm's length transaction and face-to-face contact	High due to distance and anonymity of the parties

6. **Ans:** There are various types of risks involved in e-business:

A. Transaction Risks:

- Either the seller or the buyer refuses to have taken or placed the order. This is also known as 'default on order taking/giving.'
- It is possible that the planned delivery does not occur, that items are delivered to the incorrect address, or that goods other than those requested are delivered. This could be referred to as "default on delivery."
- The seller does not get payment for the items provided, despite the fact that the consumer states that payment was made. This may be referred to as 'default on payment'.
- As a result, in e-business, the seller or the buyer may be exposed to risk as a result of order taking/giving failure.

B. Data storage and transmission risks:

- Data in the systems and on the way is vulnerable to a variety of threats. For nefarious motives or simply for fun/adventure, important data may be stolen or manipulated.
- Antivirus software installed and updated on a regular basis, scans files and discs, and proves helpful in protecting data files, folders, and systems against virus attacks.

- During transmission, data could be intercepted. For this, one may use cryptography. Data in the systems and on the way is vulnerable to a variety of threats.
- For nefarious motives or simply for fun/adventure, important data may be stolen or manipulated. The communication can only be deciphered (or decrypted) into 'plaintext' by those who have a secret key.

C. Risks of Threats to intellectual property and privacy include:

- Once the material is available on the internet, it is no longer considered private. It got more difficult to protect it from being copied after that.
- Data provided during online transactions may be shared with others, who may begin flooding one's inbox with advertising and promotional materials.

Case Study Answers-

1.

(i) c) Customer to Customer

Solution: Customer to customer (C2C) is a business model that enables customers to trade with each other, frequently in an online environment. C2C businesses are a type of business model that emerged with e-commerce technology and the sharing economy.

In the transaction mentioned here, a customer to customer e-business model is shown.

(ii) c) Risk arising due to anonymity and no traceability of parties

Solution: Risk arising due to anonymity and no traceability of parties.

(iii) d) Customer to Business

Solution: Consumer-to-business (C2B) is a business model in which consumers (individuals) create value and businesses consume that value. In the above transaction, this type of e-business is shown.

(iv) c) Intra B

Solution: Intra B- this refers to transactions between the parties or persons who are the part of one firm only.

2.

(i) a) Outsourcing

Solution: Outsourcing is the business practice of hiring a party outside a company to perform services or create goods that were traditionally performed in-house by the company's own employees and staff. Outsourcing is a practice usually undertaken by companies as a cost-cutting measure.

(ii) a) BPO

Solution: Outsourcing of advertising services will come under the scope of BPO. Business process outsourcing (BPO) is a business practice in which an organization contracts with an external service provider to perform an essential business task. Processes that are

performed the same or similarly from company to company, such as payroll or accounting, are candidates for BPO.

(iii) c) Horizontal service provider

Solution: Vigyapan Agency is a Horizontal service provider.

(iv) d) Sharing of trade secrets

Solution: Outsourcing is the business practice of hiring a party outside a company to perform services or create goods that were traditionally performed in-house by the company's own employees and staff. Outsourcing is a practice usually undertaken by companies as a cost-cutting measure.

Sharing of trade secrets is not the need of outsourcing.



❖ Arguments Against Social Responsibility:

- **Profit Motive:** A business is an economic entity that is guided by profit motive. It should not waste its energies and resources in fulfilling social responsibility.
- **Burden on consumers:** Involvement of business in social responsibilities involve a lot of expenditure which will ultimately be borne by the customers.
- **Lack of Social Skills** -The business firms and managers have the skills to handle business operation. They are not expert to tackle the social problems like poverty, over population etc. Therefore, social problems must be tackled by social experts.
- **Lack of public support:** Generally public does not like business involvement in social problems. Therefore, business cannot fulfill social responsibility because of lack of public confidence & cooperation.

❖ Reality of Social Responsibility:

In reality, social responsibility receives only lip service. Some business houses fulfill its legal responsibility in the name of social responsibility. There are some factors and reasons which have forced and persuaded business organizations to fulfill their social responsibility which are as follows:

- **Threat of public regulation:** India is a democracy where Government is expected to be welfare state. If any business organization acts in a socially irresponsible manner, then an action may be taken against them to safeguard people's interest. In reality, business houses do not assume their social responsibility on their own but due to threat of public action.
- **Pressure of labour movement:** In the last century, labour movement for extracting gains for the working class throughout the world has become powerful. Labour laws are also followed not out of a sense of social responsibility but because of increasing pressure of labour movement.
- **Impact of consumer consciousness:** Consumers are also becoming aware of their rights since enactment of Consumer Protection Act, 1986. Under this Act, consumers are entitled to file a case if he is cheated in any ways.
- **Development of social standard for business:** As per new social standards, a business is considered to be legitimate only if it fulfills its social responsibilities. No business can be done in isolation with the society. The performance of a business is judged on social standards.
- **Development of business education:** Nowadays businessmen are professionally qualified due to changing pattern of form of business. It is also making it socially more responsible. Education has made people more conscious as employees, customers, investors and owners.
- **Relationship between social interest and business interest:** Businessmen are able to find that social interest and business interest are correlated. The concept which existed earlier that no business can grow without exploitation of others does not exist anymore.
- **Development of professional, managerial class:** Professional management is also educated of the benefits it can get by fulfilling its social responsibility. Professional managers are more interested in satisfying a multiple group of interest groups in society for running their enterprises successfully than attaining goal of profit maximization only.

❖ Kinds of Social Responsibilities:

- **Economic Responsibility:** In an economic responsibility, business is expected to produce goods and services that are beneficial for society and society which wants and sell them at a profit.
- **Legal Responsibility:** Every business enterprise is expected to operate within the legal framework of our society. A law-abiding enterprise gets no interference of government and is considered as a socially responsible enterprise.
- **Ethical Responsibilities:** Ethics is much more than law, while behaving ethically businessmen should not be involved in adulteration, black marketing, etc.
- **Discretionary Responsibilities:** This responsibility is purely voluntary. This includes contribution in charity. Participation in social service projects, setting up educational and training institutions etc. helping people affected by flood, earthquake etc.



❖ **Social Responsibility Towards Different Interest Group:**

Once the social objective of business is recognized, it is important to know to whom and for what the business and its management are responsible. Obviously, a business unit has to decide in which areas it should carry out social goals.

Some of the specific responsibilities and enterprise may be outlined as under:

- **Responsibility towards the shareholders or owners:** A business enterprise has the responsibility to provide a fair return to the shareholders or owners on their capital investment and to ensure the safety of such investment. The corporate enterprise on a company form of organization must also provide the shareholders with regular, accurate and full information about its working as well as schemes of future growth.
- **Responsibility towards the workers:** Management of an enterprise is also responsible for providing opportunities to the workers for meaningful work. It should try to create the right kind of working conditions so that it can win the cooperation of workers. The enterprise must respect the democratic rights of the workers to form unions. The worker must also be ensured of a fair wage and a fair deal from the management.
- **Responsibility towards the consumers:** Supply of right quality and quantity of goods and services to consumers at reasonable prices constitutes the responsibility of an enterprise toward its customers. The enterprise must take proper precaution against adulteration, poor quality, lack of desired service and courtesy to customers, misleading and dishonest advertising, and so on. They must also have the right of information about the product, the company and other matters having a bearing on their purchasing decision.
- **Responsibility towards the government and community:** An enterprise must respect the laws of the country and pay taxes regularly and honestly. It must behave as a good citizen and act according to the well accepted values of the society. It must protect the natural environment and should avoid bad, effluent, smoky chimneys, ugly buildings dirty working conditions.

Business and environmental protection:

❖ **Meaning of Environment:**

The environment is defined as the totality of man's surroundings: both natural and man-made. Natural Resources-all land, water, air and man-made: cultural heritage, socio-economic institutions and the people.

❖ **Meaning of Environmental pollution:**

It means injection of harmful substances into the environment. The greatest problem that industries and businessmen are creating is that of pollution which is the result of industrial production. So, protection of environment is must.

❖ **Causes of Pollution:**

Many industrial organizations have been responsible for causing air, water, land and noise pollution.

- **Air Pollution:** Due to smoke, chemical emitted by factories, vehicle. It has created a hole in the ozone layer leading to global warming.
- **Water pollution:** Due to chemicals and waste dumped into the rivers, streams & lakes. It has led to the death of several aquatic animals and posed a serious problem to human life.
- **Land Pollution:** Due to dumping of garbage and toxic wastes which affect the fertility of land and makes it unfit for agriculture.
- **Noise Pollution:** Caused by the running factories and vehicles. Noise pollution can be responsible for many diseases like loss of hearing, violent behavior and mental disorder.

❖ **Need For Pollution Control:**

- **To ensure healthy life:** Many diseases like cancer, heart attack and lung complications all caused by pollutants in the environment. Pollution control is must to keep a check on these diseases.

- **To ensure safety:** Due to environmental pollution and smoke, the visibility is reducing due to which chances of accidents have been increasing. To reduce the number of accidents there must be a check on pollution.
- **Economic Losses:** Pollutants in the environment bringing heavy economic losses for the country, for example Taj Mahal is losing its beauty due to pollution.
- **Improved Public Image:** A firm that adopts pollution control measures enjoys a good reputation as a socially responsible enterprise.

❖ **Business and Environmental Protection:**

A business organization or the businesses around the globe can take the following steps in order to reduce environmental pollution and thereby protect the environment:

- Companies involved in the production of various utilities or products can go for eco-friendly, low waste and clean technology for equipment used in such industries.
- Industrial wastes should be recycled every time so that it minimises the chances of pollution.
- The machinery should be upgraded so that it complies with the pollution norms, which will be beneficial in reducing the levels of pollution.
- Conduct quarterly/ yearly audits for checking the effectiveness of the pollution control programs and making changes so as to bring about more success in pollution control programmers.
- The companies and industries should comply with the rules laid down by the government with respect to prevention of environmental pollution.
- The businesses should take steps to save the environment by setting up campaigns of planting trees, cleaning of rivers.

Business ethics:

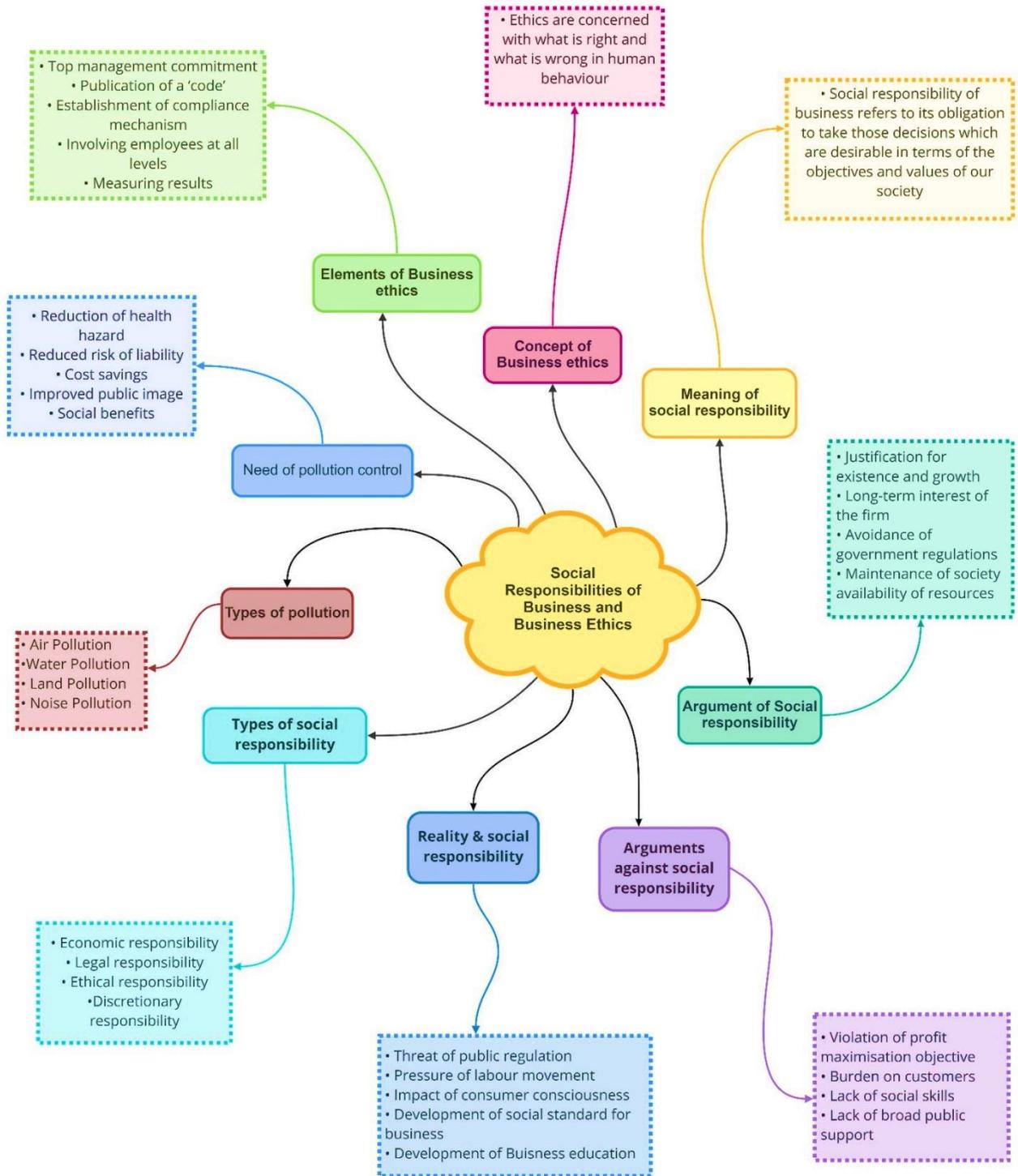
Refers to the moral values or standards or norms which govern the activities of a businessman. Ethics define what is right and what is wrong. By ethic we mean the business practices which are desirable from the point of view of Society. The purpose of business ethics is to guide the managers and employees in performing their job. Example of business ethics are charging fair price from customers, giving fair treatment to workers, earning reasonable profits and paying taxes to the government honestly.

❖ **Elements of business ethics:**

- **Top management commitment:** The CEO and higher level managers must be committed to ethical norms of behavior. This would set an example for all employers and encourage them to follow ethical practice.
- **Publication of code:** Code of ethics is a formal written document of the principles, values and standards that guide a firm's actions. It may cover areas like honesty, quality, safety, health care etc.
- **Establishment of compliance mechanism:** A suitable mechanism should be developed to comply with the ethical standards of the enterprise. The mechanism should be properly communicated to all in the organization.
- **Employee involvement:** It is the employees of the lower levels who implement ethical principles so they must be involved in the process of developing ethical code.
- **Measuring results:** Although it is difficult to measure the ethical results but it must be verified and audited that have for work is being carried according to ethical standards.



Class : 11th Business Studies
Chapter- 6 : Social Responsibilities of Business and Business Ethics



Important Questions

Multiple Choice Questions-

- Responsibility towards the government is _____.
 - Safety of investments provided by shareholders
 - Pay taxes regularly and honestly
 - Supply of goods at a reasonable price to consumers
 - None of the above
- A business enterprise has the responsibility to provide a fair return to the _____.
 - Shareholders
 - Customers
 - State Government
 - None of the above
- Why business ethics are important?
 - It formulates the firm's image and builds the brand
 - It influences the buying decision of the customers
 - Build confidence within employees
 - All of the above
- Ethics is important for
 - Non-managerial employees
 - Middle-level managers
 - Top management
 - All of the above
- Business people have the skill to involve
 - Some social problems
 - All economic problems
 - No social problems
 - All social problems
- The word 'Ethics' has its origin in the _____.
 - Greek Word
 - British Word
 - Indian Word
 - Latin Word
- The need for social responsibility arises due to the _____.
 - Firm's interest
 - Interest of society
 - Both firm's and society interest
 - None of the above
- Social responsibility is
 - Broader than legal responsibility
 - Same as a legal responsibility
 - Narrower than legal responsibility
 - None of the above
- ADRs are issued in
 - USA
 - China
 - India
 - Canada
- Running of factories and vehicles cause _____.
 - Land pollution
 - Water Pollution
 - Noise Pollution
 - None of the above
- Funds required for purchasing current assets are known as
 - Working capital
 - Fixed capital
 - Lease financing
 - Retained earnings
- It includes the behavior of the firm expected by the society but not codified by law. Identify the category of social responsibility referred to here.
 - Economic Responsibility
 - Ethical Responsibility
 - Legal Responsibility
 - All of the above
- Which of the following institution provides financial assistance towards balanced regional development and development of management education in the country?
 - Industrial development bank of India (IDBI)
 - Industrial Finance Corporation of India (IFCI)
 - Life insurance Corporation of India (LIC)
 - Industrial Credit and Investment Corporation of India (ICICI)
- Providing charitable contributions to educational institutions is _____.
 - Legal responsibility
 - Economic responsibility
 - Discretionary responsibility
 - None of the above



15. Every business has a responsibility to operate within the laws of the land as per the ____
- Legal responsibility
 - Financial responsibility
 - Economic responsibility
 - None of the above
3. MNO Ltd., A renowned computer company follows the vision of "reaching new heights with its people on its side", It not only provides quality products but also provides various facilities to its employees for 5 years of service. It also provides computer skills to youth in remote areas for free.
- What according to you are the business ethics of the company?
 - Is it fulfilling its social responsibilities towards which interest groups?

Very Short Questions -

- Explain the social responsibility of business.
- Give two examples of business ethics.
- Give two examples of noise pollution
- Define environment pollution.
- How does an organization have a social responsibility towards owners' and shareholders'?
- Define discretionary responsibility.
- State three responsibilities of a company towards its employees.
- State why business ethics are important?
- Explain why social responsibility is highlighted?
- Mention one need for social responsibility.
- There is a group discussion taking place in class XI regarding social responsibility of business' Ravi feels that a business should be socially responsible towards the society it exists in while shama is against it as the basic objective of a business is to earn projects. Whom do you think you will favour? Write points with respect to your opinion.
- State the factors against social responsibility?
- Describe the role of social responsibility in today's era?
- What is the need to control pollution and how should businesses contribute to environmental protection?

Short Questions -

- Explain the concept of 'Human Rights'. Also mention cases for Human Rights.
- Outline the major Environmental Pollution Control Activities,
- What are the various factors influencing business ethics?
- Write short notes on CSR?
- List the environmental problems that cause damage to the natural environment?
- Define Corporate Governance?
- What are the main ground rules of ethics?
- Write the effects of pollution?
- Give some examples of Business ethics.
- "The concept of social responsibility is ultimately in the interest of business community itself." Do you agree? Explain.

Long Questions -

- Explain the forces which are responsible for increasing concern of business enterprises towards social responsibility.
- It is in the interest of business to fulfill its social responsibilities towards different interest groups. Explain?

Case Study Questions -

- Read the following text and answer the questions that follow:

Karigar Furniture Ltd., a company manufacturing and trading furniture, was started by Saransh with five of his friends under Start Up India Program. It provides a diverse collection of wooden, plastic, cane, bamboo, and steel furniture at reasonable rates to the customers. They import raw-material from China for the same abiding by the government policy and procedures for imports. The company is earning good profits and donating 5% of profits earned for plantation of trees on highway roadside. The company organises training and skill development programme for its workers. The efficient planning and marketing strategy of the company has offered the owners of the company reasonable appreciation of capital employed.

- Providing furniture at the reasonable rates is an example of social responsibility towards which of the following?
 - Consumers
 - Community
 - Creditors
 - Owners

- (ii) "The company organises training and skill development programme for its workers.

Which of the following is not an example of the category of business responsibility stated?

- a) Providing safe working conditions
 - b) Fair deals from management
 - c) Earn fair returns on capital employed
 - d) Develop sense of belongingness
- (iii) "...donating 5% of profits earned for plantation of trees..."

Identify the kind of social responsibility undertaken by the company.

- a) Legal
 - b) Personal
 - c) Discretionary
 - d) None of these
- (iv) "...import raw-material from China for the same abiding by the government policy and procedures for imports".

Identify the kind of responsibility fulfilled here.

- a) Discretionary
- b) Legal
- c) Economic
- d) Ethical

2. **Direction:** Read the following text and answer the questions that follow:

Shuddh Masala Udyog is a Partnership firm, which deals in trading of all varieties of spices. The partners focus on maximising the profits on the basis of customer satisfaction. Due to increasing competition in the market, the level of profits is falling. One of the partners advised to use substandard raw-material, to do little adulteration in products, and to maintain their profit margin. But the other partners opposed it by saying that the consumers can take legal action against the firm. Suggestion came from other partners to cut down the wages

of workers and to withdraw the brunch facility given to them, but it was discarded on the ground that it will create discord and unsatisfactory environment. Finally it was decided that to maintain their profits the firm has to boost its sale and public image by fulfilling the social responsibility.

- (i) "...public image by fulfilling the social responsibility..."

Social responsibility improves public image because of the following reasons?

- a) Mandatory for the business
- b) Legal obligation for business
- c) Satisfied workers and consumers contribute in the success of the business
- d) Avoidance of government interference

- (ii) "... cut down the wages of workers."

What is the reality of social responsibility that business firms don't do this?

- a) Threat of government interference
- b) Development of business education
- c) Pressure of labour movements
- d) Burden on consumers

- (iii) "...will create discord and unsatisfactory environment."

Identify the argument in favour of social responsibility in this regard.

- a) Better community to conduct business
- b) Business creates social problems
- c) Justification for growth of business
- d) For maintenance of society

- (iv) If the business resorts to substandard raw-material, and does little adulteration in products, which of interest group will be affected:

- a) Workers
- b) Government
- c) Supplier
- d) Consumer

Answer Key

MCQ Answers -

- 1. **Answer:** (b) Pay taxes regularly and honestly
- 2. **Answer:** (a) Shareholders
- 3. **Answer:** (d) All of the above
- 4. **Answer:** (d) All of the above
- 5. **Answer:** (a) Some social problems
- 6. **Answer:** (a) Greek Word
- 7. **Answer:** (c) Both firm's and society interest
- 8. **Answer:** (a) Broader than legal responsibility
- 9. **Answer:** (a) USA



10. **Answer:** (c) Noise Pollution
11. **Answer:** (a) Working capital
12. **Answer:** (b) Ethical Responsibility
13. **Answer:** (a) Industrial development bank of India (IDBI)
14. **Answer:** (c) Discretionary responsibility
15. **Answer:** (a) Legal responsibility

Very Short Answers –

1. **Answer:** Social Responsibility of a business can be defined as an activity or a responsibility that a business carries up and beyond the legal requirement of business for the good and well-being of the society.
2. **Answer:** The two examples of business ethics are honesty and law-abiding.
3. **Answer:** The two examples of noise pollution are malfunctioning of heart and hearing problem
4. **Answer:** The environment refers to all types of mankind surrounding both natural and man-made. These surroundings are natural resources which include water, air, flora, and fauna, etc. Environment pollution is the infusion of harmful chemicals or substances into the natural environment and causes unfavourable change.
5. **Answer:** An organization should provide full and detailed information about the present financial status and well-being of the company and future plans.
6. **Answer:** Discretionary responsibility refers to the company's management responsibility to protect the capital investment by bypassing insecure activity and engaging with a healthy business venture.
7. **Answer:** The three responsibilities of a company towards its employees are
 - Giving employees the right working culture to win the assistance of employees.
 - Allowing the employees to form a union as their democratic right.
 - The employee should receive a decent wage from the management.
8. **Answer:** Business ethics are important because
 - It formulates the firm's image and builds the brand
 - It influences the buying decision of the customers
 - Build confidence within employees
 - Builds advantage on the competitive market

9. **Answer:** It is important to highlight and emphasize social responsibility to maintain the balance between the economy and the ecosystem.
10. **Answer:** For every business social responsibility is important to create the company's brand name and value.

Short Answers –

1. **Answer:**

Concept of Human Rights: Human rights provide equality to individuals in their interests. Human rights basically meant to provide a basis for justifying one's action and provide protection and assistance. Human rights lay stress on the concept of humanity. All big business organizations should follow and promote human rights.

Cases for Human Rights- Human rights have received high priority in our society'. In order to get these rights, many movements have also appeared.

The following statements may be mentioned in favor of human rights in general, in society' and in particular in business.

1. **Protection against Human Injustice:** Businessmen generally do not protect government patterns and establish their own social and economic parameters. Human rights come to light when people think that injustice being perpetuated.
2. **Provides Benchmarks for Law Land Policies:** After independence, certain basic rights became natural which do not act under any law or policy. These rights take precedence over the particular laws and standards created by society.
3. **Respecting the Human Values:** Some human rights are taken as basic rights. These rights are the overriding significance of human rights over others, human rights, and legal rights and provide entitlements beyond legal jurisdiction should be respected by others.

There is a great difference between human and legal rights. One may have a legal right to do something inhumane but for doing any work of humanity there is no need to have legal rights. Legal rights are derived from the constitution and policies while human rights derived independently. Human rights are based on human norms. Entitlement of human rights can derive from a system of

human standards independently of any particular legal system. These rights prohibit doing something inhumane.

United Nations declares the following as Human Rights:

- The right to work, free choice of employment, good working conditions, right of protection against unemployment.
- Right of just or favorable remuneration.
- Right to form and join trade unions.
- Reasonable limitation of working hours and periodic holidays with pay.

2. **Answer:**

Major Environmental Pollution Control Activities:

1. National conservation strategy in 1992, policy statement for environment and development, Policy statement for abatement of pollution 1992, National Forest Policy 1988, and in 1986. Environment (Protection) Act was initiated for pollution control.
2. Standards related to air, water, and noise levels were formulated by a multi-disciplinary group keeping in view the international standards, technologies, and impact on health and the environment.
3. Action plans and identification of 17 categories of major polluting industries.
4. Identification of 24 major polluted areas for pollution control.
5. Factories were asked to use coal wherein % of smoke will not be more than 34%.
6. Action plans for 141 polluted rivers started.
7. In order to reduce the pollution from automobiles, cleaner fuels, low sulfur diesel, and compressed natural gas (CNG) should be used at the manufacturing stage.
8. Starting of clean technologies for big industries.
9. For the clusters of SSI units 'Common Effluent Plants' was set up.
10. The eco mark scheme started to increase the production/consumption of Environment-friendly products.
11. A zoning atlas was prepared to get environmental informational district level.
12. Environmental epidemiological studies were initiated in seven critically polluted areas to

study the impact of the environment on health.

13. Financial assistance to initiate pollution control environments and to shift industries in the outer places.
14. Environment Pollution (Prevention & control) authority was established.
15. Prohibition of smoking in public places and use of polythene bags.

3. **Answer:**

Factors Influencing Business Ethics: The main determinants of business ethics are as follows:

1. **Social values:** Social forces and pressures exercise considerable influence on business ethics. Often, different groups in society compel businessmen to discontinue unethical practices. Morality, behavior, beliefs emerge from social values, social forces exercise influence on business to observe ethics in business.
2. **Legislation:** Laws are generally passed to keep a check on unethical practices. They are their use of social pressures. When society considers a practice unethical, it may exercise its influence to get that practice declared illegal. For example, the Monopolies and Restrictive Trade Practices Act has made monopolistic trade practices illegal in India. Prevention of Food Adulteration Act 1976, Drugs and Cosmetics Act 1946, Prevention of Black-marketing and Maintenance of Supply of Essential Commodities Act 1980 has to enact to keep a check on malpractices of business.
3. **Government rules and regulations:** Government regulations provide guidelines for acceptable practices. For example, the government has made it compulsory for tobacco companies to give the statutory warning "smoking is injurious to health" in the advertisements for cigarettes.
4. **Industry norms:** In some industries and trades, specific codes of conduct have been laid down. In addition, many organizations have laid down guidelines for regulating the behavior of their employees. Most industries have an ethical climate that governs the code of conduct of the employees. An individual working in the enterprises to observe the code of conduct of the enterprise, and norms established in the industry.



5. **Personal Yahies:** The personal beliefs of the individuals working in an organization also influence business ethics. However, sometimes there is a conflict between personal moral values and company goals. Generally, employees look to their superiors and tend to adopt their values and actions. The behavior of competitors and associates also influences business ethics. An honest businessman must-keep their personal interest subordinate to die interest of society.
6. **Professionalisation:** Professional managers normally tend to have higher ethical standards than family managers. Therefore, the growing professionalization of management has exercised a healthy influence on ethics in business. These days professionalism of management has been generating more ethics in the business.
4. **Answer:**
It is the responsibility of every form of business enterprise to act in a socially desirable manner. But the concept of CSR is corporate social responsibility used particularly with reference to a company. It may be defined as achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment. It means addressing the legal, ethical, commercial, and other expectations that society has from corporate who should take decisions and actions that fairly balance the claims of stakeholders. CSR is viewed as a comprehensive set of policies, practices, and programs that are integrated into business operations, supply claims, and decision-making processes throughout the company.
5. **Answer:**
The United Nations has identified eight problems that cause damage to the natural environment.
These are:
1. Ozone depletion
 2. Global warning
 3. Solid and hazardous wastes
 4. Water pollution
 5. Freshwater quality and quantity
 6. Deforestation
 7. Land degradation
 8. Danger to biological diversity.
6. **Answer:**
It is originated in the United Kingdom for the purpose of improved accountable to directors to shareholders, with emphasis on more transparent auditing and increased responsibilities of independent directors and division of roles of chairman and managing directors for safeguarding the interest of the shareholders.
7. **Answer:**
The following are some rules which all human beings should follow in life.
1. Be trustworthy
 2. Have respect for other
 3. Own responsibility
 4. Be fair in dealing
 5. Be caring towards well being of others.
 6. Prove to be a good citizen
8. **Answer:**
Pollution: The injection of harmful substances into the environment is called pollution. It changes the physical, chemical, and biological characteristics of air, land, and water. Pollution harms human life and the life of other species. It also degrades living conditions while wasting or depleting raw material resources. It also damages our historical monuments. It causes risks to the environment, human health and damage to natural and man-made resources.
9. **Answer:**
1. Giving enough dividends to the shareholder on their investment.
 2. Making goods available of good quality and quantity at a reasonable price.
 3. Making timely payments to the suppliers.
 4. Having healthy competition with the competitors.
 5. Observing the government laws and helping the government by paying taxes in time.
 6. Making employment to the society.
 7. Saving the environment from getting polluted.
10. **Answer:**
“The concept of social responsibility is ultimately in the interest of the business community itself. I agree with this statement because business is an organ of society and it operates in a socio-economic environment. It can justify its existence by fulfilling its obligations to society. No doubt

business is an economic institution and it cannot survive without economic performance. But economic results depend upon the goodwill and support of the society'. Business gains support only when it assumes its social responsibilities.

Long Answers –

1. **Ans:** The forces are as follows:

(a) The interests of stakeholders:

- To get the support of employees, it has become necessary for organizations to discharge its possibility towards their employees.
- Also, the customer does not purchase what is being provided to him, he buys what he wants. As a result of consumer sovereignty, firms have been pushed to take social responsiveness toward them, as satisfying social commitments is good for the enterprises' long-term survival.

(b) Long-run survival:

- When the firm's primary purpose is to serve society, the firm and its image stand to gain the most benefit in the long term.
- If a company performs its social obligation, it benefits itself.
- When a company promotes social aims, its public image improves, which further leads to long term survival and success of the business.

(c) Self-enlightenment:

- With increase in the level of education and understanding of businesses that they are the creations of the society, they are motivated to work for the cause of social good.
- Rather than legislative interference being the cause of social responsibility, firms have human social responsibility on their own.

(d) Government regulation:

- Businessmen are said to be able to avoid government regulation by voluntarily taking on social duties, which helps to lessen the need for new legislation.
- The Central Pollution Control Board, for example, is in charge of environmental

pollution issues, and in case the company does not adhere to the norms of this board, the board can take serious consequences against it.

(e) Resources:

- There are abundant resources available with the organizations that hold the power to partly solve the social problems.
- Businesses are dependent on society and its resources in indescribable ways, hence it is fair enough that it pays back the society both economically and socially.

(f) Business responsible for social problems:

- Businesses have either generated or perpetuated social problems, hence it has a moral obligation to get involved in tackling these challenges rather than relying on other social institutions to do so.

(g) Pressure of labour movement:

- The labour movement has grown in strength around the world in order to obtain gains for the working class.
- This has compelled businesses to consider the welfare of their employees rather than pursuing a "hire and fire" policy.

(h) Impact of consumer consciousness:

- Development of education and Mass media and increasing competition in the market has made the consumer conscious of his right and power in determining market forces.
- Now, the customer is the king and is much aware of his rights, hence the businesses have started following a customer oriented approach, to keep them happy and satisfied.

(i) Development of social standard for business:

- Various social standards have been set for business in terms of its responsibilities towards various interest groups, hence it becomes crucial for the firms to adhere to these social standards and contribute to the society in order to ensure its long run survival.



- There is no way to run a business without interacting with the rest of the world.
- Relationship between social interest and business interest:
- Companies have begun to recognize that social and business goals are not mutually exclusive. They are, instead, complementary to one another.
- The long-term benefit of business is in providing good service to society.

(j) Development of professional, managerial class:

- Professional managers are more concerned in fulfilling a variety of interest groups in society when it comes to running their business than simply making a profit.

2. **Ans:** The responsibilities that the businesses are supposed to fulfill in the interest of different interest groups are:

Responsibility towards the shareholders or owners:

- Shareholders must also be given regular, accurate, and complete information about the company's operations and growth plans.
- The responsibility of a business enterprise is to provide a profit to its shareholders or owners.

Responsibility towards the workers:

- The right kind of working condition to be given so that it can win the cooperation of the workers.
- The company must respect the workers' democratic freedom to form unions.
- The worker must also be assured of a fair wage and a fair deal from the management.

Responsibility towards the consumers:

- The obligation of an organization towards its customers is to provide the correct quality and quantity of goods and services to consumers at fair pricing.
- Adulteration, poor quality, a lack of required services and civility to consumers, misleading and dishonest advertising, and so on must all be avoided by the business.

Responsibility towards the government and community:

- An organization must follow the rules of the country and pay taxes on a timely and accurate basis.
- It must act like a good citizen and adhere to the society's widely accepted values.

3. **Ans:** (a) Ethics is concerned with what is right and what is wrong in human behaviour judged on the basis of a standard form of conduct/behavior of individuals, as approved by society in a particular field of activity. The relationship between company objectives, procedures, and processes and the good of society is the subject of business ethics. The socially decided moral norms that should regulate company activity are referred to as business ethics. Ethical business is good business. For example honesty, transparency, social welfare, integrity etc.

(b) It is fulfilling social responsibility towards its customers, employees and society.

- **Customers:** The company provides quality products to its customers.
- **Employees:** It provides various facilities to their employees for their 5 years service.
- **Society/Community:** The company is also providing computer skills to youth in remote areas free of cost, which in turn will lead to skilled India, and make the youth capable of finding a suitable job for themselves. Also, due to this, the growth in rural areas would be made possible.

4. **Ans:** I will favour Ravi. Social responsibility is important for the success of the business. The following points highlights the importance of social responsibility:

Protect the interests of stakeholders:

- To get the support of employees, it has become necessary for organizations to discharge its possibility towards their employees.
- The customer does not purchase what is being provided to him, he buys what he wants. Hence, as a result of consumer sovereignty, firms have been pushed to take social responsiveness toward them, as satisfying social commitments is good for the enterprises' long-term survival.

Long-run survival:

- When the firm's primary purpose is to serve society, the firm and its image stand to gain the most benefit in the long term.
- If a company performs its social obligation, it benefits itself.
- When a company promotes social aims, its public image improves as well, which further leads to the long term survival and success of the business.

Avoids government regulation:

- Government regulations are unwelcome because they stifle individual liberty.
- Businessmen are said to be able to avoid government regulation by voluntarily taking on social duties, which helps to lessen the need for new legislation.
- For example, the Central Pollution Control Board takes care of issues related to environmental pollution, and if a business firm follows appropriate measures to avoid environmental pollution, then the interference of the said board could be reduced.
- Given the vast financial and personnel resources at its disposal, it can assist society in better addressing its challenge.

Professionalization and better environment:

- Businesses are becoming more socially oriented as management becomes more professional.
- The ethics of profession by and manager to social values and growing concern for society.
- A society with fewer problems provides a better environment for a firm to conduct its business.

Business responsible for social problems:

- Business businesses have either generated or perpetuated social problems.
- Business has a moral obligation to get involved in tackling these challenges rather than relying on other social institutions to do so.

Converting problems into opportunities:

- Business with its history of converting risky situations into two profitable deals, can not only solve social problems but it can also make them effectively useful by accepting the challenge.

Resource Utilisation:

- Businesses have abundant financial, managerial, technical resources. Hence, these resources can be put to use into solving various social challenges and issues.

5. **Ans:** The factors against social responsibility are:

Violation of profit maximization objective:

- Business exists mainly for profit maximization. Hence social responsibility is somewhat contradictory to the primary objective of profit maximization.
- Profit maximization through higher efficiency and lower costs is the best way for business to fulfil its social obligation.

Burden on consumers:

- Pollution control and environmental protection, like social responsibility, are very expensive and frequently necessitate financial commitment.
- Instead than bearing the burden of social responsibility, they simply pass it to the consumer by demanding a greater price.

Lack of social skills:

- Businesspeople lack the essential knowledge and training to solve social issues.
- Other specialized agencies should deal with social issues.

Lack of broad public support:

- Business engagement or meddling in social programmes is disliked by the general public.
- As a result, businesses are unable to thrive due to a lack of public trust in collaborative efforts to solve societal problems.

6. **Ans:** The role of social responsibility is explained in the following points:

Threat to public regulation:

- Action is taken to regulate business entities that operate in a socially irresponsible manner in order to protect the interests of the public.
- One of the main reasons why businesses are concerned about social responsibility is the fear of government regulation.
- Hence social responsibility plays an important role in protecting the interests of the public, and avoiding any threat from them as well as the government.



Pressure of labour movement:

- The labour movement has grown in strength around the world in order to obtain gains for the working class.
- This has compelled businesses to consider the welfare of their employees rather than pursuing a "hire and fire" policy.

Impact of consumer consciousness:

- Development of education and Mass media and increasing competition in the market has made the consumer conscious of his right and power in determining market forces.
- Now, the customer is the king and is much aware of his rights, hence the businesses have started following a customer oriented approach, to keep them happy and satisfied.

Development of social standard for business:

- Various social standards have been set for business in terms of its responsibilities towards various interest groups, hence it becomes crucial for the firms to adhere to these social standards and contribute to the society in order to ensure its long run survival.
- There is no way to run a business without interacting with the rest of the world.

Development of business education:

- More and more individuals are becoming aware of the social purpose of business as a result of its rich content on social responsibility.

Relationship between social interest and business interest:

- Companies have begun to recognize that social and business goals are not mutually exclusive. They are, instead, complementary to one another.
- The long-term benefit of business is in providing good service to society.

Development of professional, managerial class:

- Professional management education at universities and specialized management schools has resulted in the formation of a distinct class of professionals.
- Professional managers are more concerned in fulfilling a variety of interest groups in society when it comes to running their business than simply making a profit.

7. **Ans:** The need for Pollution Control is:

- **To reduce health risks:** There is mounting evidence that pollution in the environment causes various diseases such as cancer, heart attacks, and lung difficulties. Hence, there is an urgent need to control pollution.
- **To reduce risk of liability:** It is conceivable for a company to be held accountable for compensating people who have been harmed by the toxicity of gaseous, liquid, or solid pollutants it has released into the environment.
- **Cost savings:** Faulty manufacturing technology produces more trash, resulting in higher waste disposal and facility cleaning costs. Therefore steps to control pollution will ultimately help the firms to save their costs and expenses.
- **Improved public image:** A company that advocates for environmental causes will have a positive reputation and be seen as a socially responsible business.
- **Other social benefits:** Controlling pollution has a number of other advantages, including improved visibility, cleaner buildings, a higher quality of life, and the availability of natural resources in their purest form.
- **Role of Business in Environment Protection:**
- **Organizational commitment:** It shows the commitment an organization has towards the environment of which it is a part. The firm's commitment can be seen by the company's senior management building, maintaining, and developing a work culture that promotes environmental protection and pollution prevention. Assuring that the company's commitment to environmental preservation is shared by all divisions and workers.
- **Policies and programmes:** Through the formulation of defined policies and programmes for acquiring high-quality raw materials, using advanced technology, employing scientific waste disposal, treatment procedures, and improving employee skills, the firm can contribute in environment protection and conservation.
- **Rules and regulations:** Adherence to the government's pollution-prevention rules and regulations is another way a firm can fulfil its role towards environment preservation.

- **Participation:** The firm's participation in government programmes aimed at preventing deforestation, managing dangerous substances, cleaning up dirty waterways, and planting trees also leads to environmental protection and conservation.
- **Evaluation:** The firms conduct periodic evaluation of pollution control programmes in terms of costs and benefits so as to improve environmental protection efforts.
- **Organizing workshops:** The firm's efforts into organizing educational workshops and training materials to share technical knowledge and expertise with suppliers, dealers, and customers also contributes towards pollution control programmes.

Case Study Answers –

1.

(i) a) Consumers

Solution: Providing furniture at the reasonable rates is an example of social responsibility towards consumers.

"Exercise your purchasing power as a consumer, volunteer and bring joy to those in need, and share your experiences, tell your stories, and inspire others along the way."

(ii) c) Earn fair returns on capital employed

Solution: Earning fair returns on capital employed is not an example of the category of business responsibility stated.

(iii) c) Discretionary

Solution: Discretionary is the kind of social responsibility undertaken by the company.

Companies have a moral duty to improve the society by donating a small share of revenues to good causes, and this is a discretionary responsibility.

(iv) b) Legal

Solution:

- Legal responsibility is fulfilled here.
- **Legal responsibility:** All companies are subject to legal responsibilities and are required to follow the law, which impact organizations planning process. In order to operate soundly, a company must familiarize itself with external factors that govern the industry that the company operates within.

2.

(i) c) Satisfied workers and consumers contribute in the success of the business

Solution: Satisfied workers and consumers contribute in the success of the business.

(ii) c) Pressure of labour movements

Solution: Pressure of labour movements is the reality of social responsibility that business firms don't do this.

(iii) a) Better community to conduct business

Solution: Better community to conduct business. Community involvement is an easy and effective way to increase brand awareness, establish a positive reputation, and grow your business. Plus, it allows you to establish meaningful connections and give back to those in need.

(iv) a) Better community to conduct business

Solution: Consumer organizations are advocacy groups that seek to protect people from corporate abuse like unsafe products, predatory lending, false advertising, astroturfing and pollution. Consumer Organizations may operate via protests, litigation, campaigning, or lobbying.





7

Formation of Company

Introduction

Formation of a company is a long and complicated process. The first step involved in forming the company is the incorporation of the company. After the incorporation of the company, there are other procedures that are to be followed by the company before it can commence its business.

The formation of the company is very early and the initial stage. It involves a lot of legal formalities and procedures initially to be done. A company can only be formed once all the legal formalities are being done with the proper procedures. The authorities have the special powers and a system that has to be followed by each and every business organization for the commencement of its business.

For example: when an individual takes birth, its body parts are the immense element which is being formed before taking the birth, similarly, when a company is formed, before that it has its several aspects and parts which has to be build after which the company is taken into an account to commence its business:

- Promotion of a company
- Registration of a company
- Certificate of incorporation
- Commencement of business

❖ **Promotion of a Company:**

A business enterprise does not come on its own. The process of business promotions comes when someone comes up with an idea and ends when that idea is converted into the process of action. i.e. the formation of business enterprise and commencement of its business. It is an overall effort that the members of the company put to make the company.

The formation of a public company is a long and arduous process. First, the company is floated by its promoters, and the process of gathering financial backing begins. The promotion of a company is the very first step in this long process. Let us take a look.

It is the first stage in the formation of a company. It begins with a person or a group of persons having thought of or conceived a possible future business opportunity and then taking an initiative to give it a practical shape by way of forming a company. Such a person or a group of persons who proceed to form a company are known as promoters of the company.

Promoters not only conceive a business opportunity but also analyze its prospects and bring together the men, materials, machinery, managerial abilities and financial resources that are necessary for the formation and existence of the company.

❖ **Formation of a Company:**

Formation of a company involves completion of several legal formalities and procedures. The process of formation of the company can be divided into four stages, viz.,

- Promotion of a company.
- Incorporation.
- Subscription of capital
- Commencement of business.

However, only a public limited company is required to fulfil all these four stages. A private limited company is required to fulfil only the first two stages. In other words, it can start business immediately after obtaining the certificate of incorporation.

❖ **Promoter of a Company:**

A successful promoter is a creator of wealth and an economic prophet. The person who is concerned with the promotion of the company, an enterprise is known as a promoter. He conceives the idea of starting a business and takes all the measures required for bringing the enterprise into the existence. For example, Dhirubhai Ambani is the promoter of Reliance Industries. The promoter finds out the way to generate the money, search business idea, arranges for finance, gather resource and establish a going concern. The company law has not given any legal status to promoters. He stands in fiduciary position.

❖ **Functions of a Promoter:**

- **Identification of Business Opportunity:** The promoter first identifies a potential business opportunity. This opportunity may be regarding the production of a new product or service or making a product available through a different channel than before or production of an old product with new updated features or any other such opportunity having an investment potential.
- **Feasibility Studies:** The promoter after having conceived a business opportunity analyzes the opportunity to see whether it is feasible, technically as well as economically. All identified business opportunities cannot be converted into real projects. Therefore, the promoters undertake detailed feasibility studies so as to investigate all aspects of the business that they intend to begin with the help of various tools like a study of the market trend, industry trend, market survey, etc. and with the help of specialists like engineers, chartered accountants etc. A venture is only feasible when it passes all the three below mentioned tests.
- **Technical feasibility:** Sometimes an idea may be good and unique but technically not possible to execute because the required raw material or technology may not be easily available. Every business requires funds.
- **Financial feasibility:** Sometimes it may not be feasible to arrange a large amount of funds needed for the business in the limited available means. Also, financial institutions may hesitate to grant huge amounts of loan for the new businesses.
- **Economical feasibility:** A business opportunity may be technically and financially feasible but not economically feasible. It may not be a profitable venture or may not yield enough profits. In such a case, the promoters refrain from starting the business.
- **Name Approval:** Once the promoters have decided to launch a company next step is to select a name for the company and get it registered with the registrar of companies of the state in which the registered office of the company is to be situated. An application with three names, in the order of their priority, is filed with the registrar to get the name approved.
- **Fixing up Signatories to the Memorandum of Association:** The promoters decide upon the members who will be signing the Memorandum of Association of the proposed company. Usually the signatories of the memorandum are the first Directors of the Company. However, the written consent of the persons signing the memorandum is required to act as Directors and to take up the qualification shares in the company.
- **Appointment of Professionals:** Promoters are also required to appoint certain professionals. These professionals help them in the preparation of necessary documents that are required to be filed with the Registrar of Companies such as mercantile bankers, auditors, lawyers, etc.
- **Preparation of Necessary Documents:** The promoters are required to prepare necessary legal documents that have to be submitted to the Registrar of the Companies for getting the company registered. These documents are return of allotment, Memorandum of Association, Articles of Association, consent of Directors and statutory declaration.

Relation-ship	Memorandum of association defines the relationship of the company with outsiders.	Articles define the relationship of the members and the company.
Validity	Acts beyond the memorandum of association are invalid and cannot be ratified even by unanimous vote of the members.	Acts which are beyond articles can be ratified by the members, provided they do not violate the memorandum.
Necessity	Every company has to file a memorandum of association.	It is not compulsory for a public limited company to file articles of association. It may adopt table A of the Companies Act.
Alteration	Alteration of memorandum of association is quite difficult and, in many cases, approval of certain statutory authority is required.	Articles can be altered by passing a special resolution by the members.

❖ **Certificate of Incorporation:**

The registration of the memorandum of the association, the article of association and other documents are filed with the registrar. After getting satisfied with the application & documents submitted, Registrar will issue the Certificate of incorporation'. A certificate of incorporation is the ultimate proof of the existence of a company.

❖ **Effect of the Certificate of Incorporation:**

- The date inscribed on the Certificate of Incorporation marks the beginning of a company's legal existence.
- On that date, it becomes a legal entity with eternal succession. It gains the ability to enter legally binding contracts.
- The Certificate of Incorporation is indisputable documentation of a company's regular incorporation.

❖ **Certificate of Commencement of Business:**

As soon as a private company gets the certification of incorporation it can start its business. Once the certificate of incorporation is received by the company, a public company issues a prospectus for inviting a public to subscribe to its share capital. It fixes the minimum subscription in the prospectus. Then it is required to sell the minimum number of shares mentioned in the prospectus.

After completing the sale of the required number of shares, the certificate is sent to the registrar along with the letter from the bank stating that all the money is received.

The registrar then scrutinizes the documents. If all the legal formalities are done then the registrar issues a certificate known as 'certificate of commencement of business'. This is the conclusive evidence for the commencement of business for the public company.

❖ **Capital Subscription:**

- SEBI clearance is required to raise funds from the public. The Registrar of Companies will receive a copy of the prospectus or a statement in lieu of the prospectus. Bankers, brokers, underwriters, and other professionals are hired.
- A request for approval to trade in shares or debentures must be made to the stock exchange.

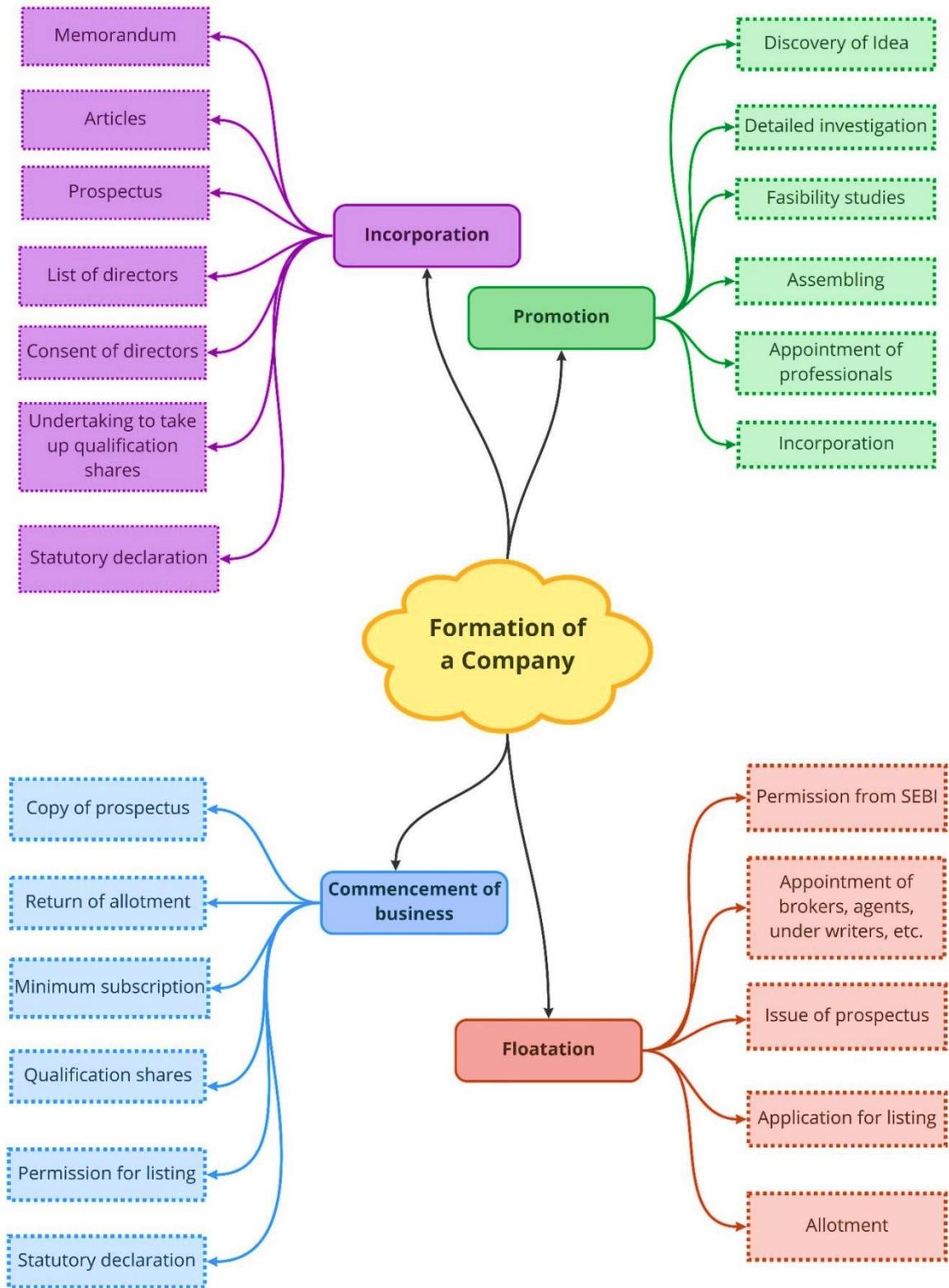
❖ **Process of Capital Subscription:**

- **SEBI Approval:**
 - SEBI (Securities and Exchange Board of India), our country's regulatory body, has developed recommendations for information disclosure and investor protection.
 - A public firm seeking funding from the public must make full disclosure of all relevant facts to potential investors and must not withhold any material information.



- **Filing of Prospectus:**
 - Section 2(70) of the Companies Act of 2013 defines a prospectus as. “Any document that is described or issued as a prospectus” is how a prospectus is defined. This includes any notification, circular, advertisement, or other document that serves as an invitation to public offers.
 - The Registrar of Companies receives a copy of the prospectus or a statement in lieu of the prospectus. A Statement in Lieu of Prospectus is submitted with the Registrar of Companies (ROC) when a company does not issue a prospectus to the public for the subscription of the shares.
 - All of the directors or their authorized agents must sign the declaration in writing. It's similar to a prospectus, with the exception that it's only a few pages long.
- **Appointment of Bankers, Brokers, Underwriters:**
 - Raising money from the general people is a huge undertaking. The money for the application will be received by the company's bankers.
 - The brokers try to sell the shares by handing out application forms and pushing others to apply. If the public does not subscribe to the shares, the underwriters promise to buy them.
- ❖ **Minimum Subscription:**
 - To prevent enterprises from starting into business with insufficient resources, the company must obtain applications for a particular minimum number of shares before proceeding with the issuance of shares. This is referred to as the 'minimum subscription' under the Companies Act.
 - If the number of applications for the shares received is less than 90% of the issue size, the allocation cannot be made, and the application money must be refunded to the applicants.
- ❖ **Application to Stock Exchange:**
 - At least one stock exchange is approached for approval to trade in its shares or debentures.
 - If such approval is not obtained within ten weeks of the subscription list's closing date, the allotment becomes worthless, and any money received from applicants must be returned to them within eight days.
- ❖ **Allotment of Shares:**
 - The money received for the application should be kept in a separate bank account and not used by the company until the shares are distributed.
 - If the number of shares allocated is fewer than the number applied for, or if no shares are assigned to the applicant, any excess application money must be returned to the applicants or applied to allotment money owed to them.
 - Successful allottees receive their allotment letters. Within 30 days of allotment, a 'return of allotment' signed by a director or secretary is filed with the Registrar of Companies.

Class : 11th Business Studies
Chapter- 07 : Formation of a Company





Important Questions

Multiple Choice Questions-

1. The dividend payable to _____ shareholders is payable on fixed figure or percent
 - (a) Equity
 - (b) Non-preference
 - (c) Preference
 - (d) All of the above
2. A company is known as the _____ company of another company if it has control over that other company.
 - (a) Subsidiary
 - (b) Holding
 - (c) Controlling
 - (d) Statutory
3. A private company means a company which has a minimum paid up capital of Rs. _____
 - (a) 1,00,000
 - (b) 5,00,000
 - (c) 50,00,000
 - (d) None of the above
4. The Prospectus must be issued to the public within _____ days of its date.
 - (a) 30
 - (b) 60
 - (c) 90
 - (d) 100
5. _____ means the total amount of called up capital on the shares issued and subscribed by the shareholders on the capital account.
 - (a) Called-up capital
 - (b) subscribed capital
 - (c) nominal capital
 - (d) Paid-up capital
6. Par value of shares means the _____ value of the shares
 - (a) Actual
 - (b) face
 - (c) Market
 - (d) dividend
7. Among the following which documents are not mandatory to be submitted to the registrar along with an incorporation application by a private company.
 - (a) Address of Registered office & undertaking
 - (b) Undertaking and statement of capital
 - (c) Statement of capital & list of directors
 - (d) List of directors and statement of capital
8. The articles of association need to be signed by
 - (a) All proposed directors
 - (b) Registrar
 - (c) Subscribers of memorandum
 - (d) None of the above
9. "Men may come and men may go but the company exists"- this explains which characteristics of the company as per companies Act 1956.
 - (a) Separate legal entity
 - (b) Perpetual Succession
 - (c) Capacity to sue
 - (d) None of the above
10. _____ cannot give an invitation to the public to subscribe for any shares in or debentures of the company
 - (a) Subsidiary company
 - (b) Statutory Company
 - (c) Private company
 - (d) Registered company
11. A proposed name of a Company is considered undesirable if
 - (a) It is identical to the name of an existing company
 - (b) It resembles closely the name of an existing company
 - (c) It is an emblem of the Government of India, the United Nations, etc.
 - (d) In case of any of the above
12. Application for approval of name of a company is to be made to
 - (a) SEBI
 - (b) Registrar of Companies
 - (c) Government of India
 - (d) Government of the State in which Company is to be registered



2. **Answer:** Formation of a company is complicated and include multiple stages of legal formalities and procedures. The formation process comprises of three stages promotion, incorporation, and subscription of a company. Unlike public limited companies, private business is restricted to raise funds from the public, and also, they don't require to issue a prospectus to complete the formalities.
3. **Answer:** In a company, the promoter decides who will sign the memorandum of association of the proposed company. Whoever signs the memorandum, they will also be the first directors of the company.
4. **Answer:** The date when the certificate of incorporation is printed, a company is legally born.
5. **Answer:** A minimum of seven members should sign a memorandum of association in a public company.
6. **Answer:** Only two members are required to sign a memorandum of association in a private company.
7. **Answer:** Technical feasibility means analyzing an idea which may be great but technically impossible to execute. It could be because of the desired raw material or technology is not easily available.
8. **Answer:** Fund is an essential element while planning to start a company. The promoters have to estimate and arrange the funds properly for the desired company. If the promoters fail to arrange the funds, then the plan has to be dropped.
9. **Answer:** A plan or a project can be technically and financially feasible, but the outcome of it being profitable is very limited.
10. **Answer:** A promoter is a person who has control over the operation of a company directly, indirectly or as a shareholder. According to his advice, the director or the board members of the company takes the decision.

Short Answers -

1. **Answer: Meaning of Promotion:** The term promotion is used as the sum total of activities by which a business enterprise is brought into existence. It is a term of business, not of law. Promotion consists of the business operations by which a company is established.

It is the process of planning and organising the finances and other resources of a business enterprise in the corporate form. According to C.W. Gerstenberg, "Promotion is the discovery of business opportunities and the subsequent organisation of funds, property and management ability into

business concern for the purpose of making profit therefrom."

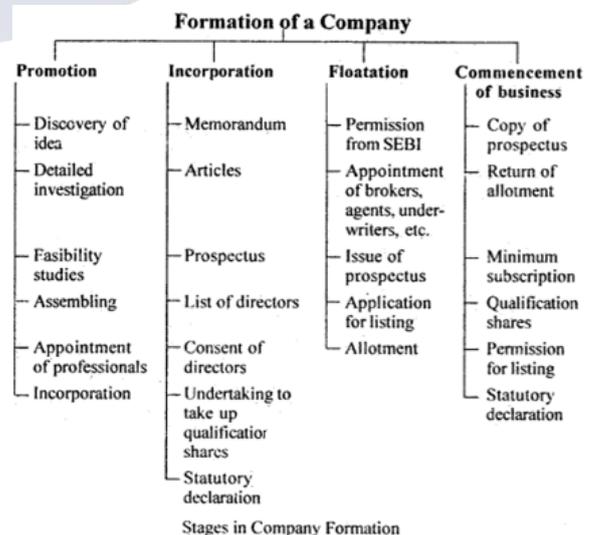
Promotion is the process of the discovery of a business idea, its investigation and assembling of necessary resources to set-up a business as a profitable concern. The person or group of persons who perform the work of promotion and form a company as a going concern are known as a promoter. A promoter is an entrepreneur or businessman who gives birth to a business concern. A promoter may be an individual, a firm or a company.

According to S. Francis Palmer, "Promoter means a person who originates the scheme of promotion of the company, has the Memorandum and Articles prepared, executed and registered and finds the first directors, settles the terms of preliminary contracts and prospectus (if any) and makes arrangements for advertising and circulating the prospectus and the capital."

Thus a promoter is a person or a group of persons who conceive the idea of the formation of a company, and takes necessary steps for its incorporation, raising of capital and making it a going concern. In order to perform the task of promotion successfully, a promoter must have several essential qualities. Fertile imagination, sound judgement, initiative, resourcefulness and organising ability are the main qualities of a successful promoter.

Promotion may be done for several objectives, e.g. to start a new business, to expand an existing business or to take over an existing business. Out of this starting, an altogether new business is the most difficult task.

2. **Answer:**



3. **Answer: Types of Promoters:** Promoters can be of the following kinds:
1. **Entrepreneur Promoters:** An entrepreneur conceives the idea of a new business and performs all the work for establishing it as a going concern. He continues to manage and control the business promoted by him. Small-scale enterprises, such as sole proprietorships and partnerships are promoted by entrepreneurs. He undertakes risk and takes initiative in promoting the company.
 2. **Professional Promoters:** These promoters are specialists in promoting new business ventures. Large-scale enterprises are generally promoted by experts. These experts possess the necessary skills and knowledge in the promotion. They promote a business as a going concern and then sell the proposition or hand-over its management and control others.

These promoters are interested only in looking out for business reality. He needs to be action-oriented. He will assemble resources, prepare necessary document give a name to the company opportunities and converting them into business units in return for handsome remuneration. There are very few professional promoters in India. They initiate new enterprises and find out the persons who can supply capital.
 3. **Occasional Promoters:** This type of promoters promote a business once a while rather than on a regular basis. Promotion is not their main job and after promoting a company they go back to their original occupation. For example, an engineer or a technical expert may promote a business to commercially exploit a patent or invention discovered by him. They manage the company's affairs even after incorporation of the company.
 4. **Financial Promoters:** These promoters float new companies during favourable conditions in the securities market. Banks and other financial institutions also perform the work of promotion owing to their experience in the financial sector. Investment bankers become active in the field of promotion when the securities market is able to absorb new issues of equity shares. In India, the Industrial Development Bank of India and other financial institutions carry out the work of promoting industrial concerns.
 5. **Government:** Nowadays, the government has become the biggest promoter. For example, the Government of India has established several basic, strategic and defence industries to speed up the process of economic development in the country. It has promoted large-scale enterprises in iron and steel, coal, shipping, fertilisers, electronics, engineering, insurance, tourism, hotels, etc.
4. **Answer: Qualities of a Promoter:** A promoter should possess the following qualities.
1. **Vision:** A promoter requires a sound imagination and a clear but realistic view of the future. He analysis the prospects of a company and brings together the men, materials and machinery.
 2. **Alert mind:** The promoter should be alert enough to notice business opportunities that can be used to advantage. An invention, a patent, a natural resource, an unsatisfied or poorly satisfied need are examples of such opportunities.
 3. **Resourcefulness:** A promoter should be able to mobilise financial, human and physical resources so a
 4. **Risk-taking ability:** The promoter should be able to bear the calculated risks of the business. Sometimes, an idea may be good but technically not possible to execute.
 5. **Tact:** A promoter needs to be tactful so as to persuade people to invest money in the new venture.
 6. **Patience:** Considerable patience is necessary to wait till the business idea takes a practical shape. Sometimes, it so happens that a project is technically feasible and viable, but chances of it being profitable are very little, the idea may have to be adopted later by investigating into details which require patience.
 7. **Analytical ability:** The promoter should be able to carefully examine each idea and opportunity in terms of costs and benefits.
5. **Answer: Memorandum of Association:** The Memorandum of Association is the principal or most important document of a company. According to Lord Macmillan, "The Memorandum of Association sets out the constitution of the company. It is, so to speak, the charter of the company and provides the foundation on which the structure of the company is built. It enables persons, who deal



with the company, to know its permitted range of activities.” In the words of Lord Cains, “the Memorandum of Association of a company is its charter and defines the limitations of the power of the company established under the Act.

The Memorandum contains the fundamental conditions upon which alone the company is allowed to be incorporated.” It also lays down the scope of operations of the company beyond which it cannot operate. The purpose of the Memorandum of Association is to enable the shareholders, creditors and others who deal with the company to know its permitted range of activities. In fact, it can be considered as the foundation on which the structure of a company is based. Its primary importance lies in the fact that a company cannot undertake such operations which are not mentioned in its memorandum.

Great care should be taken in preparing the Memorandum of Association because a company cannot go beyond the limits laid down in the Memorandum.

The Memorandum of Association must be:

- (a) printed,
- (b) divided into suitable paragraphs numbered in sequence, and
- (c) signed by the required number of persons in the presence of at least one witness.

The Memorandum must be published in sufficient numbers because it is a public document and a copy has to be given on demand and at a nominal charge. The facsimile and common seal of the company should be filed on the Memorandum. The Companies Act contains different forms of Memorandum (in Schedule 1), one each for companies limited by shares, companies limited by guarantee without shares capital, and unlimited company.

In brief Lord Justice Browen, “a Memorandum of Association is a fundamental document of a company which is also known as the charter of the company. It lays down the object and scope of activities and limitations on the power of a company beyond which the company cannot go. It is a document which contains all conditions upon which a company is allowed to be incorporated.

Articles of Association: Articles of Association are the bylaws of a company. They contain rules and regulations for the management of the internal affairs of a company. They define the mode and manner in which the company’s business is to be carried on. Articles of Association are public

document. Outsiders dealing with the company are supposed to have read the Memorandum and Articles of the company. They are entitled to believe that the company conduct its business according to the rules and regulations. This is known as the Doctrine of Indoor Management.

A private company, a company limited by guarantee and an unlimited company, must prepare and file their own Articles of Association. But a public company limited by shares may adopt Table A in the First Schedule of the Companies Act, in case it does not want to prepare and file its own Articles of Association. While preparing the Articles great care should be exercised.

Anything contained in the Articles which is against the Memorandum of Association or against The Companies Act shall be null and void. The Articles of Association should be printed, properly divided into paragraphs, consecutively numbered and signed by the signatories to the Memorandum in the presence of at least one witness. The Articles of Association are subordinate to the Memorandum of Association.

6. **Answer: Statement in lieu of Prospectus:** A public company having a share capital may sometimes decide not to approach the public for securing the necessary capital because it may be confident of obtaining the required capital privately. In such a case, it will have to file a ‘Statement in lieu of Prospectus’ with the Registrar. A ‘Statement in lieu of Prospectus’ is drafted in accordance with the particulars set out in “Schedule III” of the Companies Act. It contains information very much similar to a prospectus:

It must be duly signed by all the directors and a copy thereof must be filed with the Registrar at least three days before the allotment of the shares. However, a private company is a riot required to either file “Prospectus” or a “Statement in the lie of Prospectus” with the Registrar. ‘Statement in lieu of Prospectus’ must be dated and signed by each director. It should not contain any untrue or misleading statement. Provisions regarding the penalty for issuing a misleading prospectus are also applicable to untrue details given in a statement in lieu of prospectus. A private company is not required to file either a prospectus or a statement in lieu of prospectus as it is not permitted to raise funds.

Long Answers –

1. **Answer:** Alternation of the Memorandum: The

Memorandum of Association can be altered in accordance with the procedure laid down in the Companies Act.

The provisions of the Act are as follows:

1. **Alteration of Name Clause:** A company can change its name in the following manner.

- (a) If the name registered is identical with or similar to the name of an existing company, bypassing an ordinary resolution and obtaining written approval of the Central Government;
- (b) Bypassing a special resolution and obtaining the written consent of the Central Government in other cases.

It may be pointed out and delete that the word 'private' to the name of the company does not require the approval of Central Government. But where the addition of the word 'private' becomes essential due to the conversion of a public company into a private company, such conversion is effective only with the approval of the Central Government.

2. **Alteration of Registered Office Clause:**

This clause can be altered in the following ways.

- (a) If the registered office is to be shifted from one state to another, bypassing a special resolution and obtaining the sanction of the Registrars of both the states;
- (b) If the office is to be shifted from one town to another in the same state, bypassing a special resolution;
- (c) If the office is to be shifted from one locality to another in the same town, bypassing an ordinary resolution.

The Registrar of Companies shall register the confirmation of the change of registered office and the alteration made in the memorandum of association within 30 days from the date of filing the documents of change.

3. **Alteration of Object Clause:** In order to alter its object clause, a company must pass a special resolution and obtain the permission of the Company Law Board.

The Company Law Board must satisfy the following conditions before granting permission:

- (a) The objections, if any, of the Registrar of Companies have been obtained.

- (b) Sufficient notice has been given to every creditor and other persons whose interest may be affected by the proposed alteration; and

- (c) With respect to every creditor either his consent has been obtained or his debt has been discharged.

An alteration in the object clause is permissible if it is necessary to enable the company

- (a) To carry on its business more economically or efficiently;
- (b) To enlarge the area of its operations;
- (c) To carry on some other business which can be profitably combined with the existing business;
- (d) To amalgamate with any other company or association;
- (e) To attain its main purpose by new or improved means;
- (f) To restrict or abandon any of the objects specified in the Memorandum; and.
- (g) To sell or dispose of the whole or part of the company's property.

A special resolution must be passed at a general meeting of the company for alteration of the object clause. The resolution must state reasons or purposes for doing so.

4. **Alteration of Liability Clause:** If a company wants to make an alteration which imposes any additional liability on its members, it must pass a unanimous resolution in a meeting of its members. The liability of the members automatically becomes unlimited if their number is reduced below seven in case of a public company and below two in a private company. The liability of members may be increased if the members agree in writing consent may be given either before or after the alteration.

5. **Alteration of Capital Clause:** A company must pass a special resolution and obtain the approval of the Company Law Board. In case the capital is to be reduced, the permission of the court is also required. The court may direct that the company must write the words 'reduced' after its name and all the official documents of the company will bear this word. Where the alteration involves the return of capital or reduction in uncalled capital, the consent of creditors must be obtained.



A company may reduce its capital in the following ways:

- (a) By extinguishing or reducing the liability of members for uncalled capital;
- (b) By paying off some part of capital;
- (c) By writing off or cancelling any paid-up capital which is lost; and
- (d) By any other method approved by the court.

A company may alter its capital to:

- (a) Increase the amount of share capital;
- (b) Consolidate the divide its capital into shares of higher denominations;
- (c) Subdivide the shares into those of smaller denominations;
- (d) Cancel the unissued capital;
- (e) Convert fully paid shares into stock or vice versa; and
- (f) Reduce the amount of share capital.

6. **Alteration of Subscription Clause:** In this clause, the subscribers declare that they desire to be bound to assist information of a company and no subscriber can withdraw his name on any ground after registration of the company.

2. **Answer: Articles of Association:** The Articles of Association of a company contain the rules relating to the management of its internal affairs. The articles define the duties, the rights and the powers of the Board of Directors as between themselves and the company at large, and the mode and form in which the business of the company is to be carried on, and the mode and form in which changes in the internal regulations of the company may be made.

Articles of association contain the rules angulations for regulating the internal affairs of the company. The subscribers df the memorandum may include in it all such regulations as they deem fit. But everything included in it must be subject to the Companies Act and Memorandum of Company.

A public company limited by shares may opt for the adoption of Table A (i.e. the model set of 99 articles given in Schedule I of Companies Act). The other types of companies are required to file their articles of association along with the Memorandum at the time of registration. The Articles of Association should be printed, divided into paragraphs and numbered consecutively, and signed

by each signatory to the memorandum in the presence of at least one attesting witness.

Contents of Articles of Association: The Articles of Association usually contain the provisions relating to the following matters:

1. The amount of share capital and different types of shares.
2. Rights of each class of shareholders.
3. Lien on shares, forfeiture of shares for non-payment of calls and transfer and transmission of shares.
4. Procedures tor conduct of meetings, voting, quorum, poll and proxy.
5. Appointment, removal and remuneration of directors and their powers and duties.
6. Procedure regarding alteration of share capital.
7. Matters relating to the distribution of dividend.
8. Matters relating to the keeping of statutory books.
9. Procedure regarding the winding up of the company.
10. Adoption of preliminary contracts.
11. Redemption of preference shares.
12. Rights of members.
13. Borrowing powers.
14. Reserves and capitalization of reserves.

Alteration of Articles: A company may change its Articles of Association by passing a special resolution subject to the following conditions.

1. The alteration must not be contrary to the Memorandum and the Companies Act. The alteration should not allow the company to do something which is forbidden by the Memorandum.
2. It must be bona fide and in the interest of the company as a whole.
3. It must not result in a breach of contract with outsiders.
4. The alteration must not purport sanction anything illegal or against public policy.
5. It must not have the effect of increasing the liability of members.
6. It should not amount of fraud by the majority on the monetary. Any alteration which constitutes the discrimination of interest of minority is a fraud on them.

7. If the alteration involves converting a public company into a private company, the approval of the Central Government must be obtained.

3. **Answer: Prospectus:** The purpose of issuing a prospectus is to acquaint the investors with the proposed company and induce them to invest in its shares. The law with a view to protecting the interest of investors regulates the issue and the contents of the prospectus.

A prospectus means “any prospectus, notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares or debentures of a company.” The term “Prospectus”, therefore, includes any document which invites deposits from the public or invites offers from the public to purchase shares or debentures of a company.

The essential elements of a prospectus are as follows:

1. There must be an invitation to the public.
2. The invitation must be made “by or on behalf of the company”.
3. The invitation must be “to subscribe or purchase its shares or debentures or such other instruments”.
4. Every prospectus issued must contain the matters specified by the Companies Act.

Importance of Prospectus: Investors make up their minds about investment in a company primarily on the basis of the information contained in the prospectus. Therefore, there must not be a misstatement in the prospectus and all significant information must be duly disclosed.

The prospectus of a company serves the following purposes:

1. It reflects the future policies and programmes of the company.
2. It serves as an invitation to the public to subscribe to the shares and debentures of the company.
3. It provides a legal document of the terms and conditions on which shares and debentures have been issued.
4. It identifies the persons who can be held responsible for any untrue statements made in it.

Contents of a Prospectus: Prospectus is the only document through which the prospective investors can evaluate the soundness of the company.

It must contain at least the following broad particulars:

1. Company’s name and address of its registered office, nature of business of the company.
 2. The main objects of the company and other objects.
 3. The number and classes of shares, if any, and the nature and extent of the interest of the holders in the property and profits of the company. Rights attached to the shareholders are also mentioned.
 4. The details about the redeemable preference shares intended to be issued, if any, i.e., the date and mode of redemption etc, details regarding debentures also if any.
 5. Qualification shares of directors, if any.
 6. Any provision in the articles as to the remuneration of the directors, managing director or otherwise.
 7. The names, addresses, and occupations of the directors, managing director or manager.
 8. The “minimum subscription” that is, the minimum amount which, in the opinion of directors must be raised by the issue of shares.
 9. The time of the opening and closing of the subscription list.
 10. To amount payable on application and allotment of each class of share.
 11. Rights, privileges and restrictions attached to each class of shares.
 12. A reasonable time and place at which copies of audited balance sheets and profit and loss accounts of the company may be inspected.
 13. Names and addresses of auditors, bankers, brokers and solicitors.
 14. Names and addresses of underwriters and commission payable to underwriters.
4. **Answer:** Mis-statement or untrue statement in the prospectus: If a prospectus contains misstatements or omits material facts, it will give rise to many consequences. A misstatement or an untrue statement is one which is misleading in the form and context in which it has been included in the prospectus. A prospectus shall also be deemed to have an untrue statement if the omission of any



matter from it is calculated to mislead those who act on the faith of the prospectus.

Consequences of Misleading Prospectus: If a prospectus contains misstatements, the aggrieved party will have remedies against the company, directors, promoters and legal experts. A prospectus must be prepared very carefully. In an effort to influence the investors, a company may make exaggerated statements about its operations and future prospects. But a prospectus must contain full and honest disclosure of all material facts. To avoid preparing a misleading prospectus, it should be ensured that material facts are not concealed and no false details are given.

The persons responsible for issuing a misleading prospectus face civil and criminal liability.

1. **Civil Liability:** If the prospectus contains false information or incomplete details due to the negligence of the directors, it amounts to misrepresentation. The persons who invest money in the company on the basis of such misrepresentation have the right to avoid the contract and claim refund of their money. They can also claim damages from the company and from those who have authorised the issue of a misleading prospectus. An aggrieved subscriber of shares or debentures may sue directors, promoters etc. for payment of loss or damages caused to him by the misrepresentation in the prospectus issued. Subscriber must prove that he has suffered loss by reason of the omission of a matter from the prospectus.

A person accused of misrepresentation in a prospectus can avoid liability if he proves that:

- (a) He had withdrawn his consent before the issue of the prospectus and that it was issued without his consent or authority;
- (b) The prospectus was issued without his knowledge or consent and he had given reasonable notice to this effect after he came to know about it;
- (c) After the issue of the prospectus but before allotment, on becoming aware of

the misrepresentation, he had withdrawn his consent and given public notice to that effect;

- (d) The statement was based on the statement of an expert who had given his consent to it;
- (e) He genuinely believed the statement to be true; or
- (f) The statement was based on an official document.

The directors etc., however, will not be liable for the compensation of loss, if it is proved that they honestly believed the statement to be true.

2. **Criminal Liability:** If the directors of a company deliberately, conceal information, they are punishable with a fine extending to Rs. 5,000 or imprisonment up to two years or both. If the public is fraudulently induced to invest money, the penalty may extend to a fine of Rs. 10,000 or imprisonment of five years or both.

A person accused of deliberate or fraudulent misrepresentation may avoid his liability by proving that:

- (a) The statement was immaterial; or
- (b) He had reasonable grounds to believe and did believe that the statement was true.

An expert who has given his consent to issue the prospectus containing an untrue statement made by him shall be liable to every subscriber who takes shares on the faith of his statement. The aggrieved shareholder is entitled to claim damages under the general law i.e. Contract Act. An expert shall not be liable if he proves that he was competent to make the statement and that he had reasonable ground to believe that statement was true at the time of allotment of securities. Expert includes an engineer, a valuer, an accountant and any other person whose profession gives authority.



8

Source of Business Finance

Concept of Business Finance

The term finance means money or fund. The requirements of funds by business to carry out its various activities is called business finance. Finance is needed at every stage in the life of a business. A business cannot function unless adequate funds are made available to it.

Need of Business Finance

1. **Fixed Capital Requirement:** In order to start a business, funds are needed to purchase fixed assets like land and building, plant and machinery. The funds required in fixed assets remain invested in the business for a long period of time.
2. **Working Capital Requirement:** A business needs funds for its day to day operation. This is known as working Capital requirements. Working capital is required for purchase of raw materials, to pay salaries, wages, rent and taxes.
3. **Diversification:** A company needs more funds to diversify its operation to become a multi-product company e.g. ITC.
4. **Technology upgradation:** Finance is needed to adopt modern technology for example uses of computers in business.
5. **Growth and expansion:** Higher growth of a business enterprise requires higher investment in fixed assets. So finance is needed for growth and expansion.

Classification of Sources of Fund:

On the basis of period, the different sources of funds can be categorised into three parts. These are long-term sources, medium-term sources and short-term sources.

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

Ownership Basis of Business Finance:

Depending upon the types of funds a business gets, the funds can be classified into two sets- 'owner's funds' and 'borrowed funds'.

- 1) **Owner Funds:** If the funds are provided by the business or shareholders or partners' creator, then it is the Owner's funds. Profits used to invest again in the business also fall under this. Owner funds usually do not



need to be refunded and remain invested in the business's life period. Two important sources of owner funds include Equity shares and Retained earnings. This type of investment grants controls over the enterprise. It carries risk with the investment as the principal amount and returns are not guaranteed.

- 2) **Borrowed Funds:** If the investment source comes from outside the business, it is called Borrowed funds. It cannot be a permanent source of capital because it has to be returned. Even though it carries less risk because the principal and returns are guaranteed, it does not grant control. A fixed interest rate is also levied on borrowed funds, and it can put a lot of burden to payback when the company/business is not raising enough funds.

On the basis of source of generation:

- 1) **Internal Sources:** Funds generated from within the organization are known as internal sources. Though only short term or limited needs could be fulfilled by this source. For example: Ploughing back profit, Disposing surplus inventory, etc.
- 2) **External Sources:** Large amounts of money requirements are fulfilled through external sources. These are more expensive sources than internal sources of financing. These are done through: Borrowings from commercial banks Acceptance of Public deposits, Raising debentures etc.

Sources of Finance

Retained Earnings

Out of the company's total earnings, a certain section of the total profits can be saved for the future. This part is not divided among shareholders and is a source of self-financing. It depends heavily on the net profits and age of the organization.

Merits

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

Limitations

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

Trade Credits

Trade credits refer to sources of short term finances where a business extends credit for purchasing goods and services to the other. According to class 11 sources of business finance chapter, it appears as a record for an account payable and isn't taken immediately. It is based on goodwill and a decent financial situation.

Merits

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

Limitations

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

Factoring

It is referred as a financial service within which the 'factor' provides various services like-

- (1) Discounting the bill as well as collecting clients' debt through which the receivables on the account of sales of goods or services will be sold to the factor at a variable discount.
- (2) It also provides information about the creditworthiness of the prospective clients, etc. along with very factors that possess information regarding the trading history of the firm.

Merits

- (1) Obtaining funds through factoring is cheaper than financing through other means such as bank credit.
- (2) With cash flow accelerated by factoring, the client is able to meet his/her liabilities promptly as and when these arise.
- (3) Factoring as a source of funds is flexible and ensures a definite pattern of cash inflows from credit sales. It provides security for a debt that a firm might otherwise be unable to obtain.
- (4) It does not create any charge on the assets of the firm.
- (5) The client can concentrate on other functional areas of business as the responsibility of credit control is shouldered by the factor.

Limitations

- (1) This source is expensive when the invoices are numerous and smaller in amount.
- (2) The advance finance provided by the factor firm is generally available at a higher interest cost than the usual rate of interest.
- (3) The factor is a third party to the customer who may not feel comfortable while dealing with it.

Lease Financing

A periodic payment is set up between two parties allowing the temporary use of an asset owned by another company. This also allows the renting of assets. A fixed periodic amount is called lease rental. The asset is returned after the contract time.

Merits

- (1) It enables the lessee to acquire the asset with a lower investment.
- (2) Simple documentation makes it easier to finance assets.
- (3) Lease rentals paid by the lessee are deductible for computing taxable profits.
- (4) It provides finance without diluting the ownership or control of business.
- (5) The lease agreement does not affect the debt raising capacity of an enterprise.
- (6) The risk of obsolescence is borne by the lesser. This allows greater flexibility to the lessee to replace the asset.

Limitations

- (1) A lease arrangement may impose certain restrictions on the use of assets. For example, it may not allow the lessee to make any alteration or modification in the asset.
- (2) The normal business operations may be affected in case the lease is not renewed,
- (3) It may result in higher payout obligation in case the equipment is not found useful and the lessee opts for premature termination of the lease agreement.
- (4) The lessee never becomes the owner of the asset. It deprives him of the residual value of the asset.

Merits

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

Limitations

- (1) Preference shares are not suitable for those investors who are willing to take risk and are interested in higher returns.
- (2) Preference capital dilutes the claims of equity shareholders over assets of the company.
- (3) The rate of dividend on preference shares is generally higher than the rate of interest on debentures.
- (4) As the dividend on these shares is to be paid only when the company earns profit, there is no assured return for the investors. Thus, these shares may not be very attractive to the investors.
- (5) The dividend paid is not deductible from profits as expense. Thus, there is no tax saving as in the case of interest on loans.

Debentures

Debentures are an important instrument for raising long term debt capital. A company can raise funds through issue of debentures, which bear a fixed rate of interest. The debenture issued by a company is an acknowledgment that the company has borrowed a certain amount of money, which it promises to repay at a future date. Debenture holders are, therefore, termed as creditors of the company. Debenture holders are paid a fixed stated amount of interest at specified intervals say six months or one year.

Merits

- (1) It is preferred by investors who want fixed income at lesser risk.
- (2) Debentures are fixed charge funds and do not participate in profits of the company.
- (3) The issue of debentures is suitable in the situation when the sales and earnings are relatively stable.
- (4) As debentures do not carry voting rights, financing through debentures does not dilute control of equity shareholders on management.
- (5) Financing through debentures is less costly as compared to cost of preference or equity capital as the interest payment on debentures is tax deductible.

Limitations

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

Commercial Paper

Commercial paper is an unsecured, short period debt tool issued by a company, usually for the finance and inventories and temporary liabilities. The maturities in this paper do not last longer than 270 days. These papers are like a promissory note allotted at a huge cost and exchangeable between the All-India Financial Institutions (FIs) and Primary Dealers (PDs).



Most of the commercial paper investors are from the banking sector, individuals, corporate and incorporated companies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs), etc. However, FII can only invest according to the limit outlined by the Securities and Exchange Board of India (SEBI)

In India, commercial paper is a short-term unsecured promissory note issued by the Primary Dealers (PDs) and the All-India Financial Institutions (FIs) for a short period of 90 days to 364 days.

Merits

- (1) A commercial paper is sold on an unsecured basis and does not contain any restrictive conditions
- (2) As it is a freely transferable instrument, it has high liquidity
- (3) It provides more funds compared to other sources. Generally, the cost of CP to the issuing firm is lower than the cost of commercial bank loans
- (4) A commercial paper provides a continuous source of funds. This is because their maturity can be tailored to suit the requirements of the issuing firm. Further, maturing commercial paper can be repaid by selling new commercial paper
- (5) Companies can park their excess funds in commercial paper thereby earning some good return on the same.

Limitations

- (1) Only financially sound and highly rated firms can raise money through commercial papers. New and moderately rated firms are not in a position to raise funds by this method
- (2) The size of money that can be raised through commercial paper is limited to the excess liquidity available with the suppliers of funds at a particular time
- (3) Commercial paper is an impersonal method of financing. As such if a firm is not in a position to redeem its paper due to financial difficulties, extending the maturity of a CP is not possible.

Commercial Bank

A commercial bank is a kind of financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities. These banks are profit-making institutions and do business only to make a profit.

The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which a bank lends money is known as the lending rate.

Merits

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

Limitations

- (1) Funds are generally available for short periods and its extension or renewal is uncertain and difficult
- (2) Banks make detailed investigation of the company's affairs, financial structure etc., and may also ask for security of assets and personal sureties. This makes the procedure of obtaining funds slightly difficult
- (3) In some cases, difficult terms and conditions are imposed by banks. for the grant of loan. For example, restrictions may be imposed on the sale of mortgaged goods, thus making normal business working difficult.

Factors Affecting the Choice of the Source of Funds

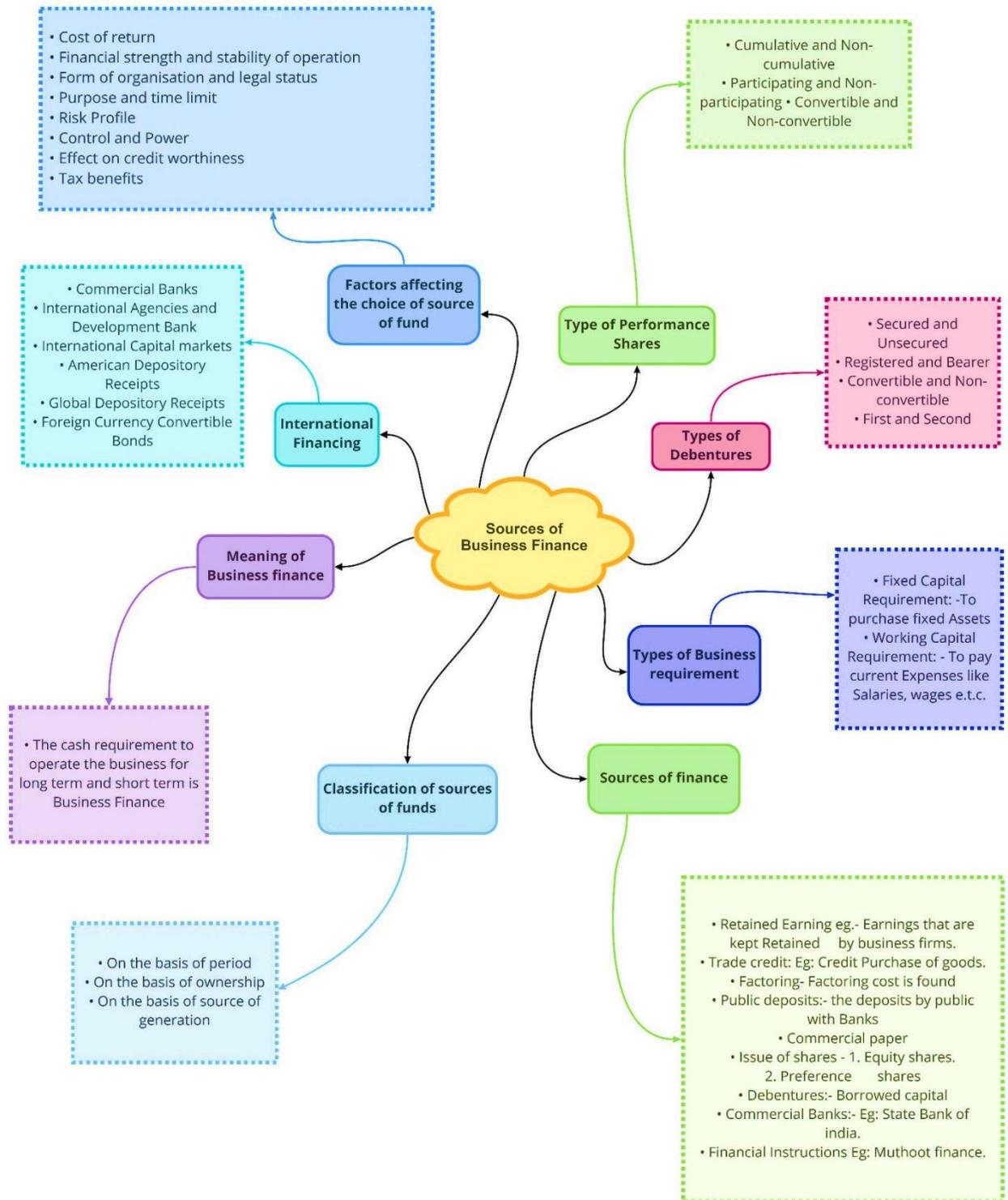
- 1) **Cost:** It refers to the cost incurred in obtaining the fund and the cost of using the funds. So, while deciding about the source of funds both the costs should be taken into consideration.

- 2) **Flexibility and ease:** Borrowings from banks and financial institutions involve many restrictions, detailed investigation and documentation. Therefore, business firms may not prefer them in case other sources are easily available.
- 3) **Effect on creditworthiness:** The creditworthiness of business is affected by the use of certain sources. For example, the issue of secured debentures by a company may lead to the withdrawal of loans by unsecured creditors. It might become difficult for the company to raise further unsecured loans.
- 4) **The form of organisation and legal status:** The form of the legal status of business firms also affect the choice of the source of finance. For example, a sole proprietor or a partnership firm cannot obtain funds by issue of equity shares as these can be issued only by joint stock companies.
- 5) **Purpose and time period:** The time period for which the funds are required also affects the selection of the source of funds. For example, if the funds are required for a short period, sources such as trade credit, commercial papers, etc. can be used. For the long term, sources such as the issue of shares, debentures, etc. are preferred. Therefore, the purpose of the business should also be considered while choosing the source of finance.
- 6) **Tax benefits:** Certain sources of funds like debentures and loans provide tax benefits. The interest payable on them is tax deductible. Hence, the organisations seeking tax advantage prefer to raise funds through debentures or loans.





Class : 11th Business Studies
Chapter- 8 : Source Of Business Finance



Important Questions

Multiple Choice Questions -

- Sources of finance can be categorised as _____
 - Source of Generation Basis
 - Period Basis
 - Ownership
 - All of the above
- Expand ADR
 - American Depository Receipts
 - American Direct Receipts
 - American Domestic Receipts
 - None of the above
- Industrial Finance Corporation of India (IFCI) was established in _____
 - July 1948
 - July 2001
 - July 1956
 - July 1991
- _____ is an example of short term finance
 - Trade Credit
 - Debenture
 - Share
 - None of the above
- _____ was the first company in India to issue convertible zero interest debentures in January 1990
 - Reliance Limited
 - Adani Enterprise
 - Tata Motors
 - Mahindra and Mahindra
- Expand GDR
 - Global Depository Receipts
 - Gross Domestic Receipts
 - Government Direct Receipts
 - None of the above
- Money obtained by issue of shares is known as _____
 - Debts
 - Loans
 - Reserve Funds
 - Share Capital
- A person who purchases the common stock of a corporation is known as:
 - Preferred stockholder
 - Creditor
 - Bondholder
 - Common stockholder
- ICICI was established in _____
 - 1985
 - 1975
 - 1965
 - 1955
- Commercial papers can be issued only by large and creditworthy companies because
 - It is protected by the Government
 - It is an Unsecured Debt
 - It is Fully Secured Debt
 - None of the above
- Which of the following is a commercial bank?
 - Punjab National Bank
 - Canara bank
 - State Bank of India
 - All of the above
- State Industrial Development Corporations were established by _____
 - Ministry of Finance
 - the Different States
 - Central Government
 - None of the above
- Under the lease agreement, the lessee gets the right to
 - Use the asset for a specified period
 - Share profits earned by the lessor
 - Sell the assets
 - Participate in the management of the organisation
- When one party grants the other party the right to use the asset in return for a periodic payment, it is known as _____
 - Lease Financing
 - Public Deposits
 - Debts
 - Factoring



15. The term 'redeemable' is used for
 - (a) Public deposits
 - (b) Commercial paper
 - (c) Equity shares
 - (d) Preference shares

Very Short Questions –

1. Define ploughing back of profits.
2. Risk capital is defined as which type of capital?
3. State the return given to debenture holders for using their funds.
4. Give one feature of retained earnings that the other source of finance does not have.
5. Mention one similar function of Public deposits and ADR.
6. Mention one similar function between preference share capital and equity share capital.
7. Which term is concerned with the redemption and conservation of capital funds in matching the financial need of a company?
8. In the business sector which organization provides both medium and long term loans and has been set up by both the state and central government.
9. Name the two companies in India offer factoring services.
10. Mention two rights of preference shareholder.

Short Questions –

1. What preferential rights are enjoyed by preference shareholders?
2. What factors influence the working capital need in a business? write any three
3. Define Share and write any two advantages of it.
4. Write any two differences between share and debentures.
5. Write any three limitations of equity share capital.
6. Write any three advantages of Retained Earnings

Long Questions –

1. From which source a firm can raise long-term funds as loans when not provided by a commercial bank? Discuss its merits.
2. What do you mean by owner's fund? When it is not suitable?
3. Write the main advantages and disadvantages of Public Deposits.

4. Comment on the following sources of International finance
 - (i) I.D.R.
 - (ii) F.C.C.B
5. "Ojas Auto Ltd." is a very well-known auto company in the industry having more equity share capital than long term debt in its capital structure. It is willing to expand and establish a new unit in the backward region and wants to train the tribal women in skill Development to empower them. It has a huge amount of cash reserve of Rs. 1000 crores.
 - (a) What is the status of the capital structure of the above company?
 - (b) According to you, which source of finance should be used by the company in establishing new units? Give any two reasons in support of your answer.
 - (c) What values does the company exhibit in the above case?

6. "Avika Ltd." company, an IT giant company registered in India wants to top the huge amount of resources for its growth and expansion from U.S.A. for long term needs. It also needs money for a period of fewer than 3 years to meet its medium cum short term needs. The company is following the practice of educating and giving employment to underprivileged youth. 50% of its office electricity is generated through solar power.
 - (a) Which two sources of finance should be used by the company to meet its requirement. Write any two characteristics of each source.
 - (b) What values does the company exhibit in the above case?

(Hints: ADR and Public Deposits, Employment Generation, Concern for the environment)

Case Study Questions –

1. Read the following text and answer the questions on the basis of the same:
Faulad Steel Ltd. is a multi-product company, manufacturing steel pipes in wide range for wide spectrum of application. Recently the company received a big order from an MNC for which it requires additional funds. The finance manager reported that the company is not in a position to bear extra burden of explicit cost and equity shareholders insisted not to issue more shares as it can affect their control consideration. Now, the company has only one option, i.e., ploughing back of profit.

- (i) 'Company is not in a position to bear extra burden of explicit cost.' Identify the meaning of explicit cost in the context of equity shares.
- Dividend
 - Interest
 - Market value of shares
 - Operating expenses
- (ii) Right to control is enjoyed by which of the following sources of finance?
- Debentures
 - Equity shares
 - Retained earnings
 - Preference shares
- (iii) '..... can affect their control consideration.' What is the meaning of control consideration in this context?
- Control over funds
 - Control over management
 - Control over risks
 - Control over the activities of the company
- (iv) In the above case, which of the following sources of finance is most suitable?
- Shares
 - Debentures
 - Retained earnings
 - Bank loans
2. Read the following text and answer the questions that follow:
- Saksham Ltd., a firm manufacturing textiles, needs to finance its day-to-day expenses, like, wages, rent, maintain stock of raw material, etc. Other than this, the company also decides to set up a new plant at an estimated cost of ` 5 crores. The finance manager of the company, Mr. Ramakant was asked by the management to do the financial planning by identifying most suitable source of raising long-term funds for financing the investment decision and short-term sources for working capital decision. As per the suggestions of Mr. Ramakant, the company approached their raw material supplier to give them credit for three months, so that the company can get cloth for making garments without making immediate payment. For long-term investment, the company had issued equity and preference shares to meet its requirement. This decision resulted in payment of large amount of taxes to government as dividend on shares is not deducted from total income of the company before calculating income tax. But this situation could be avoided if company had chosen borrowed funds as a source of finance.
- (i) State the source of finance, suggested by Mr. Ramakant to finance working capital decision.
- Trade credit
 - Public deposits
 - Equity and Preference shares
 - Retained earnings
- (ii) State the factors which have not been kept in mind for selecting source of long-term finance.
- Risk involved
 - Financial capacity of the firm
 - Time period
 - Tax benefits
- (iii) State the source of finance which can give the benefit of tax saving.
- Equity Shares
 - Debentures
 - Both (a) and (b)
 - Neither (a) nor (b)
- (iv) Identify the fund needed for the day-to-day operations of business.
- Working capital
 - Trading capital
 - Equity capital
 - Debt capital

Answers Key

MCQ Answers -

- Answer:** (d) All of the above
- Answer:** (a) American Depository Receipts
- Answer:** (a) July 1948
- Answer:** (a) Trade Credit
- Answer:** (d) Mahindra and Mahindra
- Answer:** (a) Global Depository Receipts
- Answer:** (d) Share Capital



8. **Answer:** (d) Common stockholder
9. **Answer:** (d) 1955
10. **Answer:** (b) It is an Unsecured Debt
11. **Answer:** (d) All of the above
12. **Answer:** (b) the Different States
13. **Answer:** (a) Use the asset for a specified period
14. **Answer:** (a) Lease Financing
15. **Answer:** (b) Commercial paper

Very Short Answers –

1. **Answer:** In a company, a part of the net incomes is retrained for future use is known as retained earnings. It is used as a source of internal financing, self-financing, or ploughing back of profits.
2. **Answer:** Risk capital is defined as equity share capital.
Also Check: Important Questions for Small Business
3. **Answer:** Fixed rate of interest is given to debenture holders for using their funds.
4. **Answer:** Retained earnings save a portion of the net incomes for future use is retained earnings. The retained earnings have the ability to self-finance and it doesn't involve any explicit cost.
5. **Answer:** In both public deposits and ADR, the depositors doesn't have a voting right.
6. **Answer:** The one similar function between preference share capital and equity share capital is that both capitals are a part of the owner's share.
7. **Answer:** The retained earning is concerned with the redemption and conservation of capital funds in matching the financial need of a company.
8. **Answer:** The organization which provides both medium and long term loans and has been set up by both the state and central government is the development bank.
9. **Answer:** The two companies in India offer factoring services are SBI Factors and Commercial Service Ltd.
10. **Answer:** The two rights of preference shareholder are
 - Getting a fixed rate of dividend from the net profit of an organization, before declaring any dividends for equity stockholder.
 - At the time of liquidation, receiving funds after the organization creditor's claim has been resolved.

Short Answers –

1. **Ans:** Preference shareholders have the following preferred rights:
 - **Preference in Dividend:** They receive dividends at a fixed rate, and dividends on these shares are paid before dividends on equity shares.
 - **Preference in Repayment:** When a corporation closes, preference shares are paid out first, followed by equity shares.
 - **Excess Profits:** Preference shares have the right to partake in any excess profits that remain after equity shares have been paid.
 - **Preference in case of dissolution:** They have the preference over equity shareholders in the share capital refund in the event of company dissolution.
2. **Ans:** The factors influencing the working capital need in a business are:
 - **Nature of Business:** Manufacturing business requires more working capital as compared to trading business or service provider.
 - **Business Cycle:** During boom period firms require a large amount of working capital to manage the increased sales and production.
 - **Seasonal Factors:** Seasonal businesses require more working capital during their season time.
 - **Scale of Operations:** Businesses operating on a large scale require larger amounts of working capital as compared to small business firms.
 - **Credit Allowed:** A business extending a longer credit period to its buyers will need more working capital as compared to a business doing cash business or offering a lesser credit period.
 - **Production Cycle:** Businesses with longer production cycles require more working capital as compared to businesses with short-term production cycles.
 - **Credit Availed:** A business organisation receiving longer credit period from their supplier will require lesser working capital as compared to business purchases goods for cash or receive short credit period.
3. **Ans:** A company needs huge investments to start a business, this amount is known as capital. Since, it is impossible for one individual to bring in such a

huge amount of capital, the entire capital is divided into small units known as shares, where each person holding shares is referred to as a shareholder.

Advantages

- It serves as permanent capital as it has to be repaid at the time of liquidation.
- Democratic control over the management of the company is given to shareholders through voting rights.
- Equity capital establishes a company's credit-worthiness and gives prospective loan providers trust.

4. **Ans:** The difference between shares and debentures are:

Basis	Shares	Debentures
Meaning	Owners' funds are referred to as shares	Borrowed funds are referred to as debentures
Returns	In the case of shares, the dividend payment is not fixed, and is based on the profits of the company	In the case of debentures, the corporation pays a fixed rate of interest.

5. **Ans:** The three limitations of equity share capital are:

- The returns are fluctuating in nature so investors who need steady income may not prefer equity shares.
- Cost of raising funds from equity shares is quite high as compared to other sources.
- It is more of a complicated process and may take longer time to raise funds.
- The issuance of additional equity shares dilutes current equity shareholders' voting power and earnings.

6. **Ans:** The Merits of Retained Earnings are:

- **No initial fees:** These funds are not subject to any explicit fees, such as floatation costs or interest, because they are raised internally.
- **Positive share price:** A large quantity of retained earnings can cause the price of equity shares to rise.
- **Loss Absorption:** Because these are surplus profits retained in the business, they serve to mitigate the impact of unanticipated losses.

Long Answers -

1. **Ans: Financial Institutions:** There are numerous financial institutions established by the government of India across the country. These institutions finance the businesses and are set up by both state and central governments. There are development banks especially established to promote industrial development in the country.

Merits

- Provide long term funds which are not provided by the commercial banks
- Provide various services such as managerial advice, financial and technical advice to the companies.
- Increases the goodwill of the borrowing company in the capital markets.
- Funds can be made available even at the time of contingency and can be paid in easy installment without being a burden to the company.

2. **Ans:** Funds provided by the owners of the organization are known as Owners' funds. It includes profits that are reinvested into the business. The important sources of owners' funds are

- Retained earnings
- Issue of equity shares.

The non-suitability of using owner's funds is based on the following factors:

- **Dilution of Control:** The choice of what source from which financing has to be procured also depends upon the extent to which firm is ready for the dilution of control. Such as if existing equity shareholders aren't willing to dilute the control they enjoy, in such a case the company may issue finance from sources other than equity share capital.
- **Tax Advantages:** Some sources of finance are tax deductible, and hence firms can enjoy tax advantage using those sources. For example interest on debentures is a tax deductible expense, hence firms wanting to enjoy tax benefits may go for these sources. In such a situation, using the owners' fund is not suitable.
- **Cost:** There are two types of costs: the cost of obtaining funds and the cost of putting these funds to use. Both of these costs should be considered when deciding on a funding source. If the cost of the owner's fund exceeds the prospective returns, it should not be issued.



- **Cash Flow Position:** Before raising finance business must consider the projected flow to ensure that it has sufficient cash to pay fixed cash obligations. A company with high liquidity and a good cash flow position can issue debt capital, as the company will have less chances of facing financial risk than the company with a low cash position.
- **Purpose and time frame:** The business should plan for the time frame in which the finances are needed. A short-term requirement, for example, can be addressed by borrowing cash at a low-interest rate via trade credit, commercial paper, or other means. Long-term financing is best accomplished through the issuance of shares and debentures.
- **Stock Market Conditions:** If the stock market is flourishing, and there is a condition of boom then the companies may prefer more equity over debt in the capital structure. However, in the case of a bear market, to avoid any more risks, the companies will prefer more debt over equity in the capital structure.
- **Ease of issuance of finance:** The flexibility and ease with which the firm is able to procure finance also affects the choice of source of finance. Excessive documents, legal restrictions, heavy investigation and other reasons may discourage the company from using a particular source of finance. Hence, if the issue of such a source is difficult, the firm should not go for it.

3. **Ans: Public deposits:** Organizations raise public deposits from the general public to fund their short-term and medium-term financial needs. The interest rate on these deposits is usually higher than the interest rate on bank deposits. If a person wishes to invest in a business (by making a deposit), he or she must complete and submit a required form together with the deposit. The organization issues a deposit receipt as a mark of debt acknowledgment in exchange for the money borrowed.

Merits of Public Deposits:

- **Minimal Restrictions:** Accepting public deposits as a means of raising funds is a straightforward process with minimal restrictions.

- **Low cost:** The cost of raising funds through public deposits is generally lower than the cost of borrowing money from a commercial bank.
- **No dilution of control:** There are no voting or management rights for depositors. As a result, accepting public deposits does not affect the business's ownership structure.

Demerits of Public Deposits:

- **Restricted financing:** The quantity of money that may be raised from public deposits is restricted because it is dependent on the availability of capital and people's desire to invest in the company in question.
- **Not suitable for new firms:** Because people have little faith in new businesses, it is difficult for them to raise capital through public deposits.

4. **Ans:** (i) An Indian Depository Receipt (IDR) is a financial instrument in the form of a Depository Receipt that is denominated in Indian Rupees. An Indian Depository creates it for a foreign firm to raise capital from the Indian securities market. IDRs are issued to Indian residents in the same way that domestic shares are issued, according to SEBI norms. Residents can bid in the same style and technique as they can for Indian shares when the issuer company makes a public offering in India.

(ii) FCCB (Foreign Currency Convertible Bonds) are debt securities with an equity component that can be converted into equity or depository receipts after a set length of time. FCCB holders can choose to convert their bonds into equity shares at a predetermined price or exchange rate or keep the bonds. They have a fixed interest rate that is lower than any other non-convertible debt instrument with a similar interest rate. FCCBs are listed on overseas stock exchanges and traded there.

5. **Ans:** (a) The company's financial structure is robust, with more equity share capital than long-term debt in its capital structure and a large cash reserve.

(b) As the company has huge cash reserves with itself, it should use retained earnings, or the self-financing technique for the establishment of new unit

When a company earns profit, a certain amount or percentage of those profits is retained within the business for future use and this is known as

retained earnings. When the business is financed through this source it is known as ploughing back of profit or internal financing. Retained earnings is a percentage of net earnings that is kept in the business for future usage.

Reasons

- **No initial fees:** These funds are not subject to any explicit fees, such as floatation costs or interest, because they are raised internally.
- **Positive share price:** A large quantity of retained earnings can cause the price of equity shares to rise.
- **Loss Absorption:** Because these are surplus profits retained in the business, they serve to mitigate the impact of unanticipated losses.

(c) The following values are displayed by the company:

- **Balanced Regional Development:** The company is willing to expand and open new units in underdeveloped areas, and it contributes to regional development.
- **Women Empowerment:** The company intends to empower indigenous women by training them in skill development.

6. **Ans:** (a) ADR and Public Deposits can be used to satisfy the company's needs.

- **Public Deposits:** Public deposits are deposits that are raised directly from the public by organizations. While depositors receive a greater interest rate than banks, the cost of deposits to the company is lower than the cost of bank borrowings. RBI is in charge of regulating it. Companies typically solicit public contributions over a three-year term.
- **ADR (American Depository Receipt):** This instrument is issued by the American companies and can be traded in American markets. It can be issued to only citizens of America and can only be traded in US stock exchanges. This instrument is like a regular stock which is purchased and sold in American markets.

(b) The following values are demonstrated by the company:

Environmental stewardship: The company uses solar power to generate 50% of its office electricity. As a result, resources are conserved.

Employment Generation: The company is committed to teaching and employing underprivileged youngsters, hence creating job possibilities for them.

Case Study Answers –

1.

(i) d) Operating expenses

Solution: Explicit costs are typical business costs which appear in the general ledger and have a direct impact on the profitability of a company. Examples of explicit costs include salaries, raw materials, utilities, lease payments, and other direct costs.

(ii) b) Equity shares

Solution: Equity shares are long-term financing sources for any company. These shares are issued to the general public and are non-redeemable in nature. Investors in such shares hold the right to vote, share profits and claim assets of a company.

(iii) a) Control over funds

Solution: Control Consideration means the amount per Company Share to be received by Company Shareholders in connection with a Change of Control Transaction, with any non-cash consideration valued as determined by the value ascribed to such consideration by the parties to such transaction.

(iv) c) Retained earnings

Solution: Retained earnings (RE) is the amount of net income left over for the business after it has paid out dividends to its shareholders. The decision to retain the earnings or distribute them among the shareholders is usually left to the company management.

2.

(i) a) Trade credit

Solution:

- Trade credit is the loan extended by one trader to another when the goods and services are bought on credit.
- Trade credit facilitates the purchase of supplies without immediate payment.
- Trade credit is commonly used by business organizations as a source of short-term financing.

(ii) d) Tax benefits

Solution:

- Long-term finance can be defined as any financial instrument with maturity exceeding one year (such as bank loans,



bonds, leasing and other forms of debt finance), and public and private equity instruments.

- Equity, which has no final repayment date of a principal, can be seen as an instrument with non finite maturity.

(iii) b) Debentures

Solution:

- Debentures are a debt instrument used by companies and government to issue the loan.
- Debentures are also known as a bond which serves as an IOU between issuers and purchaser.

- Companies use debentures when they need to borrow the money at a fixed rate of interest for its expansion.

(iv) a) Working capital

Solution:

Working capital is the money used to cover all of a company's short-term expenses, which are due within one year. Working capital is the difference between a company's current assets and current liabilities. Working capital is used to purchase inventory, pay short-term debt, and day-to-day operating expenses.



9

Small Business and Entrepreneurship

Introduction

A business which operates on a small scale and required less capital, less labour and less machines is called small business. The goods are produced on a small scale. This business is operated and managed by the owner of the business. In India, the village and small Industries sector consists of both traditional Handlooms, Handicrafts, khadi and Village Industries. Modern small Industries: Small scale industries and Power looms.

According to The Micro, Small and Medium Enterprise Development (MSMED) Act, 2006, a small-scale enterprise defined as one where the investment in Plant and Machinery is more than Rs. 25 lakhs but does not exceed Rs. 5 crore.

The definition used by the Government of India to describe small Industries is based on the investment in plant and machinery. It can be divided as follows:

Category	Manufacturing Unit	Service Providers
Micro Enterprise	Less than Rs. 25 Lakhs	Less than Rs. 10 Lakhs
Small Enterprise	Between Rs. 25 Lakhs to Rs. 5 Crore	Between Rs. 10 Lakhs to Rs. 2 Crore
Medium Enterprise	Between Rs. 5 Crore to Rs. 10 Crore	Between Rs. 2 Crore to Rs. 5 Crore

Role of small scale industries in socio economic development of India

India is a developing country and in developing countries the scope of small industries are very wide. It is contributing to the socio-economic development in the following ways:

1. **Contribution in GDP:** Small industries in India account for 95% of the industrial units in the country. They contribute almost 40% of the gross industrial value added in the economy.
2. **Contribution in Exports:** 45% of the total exports from India come from small scale industries. Gems and jewellery, handicrafts, sports goods, etc. are some items of exports from small scale sector.
3. **Employment Generation:** Small industries are the second largest employers of human resources after agriculture and generate more number of employment opportunities per unit of capital invested compared to large industries.
4. **Variety of Production:** Small industries produce a wide variety of products ranging from mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, leather, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches, etc. to the sophisticated items like electric and electronic goods, drugs and pharmaceuticals, agricultural tools and equipment and several other engineering products. Handlooms, Handicrafts and other products from traditional village industries add to this diverse production from SSIs.
5. **Regional Balance:** Small industries contribute significantly to the balanced development of the country as they produce simple products using simple technologies and depend on locally available resources both material and labour and can be set up anywhere in the country.
6. **Entrepreneurship Development:** Small industries provide an opportunity for entrepreneurship development in the country. The latent skills and talents of people can be transformed into business ideas with little capital investment and almost nil formalities to start a small business.



7. **Low Cost of Production:** Small industries have the advantage of low cost of production as they use locally available resources which are less expensive. Establishment and running costs of small industries are lower because of low overhead expenses.
8. **Quick Decision Making:** Due to the small size of the organizations, quick and timely decisions can be taken without consulting many people. New business opportunities can therefore be captured at the right time.
9. **Customized Production:** Small industries can design the product as per the tastes/preferences/needs of individual customers. They can provide customized production of even non-traditional products such as computers and other such products. They can produce according to the needs of the customers as they use simple and flexible production techniques.
10. **Personal Touch:** Small industries have an inherent strength of adaptability and a personal touch and therefore maintain good personal relations with both customers and employees. The government does not have to interfere in the functioning of a small scale unit.

Role of small business in rural India

1. **Provides Employment in Rural Areas:** Cottage and rural industries provide employment opportunities in the rural areas as these are labour oriented enterprises. In Indian rural areas ample labour is available.
2. **Improve Economic Condition:** Small business provide multiple sources of income to the rural households. SSI improves economic conditions and standard of living of people living in those Areas.
3. **Prevent migration:** Development of rural and village industries can also prevent migration of the rural population to urban areas in search of employment.
4. **Utilization of Local Resources:** SSI use local resources e.g. coir, wood and other products.
5. **Equitable distribution of rational Income:** Small Scale Industries and cottage Industries ensure equitable distribution of national income. This helps to reduce the gap between rich and the poor in the country.
6. **Balanced Regional development:** These enterprises are often dependent on local source of production. This way, industries do not just limit themselves to a particular place but diversify. This helps in balanced regional development.

Problems of Small Business

1. **Finance:** There is limited finance availability with these enterprises that makes the day to day working difficult. Also raising finance from banks is a challenge because of these enterprises' poor credit worthiness.
2. **Raw materials:** Availability and procurement of raw material is another major problem faced by the Small-Scale Industries. Their bargaining power is relatively low due to the small quantity of purchases.
3. **Managerial skills:** Small Scale Industries are generally promoted and operated by single person, who may not possess all the managerial skills required to run the business. They are also not in a position to afford professional managers.
4. **Labour:** Productivity per employee is relatively low and employee turnover is generally high due to low remuneration. It also faces lack of specialization.
5. **Marketing:** In most of the cases, marketing is a weaker area of small organization's; therefore, exploitation of middlemen is very more.
6. **Quality:** Many small businesses do not follow the desired standards of quality due to shortage of finance and resources.
7. **Capacity utilization:** Many of the small-scale Industries are operating below full capacity due to lack of marketing skills or demand. It will cause to increase its operating cost and leads to sickness and closure of the business.
8. **Technology:** Most of the Small-Scale Industries use outdated technology, resulting in low productivity and uneconomical production.
9. **Sickness:** Due to many internal and external problems, most of the Small-Scale Industries are in the edge of sickness.
10. **Global competitions:** Most of the Small-Scale Industries face competitions not only from medium and large industries, but also from Multinational Companies in the areas of quality, technology, finance, managerial skills etc.

MSME and Entrepreneurship Development

An entrepreneur is a person who undertakes a venture with some profit potential and involving a considerable amount of risk and therefore, entrepreneurship is the venture undertaken by the entrepreneur. The most obvious example of entrepreneurship is the starting of a new business.

Entrepreneurship can be of varying degrees and is not necessarily alike. It can be categorized into various subcategories, starting with small and home businesses to multidimensional industries that were started from the ground level.

Characteristics of Entrepreneurship

1. **Ability to take Risks:** This is the first and foremost trait of entrepreneurship. Starting any business involves a considerable amount of risk of failure. Therefore, the courage and capacity to take the said risk are essential for an entrepreneur.
2. **Innovation:** In a world, where almost everything has been done, innovation is a priceless gift to have. Innovation basically means generating a new idea with which you can start a business and achieve a substantial amount of profits. Innovation can be in the form of a product, i.e., launching a product that no one is selling in the market. It can also be in the form of process, i.e., doing the same work in a more efficient and economical way. An easy example of product innovation could be the launching of touch screen cell phones when the world was still using a keypad on cell phones.
3. **Visionary:** Every entrepreneur needs to be a visionary. Without a vision for the future of his venture, he or she would just be working aimlessly without reaching any point of success.
4. **Leadership:** An entrepreneur has a vision. However, it takes a lot of resources to turn that vision into reality. One of these resources are the people that the entrepreneur hires to perform various functions like production, supplying, accounting, etc.
5. A single person cannot perform all the tasks and therefore it is important to bring some more people to do it. This also makes leadership very important as a leader provides the required direction to the efforts of the employees. Without proper leadership, everyone would be working independently without achieving the desired results.
6. **Open Minded:** A good entrepreneur realizes that every situation can be a business opportunity. Thus, can be utilized for the benefit of the organization. For example, Paytm realized the significance of demonetization and recognized that the need for online transactions was more than ever during this time and so it utilized and grew massively during this period.
7. **Confident and Well Informed:** An entrepreneur needs to be confident about his ideas and skills. This confidence also inspires the confidence of the people working for him as well as the other stakeholders involved in his business.
8. **Flexible:** An entrepreneur should be flexible and open to change according to the situation. To be on the top, a businessperson should be equipped to embrace change in a product and service, as and when needed.
9. **Know your Product:** A company owner should know the product offerings and also be aware of the latest trend in the market. It is essential to know if the available product or service meets the demands of the current market, or whether it is time to tweak it a little. Being able to be accountable and then alter as needed is a vital part of entrepreneurship.

Startup India Scheme

Startup India Scheme is an initiative by the Government of India for generation of employment and wealth creation. The goal of Startup India is the development and innovation of products and services and increasing the employment rate in India. Benefits of Startup India Scheme is Simplification of Work, Finance support, Government tenders, Networking opportunities.

Aims and Objectives of Startup Scheme:

1. Trigger an entrepreneurial culture.
2. Create awareness about the charms of entrepreneurship among the youth.
3. Encourage more dynamic startups by motivating educated youth as a good career.



4. To support the startups in various stages such as pre-startup stage, nascent (beginning stage) and early post startup stage.
5. To promote underrepresented target groups such as women, back communities, scheduled castes, scheduled tribes etc.

Startup India Action Point:

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

Ways to fund startup:

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

Intellectual Property Rights (IPR)

Intellectual Property is a category of property that includes intangible creations of human intellect. The most prominent types of intellectual properties are trade secrets, copyrights, patents, trademarks etc. All inventions begin with an idea. Once the idea becomes an actual product, that idea is treated as an intellectual property. The legal rights conferred on such

products (idea) are called IPR. Once it is allotted to a person by the Govt. authority, he/she can rent, give or sell it to others.

Intellectual property is divided into two categories: Industrial properties like trademarks, industrial designs etc. and copyrights which includes literary and artistic works such as novels, poems, plays, films music, photographs, drawings, paintings, sculptures, architectural designs etc.

Importance of IPR:

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

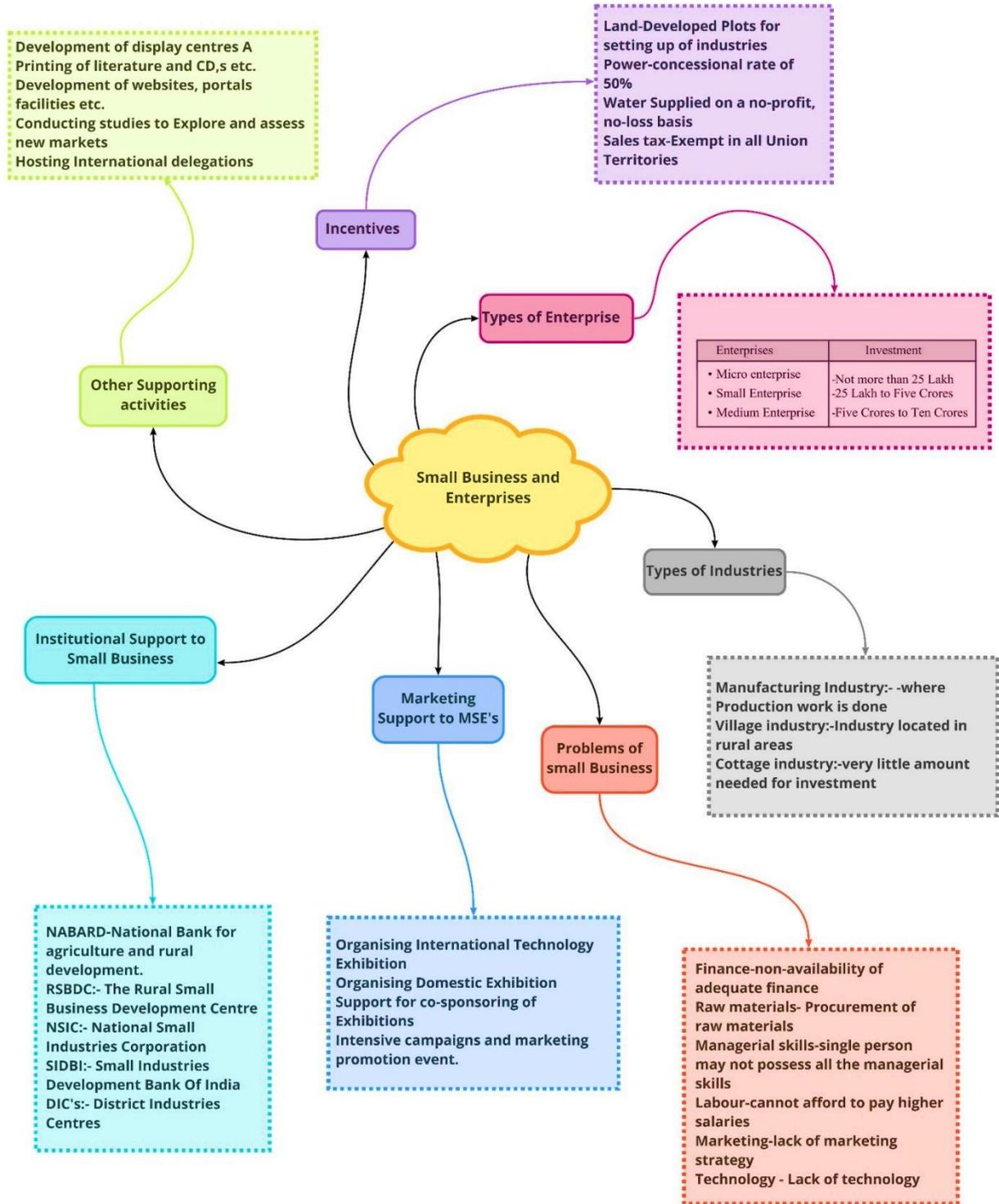
Types of Ips:

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





Class : 11th Business Studies
Chapter - 9 : Small Business and Enterprises



Important Questions

Multiple Choice Questions -

- Expand EOUs
 - Essential Operating units
 - Export Oriented units
 - Export Order Units
 - Essential order units
- The District Industries Centers Programme was launched on
 - On 15 August 1978
 - On May 1, 1978
 - On September 1, 1978
 - On July 1, 1978
- The small scale industry can enjoy the status of _____ if it supplies not less than 50% of its production to another industry, referred to as the parent unit.
 - Micro Business industry
 - Export oriented unit
 - Ancillary small industry
 - Village industries
- ISO 9000 is concerned with
 - Export
 - Quantity
 - Quality
 - Import
- Which of the following comes under the Modern Small Industries?
 - Coir
 - Powerlooms
 - Handicrafts
 - Khadi
- Small industries contribute _____ of gross industrial value.
 - 49 percent
 - 45 percent
 - 48 percent
 - 40 percent
- The small scale industry can enjoy the status of _____ unit if it exports more than 50% of its production.
 - Import oriented units
 - Export Oriented units
 - Small scale unit
 - Domestic unit
- NSIC was setup in
 - 1982
 - 1975
 - 1965
 - 1955
- _____ are also known as Rural industries or Traditional industries
 - Agricultural industry
 - Food industry
 - Cottage Industries
 - None of the above
- Small scale industries owned and managed by women entrepreneurs have a share capital of not less than _____
 - 20 percent
 - 51 percent
 - 25 percent
 - 50 percent
- Expand DIC
 - Directorate of Industry corporation
 - Directorate of Indian Corporation
 - District Industries Centers
 - None of the above
- Which of the following is part of the small-scale sector?
 - Paper Products and Printing
 - Food Products
 - Cotton Textiles
 - All of the above
- Exemption from paying taxes for 5 or 10 years is known as _____
 - Tax Deduction
 - TDS
 - Value Added Tax
 - Tax Holiday
- _____ is defined as one in which the investment in fixed assets of plant and machinery does not exceed rupees one crore.
 - Small Scale Industry
 - Limited Companies
 - Large Scale industry
 - None of the above



15. In India, the 'Village and Small Industries' Sector consists of both traditional and modern small industries. This sector has _____ subgroups.

- (a) Eleven
- (b) Ten
- (c) Five
- (d) Eight

Very Short –

1. Which type of Industry uses family labour and local available talent while running the business?
2. A micro small scale industry has investment of Rs. 24 lakhs and is engaged in manufacturing business. Now, it wants to increase its investment by Rs. 4 Lakhs. What type of small Business will it become and what is the maximum investment limit in such cases?
3. Which type of enterprise is owned, controlled and managed by a woman or a group of women holding share capital not less than 51%?
4. Name areas where SSLs feel threatened from global enterprises.
5. Name any 2 merits of SSLs in the export trade of India.

Short Questions –

1. What different parameters are used to measure the size of manufacturing business?
2. State features of cottage industries.
3. Write the objective of the Marketing Assistance scheme?
4. What is the aim of NSIC?
5. Write any two objectives of establishment of NAB-ARD.
6. Write any three problems of small business in India.
7. Define the role of small business in the following area:
 - a) Variety of products
 - b) Industry output and export
 - c) Balance development
 - d) Customization
8. On the basis of capital contribution identify the type of SSI from the following:
 - a) Capital contribution on plant and machinery is Rs. 9 lakh.
 - b) Capital contribution on plant and machinery is Rs. 7.5 crore
 - c) Capital contribution on plant and machinery is Rs. 26.5 crore

Long Questions –

1. What are the incentives given by Govt. to the Industries set up in hilly, backward and rural areas.
2. Preet food Industries set up a food and beverages processing plant in the rural area of Haryana and opted for labour intensive techniques due to easy availability of labour and to provide employment to local people. Board of directors decided to invest 50 lakhs to acquire plant and machinery, Rs. 1 crore to buy land, Rs. 20 Lakhs to buy raw material and Rs. 20 lakhs to maintain day to day expenses.
 - (a) Name the Act of Industries which is applicable to the above industry.
 - (b) Which category of part (a) will the above industry come from?
 - (c) State the investment limit in this category.
 - (d) What values has been followed by the above company.
3. Board of Directors of "Bio Pure water Ltd." decides to set up its first unit in the hilly area of Himachal Pradesh Company requires Rs. 3 crores for it and Rs. 50 Lakhs for working capital. The company has earned marked 15% of its profit for the Educational and Health needs of its employees and their family members.
 - (a) The above company comes under which category as per MSMED Act 2006.
 - (b) Write any one commercial reason for setting up a unit in the hilly region.
 - (c) According to you, what are the options available to the company for meeting its long term and short term needs.
 - (d) What are the values promoted by the company.
4. Explain in detail the problems faced by the small business?
5. SSI's are at a distinct disadvantage as compared to LSI's. Discuss some important areas of SSI which need support.
6. Write notes on the following:

Case Study Questions –

1. Read the following text and answer the questions on the basis of the same:
Neeru was a daily wage labourer when she decided to be her own boss and transformed herself as a successful businesswoman. She started her small scale business of making Pickles using

organic fruits and vegetables with total investment of ₹ 10 lakhs along with few of her neighbors using their free time at home. She invested ₹ 2 lakhs by selling her jewellery and using personal savings and ₹ 6 lakhs were contributed by her friends who are members of her business. They named their venture as 'Sakhi Aadhaar'. They launched their new range of pickles using aloe vera, turmeric, and other herbs, for boosting immunity of the users. They were able to supply the entire district. One of the members suggested that they should make herbal candies too. The products made by them were well-liked and appreciated by the people.

(i) Identify the quality of Neeru as an entrepreneur in the above case.

- a) Innovator
- b) Job provider
- c) Risk bearer
- d) All of the above

(ii) Identify the essence of entrepreneurship in the light of the given statement.

"...using organic fruits and vegetables with total investment of ₹ 10 lakhs along with few of her neighbours using their free time at home. She invested ₹ 2 lakhs by selling her jewellery and using personal savings and ₹ 6 lakhs are contributed by her friends who are the members of her business."

- a) Arranging resources
- b) Risk-taking
- c) Vocational training
- d) Creating job opportunities

(iii) Entrepreneurship is a process of whose actions?

- a) Entrepreneurs
- b) Government
- c) Workers
- d) Capital providers

(iv) Identify the category of small business started by Neeru according to MSMED Act.

- a) Micro enterprise
- b) Small enterprise

- c) Medium enterprise
- d) Cottage industry

2. Read the given text and answer the questions that follow: Sensing the business opportunities in Food industry, Sagar Bagada after completing his graduation in Agriculture engineering, decided to open his own enterprise. His dream turned into reality when his enterprise, "Swaad Food Industries" set up its food and beverages processing plant in 'Mitrapura', one of the rural area of Rajasthan, under Start-up India Scheme launched on 16th January, 2016. The enterprise opted for labour intensive technique, due to easy availability of labour at lower cost. With in no time, he came in the list of successful entrepreneurs.

(i) What is the process of creation of an enterprise known as?

- a) Venture
- b) Project
- c) Entrepreneurship
- d) Business idea

(ii) "The enterprise opted for labour intensive technique, due to easy availability of labour at lower cost." Identify the need for entrepreneurship satisfied in the given statement.

- a) Organization of production
- b) Generation of employment
- c) Economic efficiency
- d) Generation of business opportunities for others

(iii) Start-up India Scheme was launched on ___ in the year ____.

- a) 16th Jan., 2016
- b) 2nd Oct., 2016
- c) 17th Sep., 2006
- d) 2nd Oct., 2006

(iv) As a successful entrepreneur, identify Sagar's contribution to the economy is:

- a) Contribution to GDP
- b) Generation of employment
- c) Capital formation
- d) All of the above



Answers Key

MCQ Answers –

- Answer:** (b) Export Oriented units
- Answer:** (b) On May 1, 1978
- Answer:** (c) Ancillary small industry
- Answer:** (c) Quality
- Answer:** (b) Powerlooms
- Answer:** (d) 40 percent
- Answer:** (b) Export Oriented units
- Answer:** (d) 1955
- Answer:** (c) Cottage Industries
- Answer:** (b) 51 percent
- Answer:** (c) District Industries Centers
- Answer:** (d) All of the above
- Answer:** (d) Tax Holiday
- Answer:** (a) Small Scale Industry
- Answer:** (d) Eight

Very Short Answers –

- Ans:** Cottage industries use labour and local available talent while running the business.
- Ans:** Micro. Micro-enterprises are ones with a capital investment of less than Rs. 1 crore, and turnover less than Rs. 5 crore
- Ans:** Woman entrepreneur
- Ans:** The areas are:
 - Quality
 - High-end Technology
 - Financial creditworthiness,
 - Managerial capabilities
 - Marketing capabilities.
- Ans:** The two merits are”
 - **GDP and exports:** These industries has a significant contribution to the GDP and exports, thus leading to the economic growth of the country
 - **Personal touch:** Small businesses are known for their artist products, versatility and personal touch, which allows them to maintain positive relationships with customers abroad, thus adding financial value to their business.

Short Answers –

- Ans:** Investment and Turnover limits under MSMEs

As against the earlier bifurcation of MSMEs into manufacturing and service sector, both are treated as one and the same, and are defined under a common metric. The investment and turnover limits are:

The parameters are:

Sector	Investment in Plant and machinery		
	Micro	Small	Medium
Manufacturing and Service	Upto 1 Crore	Upto 10 Crore	Upto 50 Crore
	Turnover		
	Upto 5 crore	Upto 50 crore	Upto 250 crore

- Ans:** Cottage industries are characterised by certain features such as:
 - Typically, family labour and locally available skill are used;
 - The use of simple and basic tools;
 - The capital outlay is minimal;
 - Manufacturing of simple products is there, mainly in their own premises;
 - The use of indigeneous technology is made to manufacture products.
- Ans:** The objectives are:
 - To flourish and enhance the marketing competitiveness of the MSMEs.
 - To showcase the competencies of MSMEs.
 - To keep MSMEs informed about the current market situation and how it affects their operations. To make it easier for MSMEs to form consortia for the marketing of their goods and services
 - To develop a platform for an interaction of MSMEs with large institutional buyers.
 - To disseminate/promote various government programmes
 - To improve the marketing skills of micro, small, and medium-sized businesses.
- Ans:** National Small Industries Corporation (NSIC) aims at providing:
 - To make available indigeneous and imported machines on easy hire-purchase terms.

- Source, supply, and distribute raw materials, both domestic and imported.
 - To facilitate the export of the products of small business units.
 - Mentoring and advisory services.
5. **Ans:** It has been adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country.
- Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches.
 - It offers counselling and consultancy services and organizes training and development programmes for rural entrepreneurs
6. **Ans:** The problems are:
- **Finance:** There is limited finance availability with these enterprises that makes the day to day working difficult. Also raising finance from banks is a challenge because of these enterprises' poor credit worthiness.
 - **Raw materials:** Due to unavailability of certain raw materials, these enterprises have to adjust and compromise either in terms of poor quality raw material, or high price raw material. Both situations add to the problems of such enterprises.
 - **Managerial skills:** Business run by a single person or family, which lacks managerial skills, technical skills and entrepreneurial skills. Also due to no education, things become even more difficult. Hence neither they are capable to manage the enterprises on their own, nor they can hire people for such work due to shortage of financial resources.
7. **Ans:** (a) The small businesses produce a wide range of products, including mass-market goods, ready-made clothing, hosiery, stationery, soaps and detergents, household furnishings, hand-loom, and handicrafts.
- (b) India's small industries account for 95% of the country's industrial units. They account for over 40% of India's gross industrial value-added and 45% of the country's total exports.
- (c) These business units can be set up anywhere at any location and region, as they are dependent on locally available resources, simple technology, and labour class people. This facilitates balanced development of the country.

- (d) Small businesses are most suited for customisation, which involves tailoring a product as per the needs, tastes, demands and preferences of certain customers.

8. **Ans:** (a) Micro
(b) Small
(c) Medium

Long Answers -

1. **Ans:** Incentives given by the govt to the industries set up in hurry, backward and rural area are as follows:
- **Land:** Every state offers plots for setting up industries, however there might be differences in the terms and conditions of each state. For example, some states do not charge rent during the first few years, while others allow instalment payments.
 - **Power:** Power is supplied at a concessional rate of 50 per cent, while some states exempt such units from payment in the initial years.
 - **Water:** Water is provided on a no-profit, no-loss basis or with a 50% discount or five-year exemption from water payments.
 - **Sales Tax:** In all union territories, industries are exempt from sales tax while some states extend exemption for a 5 years period.
 - **Octroi:** Most states have abolished octroi.
 - **Raw resources:** Units in underdeveloped areas are given priority when it comes to obtaining rare raw materials such as cement, iron, and steel.
 - **Finance:** Subsidy of 10-15% per cent is given for building capital assets. Loans are also offered at reasonable rates.
 - **Industrial estates:** Some states encourage setting up of industrial estates in backward areas.
 - **Tax holiday:** Industries founded in backward, hilly, and tribal areas are exempt from paying taxes for 5 or 10 years.
2. **Ans:** (a) The Micro, Small and Medium Enterprises Development (MSMED) Act of 2006 tackles concerns such as definition, credit, marketing, and technological advancement. Medium-sized businesses and service-related businesses are also covered by these laws. The MSMED Act, 2006 came into force wef., October, 2006
- (b) Micro.



(c) Micro-enterprises are ones with a capital investment of less than Rs. 1 crore, and turnover less than Rs. 5 crore

(d) Values followed by the company are as follows:

- **Employment generation:** The company contributed to the generation of employment opportunities for local people by opting for labour intensive techniques
- **Balanced Regional Development:** The setting up of food and beverages processing plants by the company in the rural area of Haryana contributed to the balanced regional development.
- **Concern for society:** The generation of employment, and the development of rural areas highlights the company's concern for the society.

3. **Ans:** (a) Micro. Micro-enterprises are ones with a capital investment of less than Rs. 1 crore, and turnover less than Rs. 5 crore

(b) Cheap price of land and labour

(c) Bank loans and equity finance.

(d) The following are the company's values:

- **Balance Regional Development:** The company established its first operation in Himachal Pradesh's hilly region, contributing to the region's development.
- **Employee motivation:** Employees are motivated by the company's commitment to support their educational and health needs, as well as the needs of their families.
- **Job creation:** Due to the low cost of land and labour in Himachal Pradesh's hilly region, the corporation opened its first plant there, resulting in an increase in job opportunities.
- **Upliftment of rural area:** The company has set aside 15% of its profits for the educational and health requirements of its employees and their families in the hilly region, thereby raising the quality of living and developing the rural area.

4. **Ans:** The following are some of the issues that small businesses face in rural India:

- **Finance:** Most small businesses start with a low capital basis. Many of the units in the

small sector lack the creditworthiness needed to raise finance from the markets. As a result, they rely significantly on local financial resources and are frequently victims of money lenders' exploitation. These businesses usually lack appropriate operating capital, either as a result of late payments or because their cash is locked up in unsold inventories.

- **Raw Materials:** Obtaining raw materials is another big issue for small businesses. Because the essential materials are not readily available, they must either compromise on quality or pay a premium price for high-quality supplies. Due to the little amount of purchases they make, their bargaining power is limited. They also can't afford to incur the risk of purchasing in bulk because they don't have the space to keep the materials.
- **Management skills:** Small businesses are frequently promoted and operated by lone entrepreneurs who may lack all of the managerial abilities required to run the company. Many small business owners have excellent technical understanding, but they struggle to promote their products. Furthermore, they may not have enough time to complete all of the necessary tasks. At the same time, they do not have the financial means to hire competent management.
- **Labor:** Because small businesses cannot afford to offer greater compensation to their employees, employees' willingness to work hard and create more is impacted. As a result, per-employee productivity is poor, and employee turnover is significant.
- **Capacity Utilization:** Many small businesses are forced to run below full capacity owing to a lack of marketing skills or a lack of demand, causing their operating costs to rise. Gradually, this leads to illness and the business's closure.
- **Technology:** The use of obsolete or outdated technology is a severe issue for the small industries, thus resulting in low productivity and insufficient output.
- **Quality:** Due to traditional methods of production, these enterprises struggle to maintain standardized quality.
- **Global Competition:** They have to face competition with large scale industries and multinational companies.

5. **Ans:** SSI's are at a distinct disadvantage as compared to LSI's, because:

- Multinational corporations, which are giants in terms of size and business volumes, compete not only with medium and big industries, but also small scale industries.
- Quality standards, technological expertise, financial creditworthiness, management and marketing competencies are all difficult to overcome on the part of SSI's.
- Due to the strict standards of quality certification such as ISO 9000, access to markets of developed countries is constrained. These businesses are unduly reliant on middlemen, who might exploit them by paying cheap prices and delaying payments. They lack the infrastructure required for direct marketing.

Areas where SSI's need support are:

- **Finance:** Most small businesses start with a low capital basis. Many of the units in the small sector lack the creditworthiness needed to raise finance from the markets. As a result, they rely significantly on local financial resources and are frequently victims of money lenders' exploitation. These businesses usually lack appropriate operating capital, either as a result of late payments or because their cash is locked up in unsold inventories.
- **Raw Materials:** Obtaining raw materials is another big issue for small businesses. Because the essential materials are not readily available, they must either compromise on quality or pay a premium price for high-quality supplies. Due to the little amount of purchases they make, their bargaining power is limited. They also can't afford to incur the risk of purchasing in bulk because they don't have the space to keep the materials.
- **Management skills:** Small businesses are frequently promoted and operated by lone entrepreneurs who may lack all of the managerial abilities required to run the company. Many small business owners have excellent technical understanding, but they struggle to promote their products. Furthermore, they may not have enough time to complete all of the necessary tasks. At the same time, they do not have the financial means to hire competent management.

- **Labor:** Because small businesses cannot afford to offer greater compensation to their employees, employees' willingness to work hard and create more is impacted. As a result, per-employee productivity is poor, and employee turnover is significant.
- **Capacity Utilization:** Many small businesses are forced to run below full capacity owing to a lack of marketing skills or a lack of demand, causing their operating costs to rise. Gradually, this leads to illness and the business's closure.
- **Technology:** The use of obsolete or outdated technology is a severe issue for the small industries, thus resulting in low productivity and insufficient output.
- **Quality:** Due to traditional methods of production, these enterprises struggle to maintain standardized quality.
- **Global Competition:** They have to face competition with large scale industries and multinational companies.
 - a) NABARD
 - b) SFURTI
 - c) RSBDC
 - d) DIC'S
 - e) SIDBI
 - f) NCEUS

6. **Ans:** (a) NABARD stands for National Bank for Agriculture and Rural Development, and it is the Indian rural banking system's apex regulatory organisation. It's a development bank with the mission of providing and regulating loans in rural areas. In the Indian rural sector, NABARD promotes and develops agriculture, small scale enterprises, cottage industries, and other rural crafts.

Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches. It provides counselling and consulting services to rural entrepreneurs, as well as training and development programmes.

- (b) SFURTI was launched by the Ministry of Micro, Small and Medium Enterprises (MSME) to promote MSME cluster growth in the country. It was launched to make the MSME's competitive, lucrative, and sustainable. Also, it works for the provision of long-term job prospects in traditional sectors, as well as to create sustained employment opportunities in traditional industries.
- (c) The Rural Small Business Development Centre (RSBDC) is a non-profit organisation that

10

Internal Trade

Internal trade refers to the process of exchanging goods and services within the national boundaries of a country. In other words, the buying and selling of goods and services within the domestic territory of a country is known as internal trade. Purchases of goods from a local shop, a mall or an exhibition are all examples of internal trade. The government does not levy customs or import duties on goods and services that are produced within the country for meeting the domestic demand.

Internal trade can be classified into the following two categories:

Wholesale trade

Buying and selling of goods and services in large quantities for the purpose of resale or intermediate use is referred to as wholesale trade. Wholesalers act as an important link between manufacturers and retailers. They purchase in bulk and sell in small lots to retailers.

Services to manufacturers:

1. **Facilitating large scale production:** Small orders from a variety of merchants are collected by wholesalers, who then transmit the pool of orders on to manufacturers, who make bulk purchases.
2. **Bearing risk:** The wholesale merchants deal in goods in their own name take delivery of the goods and keep the goods purchased in large lots in their warehouses. They bear a variety of risks such as the risk of fall in prices, theft, pilferage, spoilage, fire etc.
3. **Financial assistance:** Cash payment is made generally, hence the manufacturers need not block their capital. Sometimes they also advance money to the procedure for bulk orders placed by them.
4. **Expert Advice:** As the wholesalers are in direct contact with the retailers, they are in a position to advise the manufacturers about various aspects including customers taste and preferences, market condition, competitive activities and the features referred by the buyer.
5. **Help in marketing function:** Release the manufacturers from many of the marketing activities and enable them to concentrate on the production activity. A large number of customers get their goods from retailers who in return have actually bought the goods from the wholesaler.
6. **Facilitate production continuity:** Facilitate production continuity through purchasing the goods as and when these are produced and storing them till the time these are demanded by retailers or consumers.
7. **Storage:** When goods are produced in factories, wholesalers declare delivery and store them in their godowns/ warehouses. They thus provide time utility.

Service to retailers:

1. **Availability of goods:** So as to provide a diverse assortment of goods to its customers, the wholesalers provide the retailers with varied products and services. Wholesalers hold the inventory of goods as well as handle the work of collecting goods from several producers thus relieving the retailers of the same.
2. **Marketing support:** Wholesalers are responsible for a variety of marketing duties as well as providing support to retailers. The retailers are benefited due to this as it helps them in increasing the demand for various new products.

3. On the basis of 'merchandise offered,' they can be classified as
 - Specialty store
 - Supermarket
 - Departmental store
4. On the basis of whether or not they have a 'fixed place of business, they can be classified as:
 - Itinerant retailers
 - Fixed shop retailers.

Itinerant Retailers

They do not have a fixed place of business to operate from. They keep on moving with their wares/ goods from street to street or place to place, in search of customers.

Following are the characteristics of itinerant retailers:

- i. They are small traders operating with limited resources.
- ii. They normally deal in consumer products of daily use such as toiletry products, fruits and vegetables, etc.
- iii. The emphasis of such traders is to provide greater customer service by making the products available at the doorstep of the customers.
- iv. They are forced to keep their limited inventory at their homes or at some other suitable place.

Types of Itinerant Retailers

1. **Hawkers and Pedlars:** They are traders who move around from place to place selling their goods. They usually carry their goods in a bag or on a cart or a cycle or on animals. They can be seen on streets of residential areas, place of exhibition, outside schools and restaurants. The following are the features of hawkers and pedlars:
 - They sell their merchandise at the doorsteps of Consumers.
 - They generally deal in non-standardised and low-value goods such as toys, vegetables, fruits, fabrics, snacks, ice-cream, etc.
 - They bargain with customers and try to charge maximum possible price for their products.
 - The products offered by them are generally not reliable in terms of quality and price.
2. **Periodic Market Traders:** These traders sell their articles on fixed days in different marketplaces. A special feature of these traders is that their weekly market day is fixed. For example, Saturdays (Shani Bazaar) or Mondays (Som Bazaar), etc. These traders can deal in a particular merchandise or they can be general traders. The following are the features of periodic market traders.
 - These traders deal in low-priced consumer goods of daily use, such as readymade garments, fabrics, toys, etc. They cater to the requirements of lower-income consumers.
 - Their shops are temporary structures.
 - They can also sell their goods in fairs and during festivals.
3. **Street Traders/ Pavement Vendors:** These are those retailers who display their goods at street crossings or on pavements or in the corridors of markets. They can also display their goods on railway platforms, bus stands, cinema halls, etc.

The following are the features of street traders/ pavement vendors:

- They sell goods of common use such as newspapers magazines, stationery items, readymade garments, etc.
 - They deal in low-priced products.
 - They do not change their place of business frequently.
4. **Cheap Jacks:** They are petty retailers who have independent shops, but of a temporary nature in residential colonies or business localities.

The following are the features of cheap jacks:

- They keep on changing their business from one locality to another, depending upon the potential of the area, However, change is not as frequent as in the case of hawkers or market Traders.
- They deal in consumer items as well as services such as repair of watches, shoes, etc.



Fixed Shop Retailers

These are retail shops which maintain permanent establishment to sell their merchandise. Therefore, they do not move from place to place to serve their customers.

Following are the characteristics of fixed shop retailers:

- i. As compared to itinerant traders, they have greater resources and operate on a relatively large scale.
- ii. These retailers may be dealing in different products, including consumer durables, as well as non-durables products.
- iii. This category of retailers has greater credibility in the minds of customers and they are in a position to provide greater service to the customers.

Types of fixed shop retailers

On the basis of size of operations, fixed shop retailers are of following two types:

1. Fixed Shop-Small Retailers:

These retailers operate from a fixed shop, but their area of operation is limited. They are of following types:

1. General Stores

These stores deal in items of daily use like groceries, confectionery, stationery, soft drinks, etc. They generally operate in residential areas and satisfy the day to day needs of the consumers.

Following are the features of general stores:

- These have a large variety in each line of goods.
- These stores remain open for long hours at convenient timings.
- These stores extend credit to their customers.

2. Single Line Stores/ Specialty Shops

These stores deal in a general category product line. The product line may consist of readymade garments, textiles, medicines, shoes, stationery or books.

Following are the features of specialty shops:

- These retail stores specialize in the sale of a specific line of product. For example, a shop selling women accessories.
- These shops are located in a central place of the market, where a large number of customers can be attracted.
- They provide a wide choice to the customers in the selection of a particular line of goods.

3. Street Stall Holders

The stalls of small vendors are commonly found at street crossings or other places where flow of traffic is heavy. They deal mainly in goods of cheap variety like hosiery products, toys, soft drinks, etc.

Following are the features of street stall holders:

- They attract floating customers and provide convenient service to the customers in buying some of the items of their needs.
- They get their supplies from local suppliers, as well as, wholesalers.
- They operate on a small scale.
- They provide convenient service to the consumers.

4. Second-hand Goods Shop

These shops sell second-hand goods of different kinds like furniture, books, clothes and other household articles. These shops are suitable for consumers with modest means.

Following are the features of second-hand goods shop:

- The shops selling second-hand goods generally sell goods at low prices, but if it is dealing in rare objects of historical importance or antique goods, then the price charged by them is high.

- The shops selling second-hand goods have no fixed location. They may be located at street crossings on in busy streets.
- The shops may operate from a table or atemporary structure (as in case of second-hand books) or it may have reasonable good structure (as in case of shops selling second-hand furniture or automobiles). It can also operate through e-commerce (OLX.com).

2. Fixed Shop-Large Retailers met

These retailers operate from a fixed shop on a very large scale. Their area of operation is wide. They are of the following types:

1. Departmental stores

It is a large establishment offering a wide variety of products, classified into well-defined departments, 'Akberally in Mumbai and 'Spencers' in Chennai are examples of departmental stores, aimed at satisfying practically every customer's need under one roof. It has a number of departments, each one confining its activities to a specific kind of product.

The following are the distinct features of departmental stores:

- These stores are centrally located so that they can cater to large number of customers.
- These stores try to maximise customer satisfaction by providing additional facilities such as restaurants, travel and information bureau, free wi-fi zone, kids zone, rest rooms, etc.
- These stores cater to that segment of customers form whom price is secondary.
- The form of organisation for such stores is joint stock companies managed by Board of Directors.
- These stores purchase goods directly from the de manufacturers and maintain their own warehouses where goods are stored. Thus, these stores combine the functions of retailing and selling.

These stores suffer from the following disadvantages:

- **Lack of Personal Attention:** Because of large scale operations, these stores are not able to give personal attention to each and every customer.
- **High Operating Costs:** Since these stores provide a number of additional services to their customers, therefore their operating costs are also high.
- **High Possibility of Loss:** These stores operate on large scale and incur high operating costs. Therefore, their exposure to risk is also high.
- **Inconvenient Location:** These stores are generally located in a central location. Customers encounter traffic problems while visiting these stores. Also, it is not convenient for the purchase of goods that are needed at short notice.

3. Chain stores or multiple shops

They are networks of retail shops that are owned and operated by manufacturers or intermediaries. Under this type of arrangement, a number of shops with similar appearance are established in localities, spread over different parts of the country. These shops normally deal in standardized and branded consumer products, which have rapid sales turnover. For example, an outlet of Reebok.

These stores exhibit the following features:

- These shops are located in populous localities, so that customers can be served at a place near their residence.
- The manufacturing or procurement of merchandise for all the retail units is centralized.
- Each retail outlet is under the direct supervision of a Branch Manager, who is responsible for its day-to-day operations.
- All branches are controlled by the head office. The head office formulates policies and gets them implemented.

Advantages of Chain stores or multiple shops:

- Economies of scale
- Standardized products



- Public confidence
- Division of risk
- No, bad debts

Limitations of Chain stores or multiple shops:

- Limited variety
- Lack of personal touch
- Inflexibility
- Divided attention
- No facilities

4. Mail order houses/business

These are the retail outlets that sell their merchandise through mail. There is generally no direct personal contact between the buyers and the sellers in this type of trading.

Advantages of Mail order house/business:

- Limited capital
- Convenience
- Wider market
- No, bad debts
- Elimination of middleman

Limitations of Mail order house/business:

- No personal contact
- No personal inspection
- Limited variety
- Postal delay
- Heavy advertising cost

5. Consumer Co-operative Store

It can be defined as “A voluntary association of persons based on co-operative principles by buying in common and selling in common”.

Advantages of Consumer Co-operative Store:

- Reasonable prices
- Low operating cost
- Cash sales
- Economies of scale
- Benefits from government

Limitations of Consumer Co-operative Store:

- Limited capital
- Inefficient management
- Lack of incentives
- Lack of storage facilities

6. Super-Markets

Super-markets are organized by co-operative societies as well as by private traders. A super-market is a large scale retail shop selling a wide variety of consumer goods. They are more attractive to consumers because of wide variety, low price, self-service and huge collection of merchandise.

Features:

1. They are generally located at the central locations to secure high turnover.
2. They sell goods on cash basis only.
3. They deal in wide variety (complete line) of goods.
4. They operated on the self-service principles.
5. They have low sales overhead as no salesmen are employed.

**Advantages of super-markets:**

1. **One roof, low cost:** Super-markets offer a wide variety of products at low cost under one roof. They are not only convenient but also economical to the buyers for making their purchases.
2. **Wide Selection:** Supermarkets keep wide variety of goods of different designs, colour etc. which enable the buyer to make better selection.
3. **No bad debts:** Sales are on cash basis, so there is no chance for bad debts.
4. **Complete freedom to buyers:** There is no sales-man. Buyer is free to take his decision.
5. **Shopping convenience:** All the required goods of daily need are available at one place. It save customer's time and energy.

Disadvantages of super-markets:

1. **No personal attention:** Supermarket works on the principle of self service. The customers, therefore, do not get any personal attention at the time of their purchase.
2. **No credit:** In supermarkets no credit facilities are made available to consumers. This restricts the purchasing power of buyers from such markets.
3. **Huge capital expenditure:** Establishment and running a supermarket requires huge investment. This can be successful only in big towns.
4. **Difficulty of space:** Large premises at central location are not available easily. It is not suitable for products which require personal selling.

7. Vending machines:

A vending machine is a new form of direct retailing. It is a machine operated by coins or tokens. The buyer inserts a coin or token in the machine and receive a specific quantity of product from the machine.





Advantages of vending machines:

- Vending machines are useful for selling pre-packed items of low priced products, with uniform size and weight.
- As like ATM its working time is 24×7.
- It is very convenient for both buyer and seller.

Disadvantages of vending machines:

- Initial cost of the machine and its maintenance charges on regular basis and repair are quite high.
- Consumers can't see the product before buying.
- Return of goods is impossible in case of vending machine.

Goods and services tax (GST)

GST is an indirect tax levied in India on the sale of goods and services. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services.

GST was implemented on 1st July 2017 in India GST was introduced to replace multiple indirect taxes levied by State and Central Governments in order to simplify the Indirect Tax System.

Following are the main features of GST:

- GST will be applicable on the supply of goods and services as against the earlier concept of tax on the manufacturer of sale of goods or provision of services.
- India has followed a dual GST model i.e. centre and 0 states will simultaneously levy tax on a common base.
- The GST levied by the centre is called Central GST (CGST) and the GST levied by the states (including union territories with own legislature) is called State. GST (SGST). Union territories without legislature will levy Union Territory GST (UTGST). For inter-state supplies Integrated Goods and Services, be Tax (GST) will be levied.
- GST is a destination-based concept as against the earlier origin based tax. It means tax would accrue to the state (or union territory) where the consumption takes place.
- Classification of a supply to be categorised as either supply of goods or supply of services for the purpose of levy of GST.
- The GST applies to all the goods other than alcoholic liquor for human consumption and five petroleum products-petroleum crude, motor spirit (petrol), High Speed Diesel (HSD), natural gas and Aviation Turbine Fuel (ATF).
- The list of exempted goods and services are common for the centre and the states.
- states like north-east and hilly states) in a financial year have been exempted from tax.
- Person doing business in more than one state require separate registration in each state under GST. Person having multiple business verticals within a state may also require separate registration.
- Small taxpayers with an aggregate turnover of ₹ 100 lakhs (₹ 75 lakhs for North Eastern states and Himachal Pradesh) in a financial year shall be eligible for composition key i.e. a taxpayer shall pay tax as a fixed percentage of his turnover during the year without the benefit of Input Tax Credit (ITC).

Main Documents Used in Internal Trade

The following are the main documents used in the Internal trade.

- Invoice:** In case of credit purchases, a statement is supplied by the seller of goods in which he gives particulars of goods purchased by buyer such as quantity, quality, rate, total value, sales tax, trade discount, etc. It is also called a Bill or Memo. Buyer gets information all about the amount he has to pay to the seller from Invoice only.
- Pro-Forma Invoice:** The statement (or forwarding letter) containing the details of goods consigned from consigner to consignee is known as a Pro-forma Invoice. It gives the particulars as regards quantity, quality, price and expenses incurred on the goods consigned. In case of consignment, consignee is an agent of

consigner who is supposed to sell goods on behalf of consigner and this statement/proforma invoice is only for his information. It is also known as interim invoice.

3. **Debit Note:** It refers to a letter or note which is sent by the buyer to the seller stating that his (seller's) account has been debited by the amount mentioned in note on account of goods returned herewith. It states the quantity, rate, value and the reasons for the return of goods.
4. **Credit Note:** It refers to a letter or note which is sent by the seller to the buyer stating that his account has been credited by the mentioned amount on account of acceptance of his claim about the goods returned by him.
5. **Lorry Receipt:** It refers to a receipt issued by the Transport Company for goods accepted by it for sending from one place to another. It is also known as Transport Receipt (TR) and Bilty.
6. **Railway Receipt:** It refers to a receipt issued by the Railways for goods accepted for sending from one station to another.

Terms of Trade

The following are the main terms used in the trade.

1. **Cash on delivery (COD):** It refers to a type of transaction in which payment for goods or services is made at the time of delivery. If the buyer is unable to make payment when the goods or services are delivered, then it will be returned to the seller.
2. **Free on Board or Free on Rail (FoB or FOR):** It refers to a contract between the seller and the buyer in which all the expenses up to the point of delivery to a carrier (it may be a ship, rail, lorry, etc.) are to be borne by seller.
3. **Cost, Insurance and Freight (CFF):** It is the price of goods which includes not only the cost of goods but also the insurance and freight charges payable on goods up to destination port.
4. **E&OE (Errors and Omissions Excepted):** It refers to that term which is used in trade documents to say that mistakes and things that have been forgotten should be taken into account. This term is used in an attempt to reduce legal liability for incorrect or incomplete information supplied in a document such as price list, invoice, cash memo, quotation etc.

Role of chambers of commerce and industry in promotion of internal trade

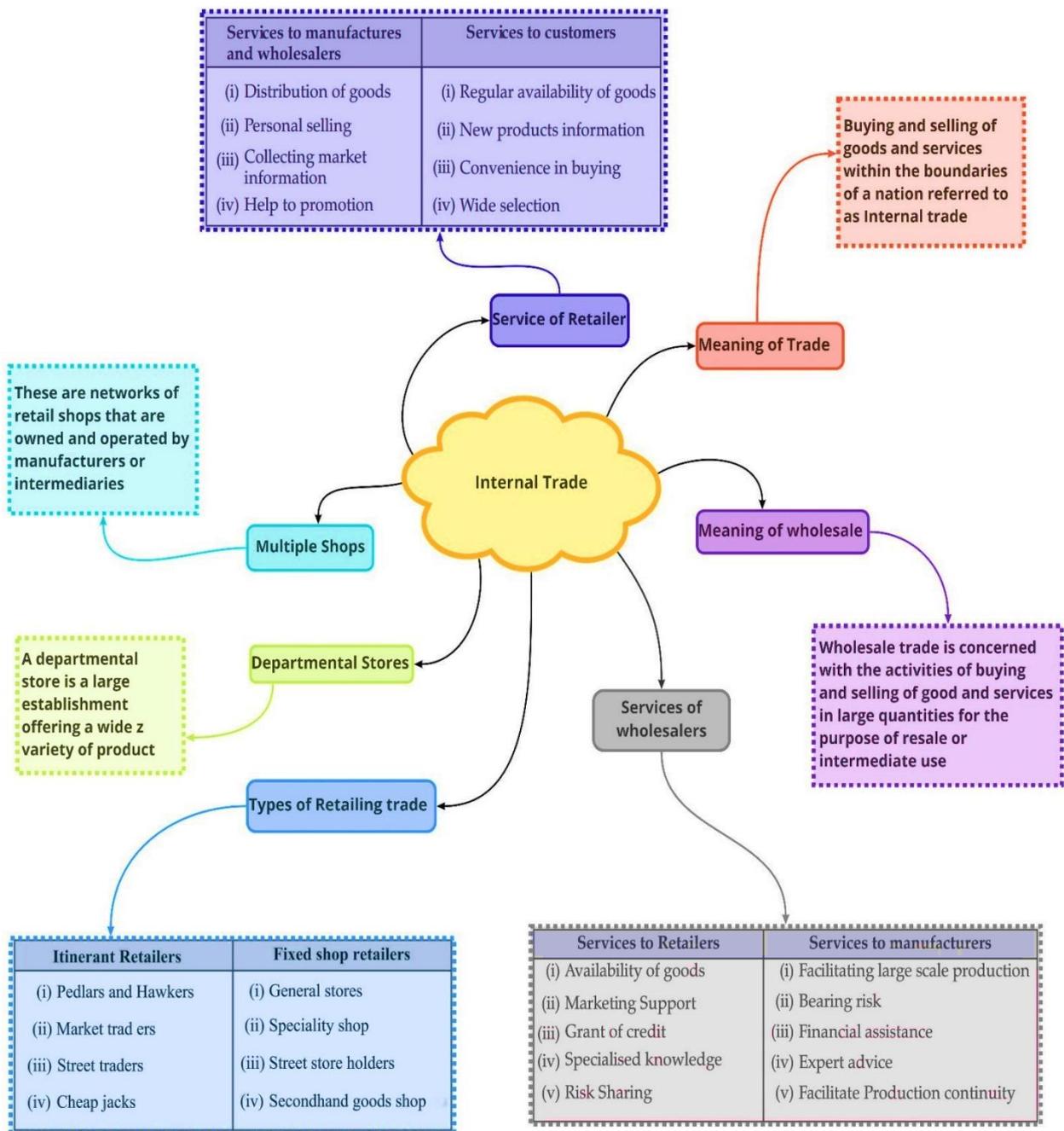
A chamber of commerce is a voluntary association of businessmen belonging to different traders and industries. Even professional experts like chartered accountants, financiers and other engaged in business in a particular locality, religion or country can also become the members of chamber of commerce. Its main objective is to promote the general business interests of all the members and to faster the growth of commerce and industry in a particular locality, religion or country.

Following are the main functions of chamber of commerce and Industry.

1. Conducting research and collecting statistics and other information about business and economy.
2. Providing technical, legal, and other useful information and advice to its members.
3. Publishing books, magazines and journal of business interest.
4. Making arrangement for education an training of members. Some chambers even conduct commercial examinations and award diplomas.
5. Arranging industrial exhibitions, trade fairs etc. in order to promote trade.
6. Advising the government in matters concerning industrial and economic development of the region.
7. Issuing certificate of origin to exporters.
8. Representation of business interest and grievances before the government.
9. Providing a forum for discussing the common problems of business community.
10. Acting as arbitrators for solving problems and disputes among the members.



Class : 11th Business Studies
Chapter- 10 : Internal Trade



Important Questions

Multiple Choice Questions-

- It helps disabled and elderly people.
 - Tele-shopping
 - E-commerce
 - multiple shop
 - installment system
- The aim is to economies by buying in common and to retain their profits by selling in common.
 - multiple shop
 - web marketing
 - teleshopping
 - consumer's co-operative store
- This retail business acts as a universal supplier of a wide variety of products.
 - Departmental store
 - Multiple shop
 - Mail order Business.
 - Tele-shopping
- _____ are mobile traders who deal in low priced articles with no fixed place of business.
 - Street stalls
 - Retailers
 - Itinerant traders
 - Agents
- _____ can check the price fluctuations in the market by holding back the goods when prices fall and releasing the goods when prices raise.
 - Wholesaler
 - Agent
 - Retailer
 - Mercantile agent
- A warehouse keeper accepts goods for the purpose of _____.
 - Selling
 - Packaging
 - Export
 - Storage
- When goods are imported for the purpose of export is called as _____.
 - Foreign trade
 - Entrepot
 - Home trade
 - Trade
- The purchase of goods from a foreign country is called _____.
 - Entrepot
 - Import
 - Re-Export
 - Export
- The risk of bad debts in this business is eliminated particularly when payment is received through V.P.P.
 - Tele-shopping
 - mail order trading house
 - Departmental store
 - co-operative store
- It is a network of a number of branches situated at different localities in the city or in the different parts of the country.
 - Multiple shop
 - Consumers? co-operative store
 - Hire purchase system
 - Internet marketing
- Small scale Fixed retailers includes _____.
 - Hawkers
 - Pedlars
 - Cheap Jacks
 - General stores
- _____ are agents who merely bring the buyer and the seller into contact.
 - Selling agent
 - Commission agent
 - Stockist
 - Broker
- Wholesaler?s deals in _____ quantity of goods
 - Small
 - Limited
 - Large
 - Medium
- An agent is appointed by the _____.
 - Principal
 - Manufacturer
 - Wholesaler
 - Retailer



15. The persons who come in between the primary producer and the final consumer to promote trade is called as _____
- Trader
 - Middleman
 - Auctioneer
 - Agent

Very Short-

- Differentiate between street trader and street shops
- What do you mean by a Cheap jack type of retail trade?
- State any two advantages of supermarkets.
- Define Internal Trade
- List the two broad categories of trade.
- Which shops deal in specific line products?
- Give two examples of chain stores
- Mail order Houses provide a lot of convenience to the customers, yet they are not very popular. Why? Give one reason.
- What are Vending Machines? Which type of goods are suitable for vending machines?
- Sandeep & Sons, Delhi orders pearl jewellery from Nasir Bros, Hyderabad. They enter into a contract and make certain that the payment will be made only on receiving the goods at Delhi in their Shop. Identify the term of trade in the above example

Short Questions-

- Distinguish between a wholesaler and retailer. Give only one point of difference
- Discuss services of retailers to manufacturers and wholesalers.
- Identify the type of itinerant trader from the following:
 - Traders who open their shop on a fixed day.
 - Petty retailers who have temporary independent shops.
 - Traders commonly found in populated areas.
- Jyoti has shifted residence to a new settlement colony. There are no retail shops nearby. What difficulties will Jyoti face in the above case?
- Identify the types of retailers in the following statements:
 - Rohan displays his goods on bus-stands or pavements.

- Mangal sells goods from one street to another, from one locality to another.
 - Rajkumar sells only school uniforms.
 - Deepanshu deals only in second-hand books.
- A manufacturing Co. opens shops at different locations in India. He sells goods on cash only. The shops have identical decorations. The prices of goods are fixed. In this way they eliminate unnecessary middlemen thus benefiting the consumers.
 - Identify the type of shop referred to.
 - Elaborate characteristics of such shops
 - Vishal buys goods in larger quantities and sells them to small businessmen.
 - Which type of trader is Vishal?
 - State services to consumers of Retailers.
 - Mention differences between departmental store and multiple shops.
 - Explain the features of Departmental store
 - Enumerate the limitation of Multiple shops.

Long Questions-

- Discuss the features of fixed shop retailers? Explain different types of fixed shop small retailers?
- Discuss the features of Mail order houses? State their merits and limitations?
- Uma, a village girl, comes to Delhi to visit her relatives. She goes with her cousin to a shop, which is centrally located. She becomes astonished by the varieties of goods which are sold here.
 - Identify this type of shop.
 - Quoting lines from the above paragraph describe two characteristics of the shop.
 - Explain advantages of such shops.
- Nirmala orders a mixer on the basis of an advertisement in a newspaper specifying the features, price, delivery terms. It specified that the terms of payment will be VPP only.
 - Identify this type of retail business.
 - Explain two advantages and two limitations of them
- A London based manufacturing co. manufacturing washing machines wish to add 2 new products in India namely AC's and Refrigerators. Out of a lot of 10 applicants the co. chose two wholesale firms (headed by females) whose proposals were very competitive and attractive. The wholesaler firm of AC's hired the services of a (differently able retailer) Hari at competitive prices to sell AC's in

Delhi, Hari informs his wholesaler firm's head that the consumers of Delhi wish that their houses are cold when they reach their homes in the scorching heat of Delhi.

- (a) Explain three services rendered by retailers to wholesalers or manufacturers.
 - (b) Identify two values which are being adhered to in the above paragraph
6. Briefly explain the role of Chamber of Commerce and Industry in promoting internal trade?

Case Study Questions-

1. **Direction:** Read the following text and answer the questions that follow:

Malti was selling vegetables going door to door in the local area in her cart along with her mother. Her father sells consumer items of daily use outside different temples of that locality at different places on fixed days. She doesn't like the business of selling vegetables because of short shelf life of vegetables and very little profit. She told her father to take loan and to open a small shop where all plastic items of daily use like jugs, baskets, thread-box, containers, etc. can be sold. Due to lack of funds, her father could not take a shop on rent rather he decided to sell soft-drinks, mouth freshener, beetle leaf etc. on a temporary platform with limited space at one of the crossing.

- (i) Identify the type of trade discussed above:
 - a) Wholesale trade
 - b) Retail trade
 - c) Large scale business
 - d) Online trade
- (ii) "...soft-drinks, mouth freshener, beetle leaf, etc. on a temporary platform with limited space at one of the crossing'. The type of retailer stated here is:
 - a) Speciality stores
 - b) Market traders
 - c) Cheap jacks
 - d) Street stall holders
- (iii) "She told her father to take loan and to construct a small shop where all plastic items of daily use like jugs, baskets, thread-box, containers can be sold." Specify the type of retailer indicated here:
 - a) Single line stores
 - b) Street stall holders
 - c) Speciality stores
 - d) Cheap jacks

- (iv) "Malti was selling vegetables going door to door." What kind of retailer Malti is?
 - a) Fixed shop
 - b) Street traders
 - c) Hawkers
 - d) Cheap jacks

2. Read the following text and answer the questions that follow:

Malti often noticed that nuclear families where both husband and wife go to work find it difficult to cook as cleaning and cutting vegetables took a lot of time, so as an entrepreneur she started gathering information regularly and developed a new product line of selling chopped vegetables in hygienic packaging under the brand name 'Sabji-wala'. She started her shop in her home space. In the beginning, she catered to the orders of customers directly but later on as demand increased, it was difficult for her to manage all the orders from that space. Her friends advised her to sell the products by opening her chain stores. This will increase her sales turnover and eventually the profits. Following her friend's suggestion now she has expanded her business to an extent that from a small shop operating from her home, she has changed it to a chain store having its 6 branches in the city.

- (i) 'In the beginning, she catered to the orders of customers directly'. Who serves as the last link in the distribution channel?
 - a) Wholesalers
 - b) Retailers
 - c) Agents
 - d) Customer
- (ii) Identify which of the following is not an advantage of a chain store?
 - a) Elimination of middlemen
 - b) No bad debts
 - c) High operating cost
 - d) Diffusion of risk
- (iii) 'Chains Stores are the examples of which type of retailers?
 - a) Fixed shop small retailers
 - b) Fixed shop large retailers
 - c) Itinerant retailers
 - d) Single line stores
- (iv) Identify which of the following is not the service of retailers to consumers?
 - a) New product information
 - b) After sales service
 - c) Wide selection
 - d) Promotion



Answers Key

MCQ Answers-

- Answer:** (a) Tele-shopping
- Answer:** (d) consumer's co-operative store
- Answer:** (a) Departmental store
- Answer:** (c) Itinerant traders
- Answer:** (a) Wholesaler
- Answer:** (d) Storage
- Answer:** (b) Entrepot
- Answer:** (b) Import
- Answer:** (b) mail order trading house
- Answer:** (a) Multiple shop
- Answer:** (d) General stores
- Answer:** (d) Broker
- Answer:** (c) Large
- Answer:** (a) Principal
- Answer:** (b) Middleman

Very Short Answers-

- Ans:** The differences between street trader and street shops are as follows:

Street trader	Street shops
These are the retailers who sell consumer items of everyday utility.	They cater to roving clients and specialize in low-cost items
They receive their goods from wholesale sources.	They receive their goods from both local and wholesale sources.
Usually found in places where a large floating population congregate, such as around railway stations and bus stops.	A stall's total size is small, it can only hold a minimal amount of merchandise.

- Ans:** Retailers who operate temporary independent stores and continually move their firm from one location to the next, depending on the area's potential. They sell consumer goods as well as services such as watches, shoes, and bucket repair.
- Ans:** Two advantages of supermarkets are-
 - Keep a large variety of goods in various patterns, colors, and sizes so that purchasers can make better choices.

(ii) All sales are made in cash, and thus no bad debts exist.

- Ans:** Internal trade refers to the buying and selling of goods and services within a country's borders. Internal Trade has the following characteristics such as:

- Buying and selling takes occur in the home country,
- Payments made or received in the home country
- Only a few formalities for traders to complete.

- Ans:** Internal trade can be divided into two distinct categories:

- Wholesale trade
- Retail trade.

- Ans:** Specialized stores deal in specific line products. Rather than selling a variety of products from multiple categories, these retail shops focus on selling a certain line of a product. Specialty stores are typically located in a central location where a big number of clients can be drawn, and they offer a diverse assortment of goods to customers.

- Ans:** Walmart and Body Shop.
- Ans:** Ordering via mail Houses offer a lot of convenience to customers, but they aren't extremely popular because they need a lot of money to spend on product promotion, moreover due to chances of fraud by traders, the consumers are apprehensive regarding this method.

- Ans:** In many nations, coin-operated vending machines are handy for selling a variety of things such as hot beverages, platform tickets, milk, soft drinks, chocolates, newspapers, and so on. Vending machines are excellent for selling pre-packaged brands of low-cost products with high turnover and consistent size and weight. The initial cost of installing a vending machine, as well as the ongoing costs of maintenance and repair, are, nevertheless, rather significant.

- Ans:** This example is a Cash-On-Delivery (COD) type of trade.

Short Answers-

- Ans:** The point of difference between wholesaler and retailer is given below:

Basis	Wholesaler	Retailer
Sells to	Wholesalers provide items to retailers and other merchants, as well as industrial, institutional, and commercial users, but do not sell to end-users in considerable quantities.	A retailer sells goods and services directly to the final customers.

2. **Ans:** The services of retailers to manufacturers and wholesalers are:

- **Help in the distribution of goods:** Retailers assist in the dissemination of manufacturers products by making them available to end-users who may be dispersed across a vast geographic area. As a result, they supply place utility.
- **Personal selling:** Retailers relieve producers of this work and considerably assist them in the process of actualizing product sales by engaging in personal selling efforts.
- **Enabling large-scale operations:** Allows them to function at a somewhat large scale, allowing them to focus totally on their other tasks.
- **Collecting market information:** Retailers are a significant source of market data about customer tastes, interests, and attitudes, which can help marketers make critical marketing decisions.
- **Help in promotion:** Manufacturers and distributors must engage in a variety of promotional activities in order to improve product sales. Retailers take part in these activities and encourage product sales.

3. **Ans: (a) Market vendors/traders:** Small retailers that open their stores at different locations on specific days or dates are known as market vendors/traders. They primarily serve people from lower socioeconomic backgrounds and specialize in low-cost consumer goods.

(b) Cheap Jacks: Retailers with temporary independent businesses in a business district are known as cheap jacks. They continually move from one location to the next, depending on the area's potential. They sell consumer goods as well as services such as a watch, shoe, and bucket repair.

(c) Street Traders: Street traders are the ones

who sell consumer items of everyday utility, such as stationery, eatables, readymade clothing, newspapers, and magazines, and are usually found in places where a large floating population congregate, such as around railway stations and bus stops.

4. **Ans:** Jyoti's challenges in the aforesaid circumstances are listed below:

- She will be deprived of the convenience of having items available whenever she needs them.
- She will not be informed about new products that are introduced to the market.
- She will have to hoard goods, sometimes at higher prices in the absence of retail shops.
- She will face inconvenience because she would have to travel a long distance for everything.
- She'll not be able to take advantage of the credit facility, as generally retail shops provide such facilities.
- She will not have access to a wide range of products under one roof.
- She will not be able to take advantage of after-sale services such as home delivery.

5. **Ans: (a) Street traders:** They are the retailers who sell consumer items of everyday utility, such as stationery, eatables, readymade clothing, newspapers, and magazines, and are usually found in places where a large floating population congregate, such as around railway stations and bus stops.

(b) Peddlers and hawkers: They are little producers or petty traders that sell their items at consumers' doorsteps while travelling from place to place on a bicycle, a hand cart, a cycle-rickshaw, or on their heads. They primarily trade in uncommon and low-value items.

(c) Specialty stores: These retail establishments specialize in the sale of a specific line of a product rather than selling a variety of products of various categories. Specialty stores are typically located at a central location where a big number of clients can be drawn, and they offer a diverse assortment of goods to customers.

(d) Second-hand goods stores: These stores sell used or second-hand goods such as books, clothes, autos, furniture, and other household items. These shops selling used



goods may be in the form of a stall with very little structure like a table or a temporary platform to display the books or they may have reasonably good infrastructure, as in the case of those selling furniture, used cars, scooters, or motorcycles, which are located at street crossings or in busy streets.

6. **Ans:** (a) Multiple store or a chain store. There are a lot of chain stores with comparable appearances that have sprouted up in various locations across the country. These various stores usually sell standardized and branded consumer goods with a high turnover of sales. These stores are owned by the same company and use the same merchandising tactics, as well as the same products and displays.

(b) The following are the characteristics of chain stores:

- The goods are dispatched to each of these shops from the head office, which is located in a reasonably populous area where a significant number of clients may be approached.
- The shop is under the direct supervision of a Branch Manager, who is responsible for its day-to-day management.
- The head office is in charge of creating policies and ensuring that they are executed.
- The prices of goods in such shops are fixed, and all sales are conducted in cash.

7. **Ans:** (a) Vishal works as a wholesaler. A wholesaler buys the product in bulk from the manufacturer and sell it to the retailer/businessman. Because it acts as an intermediary between manufacturers and retailers, the wholesaler is an important link in the distribution network. The retail stage of distribution is where items are transmitted from the hands of small businessmen to the hands of consumers.

(b) Services to consumers are as follows:

- **Regular availability of products:** Maintain consistent availability of numerous products from various manufacturers. This allows buyers to purchase things as and when they are required.
- **New product information:** Retailers convey crucial information to customers about the arrival, distinctive characteristics, and other aspects of new products by arranging for effective product display and through their personal selling efforts.

- **Convenience in buying:** They offer tiny quantities of goods in close proximity to residential areas and are open for long periods of time. Hence, the customers appreciate the ease and convenience with which they can purchase things.
- **Wide selection:** Maintain a diverse inventory of products from various producers. Customers can choose from a large range of products with varied styles, colors and designs as a result of this.
- **After-sales services:** Provides after-sales services such as home delivery, spare part supply, and customer assistance.
- **Provide credit facilities:** Allow regular customers to apply for credit. As a result, the latter can increase their consumption.

8. **Ans:** The differences between departmental store and multiple shops are:

Basis	Departmental Stores	Multiple shops
Location	Central Place	Where large customer approach
Range of products	Wide range of products	Specified range of products
Services offered	Maximum service to customer	Limited service to customer
Pricing	No uniform pricing policy	Uniform pricing policy
Class of consumer	Cater to high income group	Cater to different types of customers
Credit facility	Credit facility is availed	Only Cash basis
Flexibility	Flexibility in respect to line of goods marketed	Not much scope of flexibility

9. **Ans:** The features of a departmental store are:

- **Type of Customers:** Provide the best possible service to consumers in the upper section of society for whom pricing is secondary.
- **Location:** In the heart of a city, in a central location that caters to a big number of customers.
- **Organization:** Due to the vast size of these establishments, they are usually organized as a joint-stock company with a board of directors.

- **Services:** A departmental store incorporates both retail and warehouse services.
 - **Purchase and sale mechanism:** They have centralized purchasing systems and sales are decentralized in several departments.
10. **Ans:** Limitations of Multiple shops are:
- **Limited choice:** They do not sell products made by other companies. As a result, consumers have a limited choice of goods.
 - **Heavy reliance on top level management:** They have to rely on the top level for all advice, which takes away their ability to use their creative abilities to satisfy customers.
 - **Lack of effort:** Employees' lack of effort can often lead to indifference and a lack of personal touch.
 - **Losses:** Because of enormous stocks sitting unsold at the central depot, management may have to bear significant losses.

Long Answers-

1. **Ans:** Fixed shop retailers are retail stores that have a constant location where they offer their products. As a result, they do not relocate from one location to another to service their consumers.

Characteristics:

- More resources and the ability to operate on a wide scale.
- Deal with a variety of items, including both consumer durables and nondurables.
- High customer trust exists.

There are four types of Fixed Shop Small Retailers:

General stores

These stores stock a wide range of products necessary to meet the day-to-day needs of customers in the surrounding areas. They stay open for long periods of time at convenient times and frequently offer credit to some of their regular customers.

Specialty store

Shops that specialize These retail establishments specialize in the sale of a specific line of a product rather than selling a variety of products of various categories. Specialty stores are typically located in a central location where a big number of clients can be drawn, and they offer a diverse assortment of goods to customers.

Street stall holders

Vendors on the street. They cater to roving clients and specialize in low-cost items such as hosiery, toys, cigarettes, soft drinks, and so on. They receive their goods from both local and wholesale sources. Because a stall's total size is so small, it can only hold a minimal amount of merchandise.

Second-hand good shops

A store that sells used products These stores sell used or used items such as books, clothing, autos, furniture, and other household items. Second-hand stores may be set up in the form of a stand with very little structure, a table or a makeshift structure, near street crossings or in busy streets.

2. **Ans:** Mail order houses are retail establishments that sell their merchandise via mail. In this sort of trading, there is usually no direct personal contact between customers and sellers.

Features

- **Reaching the potential customers:** To obtain orders, potential consumers are contacted by newspaper or magazine advertisements, circulars, catalogs, samples and bills, and price lists mailed to them.
- **Careful Inspection:** When the orders are received, they are carefully inspected for compliance with the purchasers' specifications, which are carried out through the post office.
- **Payment options:** There may be a variety of payment options available, such as cash payment, demand draft etc.
- **Suitability:** Only goods that can be:
 - graded and standardized,
 - easily transported at a low cost,
 - have ready market demand,
 - available in large quantities throughout the year,
 - involve the least amount of market competition,
 - described through pictures and other means are suitable for this type of trading.

Merits of Mail order House

- **Less finances required:** It may be established with a small amount of money.
- **Eliminates middlemen:** It eliminates the need for unnecessary middlemen between buyers and sellers.



- No bad debts: They do not provide credit to its consumers, thus there is no risk of bad debt.
- Market potential: Big market potential because mail can reach a large number of people across the country.
- Delivery: The goods are delivered at the customer's place, and hence the customers need not go out to purchase the goods

Limitations of Mail order House

- No personal contact: There is no personal contact between buyers and sellers under the mail order selling system, which increases the chances of misunderstanding and mistrust
- Investment on product promotion: There is a lot of money spent on product promotion.
- Services: There is no after-sales service, which is crucial for customer satisfaction
- No credit facility: They don't provide credit facilities that discourage the customers from buying goods through this medium.
- Chances of fraud: The chances of fraud exists in such a medium. At times dishonest traders defraud customers by making false claims about products or failing to honour commitments.

3. **Ans:** (a) A departmental store is a large store that sells a wide range of products organized into well-defined sections, to meet almost every customer's demand under one roof. It is divided into several departments, each of which focuses on a single type of product.

(b) The following are the characteristics of departmental stores:

- **Central Location:** These are located at a central place in the heart of a city which caters to a large number of customers.

Quotation: "She goes with her cousin to a shop, which is centrally located."

- **Wide range of products under one roof:** Departmental stores are known for multifarious products and services with varied styles, colours, designs all available under one roof.

Quotation: "She becomes astonished by the varieties of goods which are sold here."

(c) The following are some of the benefits of department stores:

- They draw a huge number of clients due to their central location.
- Provides a vast range of items under one roof
- Aims to provide maximum services to clients
- Organized on a very big scale, allowing them to reap the benefits of large-scale operations, notably in terms of purchasing goods
- They spend a lot of money on advertising and other promotional efforts to assist them to increase their sales.

4. **Ans:** (i) Mail order houses are retail establishments that offer their wares via mail. In this sort of business, there is usually no direct human contact between the buyers and sellers. Potential consumers are approached for orders through newspaper or magazine advertisements, circulars, catalogs, samples and bills, and price lists mailed to them. When the orders arrive, they are thoroughly inspected for compliance with the purchasers' demands, which are then carried out through the post office. The goods could be sent using Value Paid Post (VPP). The goods are shipped via post and are only delivered to customers on making this agreement.

(ii)

Advantages:

- Less finances required: It may be established with a small amount of money.
- Eliminates middlemen: It eliminates the need for unnecessary middlemen between buyers and sellers.

Disadvantages:

- No personal contact: There is no personal contact between buyers and sellers under the mail order selling system, which increases the chances of misunderstanding and mistrust
- Investment on product promotion: There is a lot of money spent on product promotion.

5. **Ans:** (a) Three services rendered by retailers to wholesalers or manufacturers are as follows:

- **Help in the distribution of goods**

Assist in the dissemination of their products

by making them available to end-users who may be dispersed across a vast geographic area. As a result, they supply place usefulness.

- **Personal selling**

Retailers relieve producers of this work and considerably assist them in the process of actualizing product sales by engaging in personal selling efforts.

- **Enabling large scale operations**

Allows them to function at a somewhat large scale, allowing them to focus totally on their other tasks.

(b) The following are the values that are upheld:

- **Women's Empowerment:** The company chose two wholesale enterprises (both led by women) whose proposals were extremely competitive and appealing, resulting in women's empowerment.
- **Social Concern:** The AC wholesaler firm enlisted the help of Hari, a (differently able retailer).

6. **Ans:** Role of Chamber of Commerce in promoting internal trade is as follows:

(a) **Interstate movement of goods**

The Chambers of Commerce and Industry assist in a variety of operations related to the interstate movement of products, including car registration, surface transportation policies, and highway and road building.

(b) **Octroi and other local levies**

These are collected from people entering the state or municipal bonds. The Chambers of Commerce make every effort to ensure that their regulations do not obstruct smooth transportation or local trade.

(c) **Harmonization of sales tax structure and Value Added Tax**

The sales tax is a significant source of revenue for the state. For promoting trade balance, a sensible sales tax structure and uniform rates among states are critical.

(d) **Weights and Measures and prevention of duplication brands**

Weights and measures laws, as well as brand protection laws, are required to defend the interests of both consumers and traders. These must be carefully enforced.

(e) **Promotion of Agro based products**

The chamber of commerce frequently interacts with various agro based associations, consumer cooperatives, farming associations etc., and assists them in selling and promoting their products.

(f) **Excise duty**

The central government's primary source of revenue is the excise tax, which is levied throughout all states. The excise policy has a significant impact on the pricing system.

(g) **Promoting sound infrastructure**

The Chambers of Commerce and Industry meet with government departments to discuss infrastructure investments.

(h) **Labour legislation**

Labor policy that is straightforward and flexible is beneficial to industries that want to maximize productivity and create jobs. The government and the Chambers of Commerce and Industry are continually focusing on such issues.

Case Study Answers-

1.

(i) **b) Retail trade**

Solution: Retail trade is the business activity associated with the sale of goods to the final consumer, the ultimate customer. It is the link between wholesalers or manufacturers and the customers of the product. Typically retailers sell goods in small quantities to consumers for personal use, not for resale or business use.

(ii) **d) Street stall holders**

Solution: The markets or the stalls which are practically immobile in the street are known as street stallholders. The merchants place a small stall or a shop to display their merchandise. They can be erected or taken down simply on wheels. They are commonly seen in fairs conventions exhibitions etc.

(iii) **c) Speciality stores**

Solution: A speciality store carries a deep assortment within a narrow line of goods. Furniture stores, florists, sporting-goods stores, and bookstores are all specialty stores. Stores such as The Athlete's Foot (sports shoes only) and DXL Big + Tall.

**(iv) c) Hawkers**

Solution: A hawker is a vendor of merchandise that can be easily transported; the term is roughly synonymous with costermonger or peddler. In most places where the term is used, a hawker sells inexpensive goods, handicrafts, or food items.

2.

(i) b) Retailers

Solution: A retailer is a person or business that you purchase goods from. Retailers typically don't manufacture their own items. They purchase goods from a manufacturer or a wholesaler and sell these goods to consumers in small quantities.

(ii) c) High operating cost

Solution: Operating expenses (OPEX) are the costs a business incurs to stay up and running. They're also called Selling, General, and Administrative (SG&A) expenses. Examples of operating expenses are rent, payroll and

benefits, inventory, banking fees, marketing ads, business licenses, and transportation.

(iii) b) Fixed shop large retailers

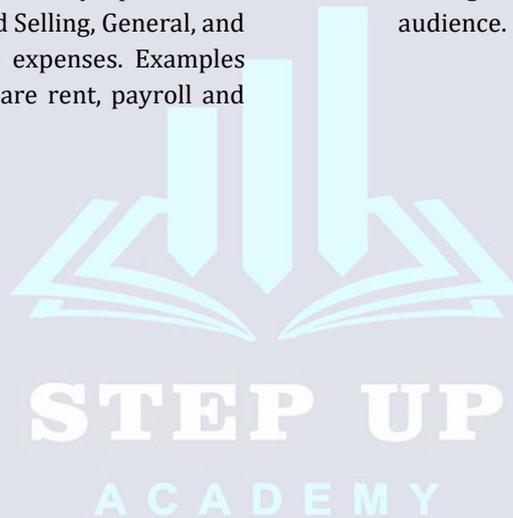
Solution: Fixed shop retailers are retail shops who maintain permanent establishment to sell their merchandise.

The characteristics of fixed shop retailers are:

They have greater resources and operate at a relatively large scale as compared with the itinerant traders.

(iv) d) Promotion

Solution: In business, promotion is any communication that attempts to influence people to buy products or services. Businesses generally promote their brand, products, and services by identifying a target audience and finding ways to bring their message to that audience.



11

International Business

Meaning of International Business

Manufacturing and trade beyond the boundaries of one's own country is known as international business.

International or external business can, therefore, be defined as those business activities that take place across the national frontiers. It involves not only the inter-national movements of goods and services, but also of capital, personnel, technology and intellectual property like patents, trademarks, know-how and copyrights.

International trade comprises exports and imports of merchandise (goods). It is also called 'visible trade' because goods are tangible. Items of visible trade include machinery, electronic goods, gold and silver, chemicals, etc.

Difference between Internal Trade and International Trade

Basis	Internal Trade	International Trade
Definition	Internal trade is trade that involves buying and selling taking place between two parties which are located within the political and geographical boundaries of a country	International trade is referred to as a trade that involves buying and selling of goods between two individuals or businesses located in two different countries or it can be trade between two different countries
Currency exchange	There is no exchange of currency as trade takes place within the boundaries of the nation	Exchange of currency is there between the two countries/individuals/businesses involved in the trade
Trade Restrictions	No trade restrictions for internal trade	International trade has different restrictions as the two countries involved in trade have different policies with regards to trade
Transportation Cost	Transportation cost is less when trade is taking place within the borders of a country	Comparatively higher transportation costs as goods need to be transported across the world
Goods traded	Only those goods and services are traded that are available in the country	Helps countries to trade goods that are produced in surplus or purchase goods that are scarcely available
Foreign reserve	Does not generate any foreign reserve	International trade generates foreign reserves for the two trading countries

Reason for International Business

1. **Unequal Distribution of Natural Resources:** Countries cannot manufacture the same level of quality and at the same cost. This is due to the unequal distribution of natural resources and differences in productivity levels among different geographical places.

Advantages Major advantages of exporting include:

- As compared to other modes of entry, exporting/ importing is the easiest way of gaining entry into international markets. It is less complex an activity than setting up and managing joint-ventures or wholly owned subsidiaries abroad.
- Exporting/ importing is less involving in the sense that business firms are not required to invest that much time and money as is needed when they desire to enter into joint ventures or set up manufacturing plants and facilities in host countries.
- Since exporting/ importing does not require much of investment in foreign countries, exposure to foreign investment risks is nil or much lower than that is present when firms opt for other modes of entry into international business.

Limitations:

- Since the goods physically move from one country to another, exporting/importing involves additional packaging, transportation and insurance costs. Especially in the case of heavy items, transportation costs alone become an inhibiting factor to their exports and imports. On reaching the shores of foreign countries, such products are subject to custom duty and a variety of other levies and charges. Taken together, all these expenses and payments substantially increase product costs and make them less competitive.
 - Exporting is not a feasible option when import restrictions exist in a foreign country. In such a situation, firms have no alternative but to opt for other entry modes such as licensing/franchising or joint venture which makes it feasible to make the product available by way of producing and marketing it locally in foreign countries.
 - Export firms basically operate from their home country. They produce in the home country and then ship the goods to foreign countries. Except a few visits made by the executives of export firms to foreign countries to promote their products, the export firms in general do not have much contact with the foreign markets. This puts the export firms in a disadvantageous position vis-a-vis the local firms which are very near the customers and are able to better understand and serve them.
2. **Contract Manufacturing:** Contract manufacturing is a mode of entry into ' international business under which a business firm in a country enters into a contract with local manufacturer in the foreign country to get certain goods produced or services rendered as per its specification! However, the firm retains with itself the responsibility of marketing the goods.

Advantages:

- Contract manufacturing permits the international firms to get the goods produced on a large scale without requiring investment in setting up production facilities. These firms make use of the production facilities already existing in the foreign countries.
- Since there is no or little investment in the foreign countries, there is hardly any investment risk involved in the foreign countries.
- Contract manufacturing also gives an advantage to the international company of getting products manufactured or assembled at lower costs especially if the local producers happen to be situated in countries which have lower material and labour costs.
- Local producers in foreign countries also gain from contract manufacturing. If they have any idle production capacities, manufacturing jobs obtained on contract basis in a way provide a ready market for their products and ensure greater utilization of their production capacities. This is how the Godrej group is benefitting from contract manufacturing in India. It is manufacturing soaps under contract for many multinationals including Dettol soap for Reckitt and Colman. This has considerably helped it in making use of its excess soap manufacturing capacity.
- The local manufacturer also gets the opportunity to get involved with international business and avail incentives, if any, available to the export firms in case the international firm desires goods so produced be delivered to its home country or to some other foreign countries.



Limitations:

- Local firms might not adhere to production design and quality standards, thus causing serious product quality problems to the international firm.
 - Local manufacturer in the foreign country loses his control over the manufacturing process because goods are produced strictly as per the terms and specifications of the contract.
 - The local firm producing under contract manufacturing is not free to sell the contracted output as per its will. It has to sell the goods to the international company at predetermined prices. This results in lower profits for the local firm if the open market prices for such goods happen to be higher than the prices agreed upon under the contract.
3. **Licensing and Franchising:** Licensing is a contract arrangement in which a firm in a country allows a firm in a foreign country to use its patent or trademarks or technology for a consideration known as royalty. Franchising is very much similar to licensing. The patent company which gives the franchise for a fed is called the franchiser, and the other company is called the franchisee.

Franchising covers the business of restaurant, hotel, travel agency, wholesale trade, retail trade, etc.

- i. **Joint venture:** Joint venture is a business jointly owned by two or more firms located in two different countries.
- ii. **Wholly owned Subsidiary:** A wholly-owned subsidiary is subsidiary company which is owned by a parent company or holding company. In other words, a wholly-owned subsidiary is a subsidiary company in whose equity capital, 100% investment is made by the parent or holding company.

Procedure for conducting international trade

The procedure for conducting international trade can be studied with respect to export procedure and import procedure.

Export procedure

A number of steps are required to be taken to complete an export transaction. These steps are explained below:

Step 1 Receipt of Enquiry and Sending Quotations:

The prospective buyer of a product sends an enquiry to different exporters requesting them to send information regarding price, quality and terms and conditions for export of goods. The exporter sends a reply to the enquiry in the form of a quotation, referred to as proforma invoice.

Step 2 Receipt of Order or Indent:

In case the prospective buyer (i.e., importing firm) finds the export price and other terms and conditions acceptable, he places an order for the goods to be despatched. This order (also known as indent) contains a description of the goods ordered, prices to be paid, delivery terms, packing and marking details and delivery instructions.

Step 3 Assessing Importer's Creditworthiness:

And Securing a Guarantee for Payments After receipt of the indent, the exporter makes necessary enquiry about the creditworthiness of the importer. The purpose underlying the enquiry is to assess the risk of non-payment by the importer once the goods reach the import destination. To minimise such risk, most of the exporters demand a letter of credit from the importer.

Step 4 Obtaining Export License:

After becoming assured about payments, the exporting firm initiates the steps relating to compliance of export regulations and take following steps to obtain license.

- a. Open a bank account in any bank authorized by the Reserve Bank of India (RBI) and get an account number.
- b. Then obtain Import Export Code (IEC) Number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority.
- c. After this, register with an appropriate export promotion council in order to safeguard against risk of non-payment.

Step 5 Obtaining Pre-shipment Finance:

Once a confirmed order and a letter of credit have been received, the exporter approaches his banker for obtaining pre-shipment finance to undertake export production.

Step 6 Production or Procurement of Goods:

Having obtained the pre-shipment finance from the bank, the exporter proceeds to get the goods ready as per the specifications of the importer.

Step 7 Pre-shipment Inspection:

The Government of India has initiated many steps to ensure that only good quality products are exported from the country. The government has passed Export Quality Control and Inspection Act, 1963 for this purpose and has authorised some agencies to act as inspection agencies. The exporter is required to get the goods inspected before shipment.

Step 8 Excise Clearance:

As per the Central Excise Tariff Act, excise duty is payable on the materials used in manufacturing goods. The exporter, therefore, has to apply to the concerned Excise Commissioner in the region with an invoice. If the Excise Commissioner is satisfied, he may issue the excise clearance. Also, in many cases the government exempts payment of excise duty or later on refunds it, if the goods so manufactured are meant for exports.

Step 9 Obtaining Certificate of Origin:

Some importing countries provide tariff concessions or other exemptions to the goods coming from a particular country. For availing such benefits, the importer may ask the exporter to send a certificate of origin.

Step 10 Reservation of Shipping Space:

The exporting firm applies to the shipping company for provision of shipping space. It has to specify the type of goods to be exported, probable date of shipment and the port of destination. On acceptance of application for shipping, the shipping company issues a shipping order.

Import procedure:

Following steps are required to be followed to import goods om a foreign country

Step 1 Trade Enquiry:

The first thing that the importing firm has to do is to gather information about the countries and firms which export the given product. The importer can gather such information from the trade directories and/ or trade associations and organizations. After identification, the importing firm approaches the export firms for collecting information about their export prices and terms of exports. After receiving a trade enquiry, the exporter prepares a quotation and sends it to the importer.

Step 2 Procurement of Import License:

There are certain goods that can be imported freely, while others need licensing. The importer needs to consult the Export Import (EXIM) policy in force to know whether the goods that he/she wants to import are subject to import licensing or not.

Step 3 Obtaining Foreign Exchange:

In India, all foreign exchange transactions are regulate by the Exchange Control Department of the Reserve Bank of India (RBI). As per the rules in force, every importer is required to secure the sanction of foreign exchange. . For obtaining such a sanction, the imported has to make an application to a bank authorized by RBI to issue foreign exchange. The application is made in a prescribed form along with the import license as per the provisions of Exchange Control Act. Aften proper scrutiny of the application, the bank sanctions the necessary foreign exchange for the import transaction.

Step 4 Placing Order or Indent:

After obtaining the import license, the importer places ani import order or indent with the exporter for supply of the specified products.



Step 5 Obtaining Letter of Credit:

If the payment terms between the importer and the overseas supplier is accepted by both parties, then the importer should obtain the letter of credit from its bank and forward it to the overseas supplier.

Step 6 Arranging for Finance:

The importer should make arrangements in advance to pay to the exporter on arrival of goods at the port. Advanced planning for financing imports is necessary so as to avoid huge demurrages (i.e., penalties) on the imported goods, lying uncleared at the port for want of payments.

Step 7 Receipt of Shipment Advice:

After loading the goods on the vessel, the overseas supplier dispatches the shipment advice to the importer. A shipment advice contains information about the shipment of goods.

Step 8 Retirement of Import Documents:

Having shipped the goods, the overseas supplier prepares a set of necessary documents as per the terms of contract and letter of credit and hands it over to his or her banker for their onward transmission and negotiation to the importer in the manner as specified in the letter of credit. The set of documents normally contains bill of exchange, commercial invoice, bill of lading/airway bill, packing list, certificate of origin, marine insurance policy, etc.

Step 9 Arrival of Goods:

Goods are shipped by the overseas supplier as per the contract. The person in charge of the carrier (ship or airway) informs the officer in charge at the dock or the airport about the arrival of goods in the importing country. He provides the document called import general manifest. Import general manifest is a document that contains the details of the imported goods. It is a document on the basis of which unloading of cargo takes place.

Step 10 Customs Clearance and Release of Goods:

All the goods imported into India have to pass through customs clearance after they cross the Indian borders. Firstly, the firm has to obtain a delivery order, pay dock dues and obtain port trust due to receipt. The firm is then required to fill 'bill of entry for assessment of customs duty. After payment of customs duty the bill has to be presented to dock superintendent for examination. Upon his satisfaction, the bill will be presented to the port authority who will issue release order of the goods after receiving necessary charges.

Documents Used in the Course of International Trade

1. **Proforma Invoice:** A proforma invoice is a document that contains details as to the quality, grade, design, size, weight and price of the export product and the terms and conditions on which their export will take place.
2. **Import Order or Indent:** It is a document in which the importer orders for supply of requisite goods to the supplier. The order contains information such as quantity and quality of goods price of goods, method of forwarding the goods, nature of packing, mode of payment, etc.
3. **Export Invoice:** It is a seller bill information about goods like quantity, number of packages, name of ship, terms of delivery, payments, etc.
4. **Packing List:** This document provides complete details regarding the goods exported and the form in which they are being sent.
5. **Certificate of Origin:** It specifies the country in which the goods are being manufactured. This certificate enables the importer to claim tariff concessions or other exemptions. It is also used in the case when there is a ban on imports of some goods from certain countries.
6. **Certificate of Inspection:** For ensuring quality, the government has made inspection of certain goods compulsory by some authorized agency like Export Inspection Council of India (EICI). After inspecting the goods, the agency issues a Certificate of Inspection that the consignment has been inspected as required under the Export (Quality Control and Inspection) Act, 1963. Note Documents mentioned in points 1 to (w) above relate to goods exported.

7. **Mate's Receipt:** This receipt is issued by the captain or mate of the ship to the exporter after the goods are loaded on board of the ship. Such receipts contain name of the vessel, description of packages, marks, conditions of the cargo, etc.
8. **Shipping Bill:** With the help of this document, permission is granted for the export of goods by the custom office. It contains details regarding the goods being exported, name of the vessel, exporters name and address, country of final destination, etc.
9. **Bill of Lading:** It acts as an evidence regarding the acceptance of shipping company to carry the goods to the port of destination. It is also referred to as document of title to the goods and is freely transferable by endorsement and delivery.
10. **Airway Bill:** It is a document issued by the airline company on receiving the goods on board, its aircraft and at the same time giving its acceptance to carry them to the port of destination.
11. **Marine Insurance Policy:** It is a document containing contract between the exporter and the insurance company to indemnify against loss.
12. **Cart Ticket:** It is also known as cart chit or gate pass. It is prepared by the exporter and contains details regarding export cargo like number of packages, shipping bill number, port of destination, etc.
13. **Letter of Credit:** It is a guaranteed letter issued by the importer bank stating that it will honor the export bills to the bank of the exporter up to a certain amount.

Foreign Trade Promotion Measure and Schemes

1. **Duty Drawback Scheme:** Merchandise that is to be export is not conditional for payment of different excise, levy charges and customs duties. On showing verification of export of these products to the concerning authority such charge returns. Such refunds are 'Duty Drawbacks.'
2. **Export Manufacturing under the Bond Scheme:** Under this freeway, organizations can manufacture merchandise without giving excise duty and different charges. The organizations can benefit this facility after giving an endeavor (i.e. bond) that they are producing commodities for the export goal.
3. **Exemption from Payment of Sales Taxes:** Merchandise manufactured for the sole reason of exporting is not conditional upon payment of sales tax. Money received from exporting operations has been absolved from giving of Income-tax for a long time now. This exemption is only available to 100% Export oriented units and units set up in Export Processing Zones / special economic zones.
4. **Advance License Scheme:** In this government policy which permits the supplier duty-free supply of local and also in addition imported resources required for the manufacturing of export merchandise. The firms exporting irregularly can likewise acquire these licenses against particular export orders.
5. **Export Processing Zones:** They are industrial domains, which shape enclaves from the Domestic Tariff Areas. These are generally located close to seaports or air terminals. They intend to provide an internationally competitive duty-free environment for export production at low cost. There are different measures, for example, availability of export fund, export promotion, capital merchandise scheme is in use for foreign trade promotion.
6. **Organizational Support:** The government has set up from time-to-time various institutions in order to facilitate the process of foreign trade. Following are few of them.
7. **Department of Commerce:** Department of Commerce in the Ministry of Commerce, Government of India is the most authoritative body responsible for the country's international trade and all jurisdiction linked with it. This might be in the shape of expanding business relations with other nations, state trading, export promotional measures and the development, and regulation of certain export-oriented industries and commodities.
The Department of Commerce formulates policies in the sphere of foreign trade. It also frames the import and export policy of the country in general.
8. **Export Promotion Councils:** Export Promotion Councils are non-profit institutions register under the Companies Act or the Societies Registration Act. The fundamental objective of the export promotion councils is to market and produce the nation's exports of particular products falling under their jurisdiction. Currently, there are 21 EPC's dealing with different commodities.



Indian Institute of Foreign Trade (IIFT)

Indian Institute of Foreign Trade is an establishment by the Government of India as an autonomous body in 1963. IIFT is registered under the Societies Registration Act with the prime objective of professionalizing the country's foreign trade management.

It gives training in international business, conducts research in areas of international business, and analyzing and disseminating information relating to international trade and investments scenario.

State Trading Organization

State Trading Organization (STC) was established in May 1956. The main purpose of STC is to promote trade, primarily export trade among different trading partners of the globe. A huge number of local firms in India find it very difficult to compete in the global market.

In the meantime, the present trade routes are not suitable for the promotion of exports and bringing about diversification of trade with countries other than European countries.

Indian Institute of Packaging (IIP)

The Indian Institute of Packaging is an establishment as a national institute mutually run by the Ministry of Commerce, Government of India, and the Indian Packaging industry and allied interests in 1966. Its base and prime laboratory are located at Mumbai and three regional laboratories are situated at Kolkata, Delhi and Chennai. It is a training-cum-research institute pertaining to packaging and testing.

International Trade Institutions and Trade Agreements

Business activities are conducted on a global level and even between nations. There is an emergence of global markets. To keep the trade fair and manage trade-related issues on a global level, various International Institutions and Trade Agreements were established.

International Trade Associations:

The nations were influenced financially because of World War 1 and World War 2. The reconstruction couldn't happen as there was an interruption in the financial system furthermore there was a shortage of resources. At this crossroads, the prominent economist J. M. Keynes with Bretton Woods establish an association with 44 countries to meet this and to reestablish commonship on the planet.

This gathering brought forth the International Monetary Fund (IMF) International bank Of Reconstruction and Development (IBRD) and the International Trade Organization (ITO). These three associations were considered as three columns for the improvement of the global economy.

World Bank

The International Bank of Reconstruction and Development (IBRD) is usually known as the World Bank. The fundamental point of IBRD is to remake the war influenced the economies of Europe and help the improvement of underdeveloped economies of the world. The World Bank after 1950 focused more on financially unstable nations and invested heavily into social segments like health and education of such immature nations.

Currently, the World Bank includes five universal bodies responsible for offering fund to various countries. These bodies and its partners are headquartered in Washington DC taking into account diverse financial requirements and necessities.

As specified before, the World Bank has been allocated the undertaking of financial development and expanding the extent of the international business. Amid its underlying years of foundation, it gave more significance on creating facilitates like transportation, health, energy and others.

This has profited the underdeveloped nations too, without doubt, however, because of poor regulatory structure, the absence of institutional system and absence of accessibility of skilled labour in these nations has prompted disappointment. World Bank and its Affiliates Institutions:

- International Bank for Reconstruction and Development (IBRD) 1945.
- International Financial Corporation (IFC) 1956.

- Multilateral Investment Guarantee Agency (MIGA) 1988.
- International Development Association (IDA) 1960.
- International Centre for Settlement of Investment Disputes (ICSID) 1966.

The World Bank is no longer limited to simply offering money related help for infrastructure development, agriculture, industry, health and sanitation. It is somewhat significantly engaged with regions like reducing rural poverty, increasing income of the rural poor, offering specialized help, and beginning research schemes.

International Development Association (IDA)

International Development Association (IDA) was set up in 1960 as a partner of the World Bank. IDA was set up essentially to offer fund to the less developed countries on a soft loan basis. It is because of its intention of providing soft loans that it is called the Soft Loan Window of the IBRD.

The objectives of IDA are as follows:

- To help the underdeveloped countries by giving loans in simple terms.
- Help at the end of poverty in the poorest nations
- Give macroeconomics services such as, for example, those relating to health, nutrition, education, human resource advancement and control of the population.
- To offer loans at marked down interests in order to energize economic development, the increment in manufacturing limit and good expectations for standard of living in the underdeveloped nations.

International Finance Corporation (IFC)

Established in July 1956, IFC was aimed to assist in terms of finance to the private sector of developing nations. IFC is also an associate of the World Bank, but it has its own separate legal entity, functions and funds. All the members of the World Bank are entitled to become members of IFC.

Multinational Investment Guarantee Agency (MIGA)

Established in April 1988, The Multinational Investment Guarantee Agency's aim was to support the task of the World Bank and IFC. Some objectives of the MIGA are

Advance the stream of direct foreign investment into less developed member countries.

Give protection cover to fund supplier against political risks.

Guarantee extension of current investment, privatization and economic reconstruction.

Provide assurance against noncommercial perils, for example, dangers engaged in currency transfer, war and domestic clashes, and infringement of agreement.

Trade Agreements

Let us take a look at some of the important trade agreements that are a part of the World Bank.

1. **Agreement Forming Part of GATT:** The recent General Agreement on Tariffs and Trade (GATT) after a significant alteration in 1994 is especially part of the WTO assertions. GATT likewise incorporates certain particular agreement developed to manage particular non-tariff hindrances. It is one of the important trade agreements of the WTO.
2. **Agreement on Textile and Clothing (ATC):** Trade agreements were developed under WTO to phase out the quota restrictions as imposed by the developed nations on the supply of textiles and clothing from the developing countries. The developed countries were imposing different kinds of quota hindrances under the Multi-Fiber Arrangement (MFA) that itself was a major departure from the GATT's basic principle of free trade in goods.
3. **Agreement On Agriculture (AOA):** It is an agreement to make sure free and fair trade in agriculture. Although original GATT rules were applicable to trade in agriculture, these suffered from certain loopholes such as an exemption to member countries to use some non-tariff measures such as customs tariffs, import quotas and subsidies to protect interests of the farmers in the home country. AOA is a significant step towards a systematic and fair trade in agricultural products.



4. **General Agreement on Trade Services (GATS):** Services mean acts or performances that are essentially intangible and cannot be as such touched or smelt as goods. GATS is regarded as a landmark achievement of the Uruguay Round as it extends the multilateral rules and disciplines to services. It is because of GATS that the basic rules governing 'trade in goods' have become applicable to 'trade in services'.
5. **Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS):** The WTO's agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) was negotiated in 1986-1994. It was the Uruguay Round of GATT negotiations where for the first time the rules relating to intellectual property rights were discussed and introduced as part of the multilateral trading system. Intellectual property means information with commercial values.

World trade organization (W.T.O)

WTO is one of the youngest global international organization that deals with the rules and regulations of trade between different nations. It operates with the purpose of liberalizing trade and flow of goods and services in the international market. It provides a framework for negotiating and formalizing trade agreements. At present, 159 countries are the members of WTO.

Objectives of WTO:

WTO has some basic objectives which are enumerated below:

- i. Raising standards of living and incomes.
- ii. Ensuring full employment.
- iii. Expanding production and trade.
- iv. Optimal use of the resources with the idea of sustainable development.

WTO also has some major objectives apart from the above mentioned basic objectives. These are:

- i. To ensure reduction of tariffs and other trade barriers imposed by different countries.
- ii. To engage in activities that improve the standards of living, create employment, increase income and effective demand, facilitate production, etc.
- iii. To promote an integrated, viable, durable trading system and ensure international peace.
- iv. To settle disputes among member nations.
- v. To ensure a smooth process for international trade by framing common rules and regulations.
- vi. To accelerate economic growth of developing countries.

Advantages of WTO to India:

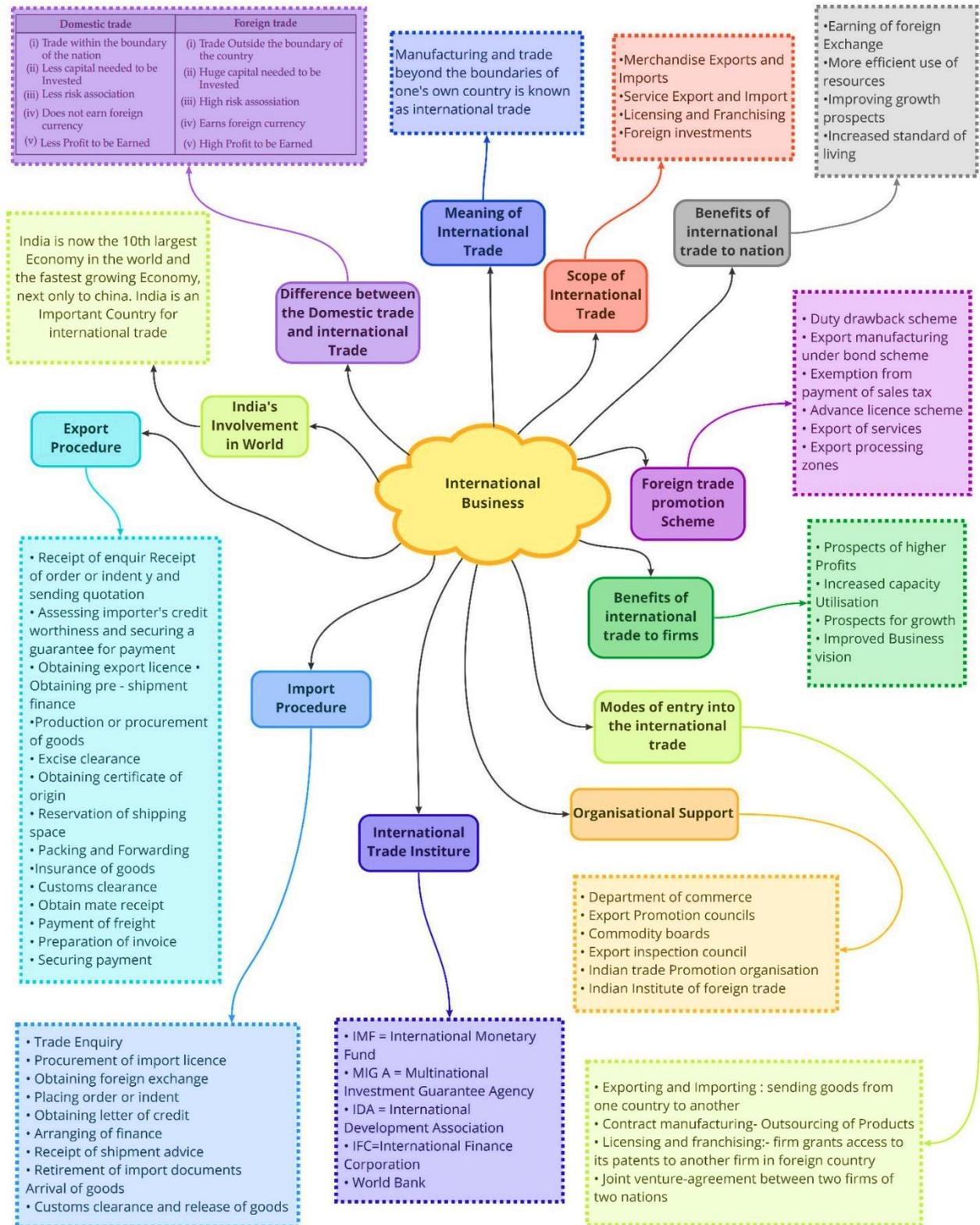
WTO offers a range of benefits to India:

- i. Boost Exports India's exports have boosted due to reduction of tariffs on the product of export interest to India.
- ii. Policy Assistance As a member of the WTO, India can get assistance from the International Trade Center in formulating and implementing export promotion programmers.
- iii. Trade Links India has the advantage of having trade links with all others member countries.
- iv. Settlement of Disputes WTO provides a forum for trade negotiations and settlement of disputes among member countries. India can approach WTO in case it wants to settle certain disputes with trading countries.
- v. Special Concessions There are several concessions and exemptions for developing countries like India.

Disadvantages of WTO to India:

- i. Focuses on Developed Nations WTO focuses more on the interests of developed countries.
- ii. Price Rise WTO agreements are likely to cause a hike in the prices of drugs and agricultural inputs.
- iii. Not Really Free Trade World trade has not really opened up. Developed countries are imposing more restrictions on trade than underdeveloped countries.

Class : 11th Business Studies
Chapter- 11 : International Business





Important Questions

Multiple Choice Questions-

- The degree of mobility of factors of production like labour and capital is relatively more within in _____
 (a) Domestic Business
 (b) International business
 (c) Both Domestic and International business
 (d) None of the above
- Foreign investment can be of two types
 (a) Domestic and International investment
 (b) Direct and Portfolio
 (c) Licencing and Franchising
 (d) Direct and Franchising
- Which of the following document is prepared by the exporter and includes details of the cargo in terms of the shipper's name, the number of packages, the shipping bill, port of destination, name of the vehicle carrying the cargo?
 (a) Shipping bill
 (b) Mate's receipt
 (c) Packaging list
 (d) Bill of exchange
- Which one of the following modes of entry requires a higher level of risks?
 (a) Licensing
 (b) Contract manufacturing
 (c) Franchising
 (d) Joint venture
- The method of obtaining payment from the importer is:
 (a) By getting a bill of exchange
 (b) By getting a Letter of Credit
 (c) By Foreign Draft
 (d) All of the above
- Which of the following documents are not required for obtaining an export license?
 (a) IEC number
 (b) Registration cum membership certificate
 (c) Letter of credit
 (d) Bank account number
- Which of the following documents is not required in connection with an import transaction?
 (a) Certificate of origin
 (b) Bill of lading
 (c) Shipping bill
 (d) Shipment advice
- W.T.O is the only organization dealing with the:
 (a) Home trade rules
 (b) Entrepot trade rules
 (c) Global trade rules
 (d) None of the above
- Import trade procedure starts with
 (a) Obtaining quota
 (b) Arranging L.C
 (c) Trade enquiry
 (d) Placing Indent
- When two or more firms come together to create a new business entity that is legally separate and distinct from its parents it is known as
 (a) Franchising
 (b) Contract manufacturing
 (c) Joint Ventures
 (d) Licensing
- Which one of the following is not amongst India's major trading partners?
 (a) Germany
 (b) New Zealand
 (c) the UK
 (d) the USA
- A receipt issued by the commanding officer of the ship when the cargo is loaded on the ship is known as
 (a) Cargo receipt
 (b) Mate receipt
 (c) Shipping receipt
 (d) Charter receipt
- Which one of the following is not a document related to fulfilling the customs formalities
 (a) Letter of insurance
 (b) Shipping bill
 (c) Export license
 (d) Proforma invoice

14. Which one of the following is not a part of export documents?
 - (a) Commercial invoice
 - (b) Mate's receipt
 - (c) Certificate of origin
 - (d) Bill of entry
15. The document containing the guarantee of a bank to honour drafts drawn on it by an exporter is
 - (a) Letter of hypothecation
 - (b) Letter of credit
 - (c) Bill of exchange
 - (d) Bill of lading
6. State the reasons to have international business?
7. China is a major producer of electronic goods at very low cost as compared to India. Discuss the benefits that India will derive if it enters into a trade agreement with China for electronic goods.
8. List the formalities involved in getting an export license.
9. Explain the following documents used in International trade:
 - (i) Mate's Receipt.
 - (ii) Letter of credit.
 - (iii) Certificate of origin.
10. List the codal formalities to obtain IEC No.

Very Short-

1. Name the entry mode in which domestic manufacturer gives the right to access to the trademark, technology, and trade secret to a manufacturer in a foreign land.
2. In which term do two companies jointly agree to share each other's trade secrets and technology?
3. Mention the common points between licensing and franchising.
4. In terms of import transaction which two documents are required?
5. Define shipping bill.
6. State IEC number.
7. ABC company acquires XYZ company located in Delhi by investing 100% of its equity. What will the XYZ company call?
8. Which document contains a guarantee of a bank to honor a draft drawn on it by an exporter's bank?
9. Explain C&F agent.
10. Define Bill of Landing.

Short Questions-

1. Differentiate between the contract manufacturing and setting up wholly owned production subsidiary abroad.
2. It is not just a sale of a trademark for a fee; also it abides the purchaser to follow strictly the rules of serving. Which mode of entry is this? Discuss any two limitations of it.
3. What is the objective of WTO? What are its benefits?
4. Write notes on Bill of lading, Bills of entry, Shipping advice.
5. Give the difference between Internal trade and International trade.

Long Questions-

1. What is WTO? Write its objectives and Functions?
2. In what ways exporting/importing is better than setting up wholly owned subsidiaries abroad.
3. What is the World Bank? Discuss the various objectives and role of its affiliated agencies.
4. What is IMF? Write its objective and functions.
5. Identify the documents highlighted in the following statements:
 - (i) This document is issued by the commanding officer of the ship to the exporter after cargo is loaded on the ship.
 - (ii) This document is prepared by shipping company to acknowledge the receipt of goods on ship and gives an undertaking to carry them to the port of destination.
 - (iii) This document is the most appropriate and secure method of payment to settle international transactions.
 - (iv) On the basis of this document, the customs office grants permission for the export.
 - (v) This document is prepared by the importer and it shows the details of goods imported.
 - (vi) On the basis of this document imported goods are unloaded from the carrier.
6. Mr. Manchanda is a business man in Gurgaon he manufactures scooters. His son after doing an MBA in the USA returns to India and suggests that they should set up a fully owned factory in Bangkok for supplying to customers in the South East Area and Middle East. Mr. Manchanda however does not agree to his proposal and wants to set this unit in South India. They are having a debate on this. In your opinion with whom you agree. Give reasons to support your answer.



Case Study Questions-

1. **Direction:** Read the following text and answer the questions that follow.

Kalakriti Industries is a company manufacturing stationery items. The company has set its objective of increasing revenue from ₹ 50 crores to 100 crores within 2 years. Unfortunately with the saturating domestic demand, underutilization of production capacity, etc. their objectives could not be achieved even after 3 years. In a long discussion in the meeting with all the managers, the company discussed the scope of international business and reached the decision to extend its market territory beyond the nation's boundaries by selling goods to foreign countries. For this, the company decided to import exclusive stationery items from Japan. After identifying a suitable exporter, Kalakriti Industries sent a written request to the exporter to provide information regarding price, terms and conditions, etc. on which basis the exporter will be able to supply goods.

- (i) to extend its market territory beyond the nation's boundaries.' Identify the means through which the company can do so in light of the given case.
- Improving promotion strategy
 - Improving productivity
 - Opening more retail outlets in the country
 - Exporting the goods
- (ii) _____ is a written request to the exporter to provide information regarding price, terms and conditions, etc. on which the exporter will be able to supply goods.
- Trade Enquiry
 - Proforma Invoice
 - Quotation
 - None of the above
- (iii) 'Unfortunately with the saturating domestic demand'. In the reference of the given statement which of the benefits of international trade suits this case?
- Way out to intense competition in the domestic market
 - Prospects for growth
 - Prospects for higher profits
 - Improved business vision
- (iv) How will an increase in the production capacity of Kalakriti Industries benefit it?

- Economies of scale
- Reduction in production cost
- Improve profit margin
- All of the above

2. Read the following text and answer the questions that follow.

Paras Manek is a successful businessman who is engaged in manufacturing auto spare parts. The products manufactured by his business enterprise Paras Manek Ltd. are sold not only in India, but also exported to various countries such as Singapore, Switzerland, China, North Korea, etc. Trudy Ltd., a Russian company wants to import auto spare parts from Paras Manek Ltd. Paras Manek Ltd. has received an enquiry regarding the goods and trade. Paras Manek Ltd. has replied to it in the form of a quotation. Finding it favourable, Trudy Ltd. has placed an order containing description of goods, price and other instructions, etc. But before exporting the goods it has to fulfill certain legal formalities like procuring export license and preparing the documents related to goods, shipment, and payment.

- (i) "..... but also exported to various countries such as Singapore, Switzerland, China, North Korea, etc." Identify the type of business discussed above.
- Domestic Business
 - International Business
 - Both (a) and (b)
 - Neither (a) nor (b)
- (ii) Which of the following documents contains a description of goods, price and other instructions.
- Proforma Invoice
 - Indent
 - Letter of Credit
 - Enquiry
- (iii) In case of export, a buyer sends an enquiry to exporter to seek information about:
- Availability of goods
 - Price of goods
 - Terms and conditions of trade
 - All of the above
- (iv) "Paras Manek Ltd. has replied to it in the form of a quotation." Identify the document stated here.
- Proforma Invoice
 - Indent
 - Letter of Credit
 - Enquiry

Answers Key

MCQ Answers-

1. **Answer:** (a) Domestic Business
2. **Answer:** (b) Direct and Portfolio
3. **Answer:** (a) Shipping bill
4. **Answer:** (d) Joint venture
5. **Answer:** (d) All of the above
6. **Answer:** (c) Letter of credit
7. **Answer:** (c) Shipping bill
8. **Answer:** (c) Global trade rules
9. **Answer:** (b) Trade enquiry
10. **Answer:** (c) Joint Ventures
11. **Answer:** (b) New Zealand
12. **Answer:** (b) Mate receipt
13. **Answer:** (d) Proforma invoice
14. **Answer:** (d) Bill of entry
15. **Answer:** (b) Letter of credit

Very Short Answers-

1. **Answer:** Licensing is the entry mode or a contractual arrangement when a domestic manufacturer gives the right to access to its trademark, technology, and trade secret to a manufacturer in a foreign land.
2. **Answer:** Cross-licensing is the agreement where the two companies jointly agree to share each other's trade secrets and technology.
3. **Answer:** The common points between licensing and franchising is that both can use brand names, patent, and copyrights.
4. **Answer:** The two documents required for import transaction are
 - Commercial Invoice
 - Airway/landing bill
5. **Answer:** Shipping bill refers to the documents required for the export of goods. Under the basis of this document, the customs officer gives permission to export the goods.
6. **Answer:** IEC number is defined as the Import Export Code number which is used to acquire an export license. This code is taken from the Directorate General Foreign Trade or Regional Import Export Licensing Authority.

7. **Answer:** The XYZ company will be known as a solely owned subsidiary of ABC company.
8. **Answer:** An importer's bank issues 'A letter of credit' a guarantee certificate that will acknowledge payment up to a certain amount of export bills to the bank of the exporter.
9. **Answer:** C&F agent is defined as a clearing and forwarding agent who is involved in implementing services directly or indirectly, connected with the clearing and forwarding.
10. **Answer:** Bill of Landing refers to the list of shipped cargo in the form of receipt given by the head of the shipment to the individual heading the shipment.

Short Answers-

1. **Ans:** The difference between contract manufacturing and setting up wholly owned production subsidiary is as follows:

Basis	Contract Manufacturing	Wholly Owned Production Subsidiary
Meaning	A type of international business in which a company contracts with one or a few local manufacturers in another country to have particular components or commodities manufactured according to its specifications.	Companies that seek complete control over their abroad operations use this way of international company entry.
Control	Because things are created completely according to the terms and standards, local businesses lose control over the manufacturing process.	Take complete control of the company's operations.

Mobility of factors production	Restricted mobility.	Free mobility.
Customer heterogeneity over the market	Difference in taste and preference does not induce complications in the task of designing products in the domestic market.	Difference in taste and preference does not induce any complication in the task of designing products in the domestic market.
Differences in business systems and practices.	Differences are considerably more among different countries.	Differences are less within the country.
Political systems and risks	In international business, the political environment differs from one country to another so the amount of risks is different.	The governing body within the country affects the domestic business.
Business regulations and policies	Business laws, regulations, and economic policies differ among different countries.	Business laws, regulations, and economic policies are less uniformly applicable within a country.
Currency used in business transactions	The price of one currency is expressed in relation to that of another country's currency. Thus, it keeps fluctuating.	No such problem is faced as only home currency is used.

This is due to the unequal distribution of natural resources and differences in productivity levels among different geographical places.

- **Varied Differences:** There is a disparity between labour productivity and manufacturing costs. Because of varied socioeconomic, geographical, and political factors, it varies in each country.
- **Specialization Advantage:** The principle of territorial division of labour can be applied internationally as well. Most developing countries with plenty of labour, for example, specialise in producing and exporting clothing.
- **Price Differences:** Firms also engage in the export and import of goods due to the difference in prices of products. They import cheaper things from other countries and export goods to other countries where they can fetch better prices for their products.

7. **Ans:** Benefits to India if it enters into a trade agreement with China are as follows:

- **Foreign exchange:** International business facilitates foreign exchange within a country that aids in the payment of imported goods expenses, hence India's foreign exchange would flourish with this trade agreement.
- **Efficient use of resources:** Every country is specialised in the production of goods and services, leading to efficient utilisation of resources.
- **Growth:** Exporting and flourishing in international trade helps in improving the economic growth of the country and creates opportunities for employment of people. Hence, India's growth prospects would increase as a result of trade agreement.

- **Stability:** It also helps in bringing stability in the prices of domestic products of India.
- **Better living standards:** Due to International business, people in India would be able to consume and enjoy a higher standard of living.

6. **Ans:** Reason for international Business:

- **Unequal Distribution of Natural Resources:** Countries cannot manufacture the same level of quality and at the same cost.

8. **Ans:** Prerequisites for getting an export license:

- Opening a bank account with any bank that has been approved by the Reserve Bank of India;



- Getting an Import Export Code (IEC) from the Directorate General of Foreign Trade (DGFT) or a Regional Import Export Licensing Authority;
- Creating an account with the right export promotion council.
- To protect against non-payment risks, you should register with the Export Credit and Guarantee Corporation (ECGC).
- A company must submit an exporter/importer profile, a bank receipt for the required fee, a certificate from the banker, two copies of photographs attested by the banker, details of non-resident interest, and a declaration about the application to obtain an IEC number to the Director General for Foreign Trade (DGFT).
- It is a legal requirement for all exporters to register with the proper export promotion council.
- To secure international payments from political and commercial interference, you must register with the ECGC.

9. **Ans:** (i) A mate receipt is a

- Receipt that is provided by the ship's commanding officer when the cargo is loaded on board.
- The receipt contains information such as the vessel's name, berth, date of shipping, package description, marks and numbers, cargo condition at the moment of receipt on board the ship, and so on.
- The port superintendent gives the C&F agent the mate's receipt after receiving the port dues.

(ii) A letter of credit is a guarantee issued by the importer's bank that it will honour payment of export invoices to the exporter's bank up to a specific amount. A letter of credit is asked from the importer to reduce the extent of risk. The importer should get the letter of credit from its bank and send it to the overseas supplier.

(iii) To avail the trade concessions and other benefits, the importer has to ask the exporter to send a certificate of origin. The certificate of origin issued by the importer acts as a proof that the goods are manufactured in the country from where the export is taking place.

10. **Ans:** For obtaining the IEC number, a firm has to apply to the Director General for Foreign Trade (DGFT) with documents such as:

- Exporter/importer profile
- Bank receipt for requisite fee
- Certificate from the banker on the prescribed form
- Two banker-attested copies of photos
- Details of the non-resident interest
- Statement of the applicant's non-association with the businesses on the caution list

Long Answers-

1. **Ans:** One of the key achievements of GATT negotiations was the decision to set up a permanent institution for looking after the promotion of free and fair trade amongst nations. The GATT was transformed into the World Trade Organization (WTO) with effect from 1 January 1995. Its headquarters are in Geneva, Switzerland.

It regulates not just products but also services and intellectual property rights. It is, moreover, a member-driven rule-based organization in the sense that all the decisions are taken by the member governments on the basis of a general consensus. India is the founding member of the World Trade Organisation.

Objectives

- To ensure that tariffs and other trade barriers imposed by different countries are reduced.
- To engage in activities that improve living standards, create jobs,
- Increase income and effective demand, and facilitate increased production and trade;
- To facilitate the most efficient use of the world's resources for sustainable development.
- To promote a more integrated, viable, and long lasting trade system.

Functions

- Establishing a commonly accepted code of behaviour with the goal of reducing trade obstacles, such as tariffs, and eradicating discrimination in international trade relations by encouraging its member countries to come forward to the WTO to resolve their problems.

- Acting as a dispute resolution body.
- Ensuring that all of the Act's rules and regulations are obeyed.
- Holding consultations to improve understanding and cooperation in global economic policymaking.

2. **Ans: Exporting/Importing:** Exporting refers to sending of goods and services from the home country to a foreign country. Whereas, Importing is defined as the purchase of foreign products and bringing them into one's home country.

Wholly Owned Subsidiary: Those companies which want to exercise full control over their overseas operations, set up a wholly owned subsidiary in an overseas country.

Benefits of Exporting/Importing over Wholly Owned Subsidiary:

- **Ease of entry:** Exporting is the easiest way of gaining entry into international markets as compared with wholly-owned subsidiaries.
- **Investment:** Business firms are not required to invest that much time and money in exporting whereas in the case of wholly-owned subsidiaries, it is not suitable for small and medium size firms as they do not have enough funds with them to invest abroad.
- **Risk:** Because exporting and importing do not necessitate a large amount of foreign investment, the risk of foreign investment is negligible or very low. In the case of wholly owned subsidiaries, they face greater political risks and are responsible for all damages resulting from the failure of their international activities.
- **Government Interference:** There are high political risks in the case of wholly owned subsidiaries as against exporting.
- **Profit/Loss Risk:** 100% equity is invested in case of wholly owned subsidiaries, making it riskier in comparison to exporting/importing.
- **Complexity:** The degree of complexity is higher in case of wholly owned subsidiaries as compared to exporting/importing.

3. **Ans:** The Bretton Woods Conference led to the formation of the International Bank for Reconstruction and Development (IBRD), which is also referred to as the World Bank.

- The main goals were to aid in the reconstruction of Europe's war-torn economies and to aid in the development of the world's disadvantaged nations.
- After achieving success, it shifted its focus to the development of undeveloped countries.
- It realised that by investing more in these countries, particularly in social sectors such as health and education, it might help them achieve the requisite social and economic transformation.

Objectives and role of its affiliated agencies:

- **The International Development Association (IDA):** The International Development Association (IDA), an affiliate of the World Bank was established with the goal of providing loans on favourable terms and circumstances to countries with per capita incomes below a crucial level. IDA thus offers poor countries with interest-free long-term loans.
- **The International Finance Corporation:** The International Finance Corporation, or IFC, was established in 1956 as a separate legal body with the mission of providing financing to the private sector in developing countries. Despite being a World Bank affiliate, the IFC has its own funds and functions that are controlled independently.
- **MIGA (Multinational Investment Guarantee Agency):** MIGA, or the Multinational Investment Guarantee Agency, was founded in April 1988 with the goal of stimulating foreign direct investment in developing countries. It also provides advising services and insures investors against political and non-commercial hazards.

4. **Ans:** The IMF was established with the primary goal of developing an orderly international monetary system, which includes facilitating international payments and adjusting exchange rates between national currencies.

Objectives

- Facilitate the expansion of balanced international commerce and contribute to the promotion, maintenance of a high level of employment through the establishment of a permanent institution.
- Assist in the construction of a multilateral system of payments for current transactions between members to enhance exchange



stability and preserve orderly exchange arrangements among member nations.

Functions

- Acting as a short-term credit institution.
- Providing machinery for the orderly adjustment of exchange rates Acting as a short-term credit institution.
- Provision of necessary facilities to ensure that the exchange rates are adjusted timely and orderly
- Acting as a repository for all member countries' currencies.
- Acting as a foreign currency and current transaction lending institution Determining the value of a country's currency and altering it.
- Providing machinery for international consultations.

5. **Ans: (i) Mate receipt:** It is a receipt provided by the ship's commanding officer when the cargo is loaded on board, and it contains information such as the vessel's name, berth, date of shipping, package description, marks and numbers, cargo condition at the moment of receipt on board the ship, and so on.

(ii) Bill of lading: After receipt of the freight, the shipping company issues a bill of lading which serves as an evidence that the shipping company has accepted the goods for carrying to the designated destination.

(iii) Bill of exchange: When the bill of exchange is received, the importer either releases the money in the event of a sight draught or accepts the usance draught for payment on the bill of exchange's maturity date. The money is received by the exporter's bank via the importer's bank and credited to the exporter's account. By signing a letter of indemnity, the exporter might receive quick money from his or her bank upon submission of paperwork.

(iv) Shipping bill: It is the main document on the basis of which the customs office permits to export. The exporter prepares the shipping bill in order to gain custom clearance.

(v) Import order: This document is generated by the importer and contains the following information on the products imported: The import order includes information on the price, amount, size, grade, and quality of the

items ordered, as well as packing, shipping, ports of shipment and destination, delivery date, insurance, and payment methods.

(vi) Import manifest: Imported items are unloaded from the container using this document: He supplies an import general manifest paper. An import general manifest is a document that contains information on the products being imported.

6. **Ans:** I would agree to set up a wholly-owned factory i.e. wholly-owned subsidiary in Bangkok for supplying customers in the South East area and the Middle East area.

Companies that desire complete control over their overseas activities prefer a wholly owned subsidiary as an entrance route into international company.

It can be determined in two ways:

- Setting up a new firm.
- Acquiring an already settled and established firm in the foreign country and further using it to manufacture as well as promote the products within the host country. This allows it to maintain complete control over the company's activities.

Benefits of doing business Internationally are:

- Cost of transportation from India will be reduced by setting up a production plant overseas.
- It will make the Manchadas more closer and nearer to their overseas customers.
- Business firms can earn more profits by selling their products in countries with high pricing when local prices are lower.
- The company can exercise full control over its operations.
- Making use of excess production capacity in order to increase operational profitability.
- When demand in the home country dries up, the corporation might look to developing countries for expansion opportunities.
- When domestic market competition is fierce, internationalisation appears to be the only way to grow significantly.
- The desire to become more international stems from a want to expand, a desire to become more competitive, a desire to diversify, and a desire to reap the strategic benefits of internationalisation.

Case Study Answers-

1.

(i) d) Exporting the goods

Solution: Exports are goods and services that are produced in one country and sold to buyers in another. Exports, along with imports, make up international trade.

(ii) a) Trade Enquiry

Solution: Trade enquiry is essential in Import Trade as it enables the importer to mention all the details regarding the quantity of items needed. It is a written request regarding the price and the terms on which the exporter will be able to supply goods.

(iii) b) Prospects for growth

Solution: The definition of a prospect is an expected outcome or a likely customer. An example of prospect is a new client with whom a company is counting on signing a contract. The direction in which an object, such as a building, faces; an outlook. Something presented to the eye; a scene.

(iv) d) All of the above

Solution: Industrialization provides increased employment opportunities in small and large-scale industries. In an industrial economy, industry absorbs underemployed and unemployed workers from the agricultural sector, thereby increasing the income of the community.

2.

(i) (b) International Business

Solution: International business refers to the trade of goods, services, technology, capital

and/or knowledge across national borders and at a global or transnational scale. It involves cross-border transactions of goods and services between two or more countries. International business is also known as globalization.

(ii) b) Indent

Solution: Indent Order means an order placed with the Company by the Buyer whereby the Company, in order to satisfy that order, is required to specifically purchase goods or services from a third party because such goods or services are not usually stocked or provided by the Company.

(iii) c) Terms and conditions of trade

Solution: An inquiry is a request from the prospective buyer to keep him informed of the terms and conditions of sale. Any export inquiry has to be attended with promptness and meticulous care. It is desirable to send samples as they speak better about quality, which is the main criterion for selection of exporter.

(iv) a) Proforma Invoice

Solution: Proforma invoices are sent to buyers ahead of a shipment or delivery of goods or services. Most pro forma invoices provide the buyer with a precise sale price. A pro forma invoice requires only enough information to allow customs to determine the duties needed from a general examination of the included goods.

