

Organisation of Commerce and Management



Standard XI



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Organisation of Commerce and Management

STANDARD XI



2019

**Maharashtra State Bureau of Textbook Production and Curriculum Research,
Pune - 411 004**



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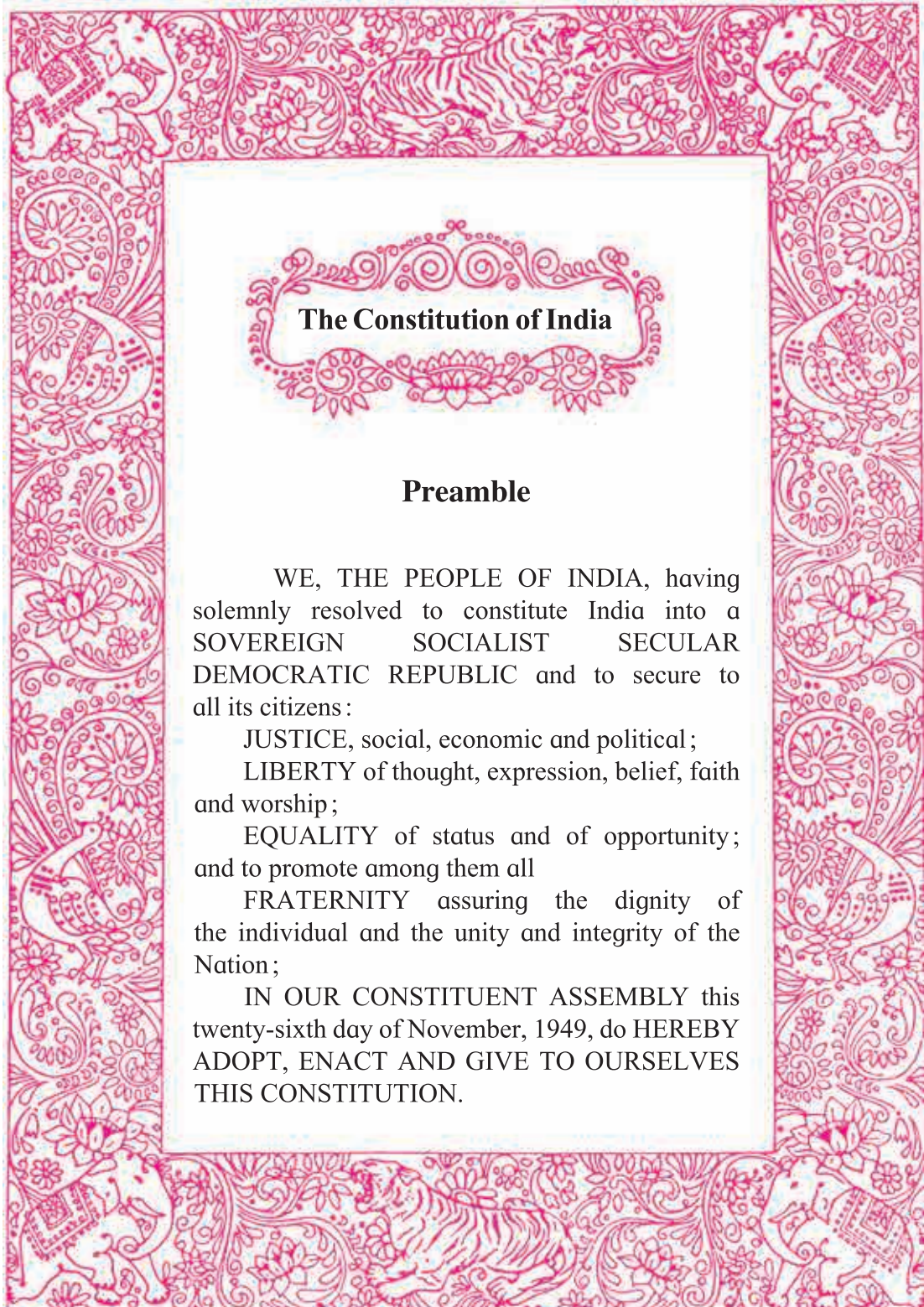
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The Constitution of India

Preamble

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC and to secure to all its citizens :

JUSTICE, social, economic and political ;

LIBERTY of thought, expression, belief, faith and worship ;

EQUALITY of status and of opportunity ; and to promote among them all

FRATERNITY assuring the dignity of the individual and the unity and integrity of the Nation ;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

NATIONAL ANTHEM

Jana-gana-mana-adhināyaka jaya hē
Bhārata-bhāgya-vidhātā,

Panjāba-Sindhu-Gujarāta-Marāthā
Drāvīda-Utkala-Banga

Vindhya-Himāchala-Yamunā-Gangā
uchchala-jaladhi-taranga

Tava subha nāmē jāgē, tava subha āsisa māgē,
gāhē tava jaya-gāthā,

Jana-gana-mangala-dāyaka jaya hē
Bhārata-bhāgya-vidhātā,

Jaya hē, Jaya hē, Jaya hē,
Jaya jaya jaya, jaya hē.

PLEDGE

India is my country. All Indians
are my brothers and sisters.

I love my country, and I am proud
of its rich and varied heritage. I shall
always strive to be worthy of it.

I shall give my parents, teachers
and all elders respect, and treat
everyone with courtesy.

To my country and my people,
I pledge my devotion. In their
well-being and prosperity alone lies
my happiness.

PREFACE

Hello Friends,

It gives us immense pleasure to handover this text book of 'Organisation of Commerce and Management'. It is not merely a text book but it is a guide for future entrepreneurs also. Since morning to night we are using many products and services. How do we get them? Where these products are available? What is the source of these products? How do we get information about them and how do they reach our hands? How do we come to know about its name? Who are the people bringing it to us? Who does manage these transactions? Answers to above questions is nothing but commerce, trade, industry and so many things which we know in our day to day life. Let's get details of these in the text book of Organisation of Commerce and Management.

This book contains eight chapters starting from introduction to business upto management of business.

This book contains interesting additional information, activities, pictures, diagrams etc. The exercises given at the end of the topics contain different types of questions to test the conceptual clarity of the students. Every student is given opportunity to express his own opinion, to analyse and justify their answers through application based questions. On the title page QR code is given which will be helpful to the students as it contains additional information, links etc. to get more knowledge and clarity about the contents. It will help the students to improve their learning abilities, skills and understanding level. We are sure that it will lead to simplify teaching learning process.

This restructured syllabus is capable enough to enhance the understanding ability of the students. The implementation of this new syllabus will be from the academic year 2019-2020 for std XIth Commerce.

The Maharashtra State Bureau of Text-book Production and Curriculum Research is confident that this book will guide the students properly in this competitive world of business.

The Maharashtra State Bureau of Text-book Production and Curriculum Research is grateful to the subject committee members, study group, translators, scrutinisers and experts as they have rendered their thorough co-operation in preparation of this book.

(Dr. Sunil Magr)
Director

Pune

Date : 20 June 2019

Indian Solar Date : 30 Jyestha 1941

Maharashtra State Bureau of Textbook
Production and Curriculum Research, Pune.

ORGANISATION OF COMMERCE AND MANAGEMENT

STD XI

Competency statement

Unit No.	Topic	Competency statement
1	Introduction to Commerce and Business	<ul style="list-style-type: none">● Understand the concept of commerce and business.● Understand different economic and non-economic activities● Understand the concept and meaning of business.● Understand the concept and meaning of profession● Understand the concept and meaning of employment● Understand role of Profit in business● Understand classification of business● Student can understand the concept of industry● Student can understand the concept of commerce● Student can understand different auxiliaries to trade
2	Trade	<ul style="list-style-type: none">● Clearly understand the concept of trade.● Know about different types of trade.● Understand wholesale and retail trade.● Understand import trade and procedure.● Understand export trade and procedure.● Students understand entrepot trade
3	Small Scale Industry and Business	<ul style="list-style-type: none">● Understand the meaning and definition of small scale business● Understand the importance of small business in industry● Understand the advantages and challenges of small scale business.● Understand steps in setting up of small scale business
4	Forms of Business Organisation - I	<ul style="list-style-type: none">● Students understand concept of private sector organisation● Understand meaning of private sector organisation● Understand Sole Trading Concern, and its merits and demerits● Understand the concept of Partnership and its merits and its demerits● Understand the concept to Joint Hindu Family Business and its merits and demerits● Understand the concept of Joint Stock Company, its types, merits and demerits● Understand the concept of Co-operative Society and its merits and demerits

5	Forms of Business Organisation - II	<ul style="list-style-type: none">● After going to this unit the student learner would be able to state the meaning of forms of Business Organisation● Highlight the distinctive features of Departmental Stores● Understand the concept of Statutory Corporation● Understand the concept of Government company● Understand the concept of Multinational Company● Student can understand merits & demerits of MNC's.
6	Institutes Supporting Business	<ul style="list-style-type: none">● Student understand the different institutions supporting business● Student understand the features of SIDBI● Student understand the features of NABARD● Students can know the features of Khadi and Village Industries● Students understand the working of Mahila Bachat Gat● Students understand the features of World Bank
7	Business Environment	<ul style="list-style-type: none">● Able to state the meaning and definition of Business Environment● Able to describe importance of Business Environment● Able to describe various dimension of Business Environment● Understand the impact of New Economic Policy on business and industry.
8	Introduction to Management	<ul style="list-style-type: none">● After going through this unit the students would be able to understand the overview of management● Explain the meaning and definition of management● Discuss the characteristics of management● Understand the different levels of management and their roles● Know the management as an Art, Science and Profession

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1

Introduction of Commerce and Business

- 1.1 Introduction**
 - 1.2 Non-Economic Activities**
 - 1.3 Economic Activities**
 - 1.3.1 Business
 - 1.3.2 Profession
 - 1.3.3 Employment
 - 1.4 Business Objectives**
 - 1.5 Role of profit in Business**
 - 1.6 Classification of Business Activities**
 - 1.6.1 Industry
 - 1.6.2 Commerce
- Distinguish Between**
Summary
Exercise

Mayuri, Neha, Rajesh, Charmi and Gautam who were good friends, gathered in the classroom. They were chatting with each other and sharing their experiences. Mrs. Deshmukh, who is a counselor visited the class and asked some questions to everybody.

Mrs. Deshmukh : Did you experience during your SSC preparation, your mother served you Tea/Coffee?

All : Yes Madam.

Mrs. Deshmukh : It means few activities are performed by your mother. Now, Do you gathered in canteen after SSC exam? Ate any food and paid money?

All : Yes, Madam. We gathered in canteen. Ate food and paid money for the same.

Mrs. Deshmukh : Do you know the difference between Economic and Non-economic activities?

Mayur and : Yes Madam.

Gautam : When you do any work and in return, you get money is Economic Activity.

Neha : Opposite of this is Non-Economic activity. You don't get any money in return.

Mrs. Deshmukh : Could you give an example?

Rajesh : Yes Madam, when mother stitches dress for her daughter or mother serves us tea/coffee during exam preparation time it is non-economic activity. But when a tailor stitches a dress for the customer it is an economic activity because he gets money.

Mrs. Deshmukh : Very Good ! Mother stitches dress and tailor also stitches dress, the activity is same, but stitching done by mother is Non-Economic activity because she doesn't get any money whereas a tailor doing the same activity, gets money. So it is an Economic activity.

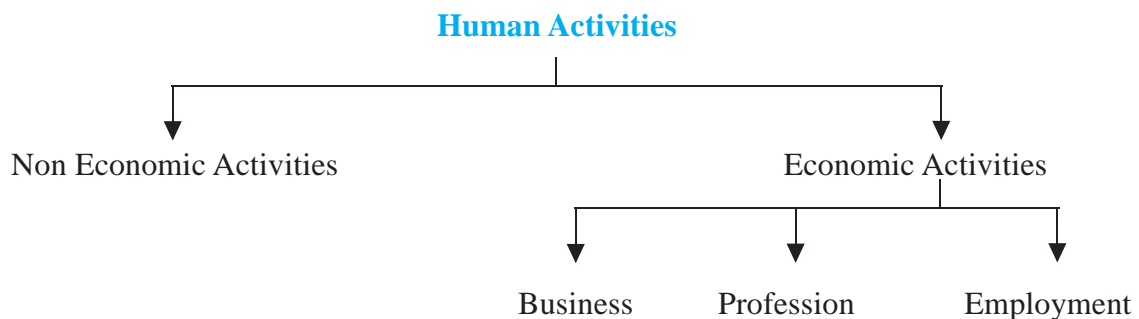
Charmi : Is tailors activity is a business or profession?

Mrs. Deshmukh : Well Children, you will have to learn about business, profession and employment in detail.

Let us study these different concepts in detail in this chapter.

1.1 INTRODUCTION

All human beings require different types of goods and services to satisfy their needs. So they keep themselves busy and do some activity throughout their life. All activities can be classified as economic and non-economic activities.



1.2 Non-Economic Activities

Non-economic activities are those human activities which are performed to satisfy personal, social, religious, cultural and sentimental requirement without monetary expectations. For e.g. reading books, serving people, cooking by mother etc.

1.3 Economic Activities

Actions that involve production, distribution and consumption of goods and services at all levels within a society is called economic activity. For e.g. worker working in a factory. Thus, economic activities facilitates earning livelihood.

1.3.1 Business

Business represents organized efforts by an individual or group of individuals'. It is a systematic attempt by business persons to produce goods and services and sell them in the market, to reap the reward by way of profit. It satisfies multiple and complex needs of the society .

Production of the goods actually means making of goods. It may be agricultural product or finished goods produced in factories. Goods can be produced with the manpower or with the help of machines. e.g. cultivating piece of land and growing food-grains is an example of agricultural production. However, converting oil seeds into edible oil with the help of man power as well as machine power is an example of manufacturing of the goods.

Distribution includes marketing of goods and services. It involves transport, warehousing, advertising which facilitates transfer of goods from producer to the final consumer.

□ **Definition of Business :**

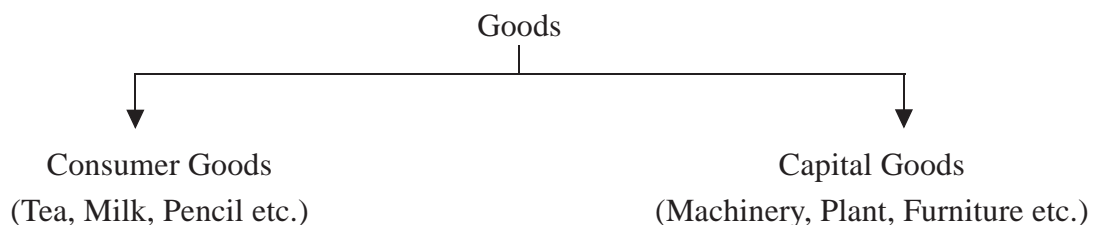
- 1) **Prof. Haney** - “Business activities are all those human activities which are directed towards the production and processing of wealth.”
- 2) **Prof. Pride, Hughes and Kapoor** - “The organized efforts of individuals to produce and sell for a profit, the goods and services that satisfy society’s needs.”

□ **Characteristics / Features of Business :**

- 1) **An Economic Activity** : Business is an economic activity as it is undertaken to earn money or livelihood. It is not because of love, affection, feelings, sentiment etc.
- 2) **Two Parties** : Every business transaction involves an exchange. Minimum two parties are required for exchange i.e. the seller and the buyer. Business transaction is a result of an agreement between the buyer and the seller which may be oral or written.
- 3) **Profit Motive** : The basic purpose of business is to earn the profit from its activities. Businessmen try to maximize profits either by increasing the volume of sales or reducing its costs. It is the spine of business which keeps the business going on in the long term. The amount of profit may differ from business to business.
- 4) **Production of Goods and Services** : Before exchanging the goods and services, they should be produced by business enterprises. Goods are either manufactured or procured from the supplier, with the aim of selling it further to the consumers for profit.
- 5) **Exchange of Goods and Services** : Business involves transfer of goods and services directly or indirectly with money or money’s worth. Monetary exchange is the exchange with money e.g. buying notebook for cash. On the other hand in case of Barter Exchange goods and services are exchanged for some other goods and services. e.g. wheat is exchanged for rice.

If goods are produced for own consumption i.e. stitching a dress for a daughter, it cannot be called as a business activity but stitching of dress in a tailoring shop and taking stitching charges for that is a business activity. Similarly, if goods are donated or given as a gift then it cannot be considered as business activity.

- 6) **Dealings in Goods and Services** : Every type of business transaction is concerned with either goods or services. In the absence of goods and services business can not take place. These goods may be consumer goods or capital goods. However, services created for business purpose are intangible which are essential for doing the business e.g. transportation, banking, insurance etc.



- 7) **Continuity in Dealings** : Every business requires regularity in transactions. One single transaction does not constitute business e.g. If a person sells his own motor car and earns profit then it will not be considered as business activity. But if he is a car dealer so he sells and purchases cars regularly then, it is considered as business activity.

- 8) **Uncertain Returns:** In business, the returns are never predictable or guaranteed. Businessman may earn profit or suffer a loss.
- 9) **Element of Risk :** Risk is the key element of every business which is concerned with exposure to loss. It is due to some unfavorable or undesirable event. Every business will have some or the other risk. Intensity of risk can be minimized but can't be avoided. Certain factors are beyond the control of businessmen like changes in consumer tastes, likes-dislikes, fashions, changes in the methods of production, fire, theft, natural calamities etc. No business is free from all above factors.
- 10) **Customer Satisfaction :** Customer satisfaction is the ultimate aim of all economic activities and business is not exception to it. Modern business believes in satisfying the customers by providing quality products and services at a reasonable price. The purpose of the business is to create and retain the customers.

1.3.2 Profession

Profession is that part of economic activities under which a person uses his educational knowledge and special skill to render services for earning some income. e.g. Doctor, Lawyer, Chartered Accountant etc.

□ Features :

- 1) **Aim :** Every profession is practiced for earning money. Also they render services to their clients and solve their problems.
- 2) **Qualification :** A profession can be practiced only after acquiring required qualifications. Each profession has a certain set of body of knowledge. This knowledge has to be acquired only by systematic and formal training. One cannot practice profession, unless this knowledge is acquired.
- 3) **Financial Returns :** Professionals get fees in exchange of their services. Income received by professional is not fixed. Professionals can be employed in an organization or self employed. A working Chartered Accountant gets salary but those who practice privately i.e. self-employed gets fees.
- 4) **Capital :** Profession can be practiced independently or professionals can work under someone. Independent practicing professional requires huge capital for setting his practice.
- 5) **Registration and Membership :** Some professions have a council which regulates the activities of professionals. These professionals have to register them with their respective council and get certificate of practice e.g. Bar Council of India for lawyers, ICAI for Chartered Accountants, Indian Medical Association for doctors etc. The code of conduct mentioned by their respective councils must be strictly followed by every professional. Every practicing professional has to acquire membership from the respective council.
- 6) **Non transferability :** Profession can not be transferred to other person on the will of professional. e.g. A doctor cannot transfer his medical practice to his son or daughter who has not completed concerned medical education.
- 7) **Nature of Work :** Professionals charge fees in exchange of expert services e.g. an architect designs the layout of office for fees.

1.3.3 Employment

It is an economic activity in which people work for others. There is employer-employee relationship. Employer is the person who offers the work and the person who accepts the work is called employee. Remuneration and terms and conditions are agreed by both of them.

□ Features

- 1) **Aim :** The main aim is to earn money for meeting needs of the employees and employers.
- 2) **Qualifications :** Each job requires some qualification. The job can be skilled or unskilled. For skilled job some specific qualifications are required e.g. Job of nurse. But no specific qualification for unskilled job is necessary. e.g. Office boy.
- 3) **Monetary Returns :** Wages or salaries is given as a financial return to employee after completion of work. Wages are decided in advance before appointment. Wages are paid daily or weekly. Salary is paid monthly. Along with salary other benefits like bonus, quarters to stay, subsidized food in canteen etc. also can be given to employees.
- 4) **Capital :** No capital is required for employment because employer provides everything to the employee for completing the job.
- 5) **Registration :** No registration is required. Every employee has to follow the rules and regulations mentioned in the terms and conditions of employment contract.
- 6) **Non-transferability :** Employment cannot be transferred from one person to another e.g.. If a teacher retires, then he cannot transfer his job to his son or daughter.
- 7) **Nature of work :** Every employee is expected to complete the work which is given to him. The nature of job decide the nature of work.



Activity

- Can a businessman, a professional and an employee complete their job independently? Discuss with your teacher.
- Suraj owns a travel agency. Through his agency he helps people for all kinds of travel arrangement such as Air bookings, Railway Bookings, arranging tours etc. He charges some amount for the services offered. Is Suraj a professional or a businessman?
- Today due to new technology the production can be done in bulk quantity and people also prefer machine made products rather than handmade, yet a 'Paithani' a kind of sari and hand-loom coverlet of Solapur have lot of demand in market. In order to find out the reasons, discuss it with your teacher.

1.4 BUSINESS OBJECTIVES

All business activities are guided by objectives. They are further classified as

- 1) Economic Objectives
- 2) Social Objectives

1) Economic Objectives

- a) **Earning Profit** : Profit is required for survival of the business and for its growth.
- b) **Searching New Customers** : Business organizations have to work hard to create new customers and also to maintain the existing customers.
- c) **Innovations** : It is a development or positive change which results into improvement in product or process of production. It has to spend money on R& D (Research and Development), market survey, use of technology etc.
- d) **Best Possible Use of Resources** : Resources are scarce and have alternative uses. They should be used to its maximum and should avoid wastage. Optimum use of resources ultimately leads to increasing profits.

2) Social Objectives :

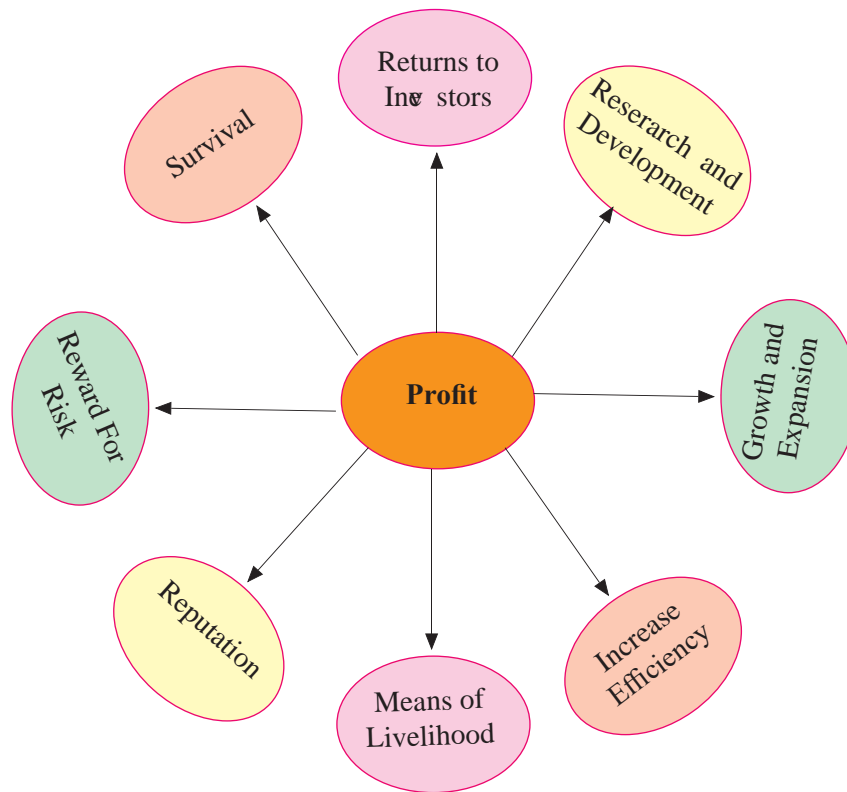
- a) **Supplying Quality Products** : Every business has to provide quality products to its customers. Quality means a combination of purity, safety, durability, utility etc.
- b) **Avoiding Unfair Trade Practices** : Unfair trade practices like black marketing, misleading advertisements, wrong measurement etc. should be avoided. It is important for survival and growth of a business unit.
- c) **Employment Generation** : Business is a socio-economic institution. Business should create jobs for skilled and unskilled people. It should provide employment opportunities to economically backward and divyang persons.
- d) **Welfare of Employees** : Skilled and unskilled workers are the part of the society. So if employees are properly taken care of, it brings welfare to the society. This can be achieved by providing fair and regular remuneration, good working conditions, impartial personnel policies, offering incentives etc.
- e) **Help to Solve Social Problems** : Due to rapid industrialization, many social problems arise like traffic jams, growth of slums, air and water pollution etc. Business should be aware of this and should try to reduce them.
- f) **Contributing to the Welfare of the Society** : Business house should take care of general welfare of the society. For that they should give donations for good cause, offering scholarships for higher education etc.

1.5 Role of Profit in Business

Every business operates with an aim to earn profit that is the excess of revenue over cost.

$$\text{Profit} = \text{Revenue} - \text{Total cost}$$

Role of Profit in Business



□ Role of Profit in Business

- a) **Returns to Investors :** The people who invest money in the business expect fair returns on their capital. This is possible if adequate profits are earned by business.
- b) **Research and Development (R&D) :** Adequate profit enables a firm to spend more on R & D . This can lead to better technology and lower costs. Innovative products benefit the whole nation.
- c) **Growth and Expansion :** Retention of profit is the internal source of funds. This profit can be used for increasing the volume of business through expansion and diversification. The portion of the profit is re-invested in the business for further development.
- d) **Increases Efficiency :** Profits facilitate payment of various dues in time. It also motivates the employees working in the organization. This finally leads to an increase in overall efficiency of the organization.
- e) **Means of Livelihood :** Businessmen earn profits which are their means of livelihood. By earning sufficient profits they can live a decent standard life through satisfaction of various wants.
- f) **Reward for Risks :** Profit is considered as a reward for assuming several business risks. Profits also serve as a protection against those risks which cannot be insured e.g. fall in demand, adverse government policy etc.

- g) **Survival** : It helps the business to continue to exist in the market. If the business does not make enough profit, it will not survive in the growing competitive environment. Profit means survival in competitive environment.



Activity

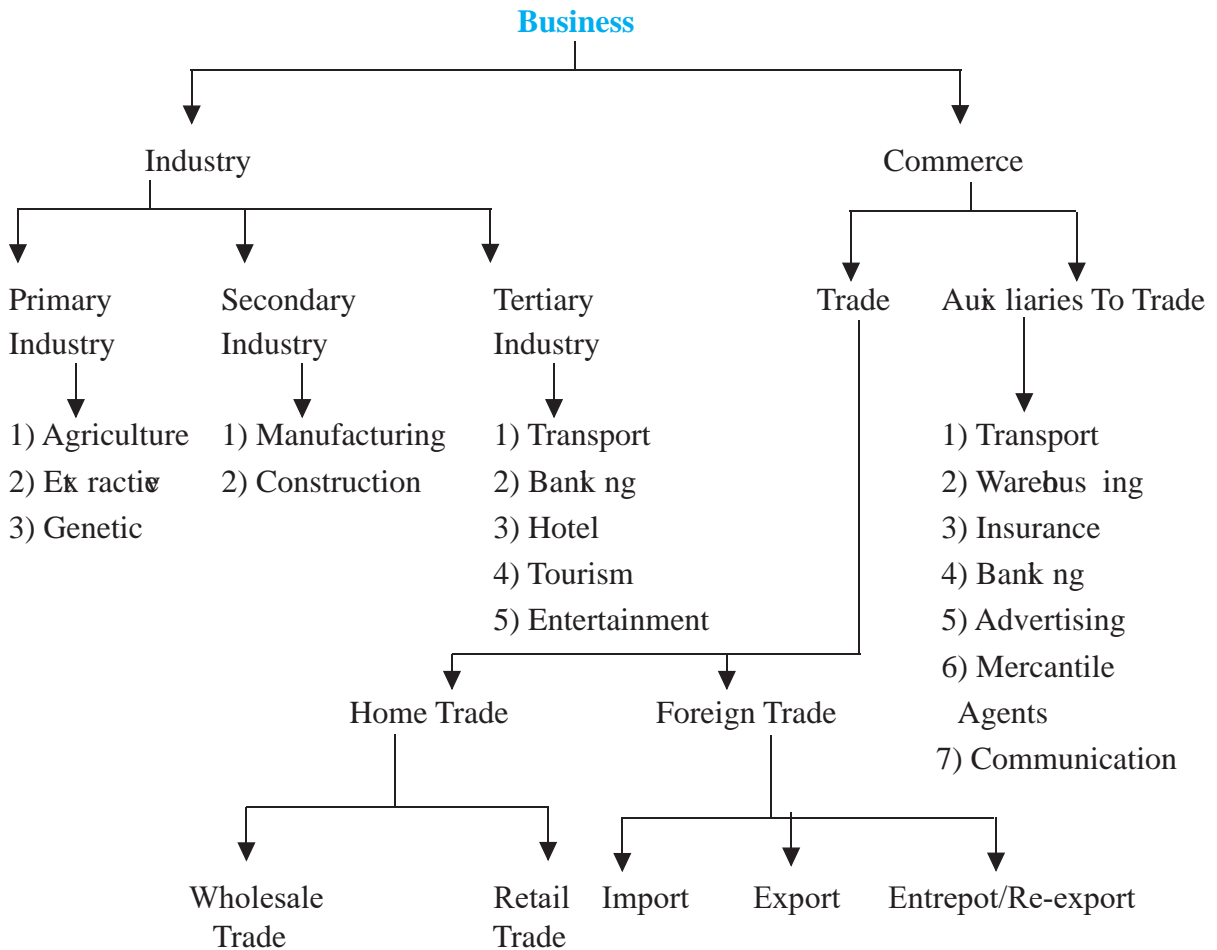
Visit a small shop or a big shopping mall and find out the reasons for why profit is important to them.

1.6 CLASSIFICATION OF BUSINESS ACTIVITIES

Business activities may be broadly classified into two categories

- i) Industry
- ii) Commerce

Industry is concerned with the production of goods and providing services, while commerce is mainly concerned with their distribution.



1.6.1 Industry

Industry implies the economic activities that are associated with the conversion of resources into goods that are ready for use. This involves production and processing of goods, mining, breeding and rearing of animals. The goods produced may be consumer goods or capital goods. Normally

consumer goods are directly consumed by final consumer whereas capital goods are used by another industry for further production of goods.

The term industry also means group of firms producing similar or related goods e.g. Sugar industry refers to all manufacturing units producing sugar from sugarcane. Similarly electronic industry would include all firms producing electronic goods. It also creates services like banking, hotel, insurance, tourism etc.

Industry creates form utility. It converts the raw material into usable finished products. All this is possible with man power, machine power and large capital investment. Industrial activities are conducted in factories, workshops, sheds or even sometimes at home. It all depends on the size of industry.

□ **Industries may be divided into Three broad categories.**

A) Primary Industry : Primary industry is concerned with nature. It is a nature-oriented industry. The products of primary industry may be used as the input of secondary industry. Primary industries are of three types.

- a) **Agriculture Industry :** This includes farming and cultivation of land. The quality of products depend on many factors like fertility of land, climatic conditions, rainfall etc.
- b) **Extractive Industry :** This industry draws out products from natural resources i.e. soil, air and water. Generally the products are in raw form and they are used by manufacturing and construction industries for producing finished products e.g.. extracting oil and minerals from underground, fishing and forestry etc. It may be used in crude form and may be sent to other industries for further processing.
- c) **Genetic Industry :** Genetic industries are engaged in reproduction and multiplication of plants and animals. e.g. animals husbandry, sericulture, horticulture etc.

B) Secondary Industry : These industries depend on primary industries. They convert the raw material provided by primary industry into finished products. e.g. Tomatoes provided by primary industry are used for making sauce and ketchup.

Secondary Industries are of two types.

- a) **Manufacturing Industry :** These industries are engaged in transforming raw material into finished product with the help of machine and manpower. The final goods may be capital goods or consumer goods. e.g.. textiles, sugar, paper industry etc.
- b) **Construction Industry :** These industries are engaged in the construction of buildings, dams, bridges, roads, tunnels, canals, metro etc. In case of other industries goods can be produced at one place and sold at another place but goods made and sold by these industries are at one place. This is only industry which creates immovable wealth.

C) Tertiary Industries : They provide support services to primary and secondary industries. Service facilities are provided by these industries. It includes transport, banking which comes under traditional category whereas in modern times hotel industry, tourism industry, entertainment industry etc. are also included.

1.6.2 Commerce

□ Meaning

Commerce is that part of business activity which is concerned with distribution of goods and services produced by Industry. It includes all those activities which are essential for maintaining a free and un-interrupted flow of goods. Commerce bridges the gap between producers and consumers by exchanges of goods and services for money or money's worth. Commerce is further divided in Trade and Auxiliaries to Trade.

A] Trade : Trade denote buying and selling of goods and services. Trade is an exchange of goods and services with money or money's worth. Goods are made available to consumers in different markets. Trade facilitates transfer of ownership and possession of goods and services from seller to the buyer.

Trade is further Classified as

a) Home Trade / Internal Trade :

In this trade, buying and selling of goods and services takes place within the geographical boundaries of a country. It is conducted with local currency for the exchange of goods and services.

It is further divided as follows -

i) Wholesale Trade : In wholesale trade, goods are purchased and sold in bulk. A wholesaler purchases in large quantities from the producers and sells in small quantities to the retailers. He is the link between the producer and the retailer.

ii) Retail Trade : Retail trade is business activity associated with the sale of goods to the final consumers. A retailer is the one who purchases from the wholesaler or sometimes directly from the producer and sells them in smaller quantities to final consumer. Retailer is the link between wholesaler or sometimes manufacturer to ultimate consumer.

b) Foreign Trade / External Trade :

When trade takes place between different countries, it is known as foreign trade. When boundaries of two countries are crossed then different currencies are used. It is further divided as :

i) Import Trade : When goods and services are purchased from another country it is called as import trade.

ii) Export Trade : When goods and services are sold to foreign buyers then it is called as export trade.

iii) Entrepot Trade : It is the combination of import/export trade. It involves importing the goods from one country and reselling these goods to another country. e.g. Indian Seller importing goods from Japan and re-exporting same goods to Africa.

B] Auxiliaries to Trade

All those activities that facilitate smooth flow of goods from manufacturing centers to the consumption centers are called aids to trade or auxiliaries to trade. These activities play supportive role. They help in removing hindrances which arise during the production and distribution of goods and services. Following are various Auxiliaries to Trade.

- i) **Transport :** The goods are produced at one place but they are demanded over a wide area. So goods are to be sent to different places where they are demanded. Modes of transport facilitate movement of men and materials from one place to another.
- ii) **Warehousing :** There is a gap between production and consumption. Certain goods are produced throughout the year but consumed only in a particular part of the year and vice versa. In the era of mass production, storage is indispensable. The goods should be stored carefully from the time they are produced till the time they are sold. Special arrangement must be made to prevent the loss/damage. Warehouses are also called godowns. Price is maintained at a reasonable level and there is a continuous supply of goods and services.
- iii) **Insurance :** There are various risks involved in the business. The goods may be destroyed while in production process or in transit due to accidents or in storage due to fire or theft. The businessmen would like to cover these risks Insurance companies come to their rescue. They undertake to compensate the loss suffered due to such risks. The businessmen has to insure his goods and pay premium regularly. Risks cannot be avoided completely but they can be minimized by taking insurance policy.
- iv) **Banking :** We require money to start the business and to run it smoothly. Banks supply money. Adequate funds can be obtained from the bank. Bank provides loans, overdraft, cash credit etc. to businessmen. Banks also provide many services like cheques, drafts debit cards, credit cards, online transactions etc. It helps the traders to carry their business activities smoothly.
- v) **Advertising :** Advertising is an effective aid in selling the goods. The producer communicates all information about goods and services to create a strong desire in consumer to buy the products. It can be carried in different ways. It can be indoor and outdoor. Communicating with the people when they are in their homes is called indoor advertising. For example, newspaper, radio, TV, etc.

Communicating with people when they go out from their homes is called as outdoor advertising e.g. posters, hoardings at prominent places, neon sign board etc.
- vi) **Mercantile Agents :** Customers are scattered over a very wide area. It is not possible for seller to contact the customers. This difficulty is solved by mercantile agents. They bridge the gap between buyer and seller. Brokers, Estate Agents etc. are some examples of mercantile agents.
- vii) **Communication :** In today's world there is information explosion The information has to be communicated. There is a need of communication facilitating the traders, producers and consumers to exchange information with one another. Various means of communication such as cell phones, postal services, email etc. are made available.



Activity

- Visit an estate broker and find out the duties performed by him for buyers and sellers of property.
- Because of extended markets and transport, it is now possible to send farming products anywhere easily and the product can get reasonable value for that. But where products are made in an area and people living in that area have to spend quite a lot, is this fair? Discuss with your teacher.

Distinguish and comparative study chart.

1) Industry and commerce

Sr. No.	Point of difference	Industry	Commerce
1)	Meaning	Industry is engaged in production of goods and services	Commerce is engaged in distribution of goods and services.
2)	Location	It is located in factories and workshops	It is conducted in markets and offices.
3)	Utility	It create form utility	It creates place, time and possession utility
4)	Resources	It uses machine and manpower	It requires more manpower
5)	Capital	Huge capital is required to start industry	Commerce comparatively requires less capital
6)	Interdependence	Industrial activities are meaningless without commerce	Commercial activities cannot be started in the absence of industry
7)	Conducted by	Producers and manufacturers	Traders, mercantile agents etc.
8)	Status	Primary Importance	Secondary importance
9)	Classification	Primary, Secondary and Tertiary industry	Trade and Auxiliaries to Trade
10)	Market force	It represents supply side of market	It represents demand and supply side of market

2) Business, Profession and Employment

Sr. No.	Point of Difference	Business	Profession	Employment
1)	Meaning	In this economic activity, goods and services are produced and distributed.	In this economic activity, expert services are rendered.	In this economic activity, one person works under another person.
2)	Reward / Return	Businessmen earn profit.	Professional charges fees as a return to professionals.	An employee receives wages or salary
3)	Capital investment	Capital investment depends on size and nature of business.	Limited capital investment is required except the self-employed professional.	No capital investment is necessary.
4)	Nature of work	It provides goods and services to the public.	It renders personalized expert services.	They perform the work as per service contract.

Sr. No.	Point of Difference	Business	Profession	Employment
5)	Qualification	No minimum qualification is prescribed.	Expert knowledge and training in a particular field needed.	It is prescribed by the employer.
6)	Decision Making	Businessmen are free to take the decisions.	Professionals take expert decisions in their profession.	Employee does not have any power to take any decision.
7)	Risk	Profit is uncertain and irregular so high risk is present.	Fees is generally not certain and regular.	Fixed and regular pay is given by employer as per contract so no risk is involved.
8)	Examples	Builders, Grocers, Super market etc.	Doctor, C.A., Lawyer etc.	Clerk, Teacher, Officers etc.

3) Business and Commerce

Sr. No.	Point of Difference	Business	Commerce
1)	Meaning	It is an economic activity which deals in production and distribution of goods and services.	It is a part of business which is concerned with distribution of goods and service
2)	Concept	It is a broader concept as it includes commerce.	It is a narrow concept as it is a part of business.
3)	Skill	It requires technical as well as marketing skill.	It requires only marketing skill
4)	Classification	It is classified into Industry and Commerce.	It is classified as trade and auxiliaries to trade.

SUMMARY

1.1 Introduction

Every person keeps himself engaged in some activity or the other to satisfy his needs. Thus he obtains goods and services.

1.2 Non-Economic Activities

Human activities which are undertaken for personal satisfaction without monetary gains.

1.3 Economic Activities

Any activity conducted for earning money is called “Economic Activity”.

1.3.1 Business

Business involves production and distribution of goods and services in the market.

Features

- 1) Economic Activity
- 2) Two Parties
- 3) Profit Motive
- 4) Production of goods and services
- 5) Dealings in goods and services
- 6) Distribution of goods and services
- 7) Continuity
- 8) Uncertain Return
- 9) Risk
- 10) Satisfaction of Consumers

1.3.2 Profession

Profession is that part of economic activity under which a person uses his knowledge and special skill to render service by charging some fees.

Examples: Doctor, Lawyer, etc.

Features

- 1) Aim
- 2) Qualifications
- 3) Monetary Returns
- 4) Capital
- 5) Requirement of Registration
- 6) Non-Transferability
- 7) Nature of work

1.3.3 Employment

In this, one person appoints another person to complete the job as per his terms and conditions.

Features

- 1) Aim
- 2) Qualifications
- 3) Monetary Returns
- 4) Capital
- 5) Registration
- 6) Non-Transferability
- 7) Nature of work

1.4 Business Objectives

- 1) Earning Profits
- 2) Creation of customers
- 3) Innovations
- 4) Supplying quality products
- 5) Avoiding unfair trade practices

- 6) Employment generation
- 7) Welfare of employees
- 8) Help to solve social problems
- 9) Best possible use of resources
- 10) Contributing to the welfare of society

1.5 Role of Profit in Business

- 1) Returns to investors
- 2) Research and Development (R&D)
- 3) Growth and Expansion
- 4) Increase Efficiency
- 5) Means of livelihood
- 6) Goodwill
- 7) Reward for risk taking
- 8) Survival of Business

1.6 Classification of Business Activities

A. Industry : Production of goods and services.

Types of Industries

1) Primary Industry : Industry dependent on nature

- i) Agriculture
- ii) Extractive
- iii) Genetic

2) Secondary Industry : They convert the raw material provided by the primary industry into usable finished products.

- i) Manufacturing Industry
- ii) Construction Industry

3) Tertiary/Service Industry : They provide services to primary & secondary industries.

B. Commerce : Distribution of Goods and Services. It is further classified as follows:

1) Trade : Actual buying and selling of goods and services.

Classification of Trade:

i) Internal Trade/Home Trade

It involves buying and selling of goods and services within the country.

ii) External Trade/Foreign Trade

The trade that takes place between buyer and seller of two different countries is known as External Trade.

Classification of External Trade:

- 1) Import
- 2) Export
- 3) Entrepot / Re-export

2) Auxiliaries to Trade : Supporting activities helping smooth functioning of trading activities. They remove obstacles/difficulties to trade.

- 1) Transport
- 2) Warehousing
- 3) Insurance
- 4) Bank
- 5) Advertising
- 6) Mercantile Agents
- 7) Communication

❑ **Career Opportunities**

- 1) A courier agent.
- 2) Poultry business
- 3) Tours & travel Agent
- 4) Agro-based industries.
- 5) Estate agent, Insurance agent.

❑ **Reference Books**

- 1) NCERT Class XI business studies
- 2) Business Organization : Dr. Neeru Vasisth.
- 3) Business Organization and Management : Mr. M.C. Shukla
- 4) Business Organization and Management, Tulsian.
- 5) Business Organization and Management, J. P Mahajan.



EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) A Lawyer is
a) a Professional person b) a Businessman c) an employee
- 2) Raw material is converted into finished product by industry.
a) genetic b) extractive c) manufacturing
- 3) Actual buying and selling of goods is known as
a) profession b) trade c) industry
- 4) National level code of conduct is prepared for
a) professionals b) businessmen c) employees
- 5) Construction of dams is an activity done under industry.
a) primary b) secondary c) tertiary
- 6) The problem of distance is solved by
a) bank b) transport c) warehousing
- 7) Commerce is a branch of
a) business b) industry c) trade

- 8) Return in business is called.....
a) fees b) salary c) profit
- 9) A business unit depends uponfor selling its output.
a) industry b) society c) employees
- 10) Warehousing creates..... utility in goods.
a) place b) time c) form

B) Match the pairs.

Group 'A'		Group 'B'	
A)	Helping disabled person	1)	Social objective
B)	Genetic Industry	2)	Foreign Trade
C)	Local currency	3)	Sericulture
D)	Solve social problems	4)	Non-economic activity
		5)	Internal Trade
		6)	Mining
		7)	Profit
		8)	Economic activity

C) Give one word / phrase / term.

- 1) A regular activity concerned with production and distribution of goods and services for profits.
- 2) Human activities that are conducted for earning money.
- 3) Buying and selling of goods against money or money's worth.
- 4) Activities that remove all the difficulties in trade.
- 5) The type of industries that creates immovable wealth.
- 6) Name the business activity which is concerned with production of goods and services.
- 7) Name the business activity which is concerned with distribution of goods and services.
- 8) The activity which provides mobility to men and material.
- 9) An aid to trade which creates time utility.
- 10) An occupation by which a person agrees to provide expert services for a fees.

D) State True or False.

- 1) Business is an economic activity.
- 2) Every profession is practiced for earning money.
- 3) Primary industries are concerned with nature.
- 4) Trade includes commerce.
- 5) Warehousing removes difficulty of time.
- 6) Trade includes buying and selling of goods and services.

- 7) Profit leads to increase in overall efficiency of the organization.
- 8) Plant nursery is an example of extractive industry.
- 9) Industry creates form utility.
- 10) Retailer is the link between manufacturer and wholesalers.

E) Find the odd one

- 1) Agricultural Industry, Extractive Industry, Genetic Industry, Manufacturing Industry.
- 2) Import Trade, Export Trade, Wholesale Trade, Entrepot Trade.
- 3) Banking, Insurance, Transport, Manufacturing.
- 4) Tea, Milk, Coffee, Machinery.

F) Complete the sentences.

- 1) Economic activities are those activities which are conducted to
- 2) includes marketing of goods and services.
- 3) Business is an activity.
- 4) The basic purpose of is to earn profit.
- 5) Professionals, charge in exchange of expert services.
- 6) is the person who offers the work.
- 7) is considered as a reward for assuming several business risks.
- 8) Industry creates utility.
- 9) In trade, goods are purchased and sold in bulk.
- 10) is the link between wholesaler and customer.

G) Select the correct option.

A		B
1)	Trade between different countries	.....
2)	Purchases of goods and services from another country.	.....
3)	.....	Selling of goods and services to foreign customer.
4)	.....	Link between producer and retailer.

(Export trade, Foreign trade, Wholesaler, Import Trade)

H) Answer in one sentence.

- 1) What is an Economic Activity?
- 2) What is Non-economic Activity?
- 3) What do you mean by Wholesale Trade?
- 4) What is the meaning of Retail Trade?
- 5) What do you mean by Import Trade?
- 6) What is the meaning of Export Trade?

- 7) What is an Extraport Trade?
- 8) What is meant by Auxiliaries to Trade?
- 9) What is Trade?
- 10) What do you mean by Commerce?
- 11) What is Primary Industry?
- 12) What is Secondary Industry?
- 13) What do you mean by Genetic Industry?

I) Correct the underlined word and rewrite the sentence.

- 1) Business is non-economic activity.
- 2) Barter exchange is an exchange with money.
- 3) Profession can be transferred to other person.
- 4) Capital is required for employment.
- 5) Industry creates place utility.
- 6) Commerce represents supply side of market.
- 7) The basic purpose of business is to provide services.

Q.2 Explain the following terms/concepts.

- 1) Business
- 2) Profession
- 3) Employment
- 4) Home Trade
- 5) Foreign Trade
- 6) Economic Activity
- 7) Non-economic Activity

Q.3 Study the following case/situation and express your opinion.

- 1) Jaysukh oil mills produce refined oil. The entire production is purchased by Rupesh oil Depot, who in turn sells it to various retailers. Mrs. Prachi purchased 2 kg oil from Balaji Groceries. Identify:
 - i) Wholesaler
 - ii) Retailer
 - iii) Consumer
- 2) Mr. Pranav is a tin manufacturer in India. Mr. Jack of England sells goods to M/s. Frank Corporation in North America and Mr. Williams of USA buys various goods from Brazil.
 - i) Who is importer?
 - ii) Who is manufacturer?
 - iii) Who is exporter?

Q.4 Distinguish between.

- 1) Industry and Commerce

- 2) Business and Commerce
- 3) Business and Profession
- 4) Employment and Profession

Q.5 Answer in brief.

- 1) State any four features of profession
- 2) State any two types of industries
- 3) Give two types of Foreign Trade
- 4) State any four Auxiliaries to Trade
- 5) State any four features of employment
- 6) Write any four objectives of business
- 7) State any four features of business
- 8) State any two types of primary industry

Q.6 Justify the following statements.

- 1) Retailer is in direct contact with ultimate consumers.
- 2) Commerce is a wider term than Trade.
- 3) Risk is inevitable in business activities.
- 4) Combination of Import-export trade is entrepot trade.
- 5) Transport creates place utility
- 6) Industrial activities take place before commerce starts its role.
- 7) Available resources should be used to its maximum.
- 8) Wholesaler is a link between retailer and manufacturer.
- 9) Business is a part of economic activities.
- 10) Changing fashions is one of the important cause of business risk.

Q.7 Attempt the following.

- 1) What do you mean by commerce?
- 2) What is the meaning of export trade?
- 3) State the role of auxiliaries to trade in trading activities.
- 4) What are the different types of secondary industries?
- 5) State the types of human activities.
- 6) Describe the scope of internal trade.
- 7) How does banking and insurance help trading?

Q.8 Answer the following.

- 1) Give comparative analysis of business, profession and employment.
- 2) Define business. Explain its features.
- 3) Describe various objectives of a business.
- 4) Explain the importance of profit in business.



2

Trade

2.1 Introduction and meaning

2.2 Types of Trade

2.2.1 Internal Trade

- A) Wholesale Trade
- B) Retail Trade : Types of Retail Trade

2.2.2 International Trade

A) Export Trade

- Meaning
- Export Procedure

B) Import Trade

- Meaning
- Import Procedure

C) Entrepot Trade

Distinguish Between

Summary

Exercise

In a small village in Ratnagiri District, Mohan was growing rice. Whatever he could grow, he sold it in his village in retail price. He didn't know the marketing strategies. One day his friend came to meet him from Pune. When they discussed about their economic growth, Mohan wasn't ready to reply. His friend Rajiv, who was in marketing field, suggested him that he could develop his farm with mangoes, nuts and jackfruit. He would develop his business with Internal and Foreign trade also. Mohan surprised and asked about the process.

Rajiv suggested that Mohan already had some trees of mangoes and jackfruits in his field, he should try to send his goods to big cities like Mumbai and Pune. Ratnagiri's mangoes are famous and have the mark of 'Geographical Indication'. His goods could easily sell in these cities. This kind of internal trade would give him big profit. With the profit, he would develop his farm by importing necessary tools for his business. He suggested him that he could take variety of products of mangoes, jackfruits and nuts in commercial way. He would export his goods in foreign countries.

Mohan accepted Rajiv's suggestion and started his business. A farmer become a good businessman by trading his goods. Mohan's example suggests us that Indian farmers can do a good business with the help of trade.

2.1 INTRODUCTION

Trade plays a vital role in the economy of every country. The overall development of economy is an outcome of proper functioning of trade.

Buying and selling of goods and services for money's worth is fundamental feature of trade and other is the transfer of ownership of goods and services from one person or entity to another.

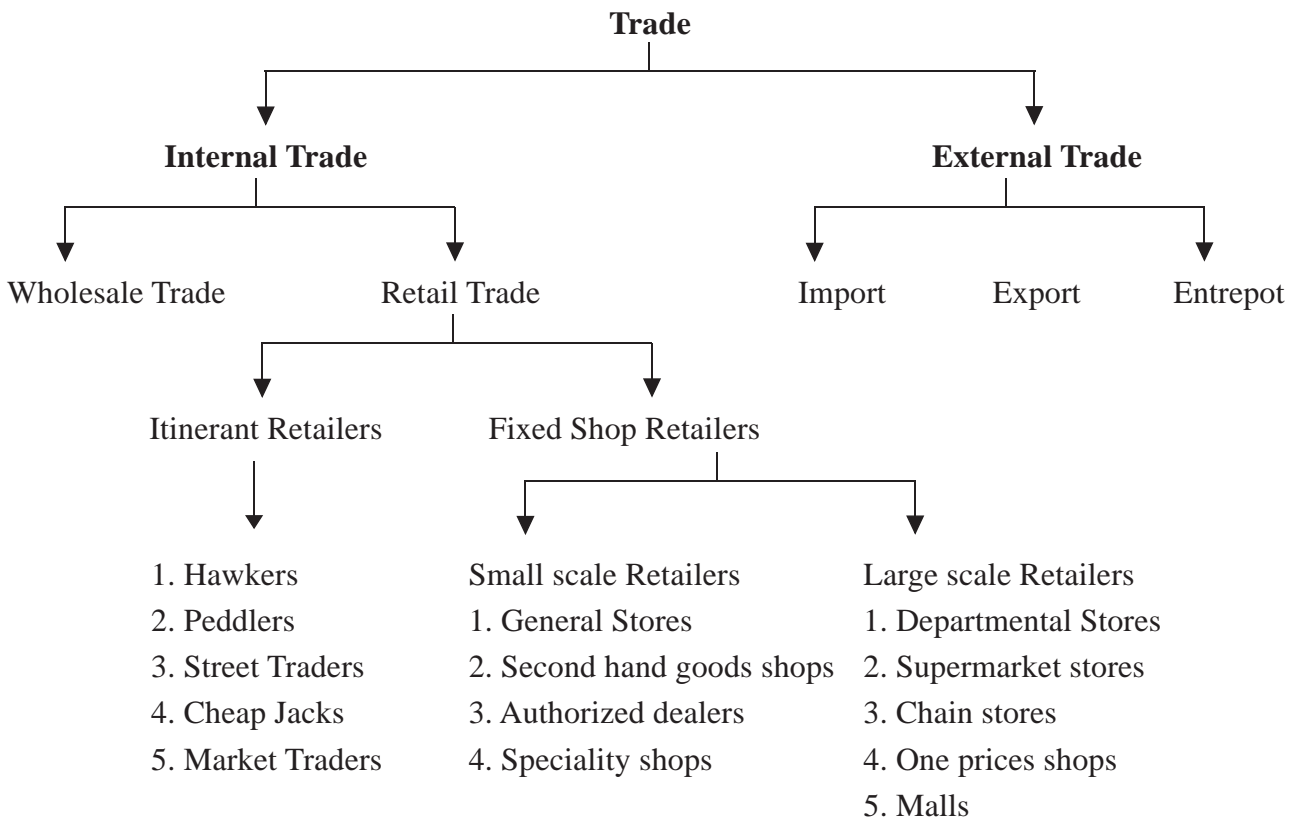
The original form of trade was barter, the direct exchange of goods and services. After invention and acceptance of common currency i.e. money trade became greatly simplified.

MEANING

'Trade' means the process of exchange of goods and services. Trade refers to buying and selling of goods and services with an object of earning profit. Trade establishes a link between producers and consumers and it is carried out by buyers and sellers.

2.2 TYPES OF TRADE

On the basis of different criteria, trade can be divided into different types which are as follows.



2.2.1 INTERNAL TRADE

When the goods and services are purchased or sold within the country it is referred as Internal Trade e.g. purchasing goods from the door salesmen, local shop, exhibition, regional markets, departmental store or a mall are the examples of internal trade .

When the buyers and sellers both are from the same country, it is known as internal trade. Trade between two states or cities of same country is also considered as internal trade.

As there is a gap between production and consumption, there is a need to have proper channel of distribution. The channel of distribution is very important in the internal trade. Usually, producers are situated at one place whereas the consumers are scattered over a wide area. There is a big gap

between producer and consumer. This gap can be shortened by channel of distribution. Channel of distribution helps to make products available at the right time, at the right place and in right quantity through different intermediaries.

❑ Channel of Distribution

Producer/Manufacturer → Wholesaler → Retailer → Consumer

❑ Types of Internal Trade :

There are two types of Internal Trade i.e. Wholesale Trade and Retail Trade

A) WHOLESALE TRADE :

When goods are purchased in large quantities from the manufacturer or producer for the purpose of resale to retailers, it is known as wholesale trade. The person who is engaged in wholesale trade is known as a wholesaler. Wholesaler buy goods from manufacturers and sell it to retailers so wholesaler is buyer as well as seller.

The Wholesaler may perform different functions in the process of distribution of goods and services. It enables the producers to reach the consumers.

❑ Definition

- 1) **According to Philip Kotler**, “Wholesaling includes all activities involved in selling goods or services to those who buy for resale or for business use.”
- 2) **According to Evelyn Thomas**, “A true wholesaler is himself neither a manufacturer nor a retailer but act as a link between the two.”

❑ Features of Wholesaler

- 1) A Wholesaler purchases goods from the producer in large quantities.
- 2) Wholesaler has to take risk in the process of distribution.
- 3) A Wholesaler deals with one or few types of goods.
- 4) A large amount of capital is required in this business.
- 5) A wholesaler maintains price stability by balancing supply and demand factors.
- 6) The manufacturers can get direct information about market through wholesalers.
- 7) A Wholesaler sells the goods to the retailers as per their requirements.
- 8) A Wholesaler performs the marketing functions like assembling, warehousing, transporting, grading, packing, advertising and financing.

Services of Wholesalers

The wholesaler provides valuable services to manufactures and a retailers.

A) Services to Manufacturers :

- 1) **Large Purchase** : A Wholesaler purchases a large quantity of goods from the manufacturer and sell it to retailers by collecting order from retailers.
- 2) **Storage** : A Wholesaler has his own storage facility which he uses to fill the time gap between production and consumption of goods

- 3) **Transportation** : A Wholesaler uses his own transportation to deliver the goods from the place of production.
- 4) **Financial Assistance** : A wholesaler is ready to pay the amount in advance to the manufacturer, which can help the manufacturer to produce goods, within short period.
- 5) **Provide Market Information** : Manufacturer can get the updated information from wholesaler like market conditions, demand, taste etc.
- 6) **Risk Bearing** : A Wholesaler takes a risk in his business by financing and storing large quantity goods. Sometimes he may bear the loss.
- 7) **Marketing Functions** : A Wholesaler carries various marketing functions like warehousing, advertising, sales promotion etc. on behalf of the manufacturer.

B] Services to Retailers

- 1) **Stock of Goods** : A Wholesaler keeps large stock of goods. Therefore retailers can get the goods easily when the consumers ask for the goods.
- 2) **Regular Supply** : A Wholesaler assures regular supply of goods to the retailers. Therefore, retailers are free from storing goods. Retailers can supply goods to consumers as and when required by them.
- 3) **Risk Bearing** : The wholesaler bears the risk of price and market fluctuations, large stock of goods, therefore, retailers are free from these risks.
- 4) **Financial Support** : Wholesalers provide financial support by way of credit facility, discounts etc. Such support increases the effect of working capital of the retailer.
- 5) **Market Information**: Wholesalers provide variety of information about market condition of different products. This information is regarding new products, variants of products, new schemes on existing products etc. Sometimes, wholesalers guide retailers about, when to buy, how to buy etc.
- 6) **Sales Promotion** : A wholesaler does advertisement and also promotion of the goods which can help the retailer to increase the sales.

B) RETAIL TRADE

When goods are sold relatively in small quantity to the ultimate consumer by wholesaler or distributor or dealer is known as Retail Trade. The person who is engaged in retail trade is known as retailer. In market there is an existence of some sellers who are doing business at local level or within limited area. Such sellers are providing goods directly to ultimate consumers at reasonable prices.

□ Definition :

- 1) **According to Oxford Dictionary**, “Retail is sale of goods to the public in relatively small quantities for use or consumption rather than for resale.”
- 2) **According to William Stanton**, “Retail Trade includes all activities directly related to the sale of goods and services to the ultimate consumer for personal and non business use.”

□ Features of Retailers :

Retailer is the link between the wholesaler and consumers who operates in local markets. He deals in wide variety of goods by investing limited capital. He establishes good relations with consumers. He undertakes less risk than wholesaler. He tries to satisfy demands of different consumers but does not hold large quantity of goods at a time.

- 1) Retailer is the link between the wholesaler and consumers.
- 2) He operates in local markets.
- 3) Retailers deal in wide variety of goods in small quantity.
- 4) Investment requirement is limited.
- 5) Less risk and low amount of profit as compared to wholesaler.

A) Services to Wholesaler :

- 1) **Connecting Link :** The retailer is the connecting link between the wholesaler and consumer.
- 2) **Helps to Distribute :** Retailers help to quickly distribute goods. It becomes very important, in case of perishable goods like dairy products, fruits, vegetables, pulses etc.
- 3) **Marketing :** If the wholesaler is unable to carry out marketing function, retailers conduct them. Sometimes he handles transportation on his own. Sometimes he tries to solve shortages problem or advertises for better sell.
- 4) **Provide Information :** The retailer provides information about changing demands, preferences, likes and dislikes of consumers to the wholesaler.
- 5) **Attract Consumers :** The Retailers attract consumers by advertising the products. This activity directly helps the wholesaler to sell the product.
- 6) **Create Demand :** Through personal salesmanship retailer attracts consumer's attention towards new goods and arrivals in the market. To create demand for new goods, the retailer puts new goods for window display.

B) Services to Consumers :

- 1) **Regular Supply of Goods :** The retailer stores sufficient quantity of goods as per the requirement of consumers. Goods are available to the consumers as and when they are in need.
- 2) **Local Convenience :** Retailers are normally situated near residential areas. This offers local convenience to the consumers as they can purchase goods as per their convenience and timings.
- 3) **Home Delivery :** Many retailers provide home delivery of goods to the customers at nominal cost or free of cost. This improves the relations between the consumers and retailers.
- 4) **Variety of Goods :** Many retailers keep different variety of goods, this offers the consumers for proper selection of the required commodity of their choice.
- 5) **Credit Facilities :** The retailer gives credit facility to their regular consumer, which helps the consumers to purchase goods as and when they are in need. It helps many consumers

who are in short of money. Credit facility by retailer creates large customer base for the business.

- 6) **After Sale Services** : Some retailers do provide after sales services to consumer for durable products such as laptop, mobiles, television sets, music systems, refrigerators etc. at cheaper rates. Such services create confidence in minds of consumers for further purchases.
- 7) **Information** : Retailers provide valuable information about goods, their qualities as well as varieties, new arrivals in the market which helps to choose better product. Such information facilitates quick buying for consumers and helps to build good image in mind of consumers.

Types of Retailers



A) **Itinerant Retailer** : Itinerant retailers are those retailers who do not have a fixed place or fixed shop for their business.

- 1) **Hawkers** : Hawkers are one of the oldest types of retailers. They move from one place to another place, carrying goods in hand cart, moving from the city or place anywhere, where they can sell easily. They require limited capital. They move on street by shouting loudly or announcing the names and prices of the goods. They deal in seasonal vegetables, fruits, some other items like household cheap articles, bangles, clips etc.
- 2) **Peddlers** : Peddlers are the oldest form of retailers. Peddlers are those, who carry goods on their head in baskets or container. They deal in low quality goods of day to day use on cash basis, such as vegetables, fruits, fish, utensils, soaps etc.
- 3) **Street Traders** : These retailers do their business on footpaths of busy street of cities and towns. They prefer crowded places like market places, bus stops, railway stations, school, colleges, etc. They set up temporary stalls on the roadside. They sell items like handbags, ready-made garments, toys, electronic goods, etc. Their prices of goods are reasonable. They do not change their place of business frequently.

- 4) **Cheap Jacks :** Cheap Jacks have independent shops having temporary setup. They keep changing places of their business depending upon responses they get from consumers. Cheap Jacks have a fixed shop for a particular period. They deal in variety of goods like cutlery, crockery, socks, shampoos etc. The quality of goods is inferior.
- 5) **Market Traders :** Market traders open their shops on market days i.e. on different places on fixed days. Usually many villages and town have some day of the week known as the market day. On that day various retailers come and set their temporary shops at the particular village or town. They deal in various goods like vegetables, pulses, fruits, toys, spices, ready-made garments, daily utensils etc. It is also called as weekly market.

B) Fixed Shop Retailer

Fixed shop retailers are those retailers who do not move from one place to another. They mostly have fixed places. They can further be classified into small scale fixed retailer and large scale fixed retailer.

□ Small scale fixed retailer

The Retailers who conduct their business operations on a small scale and deal in variety of goods are small scale shop retailers. They offer shopping convenience to the customers as they are situated in the same locality e.g. General stores, medical store, laundry, etc.

□ Types of small scale fixed retailers

- 1) **General Stores :** General store Retailers sell goods which are required by people for their day to day needs like food grains, soaps, stationery, medicines, oils, toffees, biscuits, plastic goods, footwear, umbrella, pens etc. These shops are generally situated near residential areas of the city or town. They provide home delivery of goods. They have variety of goods in each item. They buy the goods from wholesalers or buy directly from manufacturers.
- 2) **Second hand Goods Shop :** These retailers purchase and sell used goods e.g. They deal in books, furniture, TV. Set, clothes, cars etc. After repairing the goods and setting them in working conditions, the goods are sold to the consumers. Generally consumers from weak financial background purchase goods from them. As prices of these goods are cheap, they lack quality, durability and guarantee.
- 3) **Authorized Dealer:** These retailers have authorized dealership of particular manufacturer's goods. They deal in goods like T. V. Sets, washing machines, automobiles, music systems etc. Authorized dealers try to maximize sale of goods, because they get good commission from manufacturers.

Authorized dealers do not have products of other manufactures, except for whom they are working as authorized dealers. They promote the goods by window display, advertisements and attractive schemes.

- 4) **Speciality Shops :** These retailers deal in particular line of goods. They keep a wide variety of item of same line of the product. e.g. A toy shop may keep only toys of different types. Other examples of speciality shop retailer are sports material, ready-made dresses, leather goods, plastic goods, watches, books etc. They offer goods at varying price range. They provide a wide choice to the customers. They give advice to the customers as they have expert knowledge about the product.

Large scale fixed Retailers

The retailers who conduct their business operations on a large scale by investing huge capital, selling variety of quality goods are large scale shop retailers. These retailers have come into existence because of urbanization. These are fixed shops located at different localities of the cities.

Types of Large Scale Fixed Retailers

1) **Departmental Stores :** A departmental store is a large scale retail shop having different departments (sections) under one roof. Each section deals in a particular type of goods, All the departments are organized and managed by one management. It sells a large variety of goods. i.e. food, toys, dresses etc. e.g. Shoppers Stop

□ According to James Stephenson :

“A big store engaged in the retail trade of variety of articles under the same roof .”

□ According to G. B. Giles :

“A departmental store is a collection of shops under one roof and ownership, each shop or department specializing in selling a special range of goods”.

Features of Departmental stores

- 1) **Shopping convenience :** Departmental stores provide a wider range of goods and services under one roof hence provides maximum shopping convenience. Customers can fulfill their wants of goods at different price levels.
- 2) **Centralized Management :** In departmental stores all the departments are independent but they are centrally owned, managed and controlled e.g. advertising, accounting, recruitment of staff, etc. All activities of departmental stores are managed at central level.
- 3) **Wide variety of Goods :** Departmental stores provide a wide variety of goods of different brands, designs and colours.
- 4) **Specialization :** Each department section deals in a separate line of product or goods with specialized services e.g. Electronics section, kitchen ware section etc.
- 5) **Central location :** A departmental store prefers central place of the city. So the location becomes easy for customers to access.
- 6) **Huge Capital :** Departmental store requires large capital investment. This capital is required for spacious place, storing of variety goods, salary to staff, advertisement, electricity etc.
- 7) **No Credit Facility :** Departmental stores work on cash basis or they accept credit cards but do not offer credit facility.

2) Super Market Shop

Super Market is a large retail organization which mainly sells wide variety of food and grocery items on the basis of ‘Self-Service’.

Supermarket is a large retailing shop, where goods are kept on open racks, buyers have to select products, place them in a trolley or a box, bring them near the gate, where a clerk

prepares the bill on a counter for the goods selected, the buyer pays the bill and takes delivery of goods.

□ **Definition :**

“A large store selling a wide variety of consumer goods, particularly food and small articles of household requirements.”

e.g. Big Bazaar, D-mart, Reliance Fresh etc. are some of the examples of supermarket.

Features of Super Market Shop :

- 1) **Location** - Super markets are generally situated at the central location of the city where there is population concentration.
- 2) **Types of Goods** : In super market goods of day to day requirement are sold e.g. food, grains, tinned food, bakery products, groceries, stationery etc. At times goods which are not available with small retailers are available in super market.
- 3) **Self Service** : Super market operates on self service style. There are no salesmen around in the shop. The Customers can select the goods from the information printed on the products.
- 4) **Reasonable Prices** : As super market buys goods on large scale, they pass on the benefits to their customers by selling the goods at reasonable prices.
- 5) **Capital** : Super market shop requires large capital, it is established by co-operative societies and private limited companies such as Reliance Fresh, Tata Group, Grahak Peth etc.
- 6) **Cash Sales** : Goods are sold only on cash basis. No credit facilities are given to the customers. Some schemes are introduced such as cash back scheme, loyalty programme, etc. to increase cash sales.
- 7) **Attractive Packing** : Packing plays important role in selling the product in the supermarket. Goods are duly packed, by giving details of quantity, quality, weight, price, contents etc.
- 8) **Impulsive Buying** : Customers get induced to buy unwanted items just because of attractive packing and sales promotion schemes. The customers become impulsive buyers.



Activity

Visit any large scale shop in your city and note down the things you can get there, compare the prices of the same goods in small shops.

3) **Chain Stores :**

Chain stores are retail store owned by a single organization. Chain store is a network of a number of branches situated at different localities in the city or in different parts of the country. They are owned, managed and controlled by its head office. The appearance is same in internal and external display e.g. the furniture, the name boards, the staffs uniform are same in colour and design.

□ **Definition :**

According to James Stephenson, “ A Chain store shops consists of a number of similar shops owned by a single business firm.”

According to Clark and Clark :

“Chain stores system consists of a number of retail store, which sell similar products are centrally owned and operated under one management,”

In India the retail shops like Bata Stores, Raymond Stores, Vijay Sales, Croma etc. are examples of chain stores.

Features of Chain Stores :

- 1) **Low and Uniform Price :** Due to centralized buying from head office, prices are less. Low operational expenses and low cost of the goods leads to low price of commodities. There is uniformity in price in all chain stores.
- 2) **Uniformity :** Every chain store has the same style of external and internal layouts with same interiors, colours, display, etc. Hence the customers can easily identify the chain store.
- 3) **Limited Range of Goods :** Chain stores sell a limited range of goods produced by a particular manufacturer. Manufacturers open the chain stores by themselves or through distributors. e.g. Bata shops sells footwear manufactured by Bata Shoes Company Ltd only.
- 4) **Large Investment :** Chain store requires large financial investment. A large number of branches have to be managed in terms of salary of staff, advertisement, decoration, etc. So there is a need of large investment.
- 5) **Distribution through Branches :** Chain store purchases in large scale from the producer and then distributes them through its branches.
- 6) **Cash Sales :** Chain stores sell their goods on cash basis only. Cash sales avoids the problem of bad-debits.
- 7) **Quality of Goods :** The chain stores sell standardized and branded goods. The quality of goods is assured to customers in chain stores.

4) **One Price Shop :**

The shop where the prices of all the products or goods are same is known as One Price shop. This shop sells a large variety of goods of daily use at low prices. The products irrespective of their size and quality are sold at one common uniform price. The price are fixed in advance.

Goods like gift articles, watches, shampoos, hair products, household articles, crockery, etc.

e.g. shops selling goods for Rs. 49/-, Rs. 99/-, Rs. 199/-



Activity

Visit one price shop near your locality.

Features of One Price Shop :

- 1) **Uniform Price :** All the goods whether big or small in size are sold goods at one standard fixed price. There is no scope for bargaining.
- 2) **Low Price :** Usually the price of the goods is reasonable and low.
- 3) **Variety of Goods :** These shops usually deal in variety of small sized goods. There is a wide scope of choice of goods e.g. stationery, toys, fun games, play cards, cosmetics etc.
- 4) **Location :** These shops are located in busy centers of the city such as busy trade streets near railway stations, bus stops, etc. Sometimes this shop is temporarily set up in fairs or exhibitions.
- 5) **Cash Sales :** In this shop goods are sold on cash basis only. No credit facility is given to customers and so there is no risk of bad debts.
- 6) **Less Capital :** Due to small goods these stores require less amount of capital.

5) Mall :

A Mall is a large enclosed shopping complex containing various stores, businesses and restaurants.

A modern shopping mall is an American term in which one or more buildings form a complex. It is modern type of shop which enables customer to buy different products from one unit to other units of mall.

From the late 20th Century entertainment venues such as movie theatres and restaurants began to be included. Now a days, the popularity of mall is increasing because of variety of things available at one place. e.g. Phoenix Mall, Inorbit Mall.

There is a thin line of difference between various retail shops such as departmental stores, chain store, mall etc.

□ Recent trend in Retail Trade :

Now a days Online retail form of buying and selling of goods become more popular in Indian scenario. This form is very easy platform for seller as less investment is required, no need of storage and warehousing, no need of face to face interaction with customers. Their focus is on prompt service and quality. Following are very popular examples of online retail forms. e.g. Flipkart, Amazon, Shopclues, Myntra etc.

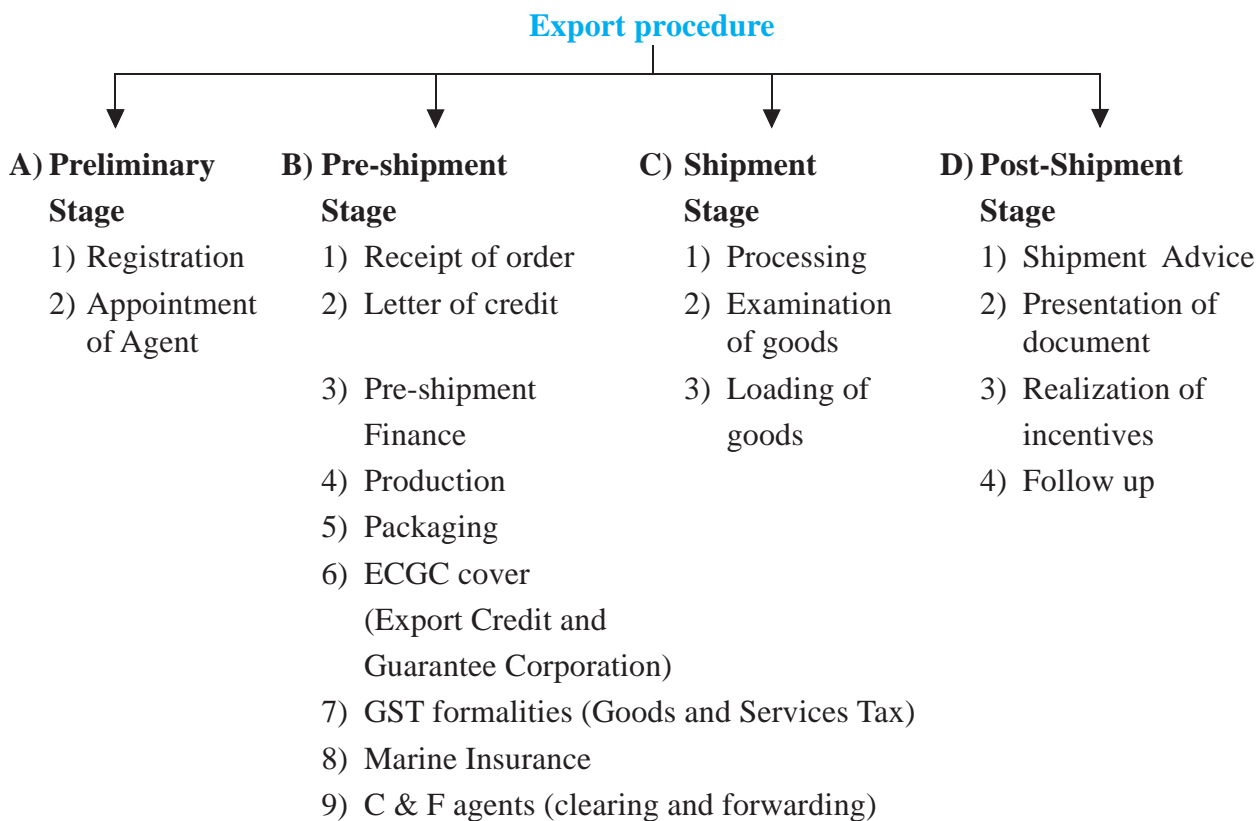
2.2.2 International Trade

In Ancient India, international trade was conducted for various quality products like silk, handloom, ornaments, weapons etc.

When the trade activities are conducted between two or more countries, it is called as 'International Trade'. The political relations between two countries also influence the trade between them. International trade procedure is always complex, difficult and lengthy. Various factors like government policies, economy, international market, international laws, currency etc. influence the trade activities. Most economists globally agree that international trade helps to boost the nation's wealth. The consumers get variety of goods and services due to International trade.

A) EXPORT TRADE

Export trade refers to sale of goods and services to foreign country.



□ Export Procedure

A) Preliminary Stage

- 1) **Registration :** The exporter has to get himself registered with various authorities as follows:
 - i) Directorate General of Foreign Trade to obtain Import-Export Certificate number.
 - ii) Income Tax authority to obtain Permanent Account Number.
 - iii) Other Authority like EPC (Export Promotion Council) and GST authority.

2) Appointment of agent :

After registration the exporter appoints agents or sales representative abroad to book orders. The exporter may also open sales office in foreign country.

B) Pre-shipment Stage

- 1) **Receipt of Order :** As soon as the order is received the exporter must verify and confirm the order. The exporter checks on the 'Restriction on Import' in Importer's country.
- 2) **Letter of Credit :** The exporter requests importer to issue a letter of credit in his favour. The receipt of 'letter of credit' from importer's bank will clear the foreign exchange and other restrictions.
- 3) **Preshipment Finance :** The exporter obtain pre shipment finance from his banker to meet working capital requirement.

- 4) **Production of Goods** : The exporter has to produce goods as per buyer's need. If the exporter is not a manufacturer then he will get the ordered goods from the local supplier.
- 5) **Packaging** : The goods must be properly packed because packing plays three important roles.
 - i) Protection of goods in transit
 - ii) Preservation of quality of goods
 - iii) Promotion of goods
- 6) **ECGC Cover (Export Credit and Guarantee Corporation)** : The exporter may obtain cover from ECGC. Such cover protects exporter against credit risk. e.g. If the importer fails to make the payment of bill, the exporter can be covered from ECGC to the extent of 90 % of the loss.
- 7) **GST formalities (Goods and Services Tax)** : The exporter needs to complete GST formalities regarding export trade.
- 8) **Marine Insurance** : The exporter has to obtain marine insurance under CIF (cost, insurance and freight) contract. He has to pay necessary insurance premium and obtain insurance policy.
- 9) **C & F agents (Clearing and Forwarding)** : In export trade C & F agents are known as custom house agents. These agents are responsible for forwarding the goods.

C) Shipment Stage :

- 1) **Processing of Document** : Exporter prepares the shipping bill and gets all the documents processed at customs house.
- 2) **Examination of Goods** : The C&F agent obtain carting order from the PTA (Port Trust Authority) to cart the goods inside the docks.
- 3) **Loading of Goods** : After examining the goods CE (Customs Examiner) issues 'Let Export' order. The C&F agent then obtains 'Let Ship Order' from Custom Preventive Officer (CPO). The goods are then loaded on ship for which a Mate's receipt' is obtained. The C&F agents approaches shipping companies and obtains a Bill of Lading.

D) Post Shipment Stage

- 1) **Shipment Advice** : The exporter sends shipment advice to the importer informing him about dispatch of goods. He also sends copy of packaging list, commercial invoice and non-negotiable copy of loading along with advice letter.
- 2) **Presentation of Documents** : The exporter submits all necessary documents to the bank for negotiation and realization of export proceeds.
- 3) **Realization of Export Incentive** : The exporter makes an arrangement to obtain export incentive from the concerned authorities. The incentive includes duty drawbacks, refund of GST, if paid etc.
- 4) **Follow-Up** : Exporter should always have follow up after export to find buyers reaction towards the goods.



Activity

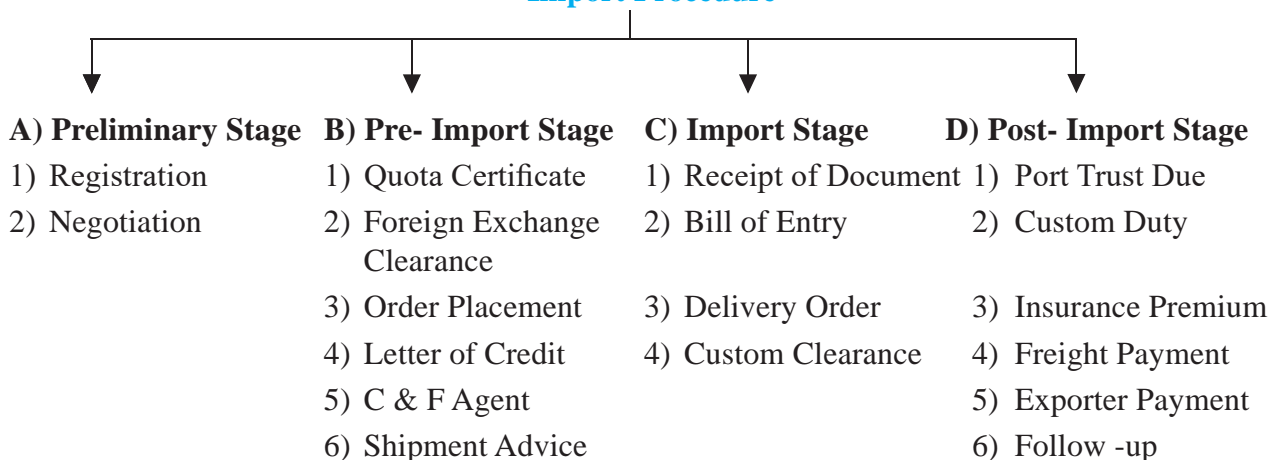
Find out importer and exporter in your locality.

B) IMPORT TRADE

Meaning

Import trade refers to the purchase of goods and services from foreign country. The procedure for import trade differs from country to country depending upon the import policy, statutory requirements and customs policies of different countries. In almost all countries of the world import trade is controlled by the government. The objectives of these controls are proper use of foreign exchange restrictions, protection of indigenous industries etc.

Import Procedure



Import Procedure

A) Preliminary Stage

- 1) **Registration** : The Importer has to get himself registered with various authorities as follows:
 - i) Directorate General Foreign Trade to obtain Import-Export Certificate Number.
 - ii) Income Tax authority to obtain Permanent Account Number.
 - iii) Formalities regarding GST.
- 2) **Negotiation** : The importer must hold negotiation with overseas suppliers regarding-
 - i) Price of goods
 - ii) Delivery schedule
 - iii) Credit Period
 - iv) Terms and Condition regarding sale, payment and delivery

B) Pre-Import Stage

- 1) **Quota Certificate** : Certain items are subjected to quota restrictions. The Importer needs to obtain import quota certificate from government authorities.

- 2) **Foreign Exchange Clearance :** The Importer needs to obtain foreign exchange clearance from RBI. The Importer should forward the application for the same through his bank.
- 3) **Order Placement :** After obtaining foreign exchange clearances from RBI, the importer places an order with the overseas suppliers. This order is called as indent. The importer negotiates the terms and conditions of the import contract and places the order.
- 4) **Letter of Credit (LC):** The exporter normally request for LC. The LC is an undertaking given by the importer's bank guaranteeing the payment to the exporter on behalf of importer. The LC is the safest method of payment in foreign trade. Therefore the importer has to obtain LC from his bank in favour of the exporter.
- 5) **Clearing and Forwarding Agent (C & F Agents) :** The importer has to appoint C& F agents to undertake various custom formalities and documentation work in respect of import of goods.
- 6) **Shipment Advice :** The shipment advice enables the importer to make necessary arrangement for custom clearance and unloading of goods sent by the Exporter.

C) Import Stage

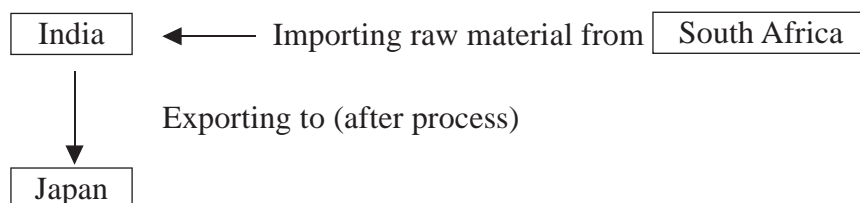
- 1) **Receipt of Document :** The importer receives the documents sent by the exporter through his bank. The documents include :
 - a) Bill of Lading
 - b) Packing List
 - c) Commercial Invoice
 - d) Certificate of Origin
 - e) Certificate of Inspection etc.
- 2) **Bill of Entry :** C & F agents prepare bill of entry which is required for custom clearance. The bill of entry give details about number of packages quality of goods, price of goods etc.
- 3) **Delivery Order :** The C & F agent obtain delivery order from the shipping company. The shipping company gives the delivery order on payment of freight. Delivery order helps to unload the goods from vessel.
- 4) **Custom Clearance :** The purpose of custom clearance is to get the document certified from custom authority. The document includes bill of lading, bill of entry and packing list.

D) Post- Import Stage

- 1) **Port Trust Dues :** The C & F agents has to make payments of port trust dues.
- 2) **Custom Duty :** The C and F agent has to make payment to custom authorities in respect of importing goods.
- 3) **Insurance Premium :** The Importer has to make payment under FOB (Free on Board) contract.
- 4) **Payment of Freight :** The Importer has to make payment of freight under shipping contract.
- 5) **Exporters Payment :** The importer has to make payment to the exporter as per the terms of contract. The exporter draws a bills of exchange for the payment.
- 6) **Follow up :** The importer needs to take follow up in respect of import of goods. If there are any discrepancies importer should inform to the exporter.

C) Entrepot Trade

The term entrepot historically referred to a seaport or warehouse where goods would be imported for storage or process before re-export. It also refers to the practice of re-exporting goods with or without processing or re-packaging them again. It is mainly used to refer to duty free ports with the high volume of re-export trade. At entrepot, goods do not face any import and export duties upon shipment from the port.



Distinguish between

1. Itinerant Retailers and Fixed Shop Retailers

Sr. No.	Point	Itinerant Retailer	Fixed Shop Retailers
1)	Meaning	These retailers do not have fixed place of business.	These retailers are those who have a fixed place of their business
2)	Capital	Limited capital investment.	Higher capital investment
3)	Stock of goods	They keep limited stock of goods	They keep large stock of goods.
4)	Quality of goods	They sell low quality goods.	They sell quality goods.
5)	Variety of goods	They do not offer variety of goods to customer.	They offer variety of goods to customer.
6)	Prices	Price is low.	Price is high due to higher overhead cost.
7)	Credit facility	They don't give credit facility to customer.	They provide credit facility to regular customers.
8)	Choice of goods	Customers have limited choice for selection of goods.	Customers have more scope for choice of goods.
9)	Door to door Service	They offer door to door service	They do not offer door to door service.
10)	After sale Service	They do not provide after sale service	They provide after sale service on selected goods.

2. General Store and Speciality Shop

Sr. No.	Point	General Store	Speciality Shop
1)	Meaning	It is a shop dealing with wide range of goods	It is a shop dealing with specialized products.
2)	Location	Located near residential areas.	Located in shopping centers of the city.
3)	Prices	Prices of goods are generally low	Prices of goods are generally high.
4)	Type of goods	Day to day required goods are sold.	Only specialized goods are sold.
5)	Advertisement	They do not spend on advertisement	They spend more on advertisement
6)	Variety of Products	Less variety of products	More variety of products

3. Departmental Store and Chain Store

Sr. No.	Point	Departmental Store	Chain Store
1)	Meaning	It is large scale retail store having various departments or sections selling different goods under one roof.	It is a retail shop owned, controlled and managed by a single organization selling one line of product, located in different parts of city.
2)	Variety of goods	Deals with variety of goods in large scale.	Deals with goods of one particular manufacturer only.
3)	Location	It is situated at the central location in the city.	It is situated in different parts of the city and country.
4)	Capital	Requires large capital for investment.	Comparatively less capital is required.
5)	Price	The price charged is very high.	The price is comparatively less.
6)	Operating cost	Operating cost is very high.	Operating cost is low.

4. Wholesaler and Retailer

Sr. No.	Point	Wholesaler	Retailer
1)	Meaning	A person who conducts the wholesale trade is called a wholesaler.	A person who conducts the retail trade is called a Retailer
2)	Capital	Required large capital	Comparatively less capital is required.

3)	Link	Links the manufacturer and retailers.	Links wholesalers and customers.
4)	Location	Located in Central Market of the city.	Located in various Local Markets of the city.
5)	Profit Margin	Less profit margin as compared to retailer.	More profit margins as compared to wholesaler.
6)	Prices	Sells goods at lower prices to retailer.	Sells goods at higher prices to consumer .
7)	Credit Facility	Offer credit facility to retailer.	Offer credit facility to customer.
8)	Warehousing	Requires big warehousing for storing of the goods.	Requires limited warehousing for storing of the goods.
9)	Specialization	Specialized in one or a few line of goods.	Specialized in variety of goods.
10)	Finance	Requires large financial resources.	Requires limited financial resources.

5. Internal Trade and Foreign Trade.

Sr. No.	Point	Internal Trade	Foreign Trade
1)	Geographic Scope	Within the national boundaries of the home country.	Varies from national boundaries of two countries to the entire globe.
2)	Operating Style	Production, marketing and investments limited to home country.	Operations spread to the entire globe.
3)	Tariff	Tariff rates of various countries do not affect the internal Trade.	Tariff rates of various countries affect the foreign trade.
4)	Foreign Exchange Rates	Fluctuations in foreign exchange rate do not directly affects internal trade.	Fluctuations in foreign exchange rate directly affects foreign trade.
5)	Quotas	Quota imposed on exports and imports by various countries do not directly affect the internal trade.	Foreign trade has to operate within the quotas imposed by various countries on export and imports.
6)	Culture	Domestic culture of the country affects on product design.	Cultures of the various countries affects on product design.
7)	Markets and Customers	Usually domestic companies meet the needs and demands of the local markets and customers.	Foreign trade needs to understand the markets and customers of various countries.

SUMMARY

Internal Trade

When the buyers and sellers both are from the same country, it is known as internal trade. Trade between two states or cities of same country is also considered as internal trade.

□ **Types of Internal Trade :** There are two types of Internal Trade i.e. Wholesale Trade & Retail Trade.

1) **Wholesale Trade :** When goods are purchased in large quantities from the manufacture or producer for the purpose of resale to retailers, it is known as a wholesale trade. The person who is engaged in wholesale trade is known as a wholesaler.

Wholesale Trade

Sr. No.	Features	Services to Manufacturer	Services to Retailer
1)	A wholesaler deals with one or few types of goods.	Large purchase	Stock of Goods
2)	A large amount of capital is required in this business.	Storage	Regular supply
3)	A wholesaler purchases goods from the producer in large quantities	Transportation	Risk Bearing
4)	A wholesaler sells the goods to the retailers as per their requirements.	Financial assistance	Financial support
5)	The manufacturers can get direct information about market through wholesalers	Provide market information	Market information
6)	In the process of distribution, wholesaler has to take risk	Price stability	Sales promotion
7)	A wholesaler performs the marketing functions	Risk bearing	-----
8)	A wholesaler maintains price stability	Marketing Functions.	-----

Retail Trade

Sr. No.	Features	Services to Wholesaler	Services to Customers
1)	Retailer is the link between the wholesaler and consumers.	Connecting Link	Regular supply of Goods.
2)	He operates in local markets.	Helps to distribute	Local Convenience

3)	Retailers deal in wide variety of goods in small quantity.	Marketing	Home Delivery
4)	Investment requirement is limited	Provide information	Variety of Goods.
5)	Less risk and low margin of profit as compared to wholesaler.	Attract consumers	Credit Facilities
6)	-----	Create Demand	After Sales Services .

Types of Retail Trade



Features

Sr. No.	Departmental Store	Super Market Shop	Chain Store	One Price Shop
1)	Central Location	Central Location	Low and Uniform price	Cash sales
2)	Wide variety of goods	Types of Goods	Uniformity	Uniform Price
3)	Shopping convenience	Self Service	Limited range of goods	Low price
4)	Specialization	Reasonable price	Large investment	Location
5)	Centralized Management	Capital	Distribution through branches	Less Capital
6)	Huge capital	Cash sales	Cash sales	Variety of Goods
7)	Cash sales	Attractive packing	Quality of goods	-----
	-	Impulsive Buying	-----	-----

International Trade

When the trade activities are conducted between two or more countries, it is called as “International Trade”. The political relations between two countries also influence the trade between them. International trade procedure is always complex, difficult and lengthy.

Types of international trade

- A) Import Trade B) Export Trade C) Entrepot Trade

Career Oppourtunitis

- 1) One can start Retail shop of mobile accessories.
- 2) GST consultant
- 3) Accounts writing Job
- 4) Advertisement Agency
- 5) Marketing Agent
- 6) Packers and Movers
- 7) Interior designer
- 8) Business consultant
- 9) Export / Import Agent in Foreign Trade

Reference Books

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- 2) Organization of commerce by M. G. Patkar Phadke Prakashan Kolhapur.
- 3) Organization of Commerce & Management by Maharashtra State Board of Secondary & Higher Secondary Education, Pune.
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- 5) Retailing management by Swapana Pradhan.

Website referred - Wikipedia - the free encyclopedia



EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) is the link between producer and retailer.
a) Consumer b) Wholesaler c) Manufacturer
- 2) Price charged by retailers is generally.....
a) higher b) lower c) fixed.
- 3) A wholesaler invest Capital in the business.
a) small b) large c) less.
- 4) Retailer is thelink in the chain of distribution
a) first b) last c) second.
- 5) Retailers supply information to the through wholesalers.
a) manufactures b) government c) consumers

- 6) Major itemsare chemicals, crude oil and petroleum products, edible oils, electronic goods, gold and silver, pearl and precious stone.
 a) exported by India b) not exported by India c) imported by India.
- 7) For customs clearance the..... is prepared by the exporter.
 a) carting Order b) letter of Credit c) shipping Bill
- 8) carry goods on their head in baskets or containers.
 a) Hawkers b) Peddlers c) Cheap Jacks.
- 9) open their shops on market days i.e. on fixed days.
 a) Street traders b) Market Traders c) Peddlers
- 10) retailers deal in particular goods.
 a) General Stores b) Speciality shop retailers c) Second hand goods shops.
- 11) is known as self-service store.
 a) Department store b) Super market c) Multiple store

B) Match the pairs.

1)

Group 'A'		Group 'B'	
A)	Departmental Store	1)	Carry goods on heads
B)	Market traders	2)	Uniform Price
C)	General shops	3)	Business on market day
D)	One price shop	4)	Most common shop
E)	Peddlers	5)	Huge capital
		6)	Distribution through branches
		7)	Carry goods on carts
		8)	Sale used articles
		9)	Specialized goods
		10)	Authorized dealers

2)

Group 'A'		Group 'B'	
A)	Import Trade	1)	First step in Import
B)	Registration	2)	Goods not for own country
C)	Entrepot trade	3)	Buying goods from other country
D)	Letter of Credit	4)	No restrictions
		5)	Selling goods to other country
		6)	Credit worthiness of importer.
		7)	Recovery of dues

C) Give one word/phrase/term.

- 1) A person who moves daily from place to place to sell goods.
- 2) The middleman between wholesaler and consumer.
- 3) A retail shop which operates through branches.
- 4) A shop where all goods are available at same price.
- 5) A retailer who displays his goods on the road.
- 6) An order placed by an importer for the supply of certain goods.

D) State True or False.

- 1) Wholesaler keeps large stock of goods.
- 2) Wholesaler deals in small quantity.
- 3) A retailer has no direct contact with consumers.
- 4) Super market shops offer home delivery facilities to customer.
- 5) Departmental store located out of the city.
- 6) Customers cannot bargain in one price shop.
- 7) Letter of Credit is required for obtaining export license.
- 8) Buying goods from other country is known as export trade.
- 9) Maintaining high quality is necessary to sustain in export business.

E) Find the odd one.

- 1) General Stores, Hawkers, Cheap Jacks, Peddlers.
- 2) Departmental Stores, Chain Stores, Market Trader, One Price Shop.
- 3) Speciality Shops, Secondhand goods shops, Malls, Authorised Dealers.

F) Complete the sentences.

- 1) The original form of trade was
- 2) Trade establishes a link between producers and
- 3) The wholesaler provides valuable services to manufactures and
- 4) The wholesaler purchases a large quantity of goods from the
- 5) The wholesaler bears the risk of and market fluctuations.
- 6) The wholesaler provides financial support to retailers by way of facility.
- 7) The retailer is the connecting link between the wholesaler and
- 8) is a large retail organization which mainly sells wide variety of food and grocery items on the basis of 'self-service'.
- 9) are retail stores owned by a single organization.
- 10) The shop where the prices of all products or goods are same is known as
- 11) A modern shopping mall is an term.
- 12) The Letter of Credit is the safest method of payment in trade.

G) Select the correct option.

- 1) Wholesaler deals in (**small / large**) quantity.
- 2) Departmental store located (**in / out of**) the city.
- 3) Customer cannot bargain in (**General stores / one price shop**).
- 4) Retailer operates in (**global / local**) markets.

- 5) Departmental store is a (**large / small**) scale retail shop.
- 6) Supermarket shop requires (**limited / larges**) capital.
- 7) Chain stores are retail store owned by (**many / single**) organization.
- 8) The shop where the prices of all the products or goods are (**different / same**) is known as one price shop.

H) Answer in one sentence.

- 1) What do you mean by internal trade?
- 2) Who is known as hawkers?
- 3) What is the meaning of peddlers?
- 4) What do you mean by fixed shop retailer?
- 5) What is meant by small scale fixed retailer?
- 6) What do you mean by large scale fixed retailers?
- 7) What is departmental store?
- 8) What is meant by supermarket shop?
- 9) What is the meaning of chain stores?
- 10) What is one price shop?
- 11) What is mall?

I) Correct the underlined word and rewrite the following sentences.

- 1) When the trade activities are conducted between two or more countries, it is called as internal trade.
- 2) Export trade refers to the purchase of good and services from foreign country.
- 3) The price charged in departmental stores is comparatively less.
- 4) Wholesaler requires less capital.
- 5) Tariff rates of various countries affect the internal trade.

J) Arrange in proper order.

- 1) Retailer, consumer, producer, wholesaler
- 2) International market, local market, national market, state market
- 3) Import stage, Pre-import stage, Post-import stage, preliminary stage

Q.2 Explain the following terms/concepts.

- | | |
|---------------------|-----------------------|
| 1) Wholesale Trade | 5) One Price Shop |
| 2) Retail Trade | 6) Departmental Store |
| 3) Foreign Trade | 7) General Store |
| 4) Letter of Credit | 8) Mall |

Q.3 Study the following case/situation and express your opinion.

- 1) Sonupant purchases his grocery material every month from nearest Nandulal grocery shop and he purchases wheat, rice and pulses in bulk for whole year from Gorhe and Son's, Market yard.
 - i) Who is wholesaler?
 - ii) Who is retailer?
 - iii) Any one difference between wholesaler and retailer

- 2) Anurag is selling goods to Japan. Kavita is buying goods from USA where as Ganesh is buying raw material from South Africa and after processing it sells finished goods to Malaysia.
- Who is exporter?
 - Who is importer?
 - What is Entrepot Trade?

Q.4 Distinguish between.

- Wholesaler and Retailer.
- Itinerant and Non Itinerant Retailers.
- General stores and Speciality stores.
- Departmental stores and Chain store.
- Import Trade and Export Trade.

Q.5 Answer in brief.

- State any four features of one price shop.
- State any four services of wholesalers to manufacturers.
- Write any four services of retailers to consumers.
- State any two types of small scale fixed shop retailer.
- Explain preliminary stage of Import procedure.
- Explain post-shipment stage of Export procedure.

Q.6 Justify the following statements.

- Wholesaler sells goods in large quantities.
- Wholesaler maintains price stability.
- Retailers provide home delivery of goods to customers.
- Wholesaler performs various marketing function.
- Authorized dealer do not have other products of other manufacturers.
- General stores are generally situated near residential areas.
- Departmental store has centralized management system.
- Packing plays an important role in selling the product in the supermarket.
- Chain stores sell a limited range of goods.
- There is no scope for bargaining in one price shop.

Q.7 Answer the following

- What are the main features of wholesaler?
- Explain the services of retailers to wholesaler.
- Explain small scale fixed shop retailers.
- Explain services of wholesalers.
- Explain different services of retailers.
- Define import trade. Explain its procedure in detail.
- What is export trade? Explain its procedure in detail.



3

Small Scale Industry and Business

3.1 Introduction

3.1.1 Meaning

3.1.2 Definition

3.2 Importance of Small Scale Industries.

3.3 Advantages of Small Scale Industries

3.4 Challenges of Small Scale Industries.

3.5 Steps in setting up of a Small Scale business.

Summary

Exercise

Arun and Anil are good friends who have completed a vocational course in entrepreneurship after their school education. They were contemplating the idea of setting up a small business, using the skills they had learnt in their course. However, they knew very little about business. They were wondering what business to start, where to locate it, how to procure machinery and materials needed for the business, how to raise money and how to do marketing? They came across a notification given by the District Industries Centre located near the industrial estate in Pune District, regarding a seminar on Government's assistance for a small business, aimed at young entrepreneurs. Excited with the news, the two friends decided to attend the seminar. They were told about the financial and other assistance offered by the Central and State Governments under the Rural Employment Generation Programme to the educated youth. They found that Mango juice and Kokam juice were in demand and decided to manufacture Mango juice and Kokam juice. They started a Small Scale industry in their village by taking financial assistance with the help of Khadi and Village Industries Commission. Today, they are successful in marketing of Mango Juice, Kokam Juice. In the near future, they plan to get into export market as well.

3.1 INTRODUCTION

Rising population must be given opportunities of means of livelihood. The problem of unemployment is becoming more serious in India. In post independence period more attention is given to the development of Small Scale industries. However the problem of unemployment is not overcome by new industrial policies. There is huge importance of farming industries, Small Scale industries and cottage industries in Indian economy. As far as developing country like India is concerned, it is necessary to make available the capital and other resources for Small Scale Industries. It is the fact that unskilled and semi skilled artisans required for any Small Scale Industries are easily available in large number in rural area. Small Scale Industries play an important role in such types of developing countries where there is availability of less capital and more manpower. Small Scale Industries are those industries in which manufacturing, providing services, productions are done on small scale or micro scale.

3.1.1 Meaning

Traditionally the industries in India which are organized on a Small Scale and produce goods with help of machines, labour and power are considered as Small Scale Industries.

Initially two categories were considered, those using power with less than 50 employees and those not using power with employee strength more than 50 but less than 100. However capital resources invested in plant and machinery, building etc. have been the primary criteria to differentiate small business from large and medium scale business.

- An industrial unit can be categorized as small business if it fulfills the capital investment limit fixed by Government of India according to Micro Small and Medium Enterprises Development Act (MSMED) 2006.
- Business is classified into two sectors.
 - 1) Manufacturing sector
 - 2) Services sector

Classification of Business on the basis of Investment according to MSMED

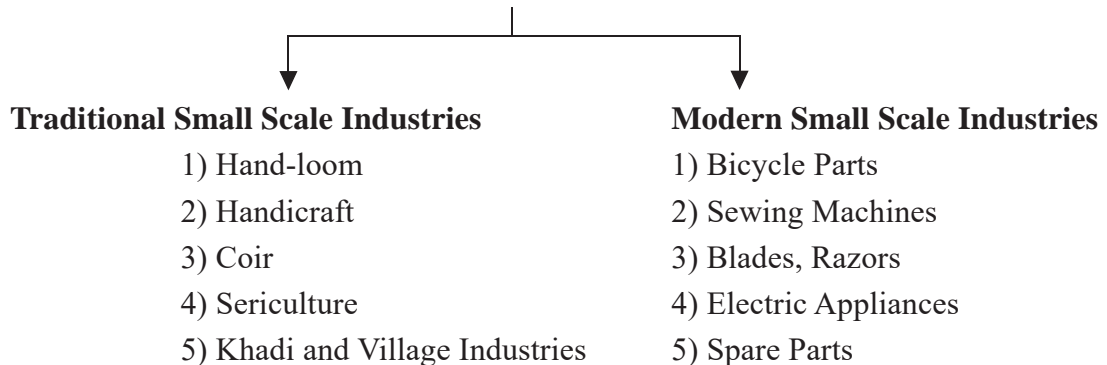
Business	Manufacturing Sector	Services Sector
Micro	Does not exceed ₹ 25 lakhs	Does not exceed ₹ 10 Lakhs.
Small	More than ₹ 25 lakhs but does not exceed ₹ 5 crores.	More than ₹ 10 lakhs but does not exceed ₹ 2 crores
Medium	More than ₹ 5 crores but does not exceed ₹ 10 crores	More than ₹ 2 crores but does exceed ₹ 5 crores

3.1.2 Definition

- Any Industrial Unit is regarded as Small Scale Industry, if the following condition is satisfied.

“Investment in fixed assets like plant and equipment either held on ownership terms or on lease or hire purchase should not be more than one crore. However, the unit in no way can be owned or controlled or auxiliary for any other industrial unit.”

Classification of Small Scale Industries



3.2 IMPORTANCE OF SMALL SCALE INDUSTRIES

Small Scale Industries (SSI) play a vital role in the development of economy. It boost to agriculture and agro based sector.

- 1) **Job Opportunities** : SSI is second largest industry which creates huge employment

opportunities. Because it can be operated with minimum amount of capital. SSI can be run with basic and potential skills. This is a boost for a labour surplus country like India.

- 2) **Regional Balance :** In India, all regions are not developed due to lack of industrialization SSI can be setup with minimum amount of capital. Small industries manufactures products using simple technologies, local available resources, material and labour. Thus, they contribute significantly to the balanced development of the country.
- 3) **Increase Competitive Strength :** Small scale industries enjoy the advantages of low cost of product. These industries use locally available resources which are less expensive. Establishment and running costs of small industries are comparatively less. Low cost of production, low overheads, ultimately result in low price of goods. Increased turnover increases competitive strength.
- 4) **Maximum Use of Natural Resources :** Small scale industries are labour intensive. They utilize available natural resources and raw materials from local areas. Such use of local natural resources minimizes the cost of production which result into reasonable price of the goods.
- 5) **Reduces Migrations :** Small Scale industries can create a large number of employment in rural area. small scale industry is also a best example of self employment. Therefore, migration of people from rural to urban can be reduced or minimized.
- 6) **Support to Large Scale Industries :** Maximum large scale industries are depends upon small scale industries. Many Small Scale industries provide raw material, semi finished goods to large scale industries. For e.g. spare parts.
- 7) **Developing New Entrepreneurs :** Small enterprises have the potential to attract the young aspirants to entrepreneurship. Small Scale Industry can accommodate the technical and non-technical young first generation entrepreneurs. India is the country of villagers. Therefore government has to pay attention to the development of small and cottage industries in order to create a balanced economy.



Activity

Find out available raw materials being used in SSI in your areas. How many industries or businesses units set up are based on it?

3.3 ADVANTAGES OF SMALL SCALE INDUSTRIES

Small Scale industries have always played an important role in the economic development of the country. The following are the advantages of Small Scale Industries.

- 1) **Large Employment :** India is labour abundant country. Small Scale Industries have potential to create employment opportunities on a mass scale. They are labour intensive They use more labour than other factors of production. Their gestation period is low and can provide employment opportunities to large number of people.
- 2) **Less Capital Requirement :** SSI requires less capital as compared to large scale industries. SSI can be started and run by small entrepreneurs with limited capital resources.

- 3) **Utilization of Domestic Resources :** SSI make use of local resources which are available in a greater extent. Small amount of savings which normally remains idle are now channelized. This will increase capital formation and investment in the economy.
- 4) **Increases Industrial Output :** SSI produce consumer goods as well as industrial components. The goods are cheaper and satisfy the needs of poor sections of the society. Products produced by SSI form a significant portion of industrial output of a country.
- 5) **Contribution to Export :** Nearly 40% of the industrial exports are contributed by SSI. Product such as hosiery, knitwear, gems and jewellery, handicrafts, coir products, woolen garments, processed food, chemical and allied products and a large number of engineering goods contribute substantially in India's exports. Also products produced by SSI are used in the manufacturing of products by large scale industries which are exported. It contribute directly and indirectly to exports and earn valuable foreign exchange.
- 6) **Equitable Distribution :** Large scale industries lead to inequalities in income distribution and concentration of economic power. But small scale industries distribute resources and wealth more equitably. This is because income is distributed among more number of workers as it is labour intensive. This results in both economic and social welfare.
- 7) **Earning Foreign Exchange :** Small scale industries earn valuable foreign exchange for the country by exporting products to different countries of the world. At the same time, their imports are very little. e.g. The Small Scale industries in Tiruppur contribute to a substantial portion of India's textile export and earn valuable foreign exchange for the country.
- 8) **Opportunities for Entrepreneurship :** Small scale industries provide opportunities for entrepreneurs with limited capital. SSI requires less capital and lower investment in technology and machines as compared to large scale enterprises. Therefore small entrepreneurs can start small scale industries easily. SSI in Japan, which was devastated by the second world war became a major economic power because of many small entrepreneurs who contributed greatly to the nations development.
- 9) **Cost Efficiency :** Small Scale units can adopt micro production method which offer better quality and more variety at a lower cost. They are most cost effective as compared to large scale, because their expenses are lower.
- 10) **Reduces Migration :** Migration happens when people living in rural areas are not able to find employment and therefore, they migrate to urban areas seeking employment. Large scale migration puts tremendous pressure on land, water and other resources in urban areas. The skills and talents of rural craftsmen, artisans etc. leads to gainful employment to those with inheritant skills resulting in their economic upliftment. Thus Small Scale industries help in reducing migration.
- 11) **Flexibility in Operation :** Small scale industries are more flexible. They can adopt themselves to changing market requirement very fast.



Activity

- Visit to the Small Scale industries in your area. Talk and discuss with the owner and workers of the industry and write a detailed report based on your observation. It should contain following points –
Formation and nature, product specialization, Revenue and Expenditure of business, Methods of sales, Problems of that particular industry.



Activity

- Visit to 2 to 3 Small Scale industries near by and observe infrastructure conditions. Compare infrastructure of those industries and find out whether there is any relation between productivity and infrastructure of industry.

3.4 CHALLENGES BEFORE SMALL SCALE INDUSTRIES.

In India, Small scale industries are facing many difficulties and problems. So there is adverse effect on their work. The following are the challenges before Small scale industries.

- 1) **Old Methods of Production** : Generally Small scale industries use outdated technology and old methods of production. The use of low grade technical know-how and skills is resulting in low productivity in many industries.
- 2) **Inadequate Finance** : Non availability of adequate finance is a serious problem faced by Small scale industries. Generally, SSI begins with a small capital base. Many of the units in the small sector raise funds from capital market. These units frequently suffer from lack of adequate working capital.
- 3) **Problem of Raw Material** : Another major problem of Small scale industries is inadequate supply of raw materials. Due to that SSI have to compromise on the quantity and quality of raw material, or pay more price to good quality of raw material.
- 4) **Labour Problem** : Most of the small industries recruit unskilled and semi skilled workers on daily wages. This creates the problem of low labour productivity, higher absenteeism and poor job commitment. The wages are low due to financial limitations which turn into labour dissatisfaction and increases labour turnover. Improper shifts and lack of job security makes employment in small industries unattractive and the talented work force does not opt for such job.
- 5) **Marketing Problem** : Marketing is one of the most important activity as it generates revenue. Effective marketing of goods requires a thorough understanding of the customers needs and requirements. In most cases, marketing is a weaker area of small industries. These SSI have to depend excessively on middlemen who at times exploit them by paying low prices and delayed payments. Further, direct marketing may not be feasible for small business firms as they lack the necessary infrastructure.
- 6) **Problem of Transport** : It is necessary for SSI to spend on transporation of raw material and finished goods. Due to lack of transport facility, it is difficult to transfer raw material from market to factory and finished product from factories to consumers.

- 7) **Sickness** : Prevalence of sickness in small industries has become a point of worry to both the policy makers and the entrepreneurs. The causes of sickness are both internal and external. Internal problems includes lack of skilled and trained labour, lack of managerial and marketing skills etc. External problems includes delayed payment, shortage of working capital, inadequate loans and lack of demand for their products.
- 8) **Power Shortage and Irregular Supply** : Higher cost of power acquisition, load shedding, frequent power cuts, irregular supply of power, voltage fluctuation and rising power charges badly affect the productivity.
- 9) **Global Competition** : Apart from the problems stated above, small businesses are facing problems on the context of Liberalization, Privatization and Globalization (LPG) policies being followed by several countries across the world.

3.5 STEPS IN SETTING UP OF A SMALL SCALE BUSINESS

Small scale business provides more independence than the large scale business and through this type of business one can fulfill their dream to become entrepreneur. One can set up Small scale business by following the simple steps which are as follows.

- 1) **Decision of Business Area** : One need to prepare the description for the Small scale business one want to setup. It is necessary to decide whether one wishes to set up a corporation, proprietorship or partnership. The potential entrepreneur has to analyze his strength, weakness while deciding for entrepreneurship career. This analysis helps in knowing what type and size of business would be the most suitable.
- 2) **Study of Business Environment** : Before setting up an industry, it is always essential to study and understand the prevailing business environment in which they operate particularly the industrial policy, economic policy, licensing policy, legal environment, and technological environment. The environment impacts a lot in setting up a proper industry.
- 3) **Selection of Product** : One needs to decide the product to manufacture or the service to offer. While choosing the product or service which one want to offer, one must conduct a good market research and learn about the prevailing competition in the market.
- 4) **Selection of Place** : One needs to choose a location to set up small scale business. While choosing the location, factors such as nearness to market, sources of availability of raw materials, labour, transportation services, modern infrastructural facilities and other things are considered. Location determines the success or failure of the industries.
- 5) **Selection of Technology** : To manufacture any item technology is used. Entrepreneur should posses information of all available technologies and its suitability. It will be also useful to determine the need of money, material and equipment to be installed.
- 6) **Business Proposal** : Project appraisal means the assessment of a project. It is a technique for analysis of a scheme or project while preparing to set up an enterprise. The entrepreneur has to appraise the project carefully from the economic, financial, technical, market, social and managerial point of view.
- 7) **Finance** : Finance is the lifeblood of the enterprise. So, the next big step is to arrange for finance. No business can be created, with zero capital. If one dosen't have enough finance then the best way is to borrow from outside.

- 8) **Registration :** It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application form from District Industries Centre (DIC). After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC.
- 9) **Actual Arrangements of Resources :** Production is the next step, once small scale business is started.
 - a) **Physical Resources :** This includes allocating space for different operations and choosing production methods. One is required to purchase machinery and hire employees and workers for different departments.
 - b) **Arrangement of Power and Water Supply :** The sites where the enterprise will be located should either have adequate power connections, or it should be arranged. The entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be available for a business, as it can materially affect the installation cost.
 - c) **Staffing :** Once machines are installed, the need for manpower arises to run them. So the quantum and type of manpower are to be decided. The sources of getting desired labour is also important. This follows the recruitment, training and placement.
- 10) **Production and Marketing of Product :** Production is the next step. Once Small scale business is started. Marketing is the most important activity as far as the entrepreneurial development is concerned. Marketing and business advertising form next step of setting up Small Scale business. Online business directories and various traditional forms of advertising can gain exposure for business.
- 11) **Review or feedback for Future Changes :** Periodical monitoring and evaluation not only of markets but also production quality and profitability help in knowing where the firm stands in comparison to performance envisaged in the business plan. It also identifies the direction of future growth.

It can be concluded that setting up Small scale business is not a difficult task. The steps to set up Small scale business are simple and easy than the large scale business. So if one wants to set up business, one can surely go for it. It is profitable, easier and helps in the growth of the economy of the country.



Activity

- Go to your local market, where agro based products are sold. Prepare a list of few products and ask questions and discuss with sellers on basis of following points.
 - a) From where have they brought product? (Homemade or not?)
 - b) What are problems related with raw material and transportation?
 - c) Whether they are happy with present profit?
 - d) What are their expectation from Government and local market?



Activity

- Collect information and discuss in detail business surrounding of your own native place. Which industry is the best to start there according to the point studied in this topic make a detailed survey and support your opinion.

SUMMARY

❑ Introduction

Small business plays vital role in rural India by generating employment opportunities. Problem of rural economy are inter related which are mostly solved by small businesses.

In short, small business industry is highly labour intensive requires less capital but generates employment on large scale and contributes to total export of the country.

❑ Business is classified into two sectors.

- 1) Manufacturing sector
- 2) Services sector

❑ Importance of Small scale industries

- 1) Job opportunities.
- 2) Regional balance.
- 3) Increase competitive strength.
4. Maximum use of natural resources.
- 5) Reduces migrations.
- 6) Support to large scale industries
- 7) Development of new entrepreneurs.

❑ Advantages of Small scale industries

- 1) Large employment.
- 2) Less capital requirement.
- 3) Utilization of domestic resources.
- 4) Increases industrial output.
- 5) Contribution to exports.
- 6) Equitable distribution.
- 7) Earning foreign exchange.
- 8) Opportunities for entrepreneurship.
- 9) Cost efficiency.
- 10) Reduces migration.
- 11) Flexibility in operation.

❑ **Challenges before Small scale industries**

- 1) Old methods of production
- 2) Inadequate Finance
- 3) Problem of raw material
- 4) Labour problem
- 5) Marketing Problem
- 6) Problem of transport
- 7) Sickness
- 8) Power shortage and irregular supply
- 9) Global competition.

❑ **Steps in setting up of a Small scale business.**

- 1) Decision of business area
- 2) Study of Business Environment
- 3) Selection of Product
- 4) Selection of Place
- 5) Selection of Technology
- 6) Business Proposal
- 7) Finance
- 8) Registration
- 9) Arrangement of Resources
 - a) Physical Resources
 - b) Arrangement of Power and Water Supply
 - c) Staffing
- 10) Production and Marketing of product
- 11) Review or feedback for future changes

Classification of Business on the basis of Investment according to MSME

Business	Manufacturing Sector	Services Sector
Micro	Does not exceed ₹ 25 lakhs	Does not exceed ₹ 10 Lakhs.
Small	More than ₹ 25 lakhs but does not exceed ₹ 5 crores.	More than ₹ 10 lakhs but does not exceed ₹ 2 Crores
Medium	More than ₹ 5 crores but does not exceed ₹ 10 Crores	More than ₹ 2 crores but does exceed ₹ 5 crores

❑ **Career opportunities**

- 1) Small entrepreneur
- 2) Small industries
- 3) Agro based industrialist
- 4) Dairy plant

- 5) Small Engineering Unit
- 6) Leather industrialist
- 7) Textile industries
- 8) Pharma product industries

4 Reference

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- 3) YCMO University – Business organization and administration
- 4) Maharashtra State Board of Higher Secondary Education Board Pune (XI Commerce)
- 5) [www. Sadanet / adls/ Microfinace](http://www.Sadanet/adls/Microfinace)
- 6) Business map of India. Com
- 7) [https // hing inleader inprocedure-starting.](https://hing.inleader.inprocedure-starting)



EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) The problem of has been becoming more serious in India.
a) employment b) unemployment c) pollution
- 2) India is abundant country.
a) labour b) money c) material
- 3) cost of power acquisition, frequent power cuts, irregular supply of power affect the productivity of SSI.
a) High b) Lower c) Average
- 4) Before setting up business, it is essential to study prevailing environment.
a) business b) natural c) political
- 5) Small Scale Business are intensive.
a) money b) power c) labour
- 6) Occurring obscured idea in mind of entrepreneur is stage of establishing business.
a) first b) second c) third
- 7) Small Scale industries contribute nearlyto the industrial exports of the country.
a) 40% b) 60% c) 20%

B) Match the pairs.

Group 'A'		Group 'B'	
A)	Micro-Manufacturing sector	1)	Handloom
B)	Traditional Small Scale business	2)	Unskilled
C)	Registration	3)	Does not exceed ₹ 25 lakhs
D)	Labour	4)	40% of exports of India
E)	Bicycle	5)	Does not exceeds ₹ 1 lakhs
		6)	DIC
		7)	Marketing Problem
		8)	Modern Small Scale business
		9)	Project Appraisal
		10)	Cost-efficiency

C) Give one word/phrase/term.

- 1) A sector which is back bone of rural India.
- 2) An industry using power with less than 50 employees.

D) State True or False.

- 1) Small Scale industries should be developed in order to maintain, economic balance in a country
- 2) Majority Small Scale industry uses advanced technology.
- 3) Small Business easily get access to low interest rates.
- 4) Small Business can not survive in the competition.

E) Find the odd one.

- 1) Coir, Handicraft, Spare Parts, Hand-loom
- 2) Bicycle Parts, Sericulture, Electronic Appliances, Sewing machine

F) Complete the sentences.

- 1) Industries plays an important role in developing countries.
- 2) SSI is largest industry which creates huge employment opportunities.
- 3) SSI enjoys the advantage of cost of the produce.
- 4) SSI are intensive.
- 5) SSI requires capital as compared to large scale industries.
- 6) SSI produce consumer goods as well as components.

G) Select the correct option.

	A	B
1)	More than ₹ 25 lakhs but Does not exceed ₹ 5 cores	.....
2)	.....	Does not exceed ₹ 25 lakhs
3)	More than ₹ 5 cores but does not exceed ₹ 10 cores	.....
4)	.....	Does not exceed ₹ 10 lakhs
5)	More than ₹ 10 lakhs but does not exceed does not exceed ₹ 2 cores	.....

(Small manufacturing Sector, Micro manufacturing Sector, Micro Service Sector, Medium Manufacturing Sector, Small Service Sector)

H) Answer in one sentence.

- 1) What is SSI?
- 2) State the examples of Traditional Small Scale Industry.
- 3) Give the examples of Modern Small Scale Industry.

I) Correct the underlined word and rewrite the following sentence.

- 1) The problem of employment has been becoming more serious in India.
- 2) India is material abundant country.
- 3) Small scale Industry uses advanced technology.
- 4) SSI begin with large amount of capital.
- 5) Business proposal is the first step in setting up of a small scale business.

J) Arrange in proper order.

- a) Selection of a place
- b) Selection of a product
- c) Business proposal
- d) Selection of technology

Q.2 Explain the following terms/concepts.

- 1) Small Scale Industry
- 2) Service Sector
- 3) Micro Small Scale Business
- 4) Traditional Industrial Sector
- 5) Modern Industrial Sector

Q.3 Study the following case/situation and express your opinion.

- 1) Mr. Ram wants to start Small Scale business of manufacturing parts of bicycle or machinery.
 - i) Identify the first step or stage of setting up his Small Scale business.
 - ii) State the different ways of raising the capital for his business.
 - iii) 'Marketing is a necessary step of running a business,' comment on it.
- 2) Mr. Rahim is keenly interested in starting Small Scale business. But he is worried about the challenges before Small Scale business. Guide him about the solutions to face these challenges.

Q.4 Answer in brief.

- 1) State any four points of importance of Small Scale Industry/Business.
- 2) Write any four advantages of Small Scale Industry.
- 3) State any four challenges before Small Scale Industries.

Q.5 Justify the following statements.

- 1) Generally Small Scale Industries are sick.
- 2) Small Scale Industry require less amount of capital.
- 3) Small Scale Industries have problems.

Q.6 Attempt the following.

- 1) Explain the meaning of Small Scale industries.
- 2) State the importance of small business.
- 3) Explain in brief the impact of capital on Small Scale industries.
- 4) State the problem faced by Small Scale industries.
- 5) Explain the role of Small Scale industries in employment generation.

Q.7 Answer the following.

- 1) Explain the challenges before small business.
- 2) Write down the benefits of small business.
- 3) Explain the process of establishment of Small Scale industries.
- 4) Explain the importance of small business.
- 5) It is clear that the absence of capital and raw material is the main reason for the short term sickness. Explain it.



☞ **Just to Know** ☞

Cabinet approves proposal for Amendment to the MSMED Act 2006.

- The Union cabinet chaired by the Prime Minister has approved change in the basis of classifying Micro, small and Medium enterprises from ‘investment in plant and machinery equipment’ to ‘annual turnover’
- Section 7 of the Micro, small and Medium Enterprises Development (*MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows.
- A Micro enterprises will be defined as a unit where the annual turnover does not exceed five crore rupees.
- A small enterprise will be defined as unit where the annual turnover is more than five crore rupees but does not exceed Rs. 75 crore.
- A Medium enterprise will be defined as a unit where the annual turnover is more than seventy five crore rupees but does not exceed Rs. 250 Crore
- Additionally the Central Government may by notification, vary turnover limits, which shall not exceed there the limits specified in section of the MSMED Act.
- The change in the norms of classification will enhance the ease of doing business. The consequent growth will pave the way for increased direct and indirect employment in MSME sector of the country .

4

Forms of Business Organisation - I

4.1 Private sector organisations:

- 4.1.1 Introduction
- 4.1.2 Meaning

4.2. Sole Trading Concern

- 4.2.1 Introduction
- 4.2.2 Meaning
- 4.2.3 Definition
- 4.2.4 Features
- 4.2.5 Merits
- 4.2.6 Demerits

4.3 Partnership Firm

- 4.3.1 Introduction
- 4.3.2 Meaning
- 4.3.3 Definition
- 4.3.4 Features
- 4.3.5 Merits
- 4.3.6 Demerits
- 4.3.7 Types of Partners
- 4.3.8 Types of Partnership Firms

4.4 Joint Hindu Family Business

- 4.4.1 Introduction
- 4.4.2 Meaning
- 4.4.3 Definition

4.4.4 Features

4.4.5 Merits

4.4.6 Demerits

4.5 Co-operative Society

4.5.1 Introduction

4.5.2 Meaning

4.5.3 Definition

4.5.4 Features

4.5.5 Merits

4.5.6 Demerits

4.5.7 Types of Co-operative society

4.6 Joint Stock company

4.6.1 Introduction

4.6.2 Meaning

4.6.3 Definition

4.6.4 Features

4.6.5 Merits

4.6.6 Demerits

4.6.7 Types of Companies

Distinguish Between

Summary

Exercise

Tanvi, Gayatri, Yash & Omkar are cousins. They gather together in Diwali vacation at Uncle's home in Pune. They visited local market for shopping, with Uncle and Aunt.

Tanvi : Let's read the name board of the shops.

Yash : Yes, good idea. Let me start, 'Vijay Toy Shop', Proprietor Mr. Deshpande.
Uncle, what is the meaning of proprietor?

Uncle : Proprietor means owner.

Gayatri : 'Sachin and Nitin Firms'. Uncle, why Proprietor word is not mentioned on this name board?

Uncle : Because it is a Partnership firm.

Yash : Uncle, what is the difference between such business?
Uncle : It is on the basis of capital, owner & other factors.

Let us study the different types of business organisation. It is very interesting to study the nature of different businesses.

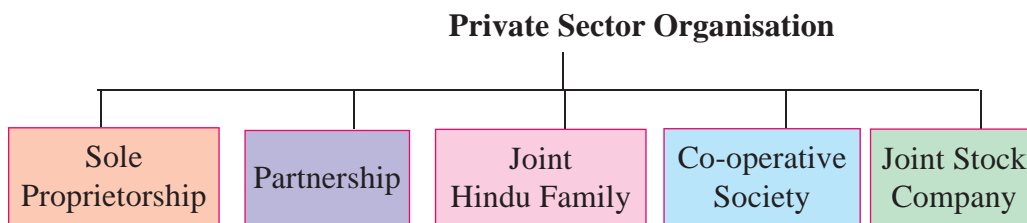
4.1 PRIVATE SECTOR ORGANISATION

4.1.1 INTRODUCTION :

Private sector includes all different types of individual or corporate enterprises. Private sector enterprises are owned and managed by the private entities. These private sector enterprises are mostly characterized by certain common characteristics like private initiative, profit motive, ownership and management in private hands. Now-a-days, the private sector in the form of corporate industrial units are normally owned by the shareholders and managed by professional managers, where they are not only guided by profit motive but also by expansion, consolidation, arousing social consciousness, social responsibilities, social welfare etc.

4.1.2 Meaning

The private sector is the part of the economy that is run by individuals or a group of individuals to earn profit.



The importance of private sector in Indian economy can be witnessed from the tremendous growth of Indian BPOs, Software companies, Private banks and financial service companies. The manufacturing industry of India is flooded with private Indian companies. In fact, they dominate the said industry.

Manufacturing companies covering the sectors like automobile, chemicals, textiles, agro-foods, computer hardware, telecommunication equipment, and petrochemical products were the main drivers of growth.



Activity

- Prepare a list of your favorite advertisements on television.
- Write the name of the producer / organisation of every product from the list.
- Identify the sector of the organisation.

4.2 SOLE TRADING CONCERN (STC) / Sole Proprietorship

4.2.1 Introduction

In the history and development of commerce, there are various forms of business organisations. It begins from Sole Trading Concern. Sole Proprietorship is the oldest and simplest form of the organisation.

The word 'Sole' means single and 'Proprietorship' means owner. Thus, the name itself suggest that there is only one owner. A sole trader is an independent owner of a business. The proprietor has all the rights and responsibilities of the business and any profit or loss made. e.g. : Grocery Shop, Beauty Parlour, Gift Shop etc.

4.2.2 Meaning

In this form of business, an individual invests his own capital, uses his own skill and undertakes the business activities. He manages affairs of the business, enjoys profits and bears losses on his own. This form of commercial organisation is also known as proprietorship, the sole trader, individual entrepreneurship, proprietorship concern or sole trading concern.

4.2.3 Definition

- 1) **According to Prof. J. Hansen**, “ Sometimes known as one man business, it is a type of business unit where one person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the risk of ownership.”
- 2) **According to Prof. James Lundy**, “The sole proprietorship is an informal type of business owned by one person.”

4.2.4 Features :

- 1) **Individual Ownership** : There is only one owner in sole trading concern. He invests all the capital required for the business. He owns all the assets of the business. He also remains responsible for all the liabilities of the business.
- 2) **No Sharing of Profit and Risk** : A proprietor is a single owner of the business. There is nobody to share his profits or losses. He enjoy the profit of the business as well as he bears all risks alone.
- 3) **Self-employment** : A sole trading concern is the best suitable form for self-employment. Any unemployed person can start business with small capital and earn for his livelihood. He gets a source of income by starting his own business.
- 4) **Local Market Operations** : Large amount of capital and expert managerial ability is required for large scale business. A sole trader has limited capital and limited managerial ability. Hence, generally a sole trader operates in local market.
- 5) **No separate Legal Status** : A sole trading concern does not enjoy separate legal status. In the eyes of Law, the sole trader and his business are considered one and the same.
- 6) **Minimum Government Regulations** : There is no separate act or law to govern the activities of sole trading concern. The registration of sole trading concern is not compulsory. Rigid legal formalities are not required for formation. Only the tax laws and labour laws have to be followed.

- 7) **Unlimited Liability :** Sole Trader has unlimited liability. Unlimited liability implies that, there is no distinction between personal property and business property of sole trader. If business assets are not sufficient to pay off liabilities of business then personal properties of sole trader may be attached to business properties.



Activity

- Visit a local shop near your house
- Find out a sole trading concern in your area.
- Observe and study the characteristics / features of sole trading concern with reference to text book.

4.2.5 Merits :

- 1) **Easy Formation :** The formation of Sole Trading Concern (STC) is very easy and simple. Minimum legal formalities are required for its formation.
- 2) **Quick decisions :** Sole trader takes quick business decisions. He may or may not consult anyone. Sole trader is not answerable to anybody. Many times, quick decisions in business proves to be very profitable. Sole trader can take quick actions and get more benefits.
- 3) **Maximum Secrecy :** The sole trader is owner and manager of his business. So he may not disclose his business secrets and plans with any third person. There is no need to publish books of accounts of Sole Trading Concern (STC). So maximum secrecy can be maintained.
- 4) **Direct Motivation :** Sole trader is the owner and manager. He enjoys the whole profit of business. He has direct motivation to earn more profit. He always tries to work hard for more profits.
- 5) **Flexibility :** Being the only decision - maker of business, sole trader can make quick changes as per the situation. He can expand his business. He may change the line of his business any time. He can change his business policies, if required.
- 6) **Lower Cost :** The sole trader is sole manager of his business. He controls the activities of business. He always try to minimize the wastage, which results into lower cost of operation.
- 7) **Efficiency :** As sole trader enjoys the whole profit of his business, he tries to maximize his profits by reducing wastages in his business. He avoids wastages like wastage of money, time, material and efforts.

4.2.6 Demerits :

- 1) **Limited Capital :** As sole trader is a single owner, his capacity for raising capital is limited He may raise capital from his friends, relatives and banks etc. Such sources are also limited. So there is financial difficulty for expansion and development of the business.
- 2) **Limited managerial skill :** A sole trader has to manage and control the business. He may or may not posses qualification and experience. He may not have expert managerial and organizing ability. Due to limited capital, he may not appoint managerial staff.

- 3) **Unlimited liability :** The liability of sole trader is unlimited. There is no distinction between personal assets and business assets. So he cannot be separated from his business. His business liabilities need to be paid by selling his private property, if required.
- 4) **Lack of Stability :** Existence of sole trading concern is totally dependent on the existence of sole trader. Death, insanity or insolvency of the sole trader affects the existence of the business.
- 5) **Lack of Specialization :** Division of work leads to specialization. But sole trader is involved in all activities of his business such as buying selling, accounting etc. He has to play multiple roles. So it is said that , ‘He is jack of all trades, master of none’.
- 6) **Not suitable for large scale operation :** Sole trader conducts his business on small scale. Generally, he operates in local market. Sole trading concern is ‘one man show’, Business can not be extended beyond a certain limit. Sole Trading Concern (STC) is not suitable for large scale business.

4.3 PARTNERSHIP FIRM

4.3.1 Introduction :

Partnership is an important component of private sector organisations. ‘Partnership’ form of organisation evolved because of limitations on capital raising capacity and managerial inability of proprietary concern.

The need of adding more individuals in business arises due to expansion of existing proprietary concern at next level. Addition or admission of new individual into existing business gives birth to partnership firm.

4.3.2 Meaning

A business organisation owned and managed by more than one person where all partners shares in profits and losses of the business as well as liability is known as partnership business.

4.3.3 Definition

- 1) **Section 4 of Indian Partnership Act, 1932 defines partnership as -**
“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.”
- 2) **Prof. L. H. Haney defined Partnership as -**
“Partnership is the relation existing between persons competent to make contracts, who have agreed to carry on a lawful business in common with a view to private gain.”

□ Important Terms :

Partner : Persons who have entered into partnership agreement with one another are individually, called “Partners”

Partnership Firm : Persons who have entered into partnership with one another are collectively called as “a firm”

Firm Name : The name under which partnership business is carried on is called as ‘Firm - name’.

Partnership Deed or Agreement : The terms and conditions of partnership business mentioned in writing is termed as deed or agreement.

4.3.4 Features :

- 1) **Agreement :** Partnership is an outcome of an agreement between two or more persons who are conducting partnership business for earning profit. The agreement between partners may be oral or written. It is always advisable to have written agreement between all partners.
- 2) **Joint Ownership :** The partnership firm is jointly owned by the partners. The partners have to use the partnership property only for business purpose and not for personal use.
- 3) **Joint Management :** Every partner has right to take active participation in the management of the business. However, one or more partners may agree to manage business on behalf of other partners in the firm.
- 4) **Lawful Business :** Every partnership firm must undertake lawful business only. The partnership should not engage in any business which is forbidden by law of land. The partnership firm cannot be formed to carry out any unlawful business. e.g. partnership formed to smuggle goods, sale of illegal arms etc.
- 5) **Liability :** The liability of each partner is unlimited, joint and several.

Unlimited liability arises when the assets of the firm are not sufficient to pay off claims of the creditors. The private properties of the partners are attached to satisfy such claims.

Joint liability indicates that each and every partner is jointly liable with other partners for the debt of the firm, whether incurred by himself or by other partners as agents of the firm

Several liability indicates that each and every partner is individually and separately liable for the debts of the firm, whether incurred by himself or by other partners as agents of the firm.
- 6) **Number of Partners :** A Partnership firm must have minimum two persons at any time during the entire life of the partnership firm. Maximum partners permitted are 50.
- 7) **Principal - Agent Relationship :** Every partner is the joint owner of the business and partners take part in the management of the firm. Thus, every partner assumes two roles in business - A) to each other within firm they are acting as 'Principal' B) while dealing with outsider or while representing firm they act as an 'Agent' of the firm.
- 8) **Restriction on Transfer of Interest :** No partner of firm can transfer or sell their interest or share in the firm to outsider without the prior consent of all other partners in the firm.
- 9) **Registration :** Registration of partnership is not mandatory as per the provisions of Indian Partnership Act, 1932. However, in Maharashtra (from April, 1985) and in some other state registration of partnership is compulsory as per their respective state provisions. If Partners so desire, they can register their firm with the 'Registrar of Firms' of their respective States. The firm as well as partners enjoys several benefits after registration of the firm.
- 10) **Sharing of profits and losses :** The partners agrees to share profits and losses among themselves in certain proportions. Such profit-loss sharing depends upon amount of capital introduced, services offered, goodwill of the partner and other terms of agreement. If agreement is silent on profit-loss sharing then all partners are assumed as equal partners.

11) Termination of Partner :

A partner may resign on his own by giving notice to other partners in writing. The partners may also be removed from the firm for fraudulent activities.

12) Dissolution :

The firm can be dissolved at any time, if the partners agree to do so. The partnership firm gets automatically dissolved in case of death, insolvency or insanity of any one of the partners unless provided in the partnership agreement about continued existence of the firm in such situations.

The partnership firm automatically gets dissolved when total number of partners in the firm is reduced to one partner.



Activity

- Find out partnership firm in your area. Visit and discuss with partners about how their partnership firm works?

4.3.5 Merits :

- 1) **Easy Formation :** It is very easy to form partnership business. Only two persons are required to form partnership business. The partners can sign the agreement and get the firm registered. Even procedure for registration is very simple and quick.
- 2) **Capital :** The partnership business has more capital as compared to sole trading concern. As partnership business has more numbers of partners they can collect more capital. The capital contribution ratio of all partners is mentioned in agreement.
- 3) **Business Secrecy :** The partnership firms enjoy secrecy as firms are not subject to publish books of accounts annually. Due to this, competitors cannot easily come to know about secrets and confidential information of the partnership firm.
- 4) **Continued Existence :** The Partnership can have continued existence. Even after the death, insolvency or insanity of one of its partner, the partnership can be carried on by existing partners provided that there should be provision in partnership agreement. However, new partnership deed needs to be redrafted.
- 5) **Flexibility of operation :** There is more flexibility in partnership business. Partners may expand or diversify business activities as and when required. Partners can change line of business as per changing business situations. If required they may close down the business..
- 6) **Decision Making :** There is quick decision making in partnership as few partners are involved in decision making process. The decisions are taken after detailed discussion among partners. The quality of decision making is better than sole trading concern.
- 7) **Effort -Reward Relationship :** There is direct relation between efforts and rewards in case of partnership business. Each and every partner puts in best efforts and thus rewards are shared among them. If partnership agreement provides, active partners may get higher share in profit as compared to other partners in the organisation.

- 8) **Goodwill** : Goodwill means valuation of partnership business in terms of money. The partnership enjoys good amount of goodwill in the market. This goodwill in the market is due to quality service, better services to customers, ethical working of partnership business. Normally, in case of admission of a new partner, partner has to bring certain amount of goodwill in the business.
- 9) **Specialization** : In partnership business, some partners may be good at different skill such as finance, technology, marketing which brings in specialization in partnership business. This specialization also brings higher efficiency in the organisation.

4.3.6 Demerits :

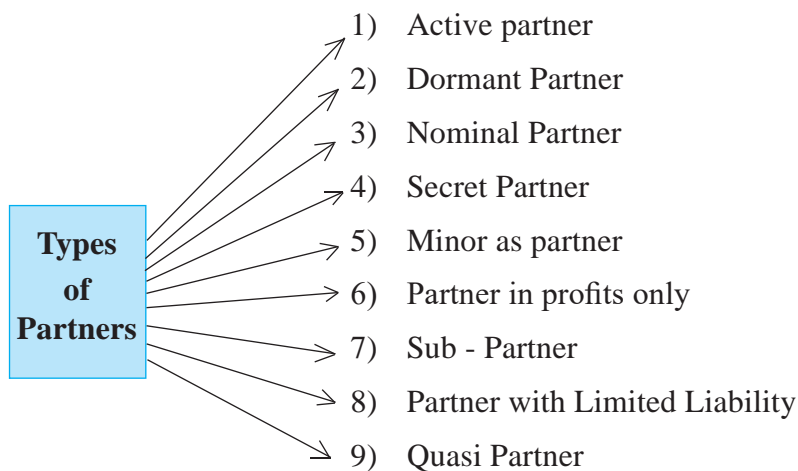
- 1) **Problem of Continuity** : The partnership business may face problem of continuity unless provided for continuation of business in the event of death, insolvency or insanity to any partner in the partnership firm. If partnership agreement does not have provision of continuation of partnership business in case of death, insolvency and insanity, business is liable for dissolution.
- 2) **Absence of Legal Status** : In partnership business, there is no separate legal existence of partnership firm. In the eyes of law both are same. Law does not make any distinction between partners and firm. So there is absence of separate legal status for partnership firm. In the event of death, insolvency or insanity partnership firm is liable for dissolution.
- 3) **Disputes** : Disputes are common in partnership business as more than one individuals are involved in various activities. Some partners may or may not agree on some points which leads to disputes among partners. Sometimes disputes may lead to the dissolution of the firm.
- 4) **Non - Transferability of Interest** : No partner of business can transfer his share in business to the outsider without the consent of all partners in the firm. In general, there is non-transferability of interest in partnership business.
- 5) **Limitations on number of Partners** : The Indian Partnership Act limits maximum number of partners. No partnership firm can go beyond maximum prescribed limits of 50 partners. This restricts maximum number of partners admitted in business. Such restrictions may affect partnership firm while capital contribution and even in case of management of partnership business.
- 6) **Difficulty in Admission of Partner** : In partnership business, there is often difficulty in admission of new partner. Admission of new partner may affect profit sharing ratio of existing partners. Therefore existing partner may object admission of new partners in business. Existing partners may not have full faith on incoming partner. This leads to difficulty in admission of new partner.
- 7) **Unlimited Liability** : Unlimited liability arises when the assets of the firm are not sufficient to pay off claims of the creditors. The private property of the partners is attached to satisfy such claims.
- 8) **Risk of Implied Authority** : There is often risk of implied authority in partnership business. Partners may take undue advantage of managing business on behalf of others which leads to risk of implied authority. For Example, partners may sign some agreements in his own capacity which may be against the interest of the firm or partners may take loans or advances without consent of other partners.

- 9) **Limited Capital :** In partnership business, there is less capital as compared to joint stock company. There are restrictions on number of members which leads to limited capital raising capacity of business. Limited capital restricts the expansion of business.
- 10) **Problem of Secrecy :** Though books of accounts and financial matters relating to business are not required to be published, partnership firm lacks business secrecy. Some partners may share confidential information of business to competitors or third parties for getting financial benefits from them.

4.3.7 Types of Partners

In partnership business according to nature of work or role of partners there are different types of partners .

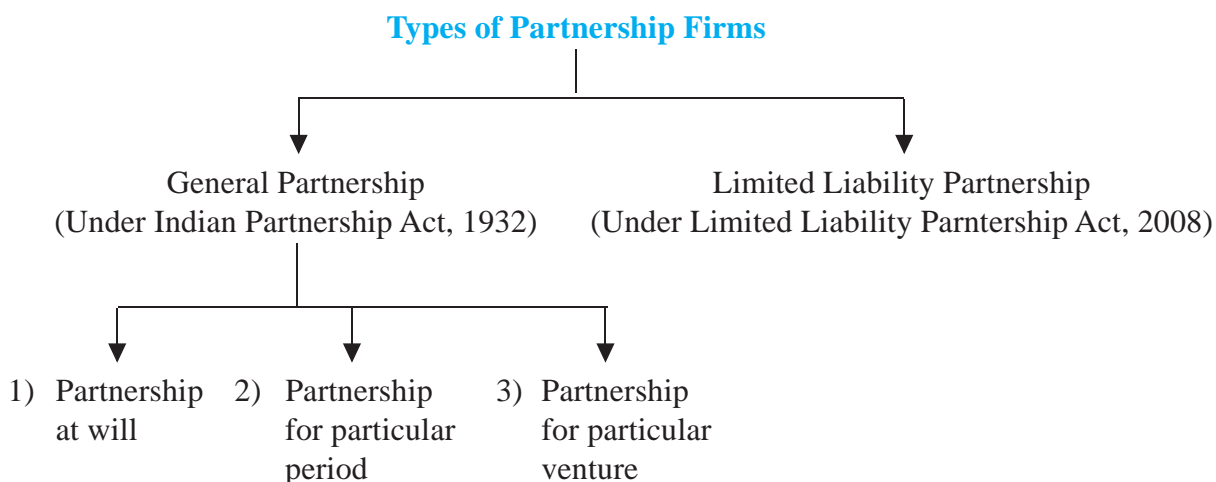
Types of partners are as follows



- 1) **Active Partner :** An active partner is one who takes active participation in the day-to-day working of the business. Active partner may act in different capacities such as manager, organizer, adviser and controller of all the affairs of the firm.
Active partner contributes to capital, shares profits or losses has unlimited, joint and several liability. He is also known as working partner, ordinary partner etc. This partner may get some extra benefits for his services rendered other than share in the profit.
- 2) **Dormant Partner :** A dormant partner is one who contributes capital, shares profits and contributes to the losses of the business but does not take part in the working of the concern.
A person may have money to invest but they may not be able to devote time for the business such a person becomes a dormant partner.
Dormant partner also known as a sleeping partner and these partners are liable for the liabilities of the business like other partners. He cannot bind the business, i.e. firm, to third party, by his acts.
- 3) **Nominal Partner :** A nominal partner is one who only lends his name to the firm.
He neither contributes to capital nor shares profits of the business. Due to his presence in firm, the business may get more credit in the market or may promote its sales. A nominal partner is liable to those third parties who give credit to the firm on the assumption of that person being a partner in the firm.

- 4) **Secret Partner** : The partner who is not known to third parties is termed as Secret partner. His membership in the firm is kept secret from outsiders. Secret partner contributes to capital, shares profits of the firm, assumes unlimited liability and he is liable for the losses of the business. He can take part in the working of the business.
- 5) **Minor as Partner** : A minor is person who has not attained 18 years of age or age of majority as per the provisions of Indian Contract Act, 1872. A minor cannot enter into a contract according to the Indian Contract Act because a contract by a minor is void. However, a minor may be admitted for the benefits of an existing partner with the consent of all partners.
The minor is not personally liable for liabilities of the firm, but his name in the partnership property and profits of the firm will be liable for debts of the firm. After attaining 18 years age, he should give public notice about the continuation in the firm.
- 6) **Partner in profits only** : When a partner agrees to share only profits of the firm and would not be liable for its losses, he is know as partner in profits only. Such partners share capital of the firm and may not take active participation in the management of the firm. However, such partners are liable for all debts of the firm.
- 7) **Sub - Partner**: When a partener agrees to share their own profit derived from the firm with a third person is known as sub - partner. A Sub-partner cannot represent himself as a partner in the original firm.
- 8) **Partner with Limited Liability** : This type of partner exists in a limited partnership. The liability of the partner is limited to the extent of capital contributed by him in the firm. He is a special partner and generally does not take active part in the working of the firm.
- 9) **Quasi Partner** : Quasi Partner is partner in partnership firm who retired from firm but left his capital with the firm. Quasi partner do not take active participation in the firm but shares profit of the firm. Such partner is liable for the debts of the firm. Many times such partners receives certain rate of interest on his capital.

4.3.8 Types of Partnership Firms



- A) **General Partnership** : In General Partnership, every partner has equal rights. General partnership comes into existence according to provisions of ‘Indian Partnership Act, 1932’.

- 1) **Partnership at will** : When there is no provision in partnership agreement regarding time period for partnership then it is known as 'Partnership at will'. Such partnership can be easily dissolved. Any partner can give notice of his intention to leave partnership at any time.
 - 2) **Partnership for Particular Period** : When Partnership is formed for a specific time such partnership is known as 'Partnership for Particular Period'. For e.g., 6 months, 1 year. Such Partnership firm dissolves after expiry of particular period.
 - 3) **Partnership for Particular Venture** : When partnership firm is formed for particular venture or business, such partnership is known as 'Partnership for Particular Venture'.
For example, construction of dams, roads or bridges, selling of seasonal products etc.
- B) Limited Liability Partnership** : Limited liability partnership comes into existence as per the provisions of 'Limited Liability Partnership Act, 2008'. There are two kinds of partner as follows:
- **Designated Partner** : Every Limited liability partnership should have at least two Designated Partners. Among two partners one partner must be the resident of India.
 - **General Partner** : In limited liability partnership all other partners are General Partners.
- The Limited Liability Partnership offers some personal liability protection to the participants. Individual partners in limited liability partnership are not personally responsible for the wrongful acts of other partners, or for the debts or obligations of the business.

4.4 JOINT HINDU FAMILY BUSINESS (JHFB)

4.4.1 Introduction

There are various forms of business organisation worldwide. But there is a unique form of business which has been originated in India. It exists in India only. It is known as 'Hindu Undivided Family Business' (HUF), Joint Hindu Family Firm (JHFF).

4.4.2 Meaning

School of thought under Hindu law

- 1) **Mitakshara** : According to this school only male member of the family can inherit the family business. Hence the sons, grandsons, and great grandsons become joint owners of the family property. A son gets equal rights along with his father in the ancestral property. He has a right to ask for a division of the family property. This school is popular in India except Assam, Bengal and some part of Odisha.
- 2) **Dayabhaga** : According to this school both male and female member will be co-parceners in the Hindu undivided family e.g. after death of husband his property and business passes on to his wife or other successor.

4.4.3 Definition

Under Hindu Law, an HUF is a family which consists of all persons lineally descended from a common ancestor and includes their wives and unmarried daughters. An HUF cannot be created under a contract.

4.4.4 Features

- 1) **Exists only in India** : Joint Hindu family Business exists only in India. It is guided by the Hindu Succession Act 1956.

- 2) **Formation :** The formation of Joint Hindu Family Business (JHF) is simple. It is formed as per operation of Hindu law. Every member become the member by birth and not by any agreement . The senior most member is called as ‘KARTA’. Remaining members are called as ‘Co-parceners’.
- 3) **Membership :** There is no limit on membership. One become a co-parcener by virtue of birth, legal adoption or marriage into the family.
- 4) **Joint Ownership :** The property of joint hindu family business is jointly owned by the KARTA and the co-parceners. The business is jointly owned by three generation of the family. KARTA is the custodian of the joint property.
- 5) **Good Credit Standing**
The joint hindu family business is conducted for a longer period of time. It enjoys goodwill in the market. It assures the creditor about repayment of the loan . The liability of KARTA is unlimited so banks and other financial institution are ready to grant the loans.
- 6) **Management :** The Joint Hindu Family Business is managed by KARTA. The co-parceners have no right to participate in management of family business. However, KARTA may consult the member of the family while taking any business decision.
- 7) **Profit sharing :** Joint hindu family business is not formed by any contractual agreement. There is no specific ratio of the profits and losses shared by KARTA and co-parceners. So the sharing ratio keeps on changing depending upon births and deaths in the family.

4.4.5 Merits :

- 1) **Easy Formation :** Joint hindu family business is easy to start as registration and agreement is not required for its formation. There is no restriction on minimum and maximum numbers of members. It comes into existence as per Hindu Law.
- 2) **Protection of Co-parceners Interest :** Co-parceners have right to demand partition. KARTA takes utmost care of their interest
- 3) **Quick and Prompt Decision :** The KARTA is senior most family member. KARTA has experience and knowledge of the family business. KARTA takes all business decisions. KARTA can take right and quick decisions at the right time on the basis of his experience.
- 4) **On The Job Training :** The members of joint hindu family business get training of the business skill automatically. They also observe the management of KARTA. They learn many business tactics.
- 5) **Co-parcener’s Liability :** The liability of co-parceners is limited upto the extent of their share in the Joint Hindu Family Business. Hence the personal property of co-parcener is not used for the payment of joint hindu family business liability.

4.4.6 Demerits :

- 1) **Unlimited Liability of Karta :** KARTA always faces the risk of unlimited liability. If the business assets are not sufficient for the payment of business liabilities, then the personal property of KARTA is used for the payment of business liabilities.
- 2) **Limited Financial and Managerial Resources :** The funding of joint hindu family business are limited. Ancestral property is used as a capital of joint hindu family business.

KARTA may or may not possess expert managerial skill. So, there is limited scope for expansion.

- 3) **No separate legal status :** In the eyes of law, the JHF business and the family member are one and same. The business does not have separate legal status.
- 4) **Partition of Business :** The numbers of members are more in JHF Business. There can be conflicts and disputes. The co-parceners may be dissatisfied with the management of karta. This can lead to partition of business.
- 5) **No direct relation between effort and rewards :** KARTA is the manager of this business. He uses his knowledge and skill for running business successfully. The rewards of the business is distributed among all co-parceners. The hardworking as well as inefficient co-parceners share the profit.

4.5 Co-operative Society



Amul - the taste of India

- It all started 65 years ago when poor farmers who worked hard, day in and day out were exploited by the local traders and given small incentives.
- Angered by unfair and manipulative practices followed by local traders, the farmers under the leadership of Tribhuvandas Patel approached Sardar Vallabhbhai Patel to resolve their grievances.
- Empathizing with the farmers, Sardar Vallabhbhai Patel advised them to be self sustaining entrepreneurs and work for themselves. The farmers took the advice seriously and formed their own cooperative societies.
- The Amul Corporative was created by Dr Verghese Kurien, who is also known as the Father of the White Revolution in India. Amul placed India at the top of milk producing nations.
- Amul was founded in 1946 in Anand, Gujarat with a mission to stop the exploitation of the farmers by middlemen.
- It was Sardar Valabhbhai Patel, Tribhuvandas Patel and Dr. Verghese Kurien who took certain measures to stop the exploitation of the farmers.
- Today , the brand has enabled farmers to be entrepreneurs and earn their own living. Its process is transparent which ensured that there is no exploitation.
- The Amul brands has proved that it is not just a product but a co-operative movement that represents the economic freedom of farmers. The brand has given farmers the courage to dream, to hope and to live.
- Amul in all its sense has proved that it is “amulya i.e. priceless” for our nation and that we must preserve it.
- In 1999, Amul was awarded the “Best of All”, “Rajiv Gandhi National Quality Award” for maintaining the utmost level of quality in its plants.
- Amul has been awarded by the Guinness World Record for the longest running advertisement campaign.

4.5.1 Introduction :

India is an agricultural country and has laid the foundation of world's biggest cooperative movement. The cooperative movement was started by the weaker sections of society for protecting its members and their rights. After independence cooperatives became an integral part of Five-Year Plans.

The cooperative plays very important role in India because it is an organisation for the poor, illiterate and unskilled people. India has seen a huge growth in cooperative societies, mainly in the farming sector since 1947. The country has network of cooperatives at the local, regional, state and national levels.

4.5.2 Meaning

A Co-operative organisation is a voluntary association of individuals formed in order to achieve certain economic objectives. The nature of co-operative organisation is service oriented. **'Each for all and all for each'** is the principle of co-operative society.

4.5.3 Definition

1) **According to The International Labour Organisation:**

“A cooperative organisation is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled organisation, making equitable distributions to the capital required and accepting a fair share of risk and benefits of the undertaking.”

2) **According to Indian Co-operative Society's Act, 1912,**“Co -operative Society is a society which has its objectives for the promotion of economic interest of its members in accordance with cooperative principles”.

4.5.4 Features of Co-operative Society

- 1) **Voluntary Association and Open Membership :** Any person can become the member of co-operative society. There is no discrimination on the basis of caste, religion, gender etc. for membership
- 2) **Democratic Principle :** The management of co-operative society is based on democracy. All the decisions are taken on majority basis. **'One Member One Vote'** is the rule for voting. According to the rules and regulations of Co-operative Society Act, meetings are arranged by the society.
- 3) **Management :** The management of co-operative society is in the hands of Managing Committee of members. They are elected representatives of shareholders. All the important business decisions are taken by managing committee members. The committee members look after day-to-day administration of society.
- 4) **Registration :** Registration of co-operative society is compulsory. Every co-operative society must follow rules and regulations of Indian Co-operative Society's Act 1912 and the respective State Co-operative Society's Act. Minimum 10 members are required for registration of co-operative society. There are number of legal documents required for registration.
- 5) **Separate Legal Status :** After registration, every co-operative society is considered as a separate legal entity before the law. Therefore it can enter into the contract, purchase property, open a bank account in it's name etc. The shareholders and managing committee

members are not responsible for the transactions of co-operative society. But they are answerable to the court on behalf of the society.

- 6) **Limited Liability** : The shareholders of co-operative society have limited liability. It is limited upto the unpaid value of the share purchased by them. Therefore, their private property is not used for payment of society's liability.
- 7) **Number of Members** : Minimum 10 members are required for the formation of co-operative society. There is no limit for maximum number of members as per Co-operative Society's Act.
- 8) **Equal Voting Rights** : Every member gets equal rights in co-operative society as a shareholder. In co-operative society membership is open to all. All member have equal voting rights irrespective of number of shares held by them.
- 9) **Service Motive** : A Co-operative society provides various services to its members. Its main objective is to provide services to the society. Goods are available at lowest rates for its members. In a co-operative bank, loan and overdraft facility is available at the lowest interest rates for its shareholders only.



Activity

- Visit nearest co-operative organisation. Find out features of co-operative society applied to such co-operative organisation.

4.5.5 Merits :

- 1) **Democratic Management** : Each member of co-operative society enjoys equal voting right. The principle of voting is 'One member - one vote'. The number of shareholders are large. They are scattered over the region. Thus shareholders elect their representatives. They are called as 'Managing Committee' members. They look after the day-to-day management of the society.
- 2) **Open Membership** : The membership of co-operative society is voluntary and open to all. i.e. any person of any caste, creed, religion etc. can purchase shares of co-operative society and become the member of it. There is no compulsion to join or to leave the organisation.
- 3) **Less Operating Expenses** : The cost of operation is low in co-operative society. No middlemen are involved. There are no advertisement expenses. Managing committee members provide honorary services. Various concessions, reliefs and privileges related to registration fees, stamp duty, income tax etc. are given by Government.
- 4) **Limited Liability** : The liability of the shareholders of co-operative society is limited. It is limited upto the extent of unpaid amount on shares held by them. Thus, member's private property cannot be used even if the assets of the society are insufficient to pay the debts of the third party.
- 5) **Tax Concession** : Co-operative society plays an important role in the economic and social development of the country. The government gives many concessions to them, like exemption of payment of income-tax upto a certain limit. This helps to increase the profit of the society.

- 6) **Self - Financing and Charity :** As per the latest amendment act of co-operative society, a society can pay maximum 15% dividend to its members. Therefore, remaining surplus is used as self-financing. Some amount of profit is utilized for charity purpose, social activities and for the growth of co-operative society.

4.5.6 Demerits :

- 1) **Limited Capital :** The face value of the shares of co-operative society is very less. The shareholders belong to the weaker section of the society. Therefore, they cannot purchase more shares of the society, so capital is limited. Due to low rate of dividend people are not interested to invest in shares of co-operative society.
- 2) **Inefficient Management :** The management is in the hands of managing committee. They are the representative of shareholders. They may not possess managerial skill. Due to limited amount of capital/financial capacity they are not able to appoint professional managers. The managing committee members are not professionals so, there is inefficient management.
- 3) **Lack of Public Confidence :** There is a huge political interference in co-operative society so, people do not invest their money in co-operative society. Most of the Co-operative societies are lead by political leaders so there is lack of public confidence.
- 4) **Limited Scope for Expansion :** There is limited capital in co-operative society. They cannot take risky projects due to inefficient management. Therefore, there is less scope for expansion.
- 5) **Lack of Motivation :** Managing committee members work on honorary basis. Therefore, they are not motivated to work hard.

4.5.7 Types of Co-operative societies :

- 1) **Consumers Co-operative societies :** Consumer's Cooperatives are formed by the consumers to obtain their daily requirements at reasonable prices.
These societies protect lower and middle class people from the exploitation. The profits of the society are distributed among members in the ratio of purchases made by them during the year. e.g. Super Bazaar, Apana Bazaar
- 2) **Producer's Co-operatives :** Producer's Cooperatives are voluntary associations of small producers and artisans who join hands to face competition and increase production. These societies are of two types
 - a) **Industrial Service Co-operatives :** In this type, the society undertakes to supply raw materials, tools and machinery to the members. The producers work independently and sell their industrial output to the co-operative society. The output of members is marketed by the society.
 - b) **Manufacturing Co-operatives :** In this type, producer members are treated as employees of the society and are paid wages for their work. The society provides raw material and equipment to every member.
The members produce goods at a common place or in their houses. The society sells the output in the market and its profits is distributed among the members.

- 3) **Marketing Co-operatives :** These are voluntary associations of independent producers who want to sell their output at remunerative prices. The output of different members is pooled and sold through a centralized agency to eliminate middlemen. The sale proceeds are distributed among the members in the ratio of their outputs.
- 4) **Co-operative Farming Societies :** These are voluntary associations of small farmers who join together to obtain the economies of large scale farming. In India farmers are economically weak and their land- holdings are small.

In their individual capacity, they are unable to use modern tools, seeds, fertilizers, etc. They pool their lands and do farming collectively with the help of modern technology to maximise agricultural output.

- 5) **Housing Co-operatives :** These societies are formed by low and middle income group people in urban areas to have a house of their own. Housing cooperatives are of different types. Some societies acquire land and give the plots to the members for constructing their own houses. Other societies themselves construct houses and allot them to the members who make payment in installments. They also arrange loans from Financial Institutions and Government Agencies.
- 6) **Credit Co-operatives :** These societies are formed by poor people to provide financial help and to develop the habit of savings among members. They help to protect members from exploitation of money lenders who charge exorbitant interest from borrowers. Credit cooperatives are found in both urban and rural areas.

JOINT STOCK COMPANY

4.6.1 Introduction :

You must have heard about Reliance Industries Ltd., Tata Steel Limited, Steel Authority of India Ltd., Maruti Udyog Ltd. etc. Who are the owners of such large organisation? Such organisation sare spread all over the world. How are they formed and managed? Let us learn about this form of organisation.

After Industrial revolution, there were drastic change in traditional forms of business. In this period, a new forms was introduced which is named as Joint Stock Company. They required more capital and other resources than Sole Trading concern or Partnership Firm.

4.6.2 Meaning :

A Joint Stock Company is a voluntary association of persons who generally contribute capital. They carry on a particular type of business, which is established by law. The total capital of Joint Stock Company is known 'Share Capital'. It is divided into small units called 'Shares'. Every member holds some shares. These, members are called as 'Shareholders'.

In India, every joint stock company is registered as per "The Companies Act, 2013".

4.6.3 Definition :

- 1) "A Joint Stock Company is a voluntary association of individuals for profit having capital divided into transferable Shares, the ownership of which is the condition on membership."

- Prof. L. H. Haney

- 2) “A Company is a person, artificial invisible, intangible and existing only in the eyes of law. Being a mere creature of law it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence.”

- Chief Justice Marshall

- 3) According to **The Companies Act 2013, Section 2 (20)**, the term “Company” to mean “a Company incorporated under the Companies Act 2013 or any previous Company law.”

4.6.4 Features of Joint Stock company :

- 1) **Voluntary Association** : Person of any caste, religion can become the member of Joint stock company. There is no restriction regarding number of shares purchased by one person. After the death, shares of any shareholder, are transferred to his nominees. There is no restriction on transfer of shares.
- 2) **Registration** : Registration is compulsory according to the Companies Act, 2013. An application in prescribed format must be submitted to the Registrar of Company. Necessary registration fees are paid by the promoters. ‘A Certificate of Registration.’ (Incorporation Certificate) is issued to the company after registration. A private limited company can immediately start its business after getting Incorporation Certificate. A public limited company must obtain ‘Certificate of Commencement of Business’ (Trading Certificate) to start its business.
- 3) **Registered Office** : The address of registered office of company is mentioned in Memorandum of Association. All the important documents of a company are kept in the registered office. e.g. Register of shareholders, Annual Reports, Minutes Book, Memorandum and Articles of Association, Prospectus, Statutory Report etc.
- 4) **Artificial Legal Person** : A company is an artificial person created by law. It can enter into contract with third parties after registration. e.g. It can buy or sell asset, borrow money, open an account in bank etc. Therefore, only law can create joint stock company and only law can wind up it.
- 5) **Separate Legal Status** : There is a separate legal existence of joint stock company. It is a separate legal entity apart from its members.
- 6) **Common Seal** : A company is an artificial person. It does not have a physical existence like a human being. Therefore it is necessary to make provision for the signature of the company. Every joint stock company has a common seal. It is used as a signature of joint stock company. A seal has name of the company engraved on it. It is considered as the important property of the company. Therefore, a seal is kept in the custody of company secretary. A seal is affixed on all important documents of the company but the document must be signed by a company secretary and by minimum two directors.
- 7) **Limited Liability** : The liability of all shareholders is limited upto the extent of unpaid face value of shares held by them. Therefore, private property of shareholders is not used for the payment of company’s liabilities.

- 8) **Transferability of Shares :** The total share capital of a company is divided into small shares. To become the member of the company it is compulsory to purchase a share. The shares of public limited company are freely transferable. It means a shareholder can buy or sell shares without permission of the company. The shares of private limited company are not freely transferable.
- 9) **Separation of Ownership and Management :** Shareholders are the owners of joint stock company. They elect their representatives to look after day to day business activities. These representatives are called as 'Directors'. The directors appoint professional managers and other employees for the day to day working of the company. These employees work on salary basis. Therefore, the ownership of Joint Stock Company is with shareholder and the management is in the hands of directors. So there is separation of ownership and management.
- 10) **Perpetual Succession :** It has a separate legal existence. Its existence does not depend upon its members. The death, retirement, insanity insolvency of any member or employee does not affect the existence of the company. So, joint stock company enjoys perpetual succession.
- 11) **Membership :** In Public limited company minimum number of members are seven there is no limit for maximum number of members. In private limited company, minimum number of persons are two and maximum are 200 as per Companies Act 2013. Every shareholder is co-owner of joint stock company.

4.6.5 Merits of Joint Stock :

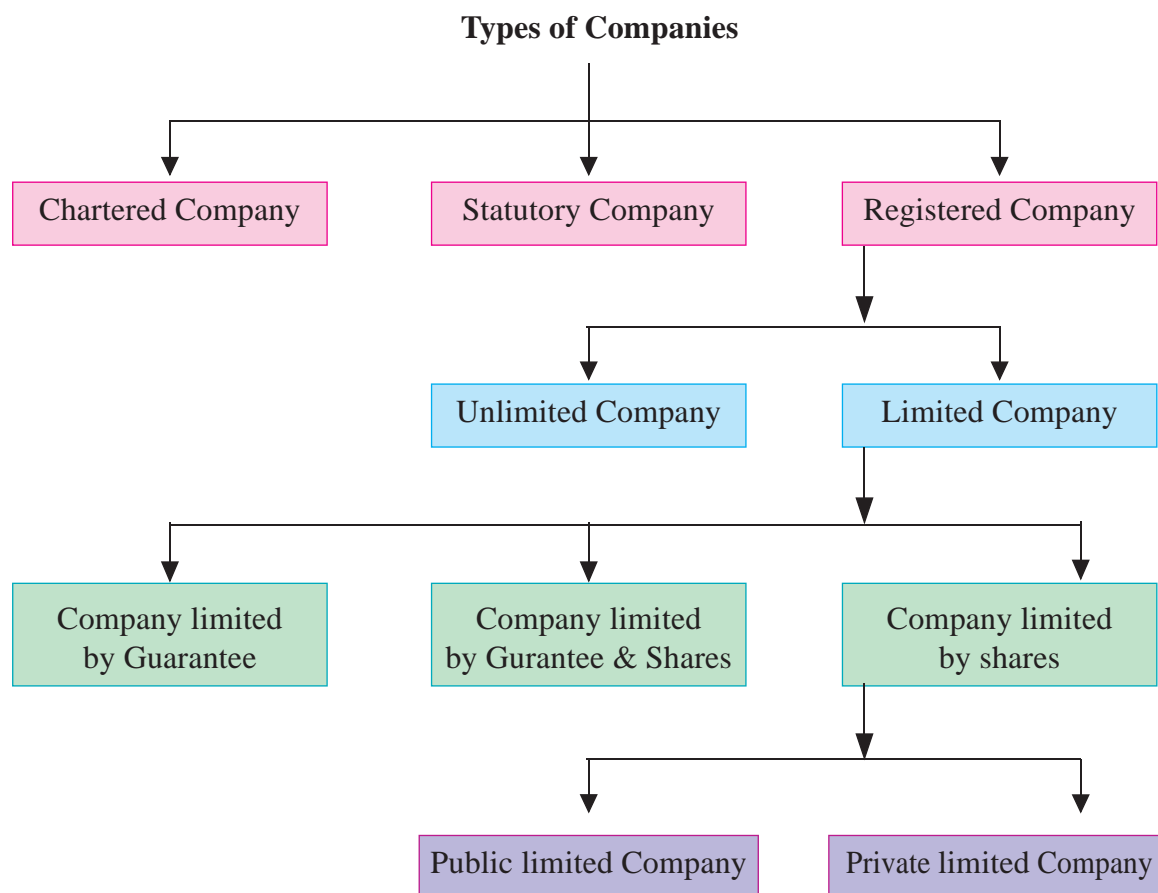
- 1) **Large amount of Capital :** A joint stock company issues shares to the public. The face value of shares is comparatively low. So it can collect huge amount of capital. It can also accept deposits from the public and issue debentures to raise funds.
- 2) **Professional Management :** Management of the company is in the hands of directors. They are elected representatives of shareholders. Due to large financial resources, a company can appoint highly qualified professionals, by paying attractive salary. So the knowledge of experts is used for day to day management of the company.
- 3) **More Scope for expansion :** A joint stock company collects large amount of capital. Attractive salaries are paid to professional managers. Proper authorities are given to take business decisions. Shareholders are interested in getting highest rate of dividend. As a result, company can undertake big and risky projects.
- 4) **Public Confidence :** A joint stock company enjoys public confidence. There is less interference of Government. Every Joint Stock Company in India is governed as per the provisions of 'The Companies Act 2013'. As per the Act the company has to get its annual accounts audited by a practicing Chartered Accountant.
- 5) **Relief in Taxation :** A joint stock company plays important role in the economic development of the country. It requires to pay taxes of flat rate. Certain exemptions and concessions are given to the joint stock companies, which opens branches in economically backward regions for e.g. tax holidays upto 5 years.
- 6) **Expert Services :** A joint stock company can appoint experts for managing business activities like Legal Advisers, Management Experts, Auditors, Consultants etc.

- 7) **Perpetual Succession** : A joint stock company enjoys continuous and stable life. The death, retirement, insolvency or insanity of its members does not result into dissolution of the Company.
- 8) **Limited Liability** : The liability of a member of a company is limited to the extent of the unpaid amount of shares held by him Shareholders are not liable for the debts of the company & there is no need to use their personal property for the purpose.

4.6.6 Demerits of Joint Stock Company

- i) **Rigid Formation** : Registration of joint stock company is compulsory. It requires number of legal documents. It is necessary to pay heavy registration charges. A public company cannot start its actual business without getting Commencement Certificate. Hence, procedure of formation is complicated, expensive and time consuming.
- ii) **Lack of Secrecy** : In order to protect the interest of investor, it is compulsory to publish books of accounts every year. All the important documents of joint stock company are available for inspection at registered office. The competitors can take undue advantage of internal information of a joint stock company. Hence, there is no secrecy in joint stock company.
- iii) **Delay in Decision Making process** : As an owner of the company, every shareholder has right to participate in management of the company. Therefore, all important business decisions are taken in the share holders meetings. The procedure of conducting the meeting is very lengthy and time consuming. It is necessary to prepare notice of meeting, copy of agenda, proxy forms etc. All these documents must be sent minimum 21 days before the meeting. Therefore there is always delay in decision making.
- iv) **No Personal Contact** : There are large number of employees in joint stock company. Employees feel that their efforts should be appreciated by their superiors. But it is not possible in a large organisation like joint stock company. The employees are demotivated to work hard. Similarly, Manager and Directors of the company are not able to establish personal contact with their customers. Customers likes & dislikes are not taken into consideration many times.
- v) **High Cost of Management** : A joint stock company is a commercial organisation. It is ready to spend huge amount for the advertisement. The manager gets best salary and other benefits. It requires huge amount for operational expenses. So the cost of management is very high in joint stock company.
- vi) **Reckless Speculation** : Company is managed by directors. Few unscrupulous director use confidential informaion for reckless speculations and their personal gains. This results in sudden fluctuation in the prices of shares in Stock Exchange. It adversely affects public confidence.

4.6.7 Types of Companies (For brief idea)



- **Company Limited by Shares**

There are two types of Company Limited by Shares

A) Private Limited Company : According to Companies Act, 2013,

“A private company is a company which by its articles, restricts the right to transfer its shares, if any, limits the number of its members to 200 and prohibits any invitation to the public to subscribe for any shares or debentures of company.”

Features -

- 1) Number of its members minimum 2, maximum 200.
- 2) Must have a minimum paid up share capital of one lakh rupees.
- 3) Prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.
- 4) Ban on inviting to the public to subscribe for any shares or debentures of the company.
- 5) Restriction on the right of members to transfer its shares if any.

It is important that all the above said conditions should be in order to remain a private company. If any one of the condition is not fulfilled, the company shall be considered as public company. In the case of private company it must add the words ‘**Private Limited**’ at the end of its name. A private company may be a company limited by shares or a company limited by guarantee or an unlimited company.

B) Public Company :

According to Company Act 2013, “A public company is a company which is not a private company and has minimum paid up capital of 5 lacs rupees and have the right the transfer of shares of a company.”

Features -

- 1) There should be a minimum seven members.
- 2) Has a minimum paid up share capital of Rs. 5,00,000/- or such higher paid up capital as may be prescribed.
- 3) Has no restriction on the transfer of its shares.
- 4) Does not prohibit any invitation or acceptance of deposits.

There are minimum 7 members required for formation of public company. There is no restriction on the maximum number of members. The public limited company must have at least 3 directors. The public limited company has “Limited” at the end of its name.



Activity

- Find out the categories of the following companies into public company and private company. Bank of Baroda, Bajaj Appliances, Hindustan Machines Tools, Tata Motors.

Distinguish between and comparative study chart.

1) Private and Public Company

Sr. No.	Point of difference	Private Company	Public Company
1)	Meaning	A private company is a company which by its Articles restricts the right to transfer its shares, if any & limit the number of its members to 200.	A public company means a company which is not a private company.
2)	Number of Members	Minimum – 2 Maximum – 200	Minimum 7 Maximum – unlimited
3)	Statutory Meeting	This meeting is not compulsory.	It is compulsory
4)	Transfer of Shares	Shares are not freely transferable.	Shares are freely transferable
5)	Capital	Minimum paid up capital is Rs. 100,000.	In public limited minimum paid up capital it is Rs. 500,000
6)	Issue of prospectus	In private company, statement in lieu of prospectus is issued.	A prospectus is compulsory.

7)	Commencement of business	A Private Company can start its business activities immediately after getting the 'Incorporation Certificate'.	It can start its business only after getting 'Commencement Certificate'
8)	Number of Directors	There are minimum 2 directors.	There are minimum 3 directors
9)	Name of the Company	It is compulsory to add a word ' Private Limited ' after the name of the company	It is compulsory to add a word ' Limited ' after the name of the company.

2) Sole trading Concern, Partnership Firm, Joint Hindu Family Business, Co-operative Society and Joint Stock Company

Sr. No.	Points of difference	Sole trading Concern	Partnership Firm	Joint Hindu Family Business	Co-operative Society	Joint Stock Company
1)	Meaning	It is owned and controlled by one person.	In this form two or more Partners come together to undertake a business activity and share profits.	The ancestral business is conducted by family members of Joint Hindu Family.	It is a voluntary association of individuals to provide services to its members.	It is an incorporated association of individuals for profit having capital divided into transferable shares, the ownership of which is the condition of membership.
2)	Number of Members	Only one member.	Minimum Two partners & maximum 50 partners are there	There is no limit for number of members.	Minimum 10 and maximum no limit for number of members.	Private company Minimum 2-maximum 200. Public Company Minimum 7 and there is no limit of maximum number of members.
3)	Registration	It is not required.	It is not compulsory in India, but it is compulsory in Maharashtra.	It is not required.	It is compulsory.	It is compulsory.

4)	Liability	Liability of Sole trader is unlimited.	Liability of partner is unlimited, joint and several.	Liability of Karta is unlimited and liability of coparceners is limited.	Liability of shareholders is limited up to the extent of unpaid amount on share held by them.	Liability of shareholders is limited up to the extent of unpaid amount on shares held by them.
5)	Capital	Comparatively limited capital.	Due to contribution of all partners, capital is more.	Ancestral property is used as capital.	Comparatively more capital than sole trading concern. Partnership Firm and JHFB.	Huge Capital.
6)	Secrecy	There is maximum secrecy.	Secrecy is shared by partners.	Secrecy can be maintained because it is family business.	Less business secrecy.	Less business secrecy.
7)	Management	A sole trader is the only manager of his business.	All partners in a partnership firm have equal managerial rights.	The Karta is the manager of the business who is assisted by co-parceners.	Managing Committee is the managing body of co operative society.	Board of Directors looks after the management of the company.
8)	Stability	There is lack of stability, as the business may be affected due to death, insolvency of sole trader.	There is lack of stability, as the business may be affected due to death, insolvency of Partners.	It is comparatively more stable since after the death of KARTA, the next senior most family member becomes KARTA and continues business activity.	It is a stable business due to independent legal status.	It is stable business due to independent legal status.
9)	Government Control	There is minimum government interference.	There is minimum government interference.	There is limited government interference.	There is strict government control.	There is strict Government control.

10)	Act / Law	There is no separate Act to govern the activities of sole trading concern.	Indian partnership Act. 1932 is applicable in India.	The Hindu Succession Act 1956 and The Hindu Law is applicable.	The India Co-operative Society's Act 1912 and the respective State Co-operative Society's Act.	The Companies Act, 2013 is applicable.
11)	Formation	Comparatively easy.	Few legal formalities are required for formation	Comparatively simple and easy.	Formation is comparatively cheaper but time consuming due to many legal formalities.	Formation is complicated, costly and time consuming as there are many legal formalities.
12)	Voting Rights	-----	-----	-----	The principle of 'One Member-One Vote' is followed.	The principle of 'One Share - One Vote' is followed.

SUMMARY

❑ Private Sector Organisation :

Private sector enterprises are owned and managed by the private entities i. e. individual or a group of individuals.

Examples,

- 1) Sole Trading Concern
- 2) Partnership Firm
- 3) Joint Hindu Family Business
- 4) Joint Stock Company
- 5) Co-operative Society

❑ Sole Trading Concern (STC) :

The sole proprietorship is an informal type of business owned by one person.

Features:

- 1) Individual Ownership
- 2) No Sharing of Profit and Risk
- 3) Self employment
- 4) Local Market Operations
- 5) No separate Legal Status
- 6) Minimum Government Regulations
- 7) Unlimited Liability

Merits:

- 1) Easy Formation
- 2) Quick Decision
- 3) Maximum Secrecy
- 4) Direct Motivation
- 5) Flexibility
- 6) Lower Cost
- 7) Efficiency

Demerits:

- 1) Limited Capital
- 2) Limited Managerial Skill
- 3) Unlimited Liability
- 4) Lack of Stability
- 5) Lack of Specialization
- 6) Not Suitable for Large Scale Operation

□ **Partnership Firm :**

Section 4 of Indian Partnership Act, 1932 defines partnership as:

“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:

- 1) Agreement
- 2) Joint Ownership
- 3) Joint Management
- 4) Lawful Business
- 5) Liability
- 6) Number of Partners
- 7) Principle Agent Relationship
- 8) Restriction on Transfer of Interest
- 9) Registration
- 10) Sharing of Profits and Losses
- 11) Termination of Partner
- 12) Dissolution

Merits:

- 1) Easy Formation
- 2) Capital
- 3) Business Secrecy
- 4) Continued Existence

- 5) Flexibility of Operation
- 6) Decision Making
- 7) Effort Reward Relationship
- 8) Goodwill
- 9) Specialization

Demerits:

- 1) Problem of Continuity
- 2) Absence of Legal Status
- 3) Disputes
- 4) Non-Transferability of Interest
- 5) Limitation on number
- 6) Difficulty in Admission of Partner
- 7) Unlimited Liability
- 8) Risk of Implied Authority
- 9) Limited Capital
- 10) Problem of Secrecy

□ **Types of Partners :**

- 1) Active Partner
- 2) Dormant Partner
- 3) Nominal Partner
- 4) Secret Partner
- 5) Minor as Partner
- 6) Partner in Profit only
- 7) Sub Partner
- 8) Partner with Limited Liability
- 9) Quasi Partner

□ **Types of Partnership Firms :**

- A) General Partnership
 - 1) Partnership at will
 - 2) Partnership for particular period
 - 3) Partnership for particular Venture
- B) Limited Liability Partnership

□ **Joint Hindu Family Business :**

“When a Joint Hindu Family (JHF) conducts business inherited by it as per Hindu Law. It is called Joint Hindu Family Firm”.

Features:

- 1) Exists in India only

- 2) Formation
- 3) Membership
- 4) Joint Ownership
- 5) Good Credit Standing
- 6) Management
- 7) Profit Sharing

Merits:

- 1) Protection of Co-parceners Interest
- 2) Easy Formation
- 3) Quick and Prompt Decision
- 4) On The Job Training
- 5) Co-parceners Liability

Demerits:

- 1) Unlimited Liability of Karta
- 2) Limited Financial and Managerial Resources
- 3) No Separate legal Status
- 4) Partition of Business
- 5) No Direct Relation Between Risk and Rewards

□ **Co-operative society**

A Co-operative organisation is a voluntary association of individuals formed in order to achieve certain economic objects.

Features:

- 1) Voluntary Association & Open Membership
- 2) Democratic Principles
- 3) Management
- 4) Registration
- 5) Separate Legal Status
- 6) Limited Liability
- 7) Number of Members
- 8) Equal Voting Rights
- 9) Service Motive

Merits:

- 1) Democratic Management
- 2) Open Membership
- 3) Less Operating Expenses
- 4) Limited Liability
- 5) Tax Concession
- 6) Self Financing and Charity

Demerits:

- 1) Capital
- 2) Inefficient Management
- 3) Lack of Public Confidence
- 4) Limited Scope for Expansion
- 5) Lack of Motivation

□ **Types:**

- 1) Consumers Co-operative Societies
- 2) Producers Co-operatives
 - a) Industrial Service Co-operatives
 - b) Manufacturing Co-operatives
- 3) Marketing Co-operatives
- 4) Co-operative Farming Society
- 5) Housing Co-operatives
- 6) Credit Co-operatives

□ **Joint Stock Company**

Joint Stock Company is registered as per The Indian Companies Act 1956 and 2013.

Features:

- 1) Voluntary Association
- 2) Registration
- 3) Registered Office
- 4) Artificial Legal Person
- 5) Separate Legal Status
- 6) Common Seal
- 7) Limited Liability
- 8) Transferability of Share
- 9) Separation of Ownership and Management
- 10) Perpetual Succession
- 11) Membership

Merits:

- 1) Large amount of Capital
- 2) Professional Management
- 3) More Scope for Expansion
- 4) Public Confidence
- 5) Relief in Formation
- 6) Expert Services
- 7) Perpetual Succession

Demerits:

- 1) Rigid Formation
- 2) Lack of Secrecy
- 3) Delay in Decision Making Process
- 4) No Personal Contact
- 5) High Cost of Management
- 6) Reckless Speculation

□ **Career Opportunities**

◆ Self Employment Opportunities

- 1) Sole Trading Concern
- 2) Partnership Firm
 - i) Deliver Groceries
 - ii) Interior Decorating
 - iii) Event Coordinating
 - iv) E- Commerce
 - v) Repair Work

□ **Business Opportunities**

- i) Travel Agency
- ii) Mobile Recharge Shop
- iii) Garment Tailor
- iv) Wedding Consultants.

<https://www.youtube.com/watch?v=awaaZ.com/2016/09/mul-india-success-story/>

<https://en.wikipedia.org/wiki/Cooperatives>



EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) A sole trading concern ensures business secrecy.
(maximum, minimum, limited)
- 2) The members of Hindu undivided family business are called
(carpenter, coparcener, parcners)
- 3) The head of Joint Hindu Family Business is called as
(KARTA, owner, manager)
- 4) Registration of partnership firm is in Maharashtra.
(voluntary, compulsory, easy)

- 5) The liability of the shareholders in Joint Stock Company is
(limited, unlimited, restricted)
- 6) A Joint Stock Company is an artificial person created by
(Law, Articles, Memorandum)
- 7) Registration of a Joint Stock Company is
(compulsory, free, not required)
- 8) Liability of member of a Co-operative Society is
(limited, restricted, maximum)
- 9) Indian Co-operative Society's Act was passed in
(1912, 1913, 1911)
- 10) acts as a signature of the company.
(Common seal, Common sign, Common image)

B) Match the pairs.

Group 'A'		Group 'B'	
A)	Private Company	1)	Karta
B)	Public Company	2)	Local Market
C)	Common Seal	3)	1932
D)	Partnership Act	4)	Maximum 200 members
E)	Joint Hindu Family Firms	5)	One Man Show
		6)	Minimum Seven members
		7)	Minimum 10 members
		8)	Signature of Company
		9)	Maximum 100 members
		10)	Manager

C) Give one word / phrase / term.

- 1) An elected body of representatives of co-operative Society for its day to day administrations.
- 2) The owner is the sole manager and decision maker of his business.
- 3) One man show type of business organisation.
- 4) The members of the Joint Hindu Family firm.
- 5) A Partner who gives his name to partnership firm.
- 6) There is free transferability of shares in this company.
- 7) A partnership agreement in writing.
- 8) The motto of the co-operative Society.
- 9) An organisation which is service oriented.

D) State True or False.

- 1) Sole trader is the decision maker of the business.
- 2) Sole trading concern operates in local markets.
- 3) Sole proprietorship is useful for small business.
- 4) The liability of KARTA is unlimited.
- 5) The maximum number of members is unlimited in Joint Hindu Family Firm.
- 6) Joint Stock company can raise huge amount of capital.
- 7) There is a separation of ownership & management in Joint Stock Company.
- 8) Board of Directors manage the business of Joint Stock Company.
- 9) Partnership agreement may be oral or written.
- 10) In partnership firm, the liability of every partner is limited, joint & several.
- 11) The main motto of co-operative society is to render services to its shareholders.
- 12) The membership of a co-operative society is compulsory.

E) Find the odd one.

- 1) Sole proprietorship, Joint Hindu family, Non- Government Organisation (NGO) Partnership firm.
- 2) Active Partner, Shareholder, Nominal partner, Secret partner.

F) Complete the sentences.

- 1) Private sector enterprises are owned and managed by the
- 2) There is only one owner in
- 3) Admission of new individual into existing business has given birth to
- 4) A partner who takes active participation in the day to day working of the business is known as
- 5) When there is no provision in partnership agreement regarding time period for partnership then it is known as
- 6) The property of JHF business is jointly owned by the
- 7) The management of co-operative society is based on
- 8) The rule for voting in co-operative society is
- 9) The rule for voting in Joint stock company is
- 10) The face value of the shares of co-operative society is very
- 11) Consumer's co-operatives are formed by the
- 12) Registration of Joint stock company is compulsory according to the Companies Act

G) Select the correct option

	A	B
1)	Minimum 2 and maximum 200	.....
2)	Minimum 10 and maximum no limit	.....
3)	.....	Minimum 7 and maximum unlimited
4)	Form of business organisation having only one member	.....
5)	Minimum 2 and maximum 50	.....

(Public company, Private Company, Co-operative Society, Partnership Firm, Sole Trading concern)

H) Answer in one sentences.

- 1) What is sole Trading concern?
- 2) What do you mean by partnership firm?
- 3) What is the meaning of Joint stock Company?
- 4) What is JHF business?
- 5) What do you mean by co-operative Society?
- 6) What do you mean by minor partner?
- 7) What is Quasi Partner?
- 8) What do you mean by partner-in-profits only?
- 9) What do you mean by general partnership?
- 10) What is the meaning of Private Company?
- 11) What do you mean by Public Company?

I) Correct the underlined word and rewrite the following sentences.

- 1) In public company, shares are not freely transferrable.
- 2) In Private Company, there are minimum 3 (Three) directors.
- 3) Registration of Joint stock Company is not compulsory.
- 4) There is less secrecy is sole trading concern.
- 5) In partnership firm minimum three member are required.
- 6) In Joint Hindu Family business the senior most member of family is called as co-parcener.
- 7) Indian Partnership Act 1940 is applicable in India.

Q.2 Explain the following terms/concepts.

- 1) Sole Trading Concern.
- 2) Partnership Firm.
- 3) Joint Hindu Family Business.
- 4) Co-operative Society.

- 5) Joint Stock Company
- 6) Karta
- 7) Managing Committee
- 8) Nominal Partners

Q.3 Study the following case/situation and express your opinion.

- 1) Mr. Raghunath is running business from last 30 years. This business is ancestral business of Mr. Raghunath. Kiran and Naman, two sons of Mr. Raghunath are helping him along with their wives.
 - i) Find out types of business.
 - ii) Who is Raghunath?
 - iii) What Kiran & Naman are called?
- 2) Mr. Jumbo a Chartered Accountant by profession and Mrs. Timbo, an Architect by profession running a firm namely 'Buildsheet' in Nagpur.
 - i) Identify business in above examples.
 - ii) comment on it.
 - iii) which two professions are mentioned here.

Q.4 Distinguish between

- 1) Private Limited Company and Public Limited Company
- 2) Sole Trading Concern & Partnership Firm
- 3) Partnership Firm & Joint Hindu Family
- 4) Co-operative Society & Joint Stock Company
- 5) Joint Hindu Family Firm and Joint Stock Company
- 6) Co-operative Society & Partnership Firm

Q.5 Answer in brief.

- 1) State any four features of Sole Trading Concern.
- 2) State any four types of partners.
- 3) Describe any four types of Co-operative Society.
- 4) State any four merits of Joint Hindu Family Business.
- 5) State any four demerits of Joint Stock Company.

Q.6 Justify the following statements.

- 1) The Liability of a 'Sole trader' is Unlimited.
- 2) Karta is the sole manager of 'Joint Hindu Family Business'.
- 3) The main objective of co-operative society is to provide services to its members.
- 4) A Joint Stock Company can raise huge capital.
- 5) The liability of Co-parceners is limited in 'Joint Hindu Family Business'.
- 6) Sole proprietorship is useful for small business.

- 7) Co-operative society follows democratic principles.
- 8) There is separation of ownership and management in Joint Stock Company.
- 9) Shares of Private limited company are not freely transferable.
- 10) All partners are joint owners of partnership firm.
- 11) Active partners take active part in day to day management of partnership firm.

Q.7 Attempt the following.

- 1) Explain various types of Co-operative Society.
- 2) Explain the features of Joint Stock Company.
- 3) Describe the features of Co-operative Society.

Q.8 Answer the following.

- 1) Explain features of Sole Trading Concern.
- 2) Explain different types of Partnership.
- 3) Explain different types of Partners.
- 4) Explain the five features of Joint Stock Company.
- 5) Explain the merits of Co-operative Society.
- 6) Explain the demerits of Partnership firm.
- 7) Explain the merits of Joint Stock Company.
- 8) Explain the features of partnership firm.
- 9) Explain the types of co-operative societies.
- 10) Explain the demerits of Joint Stock Company.



Just to Know

- One Person Company (OPC) : The concept of One Person Company in India was introduced through the Companies Act, 2013 to support entrepreneurs who on their own are capable of starting a venture by allowing them to create a single person economic entity.
- Special Purpose Vehicle (SPV) : A Special Purpose Vehicle (SPV) is a separate legal entity created by an organisation. The SPV is a distinct company with its own assets and liabilities, as well as its own legal status. Usually, they are created for a specific objective, often which is to isolate financial risk.

5

Forms of Business Organisation - II

5.1 Introduction

- 5.1.1 Meaning
- 5.1.2 Definition

5.2 Departmental Organisation

- 5.2.1 Features
- 5.2.2 Merits
- 5.2.3 Demerits

5.3 Statutory Corporation

- 5.3.1 Features
- 5.3.2 Merits
- 5.3.3 Demerits

5.4 Government Company

- 5.4.1 Features
- 5.4.2 Merits
- 5.4.3 Demerits

5.5 Multinational Corporations

- 5.5.1 Features
- 5.5.2 Merits
- 5.5.3 Demerits

Distinguish Between Summary Exercise

Location : Junior College Campus

Time : 11.00 am

(There are four friends standing in corridor of famous junior college in town. These four friends are Nutan, Suhas, Kiran and Snehal.)

Nutan : Hello Friends!

Snehal :
Suhas : } Hi, Nutan.
Kiran : }

Nutan : Friends, my sister got a job in 'Indian Railways' a largest employer in India.

Kiran : Oh ! That's a great news. Has she passed railways examination?

Nutan : Yes, She has.

Snehal : Hey! Hey!! My father also got promotion in his company.

Suhas : Where does your father work?

Snehal : My father works with 'Air India'.

Suhas : Hey Friends, see the co-incidence. All great news are coming from everywhere.
(Meanwhile, Suhas got text message on his smart phone.)

What a news!! (on his own)

Nutan : What happened Suhas? You are looking happy.

Suhas : My brother got selected in MNC as a Senior Finance Manager.
(All clapped for Suhas's brothers achievement)

Kiran : Friends, even my mother is working with BHEL.
Suhas : (amused) : What's BHEL?
Kiran : Hey my friend Suhas, BHEL means Bharat Heavy Electricals Limited. It's government owned company.
Dear students, from above conversation you must be getting forms and names of different business organisation in Public Sector.
Let's study different forms of organisations under public sector.

5.1 INTRODUCTION

In India, there is co-existence of Private and Public sector. Private sector organisations are owned by individual or group of individuals whereas, Public sector organisations are owned by the Government.

Private sector aims at profit maximization while public sector aims at providing reliable services to customers.

In the pre-independence period public sector undertakings were set-up in areas like- Post and Telegraph, Airlines, Railways etc. After independence public sector was undertaken as a part of Industrial Policy, 1956.

5.1.1 MEANING:

Public Sector Organisations are those organisations which are owned, financed, managed and controlled by government or combination of governments.

Example - HPCL - Hindustan Petroleum Corporation Limited

BPCL - Bharat Petroleum Corporation Limited

5.1.2 DEFINITION:

1. According to Britannica Encyclopedia:

“An undertaking that is owned by a central, state or local government, supplies services or goods at a price and is operated on more or less self-supporting basis is called as Public Sector Organisation.”

2. According to Prof. Hansen:

“Public Enterprise means state ownership & operation of industrial, agricultural, financial & commercial undertaking.”

□ Public Sector Organisations are classified as follows:

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

5.2 DEPARTMENTAL ORGANISATION

The organisation which is owned, managed, controlled and financed by government is known as Departmental Organisation.

It is the oldest form of business organisation. Departmental Organisation performs its all activities as an integral part for government only.

The Minister-in-charge of ministry is head of this organisation. All departmental organisations act through officers of the government and all employees are called as government employees.

Examples of the departmental form of organisation are the Post Office, Railways, Defence Industries, Radio, Public Utility Services etc.

5.2.1 FEATURES OF THE DEPARTMENTAL ORGANISATION:

1. Managed by Government:

Departmental Organisation is managed by a concerned government department. Minister at the top responsible to the Parliament for its operations.

2. Delegation of Authority:

The downward delegation of authority is affected from the top executive to every part of the organisation.

3. Financed by the Government:

Departmental Organisation is financed through annual budget appropriations made by the legislature and its revenues are directly paid to the government treasury.

4. Run by the Government:

Different procedures like budgeting, accounting and auditing are at par with government departments.

5. No Separate Legal Entity:

Departmental organisation has no separate existence from government. It is working under concerned ministry.

6. Government Employees:

Since it is an integral part of the Government, the staff of the enterprise is treated equally with other civil servants for all purposes with other government employees.

5.2.2 MERITS OF DEPARTMENTAL ORGANISATION:

1. Direct Control:

In departmental organisation there is a direct and absolute control of government over the enterprise.

2. Direct Revenue to the Government:

The revenues of the enterprise directly go to the Government treasury in a Departmental Organisation.

3. Less Overheads:

As departmental organisations are operated by government themselves, the administrative overhead charges are less.

4. Proper use of Funds:

Since these undertakings are subject to strict control and supervision, chances for misuse of funds are less in departmental organisation.

5. Qualified Staff:

These organisations are properly managed and supervised by the qualified staff.

6. Maintains Secrecy:

These organisations maintain maximum secrecy on policy matters and also they take care of essential goods and services.

5.2.3 DEMERITS OF DEPARTMENTAL ORGANISATION:

1. Delay in Action:

As departmental organisations are controlled by government, there is always centralization of authorities such excessive centralization of authority leads to delay in action.

2. Red Tapism and Bureaucracy:

There is always problem of Red tapism and bureaucracy in departmental organisation which affects it's trustworthiness.

3. Less Scope for Initiative:

There is no scope for the initiative and skill as the procedures and policies are subject to the criticism in the Parliament.

4. Lack of Flexibility:

Departmental organisation always lacks flexibility due to excessive control and supervision by the government.

5. Delayed Decisions:

For each and everything, the sanctioning of the Minister or the top executive is essential. The executives at the lower level cannot take any decision.

6. Absence of professionalism:

Absence of professionalism, fear of public criticism, frequent transfers of officials and staff affects the efficiency of these organisations.



Activity

- Visit All India Radio(AIR) Station in your surrounding area and find out information about it.
- Visit Indian Rail Catering and Tourism Corporation (IRCTC) office and collect information about it.
- Find out more examples of Departmental Organisations.

5.3 STATUTORY CORPORATION

A Statutory Corporation is an autonomous corporate body created by the Special Act of the parliament or state legislature with defined powers, functions and duties. State helps statutory corporation by subscribing to its capital.

For example, Reserve Bank of India, LIC etc.

5.3.1 FEATURES OF STATUTORY CORPORATION:

1. Corporate Body:

Statutory corporation is an artificial person created by law and is an independent legal entity. It is managed by the board of directors constituted by the government. A corporation has a right to enter into contracts and can undertake any kind of business under its own name.

2. Answerable to the Legislature:

A statutory corporation is answerable to parliament or state assembly whomsoever creates it. Parliament has no right to interfere in the working of statutory corporations. It can only discuss policy matters and overall performance of the corporations.

3. Own Staffing System:

Employees are not government servants, even though the government owns and manages a corporation. Employees of various corporations receive balanced or uniform pay and benefits by the government. They are recruited, remunerated and governed as per the rules laid down by the corporation.

4. Financial Autonomy:

A statutory corporation enjoys financial autonomy or independence. It is not subject to the budget, accounting and audit controls. After getting the prior permission from the government, it can even borrow money within and outside the country.

5. No Political Interference:

A Statutory Corporation comes into existence by following a particular act or statute therefore there is no political interference in formation, working and administration of a statutory corporation.

All statutory corporations are free from political interference.

5.3.2 Merits of Statutory Corporations:

1. Initiative and Flexibility:

Operations and management of a statutory corporation is done independently without any government's interference, with its own initiative and flexibility.

2. Administrative Autonomy:

A statutory corporation is able to manage its affairs with independence and flexibility.

3. Quick Decisions:

A statutory corporation is relatively free from red tapism, as there is less file work and less formality to be completed before taking decisions.

4. Efficient Staff:

The statutory corporations can have their own rules and regulations regarding remuneration and recruitment of employees. It provides better facilities and attractive terms of service to staff to secure efficient working from its staff.

5. Professional Management:

Board of directors of statutory corporation consists of business experts and the representatives of various groups such as labour, consumers etc. who are nominated by the government.

6. Easy to raise capital:

Such corporations are fully owned by the government, they can easily raise required capital by floating bonds at a low rate of interest. These bonds are safe, the investors also feels comfortable in subscribing such bonds.

5.3.3 DEMERITS OF STATUTORY CORPORATIONS:

1. Autonomy on paper only:

The autonomy and flexibility of statutory corporation is only for namesake. Practically, ministers, government officials and political parties often interfere with the working of these corporations.

2. Lack of initiative:

Statutory corporations do not have to face any competition and are not guided by a profit motive. So the employees do not take initiative to increase the profit and reduce loss. The losses of the statutory corporation are made good by the government.

3. Rigid structure:

The objects and powers of statutory corporations are defined by the Act and these can be amended only by amending the Statute or the Act. Amending the Act is a time-consuming and complicated task.

4. Clashes amongst interests:

The government appoints the board of directors and their work is to manage and operate corporations. As there are many members, it is quite possible that their interests may clash. Because of this reason, the smooth functioning of the corporation may be hampered.

5. Unfair practices:

The governing board of a statutory corporation may indulge in unfair practices. It may charge an unduly high price to cover up inefficiency.



Activity

- Visit RBI Headquarter at Mumbai.
- Name other four statutory corporations you know.
- Collect the information about Life Insurance Corporation.

5.4 GOVERNMENT COMPANY

The company which is registered under Companies Act,2013 having minimum 51% of paid-up share capital held by the central government or any state government or partly by central government and partly by one or more state governments is known as Government Company.

- Examples -
- 1) National Thermal Power Corporation (NTPC)
 - 2) Bharat Heavy Electricals Limited (BHEL)
 - 3) Hindustan Machines Tools (HMT)

The shares of government company are purchased in the name of The President of India or in the name of Governor of a State.

❑ **Important Concepts**

1. Annual Reports:

In Government Company, annual reports and audit reports are laid or presented before the Parliament and in case of state company. Such reports are presented before state legislature.

2. Appointment of Auditors:

Government on the advice of Comptroller and Auditor General of India appoints auditor of a government company.

3. Shareholding:

A Government company may either wholly or partially owned by Government. In wholly owned company, 100% capital is provided by the government. In partially owned companies minimum 51% capital is held by the government or combination of governments. Private concerns can hold maximum 49% share capital

4. Management:

The management of government company is in the hands of Board of Directors who are nominated by the government and private investors together. Government companies have professional management and skillful employees which results into higher productivity and performance.

5.4.1 FEATURES:

1. Registration Under the Companies Act:

A Government company is formed through registration under the Companies Act, 2013 and is subject to the provisions of this Act, like any other company. However, the Central Government may direct that any of the provisions of the Companies Act shall not apply to a Government company or shall apply with certain modifications.

2. Separate Legal Entity:

A Government company is a legal entity separate from the Government. It can acquire property; can make contracts and can file suits in its own name.

3. Majority of Government Directors:

In Government company major capital is held by Government. So in Board of Directors maximum directors are appointed by respective Government.

4. Own Staff:

A Government company has its own staff except Government officials who are sent on deputation. Its employees are not governed by civil service rules.

5. Free from Procedural Controls:

A Government company is free from budgetary, accounting and audit controls which are applicable to Government undertakings.

5.4.2 MERITS:

1. **Easy Formation:**

A Government company can be easily formed under the Companies Act, just by an executive decision of the government.

2. **Internal Autonomy:**

A government company can manage its affairs independently. It is relatively free from ministerial control and political interference, in its day-to-day functioning.

3. **Easy to Alter:**

Objectives and powers of the Government Company can be changed by simply altering the Memorandum of Association of the company, without seeking the approval of the Parliament.

4. **Discipline:**

The Government Company is subject to the provisions of the Companies Act which keeps the management of the company active, alert and disciplined.

5. **Professional Management:**

A Government company can employ professionally qualified managers because it has its own personnel policies.

6. **Public Accountability:**

The Annual Report of a Government company is presented to the Parliament/ State Legislature. These reports can be discussed and debated there.

5.4.3 DEMERITS:

1. **Autonomy only in Name:**

Independent character of a Government company exists only in name. In reality, politicians, ministers, Government officials, interfere excessively in the day-to-day working of the government company.

2. **Fear of Exposure:**

The annual report of the government company is placed before the Parliament/State Legislature. The working of the company is exposed to press and public criticism. Therefore, management of the Government Company often gets demoralized and may not take initiative to come out with and implement something innovative.

3. **Lack of Expertise:**

The key personnel of a Government company are often deputed from Government departments. Such person generally lack expertise and commitment leading to lower operational efficiency of the government company.

4. **Lack of Professional View :**

Sometimes there is lack of professional view while taking decisions by the board as these companies are more bounded with fulfilment of social objectives of the business.



Activity

- Find out information on government company like NTPC, MSRDC.

5.5 Multinational Corporations

A multinational corporation is a business organisation that operates in many different countries at the same time. In other words, it's a company that has business activities in more than one country.

A multinational corporation (MNC) has facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office from where they coordinate global management.

Very large multinationals may have budgets that exceed those of many small countries.

- Multinational corporations are sometimes referred as transnational, international corporations.

Examples of Indian multinationals.

Bata India

Infosys



Tata Motors

5.5.1 FEATURES:

1. Huge Assets and Turnover:

As MNC is operating on a global basis, they have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

2. International Operations:

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

3. Centralised Control:

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Management of branches operate within the policy framework of the parent corporation.

4. Mighty Economic Power:

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

5. Advanced and Sophisticated Technology:

Generally, a MNC has advanced and sophisticated technology at its command. It employs capital intensive technology in manufacturing and marketing.

6. Professional Management:

A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

5.5.2 MERITS:

1. Employment Generation:

MNCs create large scale employment opportunities in host countries. This is a big advantage of MNCs for countries; where there is a lot of unemployment.

2. Inflow of Foreign Capital:

MNCs bring in much needed foreign capital for the rapid development of developing countries. This inflow of capital will bring much needed boost for growth of the domestic economy.

3. Proper Use of Idle Resources:

MNCs are in a position to utilize idle physical and human resources properly of the host country because of their advanced technical knowledge. This results in an increase in the national income of the host country.

4. Technical Development:

MNCs carry the merits of technical development of host countries. In fact, MNCs are a vehicle for transfer of technical development from one country to another. Poor countries also begin to develop technically after hosting MNCs.

5. Managerial Development:

MNCs employ latest management techniques. People employed by MNCs do a lot of research in management. In a way, they help to professionalize management along with latest lines of management theory and practice. This leads to managerial development in host countries.

6. End of Local Monopolies:

The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative practices of local monopolists. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality.

7. Improvement in Standard of Living:

By providing quality products and services, MNCs help to improve the standard of living of people of host countries.

8. Promotion of International Brotherhood and Culture:

MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave a way for world peace and prosperity.

5.5.3 DEMERITS:

1. Danger for Domestic Industries:

MNC's, because of their vast economic power, pose a danger to domestic industries which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

2. Repatriation of Profits:

Repatriation of profits means sending profits to their country.

MNCs earn huge profits. Repatriation of profits by MNCs adversely affects the foreign exchange reserves of the host country; which means that a large amount of foreign exchange goes out of the host country.

3. Interference:

Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

4. Disregard of the National Interests of the Host Country:

MNCs invest in most profitable sectors and disregard the national goals and priorities of the host country. They do not care for the development of backward regions and never care to solve chronic problems of the host country like unemployment and poverty.

5. Misuse of Mighty Status:

MNCs are powerful economic entities. They can afford to bear losses for a long while in the hope of earning huge profits‘ they have ended local competition and achieved monopoly in a greater extent. This may be the unfair strategy of MNCs to wipe off local competitors from the host country.

6. Exploitation of Natural Resource:

MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

7. Selfish Promotion of Alien Culture:

MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage e.g. In India, MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

8. Exploitation of People :

MNCs join hands with big business houses of host country and emerge as powerful monopolies. This leads to concentration of economic power only in a few hands. Gradually these monopolies make it their birth right to exploit poor people and enrich themselves at the cost of the poor working class.



Activity

- Visit a nearest company around you and find out whether it is MNC or not.
- Find out Indian MNC operating globally.
- Find out products produced or services provided by MNC.

Distinguish between

1) Private Sector Organisation and Public Sector Organisation

Sr. No.	Point of difference	Private Sector Organisation	Public Sector Organisation
1)	Meaning	The Organisation which is owned managed, controlled and financed by individuals or group of individuals is known as private sector organisation.	The organisation which is owned managed, controlled and financed by government or combination of governments is known as public sector organisation.
2)	Constituents	The private sector organisation includes Sole Trading Concern, Joint Hindu Family, Partnership Firm, Joint Stock Company, Co-Operative Society.	The public sector organisation includes Departmental Organisation, Statutory Corporation and Government Companies.
3)	Main Motive	The main objective of private sector organisation is to earn profit.	The main objective of public sector organisation is to serve society by providing essential services.
4)	Management	The management of private sector organisation remains with owner or their elected representatives.	The management of public sector organisation is in the hands of Government officials or Board of Directors (BOD).
5)	Size of Entity	The private sector organisation firms can be of any size e.g. sole trading concern operates on small scale basis whereas Joint Stock Company operates on large scale basis.	The Public sector organisation are large in size and operates on large scale basis.
6)	Capital provider	Capital is contributed by owner / private investors from their own resources or borrowings from financial institutions.	The capital of public sector organisation is mostly contributed by Government.
7)	Business Areas	The private sector organisation operates in industrial and commercial area only.	The public sector organisation operates mostly in utility services such as railways, posts, etc. and also in industrial and commercial undertakings.
8)	Decision Making	In private sector organisation decision making is quick as very few officials are involved in decision making process.	In Public sector organisation the decision making is delayed due to bureaucratic hurdles.
9)	Efficiency	There is a greater efficiency on the part of private sector due to professional approach in running the organisation	The efficiency of public sector organisation is low due to lack of competitive spirit.

2) Departmental Organisation and Statutory Corporation

Sr. No.	Point of difference	Departmental Organisation	Statutory Corporation
1)	Meaning	The organisation which is owned, managed, controlled, financed and operated by government is known as Departmental Organisation.	The Company which is formed under a special Act of Parliament or state legislature is known as statutory organisation.
2)	Capital	The required funds come from annual budget appropriation of the Government.	The capital is contributed by the Government at the time of establishment. Additional capital if required can be contributed by the Government.
3)	Management	The departmental undertaking is managed by government officials of the concerned ministry.	Statutory Corporation is managed by board of directors nominated by the Government.
4)	Control	The Departmental undertaking is controlled by concerned ministry.	The statutory Corporation is controlled by the Act or Statute of the Parliament or state legislature.
5)	Autonomy	The departmental organisation does not have autonomy in decision making.	Statutory corporation enjoys autonomy in decision making.
6)	Legal Status	The Departmental undertaking has no separate legal status distinct from the Government.	Statutory Corporation has separate status distinct from the Government.
7)	Establishment	The Departmental undertaking is formed under concerned ministry.	The Statutory corporation is established by special Act of the Parliament or state legislature.
8)	Borrowing Power	The Departmental undertaking cannot borrow money from public.	The statutory corporation can borrow money from public by way of bonds.
9)	Staff	The staff of departmental organisation is government servants and their services are governed by civil service rules.	The staff is recruited independently and their services are governed by service rules of organisations.

3) Statutory Corporation and Government Companies

Sr. No.	Point of difference	Statutory Corporation	Government Companies
1)	Meaning	The Company which is formed under a special statute act of parliament or state legislature is known as statutory corporation.	The company where minimum 51% of the paid up capital is held by central or state Government jointly or individually is known as Government Company.
2)	Capital	The capital is contributed by the government at the time of establishment. Additional capital if required can be contributed by government as and when required.	The capital of Government company is contributed by central and state government and even by general public and financial institutions.
3)	Management	Statutory corporation is managed by Board of Directors nominated by the Government.	Government company is managed by Board of Directors appointed by government and shareholders.
4)	Control	The statutory corporation is controlled by the Act or the statute of the Parliament or state legislature.	Government companies are controlled by government or shareholders by following the provisions of Companies Act.
5)	Establishment	The statutory corporation is established by special Act of the parliament or state legislature.	Government companies are formed and registered under the provisions of Companies Act 2013.
6)	Borrowing Power	Statutory corporation can borrow funds from the public by ways of bonds.	Government Companies can borrow funds by the way of debt or issuing shares to the public.

4) Departmental Organisation and Government Company

Sr. No.	Point of difference	Departmental Organisation	Government Company
1)	Meaning	The Organisation which is owned, managed, controlled, financed and operated by government is known as Departmental Organisation.	Any company where minimum 51% of the paid up capital is held by central or state Government jointly or individually is known as Government Company.
2)	Capital	The required funds come from annual budget appropriation of the Government.	The capital of Government company is contributed by central and state Government and by general public and financial institution.

3)	Management	The Departmental undertaking is managed by Government officials of the Concern ministry.	The Government Company is managed by board of directors appointed by Government and shareholders.
4)	Control	The Departmental undertaking is controlled by concerned ministry.	The Government companies are controlled by Government or shareholders by following the provision of companies Act.
5)	Autonomy	The Departmental organisation does not have autonomy in decision making.	The Government companies enjoys autonomy in decision making.
6)	Legal Status	Departmental undertaking has no separate status distinct from the Government.	The Government company has separate status distinct from the Government.
7)	Establishment	The Departmental undertaking is formed under concerned ministry.	Government companies are formed and registered under the provision of Companies Act 2013.
6)	Borrowing Power	The Departmental Undertaking cannot borrow money from public.	Government Companies can borrow Funds by ways of debts or issuing shares to the public.
7)	Staff	The staff of Departmental Organisation is government servants and their services are governed by civil service rules.	The staff is recruited independently and their services are governed by contract of service rules of organisations.

SUMMARY

❑ Public Sector Organisation

Public sector Organisations are those which are owned, financed managed and controlled by government or combination of governments.

❑ Departmental Organisation

Departmental Organisation is owned, managed, controlled and financed by government.

❑ Features:

1. Managed by Government
2. Delegation of Authority
3. Financed by the Government
4. Run by the Government
5. No Separate Legal Entity
6. Government Employees

❑ **Merits**

1. Direct Control
2. Direct Revenue to Government
3. Less Overheads
4. No misuse of funds
5. Qualified Staff
6. Maintains Secrecy

❑ **Demerits:**

1. Delay in Action
2. Red tapism and Bureaucracy
3. Less scope for Initiative
4. Lack of Flexibility
5. Delayed Decisions
6. Absence of Professionalism

❑ **Statutory Corporation:**

A Statutory Corporation is an autonomous corporate body created by the Special Act of the parliament or state legislature with defined powers, functions and duties.

❑ **Features:**

1. Corporate Body
2. Answerable to the Legislature
3. Own Staffing System
4. Financial Autonomy
5. No Political Interference

❑ **Merits:**

1. Initiative & Flexibility
2. Administrative autonomy
3. Quick decisions
4. Efficient Staff
5. Professional Management
6. Easy to raise capital

❑ **Demerits:**

1. Autonomy on paper only
2. Lack of initiative
3. Rigid structure
4. Clash amongst interests
5. Unfair practices

❑ **Government Company:**

The company which is registered under Companies Act, 2013 having more than 51% of paid-up share capital is held by the central government or any state government or partly by central government and partly by one or more state government is known as Government Company.

❑ **Features:**

1. Registration Under the Companies Act
2. Separate Legal Entity
3. Majority of Government Directors
4. Own Staff
5. Free from Procedural Controls

❑ **Merits:**

1. Easy Formation
2. Internal Autonomy
3. Easy to Alter
4. Discipline
5. Professional Management
6. Public Accountability

❑ **Demerits:**

1. Autonomy only in Name
2. Fear of Exposure
3. Lack of Expertise
4. Lack of Public Interest

❑ **Multinational Corporation (MNC):**

A multinational corporation is a business organisation that operates in many different countries at the same time. In other words, it's a company that has business activities in more than one country.

❑ **Features:**

1. Huge Assets and Turnover
2. International Operations
3. Centralised Control
4. Mighty Economic Power
5. Advanced and Sophisticated Technology
6. Professional Management

❑ **Merits:**

1. Employment Generation
2. Inflow of Foreign Capital
3. Proper Use of Resources
4. Technical Development
5. Managerial Development
6. End of Local Monopolies
7. Improvement in Standard of Living
8. Promotion of international brotherhood and culture

❑ **Demerits:**

1. Danger for Domestic Industries
2. Repatriation of Profits
3. Interference
4. Disregard of the National Interests of the Host Country
5. Misuse of Mighty Status
6. Careless Exploitation of Natural Resources
7. Selfish Promotion of Alien Culture
8. Exploitation of people in a systematic manner

❑ **Career Opportunities**

- 1) IAS Level Officer/ Employees.
- 2) One can start own Indian multinational corporation.

❑ **References**

- 1) www.owlgen.com
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- 3) www.Google.com
- 4) Wikipedia.com



EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) Departmental Organisation is financed through appropriations made by the legislature.
a) annual budget b) monthly budget c) quarterly budget
- 2) A is an autonomous corporate body created by the Special Act of the parliament or state legislature.
a) statutory corporation b) government company c) MNC

- 3) A statutory corporation is answerable to or state assembly whosoever creates it.
a) parliament b) public c) employees
- 4) In government company minimum% paid up capital is held by government.
a) 51 b) 41 c) 31
- 5) The shares of government company are purchased in the name of
a) President of India b) Chief Minister c) Defense Minister
- 6) Government on the advice of appoints auditor of government company.
a) Comptroller and Auditor General of India b) auditor c) chartered accountant
- 7) A Government company is a entity separate from the Government.
a) natural b) legal c) human
- 8) Company has public accountability.
a) MNC b) Private c) Government
- 9) MNCs are powerful entities.
a) economical b) political c) social

B) Match the pairs.

Group 'A'		Group 'B'	
A)	BHEL	1)	Special Legislature
B)	Statutory Corporation	2)	49% paid up capital by govt.
C)	Departmental Organisation	3)	Service Motive
D)	Private Sector	4)	Railway
E)	Public Sector	5)	Profit Motive
		6)	51% paid up capital by govt.

C) Give one word / phrase / term.

- 1) Organisations which are owned by individual or group of individuals.
- 2) Organisations which are owned by government.
- 3) The sector which aims at profit maximization.
- 4) The sector which aims at providing reliable services to customers.
- 5) Organisations which are owned, financed, managed and controlled by government or combination of governments.
- 6) The organisation which is owned, managed, controlled and financed by government.
- 7) The oldest form of business organisation under public sector.
- 8) The organisation which performs it's all activities as an integral part for government only.
- 9) The organisation which is financed through annual budget appropriations made by the legislature.

- 10) The organisation in which there is direct and absolute control of government over the enterprise.
- 11) An autonomous corporate body created by the Special act of the parliament or state legislature with defined powers, functions and duties.
- 12) An organisation which is answerable to parliament or state assembly whosoever creates it.
- 13) An organisation which is not subject to the budget, accounting and audit controls by the Govt.

D) State True or False.

- 1) Private sector organisations are owned by individual or group of individuals.
- 2) Public sector organisations are owned by government.
- 3) Private sector aims at providing reliable services to customers.
- 4) Public sector was undertaken as a part of Industrial Policy, 1956.
- 5) Departmental organisations is oldest form of business organisation under public sector.
- 6) Departmental Organisation performs its all activities separately from government.
- 7) The Minister-in-charge of ministry is the head of departmental organisation.
- 8) There is always problem of Red tapism and bureaucracy in departmental organisation.
- 9) There is large scope for the initiative and skill in departmental organisation.
- 10) In Departmental organisation there is flexibility in operations.

E) Find the odd one.

- 1) Indian Post, Indian Railway, Bank of India, Air India,
- 2) Life Insurance Corporation, Reserve Bank of India, Bharat Heavy Electricals Limited, ONGC.
- 3) Pepsi, CocaCola, Dabur, Proctor & Gamble.
- 4) Tata Motors, Hindustan Aeronautics Limited, Steel Authority of India Limited, Gas Authority of India Ltd.

F) Complete the sentences.

- 1) A Government company is a entity separate from the Government.
- 2) is owned, managed, controlled and financed by government.
- 3) A has defined powers, functions and duties.
- 4) All government companies are registered under Act, 2013.
- 5) MNCs are powerful entities.

G) Answer in one sentences.

- 1) What is Government Company?
- 2) What is Departmental Organisation?
- 3) What is Statutory Corporation?
- 4) What is Multinational Corporation?
- 5) What is Public Sector?
- 6) What is Private Sector?

H) Correct the underlined word and rewrite the following sentences.

- 1) Statutory Corporation is a natural person created by special Act.
- 2) A Statutory Corporation is not answerable to parliament or state assembly.
- 3) MNC have existence only in single country.
- 4) Departmental Organisation has separate existence from government.
- 5) Private sector aims at providing essential services to customers.

Q.2 Explain the following terms/concepts.

- 1) Public Sector Organisation
- 2) Private Sector Organisation
- 3) Departmental Organisation
- 4) Statutory Corporation
- 5) Government Company
- 6) Multinational Corporation

Q.3 Study the following case/situation and express your opinion.

- 1) There is X company in which capital contribution by different entities are as follows:
Madhya Pradesh Govt 35%, Maharashtra Government 35% and Government of India 30% of company.
 - i) Find out type of this company.
 - ii) Tell any two features of this company.
 - iii) Give an example of this type of company.
- 2) There is a company which is having a registered office in Singapore and such company is having branch offices in Varanasi (India) and Hambantota(Sri Lanka). This company provides cellular services to host countries through their respective branch offices.
 - i) Find out type of organisation.
 - ii) Comment on it.
- 3)
 - i) Name the business organisation, which is self-financed, delegates authority and run by government as an integral part of it.
 - ii) State any two merits of this organisation.
- 4) A central government passes a statute in the parliament and forms a business organisation which is having autonomy in administration and this organisation is answerable to legislature.
 - i) Which type of organisation is this?
 - ii) Give any three Features of this organisation.
 - iii) Give any one example of this type of organisation.

Q4. Distinguish between.

- 1) Private Sector Organisation and Public Sector Organisation.
- 2) Departmental Organisation and Statutory Corporation.
- 3) Government Company and Multinational Corporation.

- 4) Departmental Organisation and Multinational Corporation.
- 5) Government Company and Statutory Corporation.
- 6) Departmental Organisation and Government Company.
- 7) Statutory Corporation and Multinational Corporation.

Q.5 Answer in brief.

- 1) State any four features of Departmental Organisation
- 2) State any four features of Statutory Corporation
- 3) State any two demerits of Multinational Corporation
- 4) State any four merits Government Company

Q.6 Justify the following statements.

- 1) Departmental Organisations are run for providing public services.
- 2) There is direct control of government on departmental organisation.
- 3) There is no political interference in statutory corporation.
- 4) There is professional management in statutory corporation.
- 5) MNC helps to end local monopolies.
- 6) MNC has worldwide existence.
- 7) MNC has mighty economic powers.

Q.7 Attempt the following.

- 1) Merits of Departmental Organisation.
- 2) Demerits of Departmental Organisation.
- 3) Merits of Statutory Corporation.
- 4) Demerits of Statutory Corporation.
- 5) Features of Government Company.
- 6) Demerits of Government Company.
- 7) Features of Multinational Corporation.
- 8) Merits of Multinational Corporation.

Q.8 Answer the following in details.

- 1) Explain Departmental Organisation and its features.
- 2) Explain merits and demerits of departmental organisation.
- 3) Explain Statutory Corporation and its features.
- 4) Explain merits and demerits of statutory corporation.
- 5) Explain Government Company and its features.
- 6) Explain merits and demerits of government company.
- 7) Explain multinational corporation and its features.
- 8) Explain merits and demerits of multinational corporation.



6

Institutes Supporting Business

6.1 Introduction

6.2 SIDBI

- Introduction
- Features

6.3 NABARD

- Introduction
- Features

6.4 KVIC

- Introduction
- Features

6.5 Women's Self Help Groups

- Introduction
- Features

6.6 World Bank

- Introduction
- Features

Summary

Exercise

Shrimati Rupa and Shrimati Dhupa are maid servant discussing each other about problems and worries.

Rupa : Dhupa, How are you?

Dhupa : I am fine. How are you?

Rupa : I am also fine.

Dhupa : Rupa, how you received sewing machine in your house? I know that we have limited earning.

Rupa : Oh! I become member of SHG of my locality we have many women like us who are contributing small amount every month. Our SHG provided us sewing machine and I am getting additional income through it.

Dhupa : That's nice thing. What is SHG?

Rupa : SHG means Self Help Group prominently run by women.

Dhupa : Ok. Now I will also take initiative to form SHG in my locality. Thank you Rupa for your valuable guidance.

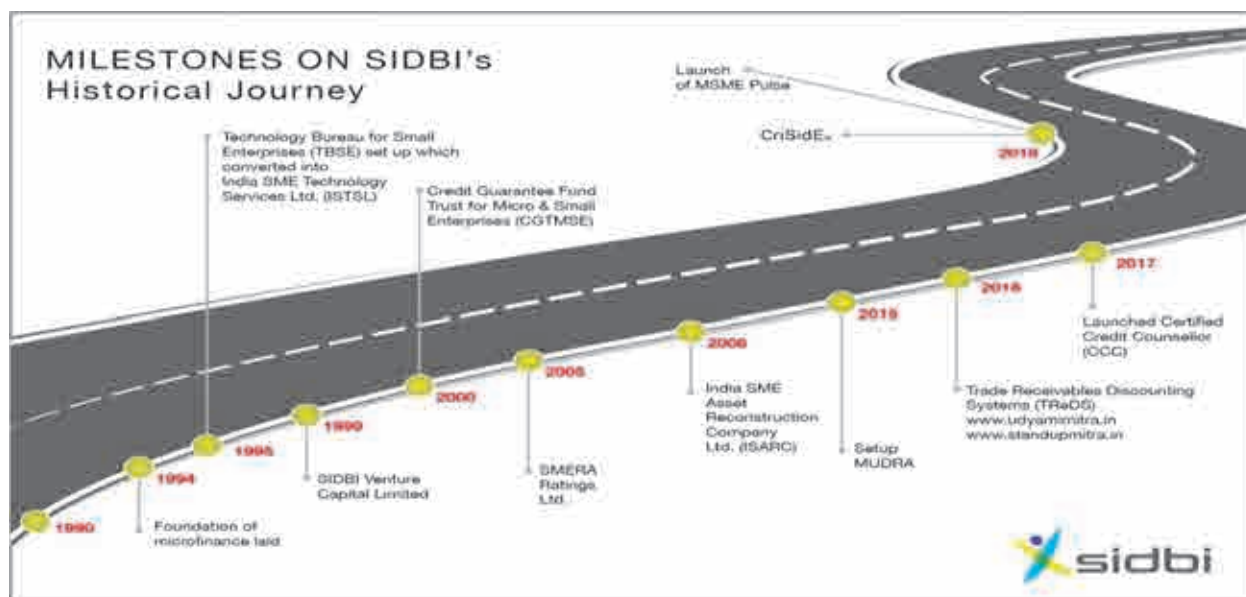
6.1 INTRODUCTION

Finance is the lifeblood of a business. It is the basic foundation of all kind of economic activities. The success of an organization largely depends on efficient management of its finance. Finance refers to sources of money for a business. Firms need finance to start business, to run business effectively as well as to expand the business. It is difficult to raise finance for starting business as it involves high risk. The chapter give overview of sources of finance available from different financial institutes.

6.2 Small Industrial Development Bank of India (SIDBI)

Small Industrial Development Bank of India (SIDBI) was established on 2nd April, 1990. It was established under the Small Industrial Development Bank of India Act, 1988. It was initially started as a wholly owned subsidiary of Industrial Development Bank of India (IDBI). Presently the ownership of SIDBI is held by 34 public sector institutes. SIDBI has its head office at Lucknow. It has 15 regional offices and 84 branches operating all over India. It also co-ordinate the functions of institutions engaged in similar activities.

Micro, Small and Medium Enterprises (MSME's) are focused domains for SIDBI. MSME plays an important role in the Indian Economy as it provides major employment in the economy. SIDBI takes structural initiative to resolve financial and non-financial hurdles of MSMEs. It helps to make MSMEs strong, vibrant and globally competitive. There are many efforts taken by SIDBI to emerge as a brand which is customer friendly towards MSMEs. It facilitates and strengthens credit flow to MSMEs. It identified financial and development gaps in the MSMEs and took efforts to resolve the same. SIDBI dedicated its resources towards evolution of a vibrant ecosystem. It supports emerging entrepreneurs by infusing skills and re-skilling initiatives. SIDBI has taken steps for technological upgradation and modernization of existing MSMEs. It also expands the channels for marketing the products of MSMEs.



Source : www.sidbi.in

Features of SIDBI:

Following are some of the important features of SIDBI :

1. Financial Institute for Promotion of MSMEs

SIDBI is established to provide short term and long term finance to the MSMEs. It is principal financial institution for micro, small and medium sector units. It also coordinate the functions of institutions engaged in financing MSMEs. It provides refinance to Banking and Non-Banking Financial Companies (NBFC) to increase supply of credit to MSMEs. Besides the refinance operations SIDBI also lends directly to MSMEs. SIDBI cater to the specific needs of Indian MSMEs that are not fulfilled through traditional sources of finance.

2. Sustainable Development

SIDBI is working towards sustainable development of MSMEs in India. It helps MSMEs in creation of economic wealth while preventing ecological wealth of the country. It promotes culture of energy efficient and sustainable finance. It takes initiative to enhance awareness of benefits of climate control amongst MSMEs. SIDBI's focused lending schemes promote investment in clean production and energy efficient technologies. It helps to reduce the emission of greenhouse gases to contribute towards reduction in pollution.

3. Advisory Function

SIDBI also works as advisor and mentor for MSMEs. It helps MSMEs in expanding marketing channels for the products both in the domestic as well as international markets. It also initiates steps for modernization and technological upgradation of current units.

4. Services to MSMEs

SIDBI provides different types of financial and non-financial services through its associates and subsidiaries. These associates and subsidiaries are as follows :

- i) **SIDBI Venture Capital Ltd. (SVCL)** - a wholly owned subsidiary of SIDBI was set up in July 1999, is providing venture capital to emerging sectors, such as, life sciences, biotechnology, pharmaceuticals, engineering and information technology.
- ii) **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** - a trust to implement the Credit Guarantee Scheme (CGS) through which credit facilities are extended without third party guarantee on collateral security by eligible lending banks/ Financial Institutions.
- iii) **SME Rating Agency of India Ltd. (SMERA)** - was set up by SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and several public, private and foreign sector banks as an MSME dedicated third-party rating agency to provide comprehensive, transparent and reliable ratings and risk profiling.
- iv) **India SME Technology Services Limited (ISTSL)** - a platform where MSMEs can tap opportunities at the global level for acquisition of new and emerging/ green technologies or establish business collaboration.
- v) **India SME Asset Reconstruction Company Ltd (ISARC)** - An Asset Reconstruction Company (ARC) to acquire non-performing assets (NPAs) and to resolve them through its innovative mechanisms with a special focus on the NPAs of MSME sector.
- vi) **Micro Units Development & Refinance Agency (MUDRA)** - for 'funding the unfunded' micro enterprises in the country

5. Achievements of National Goals

SIDBI's initiatives help in poverty alleviation and employment generation through financing MSMEs. It promotes entrepreneurship and fosters competitiveness in MSME sector. It take initiatives in skill development of entrepreneurs. It promotes entrepreneurship among women and economically weaker section of the society. It provides finance to industries in semi-urban areas to create more employment opportunities which reduces migration of population to urban areas.

6. Different forms of Finance

SIDBI offers the following facilities to its customers:

1. **Direct Finance:** SIDBI offers direct financing to the MSMEs through financing Working Capital, Term Loan, Foreign Currency Loan, Equity Support, Energy Saving Scheme etc.
2. **Indirect Finance:** SIDBI offers indirect assistance by providing Refinance to Banks, State Level Financial Institutions, etc. with an extensive branch network across the country.
3. **Micro Finance:** SIDBI offers microfinance to small businessmen and entrepreneurs for establishing their business.

7. Digital Initiatives

□ SIDBI Startup Mitra

It is digital initiative by SIDBI launched on March 17th, 2016. It brings together all stakeholders, start-up entrepreneurs, incubators, investors, industry bodies, mentors and advisors and banks at one platform. It helps in financing and development of new entrepreneurs. It also works as knowledge partner for State and Central Governments.

□ Udyami Mitra

SIDBI has launched the 'Udyami Mitra' Portal to improve accessibility of credit and handholding services to MSMEs. They can select and apply for preferred banks through this portal. Under the portal, entrepreneurs can apply for loan without physically visiting any bank branches and can select suitable bank branch, track their application status and avail multiple loan benefits. It also has facility for uploading all necessary documents. Through the portal the MSMEs can also seek handholding support for getting finance

8. Nodal/Implementing Agency

SIDBI has been assigned the role of nodal agency by the Government of India. It helps in implementing various subsidy schemes for MSMEs. These schemes help in upgradation, modernisation and expansion of business.



Activity

- Visit near by MSME's and try to understand their capital formation.

6.3 National Bank for Agriculture and Rural Development (NABARD)

Introduction

India is an agricultural country. Agriculture and its allied activities act as main source of livelihood for most of the rural population of India. Government of India is aware about the need of boosting institutional credit in rural economy. The Reserve Bank of India (RBI) constituted a Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), under the Chairmanship of Shri B. Sivaraman, to take review of agricultural credit in India. The recommendation of the committee was accepted and National Bank

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 BECHAMAR SAMMITI AIT PUNJAB
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STEPS TO LIVE YOUR DREAMS

- DREAM BIG:** Dream is the first step for becoming an entrepreneur. Follow your dream to pursue your experiment.
- CONCEPTUALISE AN IDEA:** Dream will lead to ideas and ideas are required to be conceptualised as a viable business proposition via or via plans and gaps in the market.
- STUDY OTHER BUSINESSES:** Find out the key success factors of other businesses and whether it can be done in a better way.
- DISCOVER MARKET OPPORTUNITY:** Identify market opportunities based on locations and pricing. Look out for opportunities and blend it with suitable perspectives.
- IF YOU NEED FUNDS, LOOK FOR IT:** Look for various funding options. Know about government schemes like MSME loans, Startup India, CGTME etc.
- MAY GOD HELP YOU WITH YOUR VENTURE!:** With all goals and objectives set, you are ready to embark on your venture!
- TAKE THE PLUNGE:** Transform yourself into an entrepreneur and be a job creator. Be your own boss and control your income.

Eye opener
 World over, many have become successful entrepreneurs by adopting one of the following:

- Innovative idea, product or service:** Many successful entrepreneurs began their journey by introducing a new product or service before others had even thought of it.
- Customer obsession:** An entrepreneur who is customer-centric and focuses on providing a great customer experience is more likely to succeed.
- Networking:** Building a strong network of contacts can help an entrepreneur in various ways, including finding investors, partners, and customers.
- Resilience:** Entrepreneurship is a journey of ups and downs. Those who are resilient and able to bounce back from setbacks are more likely to succeed.

Only business no bakwas!
 Introducing Mr. Bhanderaz, who will guide you through your journey of entrepreneurship.

BUSTING MYTHS
 #1 BUSINESS IS RISKY, JOB IS SAFE

Survival to Success: Journey of Mari Anna
 Meet a HERO

Loans for MSMEs at attractive interest rates by SIDBI
 Entrepreneurs are going Miles with MSME loans under SIDBI SME @ 8.12%*
 SIDBI has provided them Loans under SME at a very good rate and in a quick time. With SIDBI on my side, I am more focused on scaling up my business.

8.12%

Eligible Enterprises New/Existing / entrepreneurs in the manufacturing or allied services sector
 Credit: (Manufacturing, services, to buy new emerging opportunities, infrastructure, technology upgradation, business expansion, etc.) The applicant must adhere minimums indicated
 Investment grade rating of 3000
 Loan Size: ₹25 Lakhs to ₹5 Crores
 Rate of Interest: Attractive interest rates starting from 8.12%*
 Repayment Period: 36 to 120 months
 *Interest rate for a given loan sum, interest rates are subject to change.
 For details visit: www.sidbi.in

Source - SIDBI Consumer Connect initiative powered by Times of India

for Agriculture and Rural Development (NABARD) came into existence on July 12, 1982, under the special Act of the Parliament i.e. The National Bank for Agriculture and Rural Development Act, 1981.

The NABARD has been recognized as an apex institution for agricultural finance. The NABARD was established with the objective of providing and regulating credit and other facilities for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and allied economic activities.

Features of NABARD

Following are some of the important features of NABARD :

1. Apex Bank

NABARD acts as an apex bank for meeting the credit needs of all type of financial institutes working in the field of agricultural and rural development. It works to frame policies and guidelines for rural financial institutions in India. It also provide credit facilities to institutes working in agricultural finance. It also monitors the flow of rural credit in India. The bank implements the policy of the Central Government and the RBI with regard to agricultural credit.

2. Refinancing Facilities

It provides refinancing facilities to State Co-operative Banks (SCBs), Land Development Bank (LDBs), Regional Rural Banks (RRBs) and other approved financial institutions for financing rural economic activities. It also provides short-term, medium-term and long-term credit to these institutes. During natural calamities, such as droughts, crop failure and floods, the bank helps by refinancing commercial and cooperative banks so that the farmers tide over their difficult period.

3. Assistance to Financial Institutes

It plays an important role in preparing and developing action plans for Cooperative Banks and Regional Rural Banks. It also monitors implementation of development action plans of these banks. It provides financial assistance to cooperative banks for building improved Management Information System (MIS), computerization of operations and development of human resources.

4. Provides Credit for Rural Development

It takes initiatives in the development and promotion of different activities in rural area by providing funds to State governments. It also provides refinancing for upliftment of weaker section of the society. It also works on improvement of small and minor irrigation by way of promoting agricultural activities. Provides finance for promotion of non-farm activities and employment in non-farm sectors for the purpose of reducing rural unemployment.

5. Supervision of Financial Institutes Engaged in Agricultural Finance

It undertakes inspection of Regional Rural Banks (RRBs) and Cooperative Banks as per the guidelines of Banking Regulation Act, 1949. It can also undertake inspection of State Cooperative Agriculture and Rural Development Banks (SCARDBs) and apex non- credit cooperative societies on a voluntary basis.

6. Provides Recommendations to Reserve Bank of India

It Provide recommendations to Reserve Bank of India on issue of licenses to Cooperative Banks, opening of new branches by State Cooperative Banks and Regional Rural Banks (RRBs).

7. Financing Rural Industries

It plays an important role in providing refinance to small scale industries and other village and cottage industries. It provides loans to commercial and co-operative banks to promote rural employment. It organizes skill and entrepreneurship development programmes to promote an entrepreneurial culture among the rural youth and encourage them to start enterprises in the rural areas.

8. Role in National Development

It plays an important role in the improvement of storage facilities for agricultural commodities by promoting development of warehousing facilities. It has also promoted the export of agricultural commodities. It is playing a key role in sustainable development of the country through Green, Blue and White revolution.



Activity

- Visit near by Development Project of NABARD.

6.4 Khadi and Village Industries Commission (KVIC)

Introduction

Khadi was symbol and the spirit of self reliance in pre-independence India. During the Indian struggle for independence Khadi played an important role in the boycott of foreign clothes. It provides livelihood and economic independence to artisans in the villages. After independence Government of India took several initiatives in promotion and development of khadi and village industries through its Five Year Plans. To promote khadi and village industry, All India Khadi and Village Industries Board was set up in 1953. In 1956, a statutory body Khadi and Village Industries Commission (KVIC) was created with a special Act of Parliament i.e. the Khadi and Village Industries Commission Act, 1956. In April 1957, KVIC was established and took over the work from All India Khadi and Village Industries Board. It is an apex organization under the Ministry of Micro, Small and Medium Enterprises, with regard to khadi and village industries within India. KVIC has its head office at Mumbai.

KVIC is actively working for planning, promotion and production of Khadi as well as in setting up of village and rural industries in India. It plays a key role in identifying the potential for the development of rural industries and undertakes the valuable task of promoting and developing locally operating village enterprises. It gives emphasis on utilizing the locally available raw material and human skills which ultimately helps to generate non-farm employment opportunities in the rural areas. It also helps to strengthen the rural economy. It plays a role of co-ordinator with other agencies engaged in rural development.

KVIC receives fund from the Ministry of Micro, Small and Medium Enterprises for effective implementation of various programs and schemes. The KVIC use these funds to implement its programs either directly through its state offices or indirectly through Khadi and Village Industries Boards. Khadi and Village Industries Commission functions at the national level and there are respective State Khadi and Village Industries Boards in the different States to achieve the broad objective of rural development.

Objectives of KVIC

The broad objectives of establishing the KVIC are

- **The social objective** of providing employment.
- **The economic objective** of producing saleable articles.
- **The wider objective** of creating self-reliance amongst the poor and building up of a strong rural community spirit.

These objectives can be achieved through effective implementation of various schemes and programs of KVIC.

Features of KVIC

Following are some of the important features:

1. Rural Development

India is an agricultural country and most of its population is residing in rural India. KVIC is the premier organization which plays an active role in the development of rural India. The Khadi and Village Industries play a very important role in the development of Indian economy, particularly in the development of the rural areas. KVIC facilitates proper utilization of natural resources in rural India for generating income for the rural masses. It also promotes the development of tiny, cottage and small scale enterprises in the rural areas.

2. Employment Generation

Due to massive population growth agricultural sector is losing its ability to generate additional employment in rural areas. It is necessary to create employment opportunities for the fast increasing workforce in rural areas. Khadi and Village Industries are labour intensive in nature. The KVIC is established with the broader objective to promote non-farm employment opportunities in rural areas. It also concentrates on the betterment of rural artisans and socio-economic weaker section of the society. The KVIC has been generating large scale employment in the rural areas with low per capita investment.

3. Entrepreneurship Development

Entrepreneurship Development is one of the major functions of KVIC. KVIC helps to provide additional livelihood avenues to the village communities. KVIC generate self-employment opportunities through establishment of micro enterprises by organizing traditional artisans and unemployed youth. It increases their earning capacity as well as prevents migration. The KVIC actively participates in many international trade exhibitions for popularising its products in international markets.

4. Financial Assistance

KVIC formulated many schemes for financial assistance for rural industrialization and employment generation. It finance to the projects for rural industrialization and also provides for margin money by way of subsidy. There are provisions for higher rate of subsidies in case of beneficiaries of the weaker sections, tribal areas and backward regions. These schemes are implemented by KVIC, State Units of KVIC and District Industries Centres (DICs) with involvement of Banks. The KVIC also provides financial assistance to institutions and individuals for development and operation of Khadi and Village Industries.

5. Research and Development

To face the challenge of globalization, KVIC has introduced a number of new products range like Khadi denim jeans to cater the need of the market. The KVIC undertake trainings of sales staff for effective marketing of the products. KVIC is taking several steps to set standards of quality to ensure genuineness of the khadi products. KVIC signed Memorandum of Understanding (MoU) with National Institute of Design (NID) to provide design support services in packaging, marketing, communication, publicity, disseminating materials and other design-related activities. The KVIC is also charged with the responsibility of encouraging and promoting research in the production techniques and equipment employed in the Khadi and Village Industries. KVIC plays an important role in technological improvements in products and processes of Khadi and Village Industries in reducing the cost of production and derive higher incomes. It also promotes use of non-conventional energy and electric power for sustainable development.

6. Marketing and Promotion

In order to attract younger generation, the KVIC is holding exhibitions, seminars, lectures in universities and colleges to disseminate knowledge of KVIC products. KVIC has also launched a massive marketing development plan to generate interest, awareness and attraction amongst the masses. Efforts are taken for improvements in the quality of products, packaging and marketing. The Government will continue to encourage the khadi and village industry sector so that its products can become more competitive,

7. Other Functions

The KVIC is charged with the planning, promotion, organization and implementation of programs for the development of Khadi and other village industries in the rural areas. It organizes training programme for artisans engaged in Khadi and village industries. The KVIC may also undertake directly or through other agencies studies concerning the problems of Khadi and Village Industries.



Activity

- Visit near by KVIC centre and collect information about products manufactured by them.

6.5 Women's Self Help Groups (Mahila Bachat Gat)

Introduction

Dr. Muhammad Yunus, an economist from Bangladesh, known as the Father of Microfinance founded the Grameen Bank in Bangladesh in October 1983 with the vision to eradicate poverty. Traditional banks refused to make small loans to the poor. Hence the idea of Grameen Bank was born to give small loans to poor which can make a big difference in their life. Small loans would not only help them to survive but also create the spark of enterprise and empower them to pull them out of poverty. The success of the Grameen microfinance model has inspired hundreds of countries throughout the world. Grameen Bank and Dr. Yunus jointly won the Nobel Peace Prize in 2006. Indian Self Help Group Model is refined model of Bangladesh's Model to eradicate poverty and empower the women. All self-help groups are based on the fundamental principles of "helping each other" and "unity is strength".

A Self Help Group (SHG) is a small group of homogeneous individuals who come together with the objective creating common fund through savings and meet members' emergency needs by providing collateral free loan. When the self help groups are managed by women it is popularly known as Women's Self Help Group. In India, SHGs first emerged within the Mysore Resettlement and Development Agency (MYRADA) initially called Credit Management Groups in 1985. RBI accepted the SHG strategy as an alternative credit model. In India, Self Help Group – Bank Linkage Programme was initiated by NABARD since 1992.

What is Self Help?

From our childhood days, we hear sayings like

- 'Self help is the best help'
- 'Unity is strength'
- 'United we stand, divided we fall'

We have heard the story of the birds caught in a net.

They could not escape one by one.

But when they flew together in a **group**, they escaped.

We know that one stick is easy to break.

But it is difficult to break a bundle (**group**) of sticks.

The SHGs show us how unity is strength.

They show us how self help could be the best help.

It is useful if we can encourage and help poor people to form SHGs.



Source - A handbook on forming SHG's by NABARD

A SHG is a voluntary association. Every member of the group make a small savings at a regular interval. After group collects sufficient fund it can start lending it to the members as per their needs at a reasonable rate of interest. In India, many SHGs are linked to banking institutions for the delivery of micro-credit. Registration of SHG is not compulsory. There are simple rules framed by the members of the group for smooth conduct of the operation of the group. All decisions are taken in collective manner by the SHG members. The empowerment of women through SHGs would lead benefits not only to the individual women but also for the family and community as a whole. The SHGs empower women and trains them to take active part in socio-economic progress of the nation. SHG develops saving habits among the women. It enhances status of women as they participate, lead, take decisions and get benefited through collective efforts.



Activity

- Collect data on Nilima Mishra and discuss.
- Collect data on 'Parivaar Group' and discuss.

Features of Women's Self Help Groups

Following are some of the important features of Women's Self Help Groups :

1. Formation

Self Help Group is a small group of homogeneous individuals. It is generally formed by NGOs, or team of dedicated functionaries of the government. It is an informal group and registration under any Societies Act, State Co-operative Act or any other Act is not mandatory. It is recognized by the government and does not require any formal registration. SHGs have well-defined rules and by-laws, hold regular meetings and maintain records. However for wider outreach and institutionalize them, SHGs can get themselves registered. Many SHGs are registered under the Cooperative Laws or Societies Act. But these laws were found to be ineffective in addressing the needs of the SHGs.

2. Membership

Homogeneous group of SHG is generally formed through a process of self-selection based upon the affinity of its members. As per National Urban Livelihood Mission (NULM) at least 5 members are required. It is difficult to manage bigger group and members cannot actively participate. From one family, only one person can become a member so that more families can participate. Mixed groups are generally not preferred. Women's groups are generally found to perform better. Effective participation of members can be ensured if they are of the same social and financial background.

3. Democratic Setup

SHG is group of the members, for the members and by the members. It is the group which reflects the people's real participation in the process of development. Every member of the group actively participates in the functioning of SHGs. Members are responsible for their own future by organizing themselves into SHGs. They elect or select leader for proper functioning of the group. Leader is responsible for holding regular meetings and maintaining records and accounts of the group. These groups run on the principle of collective leadership and mutual discussions.

4. Habit of Saving

The SHG encourages small saving habits at regular interval among its members. Savings of all group members help to generate common fund to be used to lend to members in times of need. The self-help group inculcates the thrift and savings habit among the members of each group.

5. Mutual Trust

Most of the Indian villages are facing challenges such as poverty, illiteracy, lack of skills, health care etc. It is difficult to tackle these problems individually. There is a need of group efforts to solve these problems. The basic philosophy of forming SHGs is to overcome individual shortcomings and weaknesses with collective efforts. Self help groups are working as vehicle

of change in rural India. SHG brings rural poor and marginalized individuals together to solve the problems of individuals as well as community as a whole. Through mutual trust thousands of the poor and the marginalized individuals are building their lives, their families and their society. Government also gives due recognition to SHGs for effective implementation of development schemes at the grass root level.

6. Promotes Entrepreneurship

The poor and marginal individuals in rural area face scarcity of capital and managerial skills. SHGs provide them capital at low interest rate which give them opportunity to start micro enterprise. These micro enterprises use untapped manpower in the area which generates employment opportunities in the rural area. Timely financial support and managerial skills help to promote first generation micro entrepreneurs in rural areas. It also helps to generate additional income to poor households. SHGs build income and employment generation capabilities in the marginalized rural individuals. Self employment through micro enterprise will help in poverty eradication. NGOs and Government take initiatives to motivate rural individuals to start micro enterprise by providing skill development trainings and marketing and technical support.

7. Women Empowerment

Consistent efforts by government and non-government machineries were not achieving much in the economic development of women in India. Empowerment of women is recognized as the need of the hour. SHG is an emerging tool for socio-economic development of women all over the world. SHGs are working effectively in promoting women entrepreneurship. Government provides different financial and non-financial assistances to promote the Self Help Groups for women empowerment. SHGs empower women by providing her knowledge, finance and opportunity.

8. Collateral Free Loan

Formal financial services failed to meet credit requirements of rural poor individuals due to absence of any recognized employment and non-availability of collateral. The lack of loans from formal institutions leaves the poor with no other option but to borrow money from local money-lenders at huge interest rates. SHGs provide small loans to the poor individuals for undertaking self employment projects. It provides employment for themselves and their families. Loans are given on the principle of mutual trust and either minimum or no documentation is required to get loan. The rate of interest differs from group to group. Generally rate of interest charged by the SHGs are little higher than the interest charged by banks. It saves poor individuals from the clutches of local money lenders. It also encourages poor individuals to actively participate in banking activities. It builds trust and confidence between bankers and the poor rural people. It ensures timely repayment of loans as all members of the group are responsible for collecting repayment amount from the members who borrowed the loan.



Activity

- Meet rural artisans and try to find out the problems faced by them.
- To start a business, we need capital. Prepare a list of sources from where you can raise capital for starting a business.

6.6 World Bank

Introduction

The World Bank is an international organization dedicated to provide finance, advice and research to developing nations. Conventionally it is not a bank. Instead, it comprises two institutions namely the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). As on date 189 member countries share ownership of the bank. The Bank works closely with three other organizations:

- The International Finance Corporation
- The Multilateral Guarantee Agency
- The International Centre for the Settlement of Investment Disputes.

All five organizations are collectively known as the World Bank Group.

The International Bank for Reconstruction and Development (IBRD) provides debt financing to governments that are considered middle income. The International Development Association (IDA) gives interest-free loans to the governments of poor countries. The International Finance Corporation (IFC) focuses on the private sector and provides developing countries with investment financing and financial advisory services. The World Bank is the Multilateral Investment Guarantee Agency (MIGA), an organization that promotes foreign direct investments in developing countries. The International Centre for Settlement of Investment Disputes (ICSID) provides arbitration on international investment disputes.



The World Bank was created at the 1944 Bretton Woods Conference along with the International Monetary Fund (IMF). The head quarter of World Bank is in Washington, D.C. The intention behind the founding of the World Bank was to provide temporary loans to low-income countries which were unable to obtain loans commercially. The World Bank provides financial and technical assistance to the member countries of the world. It also offers developmental assistance to middle- and poor-income countries. The bank considers itself a unique financial institution that provides partnerships to reduce poverty and support economic development by giving loans and offering advice and training to both the private and public sectors. It focuses on improving education, health, and infrastructure. It also uses funds to modernize a country's financial sector, agriculture and natural resources management.

□ Features of World Bank

Following are some of the important features of World Bank:

1. Organization and Structure:

The organization of the bank consists of the Board of Governors, the Board of Executive Directors and the Advisory Committee, the Loan Committee and the president and other staff

members. All the powers of the bank are vested in the Board of Governors which is the supreme policy making body of the bank. The board consists of one Governor and one Alternative Governor appointed for five years by each member country. The Board of Executive Directors consists of 21 members, 6 of them are appointed by the six largest shareholders, namely USA, UK, Germany, France, Japan and India. The rest of the 15 members are elected by the remaining countries.

2. Goals

The World Bank Group has set two goals to be achieved by 2030.

- End extreme poverty by decreasing the percentage of people living on less than \$1.90 a day to no more than 3%.
- Promote shared prosperity by fostering the income growth of the bottom 40% for every country

The World Bank is a vital source of financial and technical assistance to developing countries around the world. It is not a bank in the ordinary sense but a unique partnership to reduce poverty and support development. The World Bank Group comprises five institutions managed by their member countries.

3. Financial Products and Services

World Bank provides low-interest loans, zero to low-interest credits, and grants to developing countries. It supports in areas such as education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management. Some of the projects are co-financed with governments, other multilateral institutions, commercial banks, export credit agencies, and private sector investors.

4. Innovative Knowledge Sharing

World Bank offers support to developing countries through policy advice, research and analysis and technical assistance. Analytical works of World Bank often helps developing countries. It also helps in capacity development of the developing countries. World Bank also sponsors, host or participates in many conferences and forums on issues of development. It also collaborates with partners on many developing issues. It also takes effort to provide access to the best global expertise to the developing countries.

5. Innovation and Entrepreneurship

In the competitive economy, innovation and entrepreneurship plays an important role in the growth of the business. It helps in higher productivity which leads to increased economic growth. It helps in creation of employment to eradicate poverty. Young and growth-oriented companies contribute in employment growth. They help in enhancing competitiveness and productivity by introducing new products, developing novel business models and opening new markets. Innovation allow firms to specialize, meet international best-practice standards and upgrade quality. World Bank recognizes that innovation and entrepreneurship are important to address major developmental challenges. The World Bank invests in innovative and entrepreneurship projects. The World Bank brings global experience, knowledge, research and investments to help client countries develop effective innovation and entrepreneurship ecosystems, such as policies, strategies, regulations and institutions that foster investments and jobs.

6. Social Development

Social Development focuses on the need to “put people first” in development processes. The World Bank work with governments, communities, civil societies, the private sector and the marginalized for the cause of social development. Social Development promotes economic growth and leads to higher quality of life. The World Bank’s work on Social Development brings voices of the poor and vulnerable into development processes. World Bank is also undertaking timely social risk analysis, including poverty and social impact analyses.

SUMMARY

Finance is the lifeblood of a business. Success of business mostly depends on optimum utilization of capital. There is a need of capital in the business for various purposes.

❑ Following are some of the important institutes which provide financial assistance :

- i) Small Industrial Development Bank of India (SIDBI)
- ii) National Bank for Agriculture and Rural Development (NABARD)
- iii) Khadi and Village Industries Commission (KVIC)
- iv) Self Help Groups (SHGs)
- v) World Bank (WB)

1) Small Industrial Development Bank of India (SIDBI)

Small Industrial Development Bank of India (SIDBI) was established on 2nd April, 1990 under the small Industrial Development Bank of India Act, 1988. It was initially started as a wholly owned subsidiary of Industrial Development Bank of India (IDBI). Presently the ownership of SIDBI is held by 34 public sector institutes. SIDBI is established for financing and promotion of micro, small and medium industries.

❑ Features of SIDBI

- i) Financial Institute for Promotion of MSMEs
- ii) Sustainable Development
- iii) Advisory Function
- iv) Services to MSMEs.
- v) Achievements of National Goals
- vi) Different forms of Finance
- vii) Digital Initiatives
- viii) Nodal / Implementing Agency

2) National Bank for Agriculture and Rural Development (NABARD)

National Bank for Agriculture and Rural Development (NABARD) came into existence on July 12, 1982 on the recommendations of a committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development. NABARD acts as an apex bank in the field of agricultural and rural development.

❑ Features of NABARD

- i) Apex Bank.
- ii) Refinancing Facilities.

- iii) Assistance to Financial Institutes.
- iv) Provides Credit for Rural Development.
- v) Supervision of Financial Institutes Engaged in Agricultural Finance.
- vi) Provides Recommendations to Reserve Bank of India.
- vii) Financing Rural Industries.
- viii) Role in National Development.

3) **Khadi and Village Industries Commission (KVIC)**

Khadi and village Industries Commission (KVIC) was created in 1956 under the Khadi and Village Industries Commission Act, 1956. It is an apex organization under the Ministry of Micro, Small and Medium Enterprises, with regard to Khadi and Village Industries within India. KVIC has its head office at Mumbai.

□ **Features of KVIC**

- i) Rural Development.
- ii) Employment Generation
- iii) Entrepreneurship Development
- iv) Financial Assistance
- v) Research and Development
- vi) Marketing and Promotion
- vii) Other functions

4) **Self Help Groups**

Father of Microfinance Dr. Muhammad Yunus, economist from Bangladesh, founded the Grameen Bank in Bangladesh in October 1983. SHGs helps to eradicate poverty through providing collateral free loans to the members of the group.

□ **Features of Self Help Groups**

- | | |
|------------------------|-------------------------------|
| i) Formation | ii) Membership |
| iii) Democratic Setup | iv) Habit of Saving |
| v) Mutual Trust | vi) Promotes Entrepreneurship |
| vii) Women Empowerment | viii) Collateral Free Loan |

5) **World Bank**

The World Bank is an international organization dedicated to providing financing, advice and research to developing nations. Conventionally it is not a bank. Instead, it comprises two institutions namely the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

□ **Features of World Bank**

- | | |
|--------------------------------------|----------------------------------|
| i) Organization and Structure | ii) Goals |
| iii) Financial Products and Services | iv) Innovative Knowledge Sharing |
| v) Innovation and Entrepreneurship | |
| vi) Social Development. | |

❑ **Career Opportunities**

- 1) Establishment of Self Help Group.
- 2) Starting Micro, Small or Medium Industry.
- 3) Accounting of SHGs.
- 4) Opportunities in Financial Institutes.

❑ **References**

- 1) www.sidbi.in
- 2) www.kvic.org.in
- 3) www.nabard.org
- 4) www.worldbank.org
- 5) Datt Ruddar and KPM Sundharam, Indian Economy, S. Chand
- 6) Handbook on Forming Self-Help Groups (SHGs) – NABARD



EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) Small Industrial Development Bank of India (SIDBI) was established in
a) 1989 b) 1990 c) 1991
- 2) SIDBI was established under the Small Industrial Development Bank of India Act,
a) 1988 b) 1992 c) 1996
- 3) is Principal Financial Institution for Promotion, the Micro, Small and Medium Enterprise (MSME) sector in India.
a) NABARD b) KVIC c) SIDBI
- 4) came into existence on July 12, 1982
a) NABARD b) KVIC c) SIDBI
- 5) A Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) was constituted under the Chairmanship of
a) Kothari b) Shivaraman c) Rangrajan
- 6) All India Khadi and Village Industries Board was set up in the year
a) 1953 b) 1949 c) 1948
- 7) In April KVIC was established.
a) 1955 b) 1953 c) 1957

B) Match the pairs.

Group 'A'		Group 'B'	
A)	SIDBI	1)	1944
B)	NABARD	2)	1990
C)	World Bank	3)	1988
D)	Grameen Bank	4)	1983
E)	KVIC	5)	1982
		6)	1957
		7)	192
		8)	196
		9)	192
		10)	100

C) Give one word / phrase / term.

- 1) Life blood of business.
- 2) Principal Financial Institution for Promotion of the Micro, Small and Medium Enterprise (MSME) sector in India.
- 3) Advisor and Mentor for MSMEs.
- 4) Wholly owned subsidiary of IDBI was set up in July 1999, is providing venture capital.
- 5) Digital initiative by SIDBI launched on March 17th, 2016.
- 6) The apex institution for agricultural finance.
- 7) The Bangladeshi economist, known as the Father of Microfinance.
- 8) An international organization dedicated to providing finance, advice and research to developing nations.

D) State True or False.

- 1) Small Industrial Development Bank was established on 2nd April, 1990.
- 2) SIDBI has its head office at Mumbai.
- 3) SIDBI is not working towards sustainable development of MSME's in India.
- 4) SIDBI, Startup Mitra scheme is launched on March 17th, 2016.
- 5) NABARD came into existence on July 12, 1982.
- 6) The NABARD has been recognised as the apex institution for financing large scale Industries.
- 7) KVIC is actively working for planning, promotion and production of Khadi as well as in setting up of village and rural Industries on India.
- 8) Dr. Mohammad Yunus is known as the 'father of Rural Banking.'
- 9) Self Help Group is a large group of homogeneous individuals.

E) Complete the sentences.

- 1) The lifeblood of a business is
- 2) Micro, Small and Medium Enterprises (MSME's) are focused domains for
- 3) SIDBI takes structural initiatives to resolve the financial and non-financial hurdles of
- 4) SIDBI is established to provide short-term and long-term finance to
- 5) 'SIDBI startup Mitra' launched on
- 6) To improve accessibility of credit and handholding services to MSME's, SIDBI has launched the
- 7) NABARD came into existence on
- 8) Khadi and Village Industries Commission was set up in
- 9) A statutory body of Khadi and Village Industries Commission (KVIC) was created with a special Act of
- 10) The Grameen Bank in Bangladesh was set up in
- 11) The father of Micro finance is
- 12) The World Bank came into existence on
- 13) The headquarter of World Bank is in
- 14) Dr. Muhammad Yunus jointly won the Noble Prize in

F) Select the correct option.

	A	B
1)	SIDBI	.....
2)	.....	NABARD
3)	KVIC	.....
4)	.....	World Bank
5)	Grameen Bank	.....

(1953, 1944, 2nd April 1980, Oct. 1983, 12 July 1982)

G) Answer in one sentence.

- 1) What is SIDBI?
- 2) What do you mean by NABARD?
- 3) What is meant by Grameen Bank?
- 4) What is SHG?
- 5) What do you mean by world Bank?
- 6) What is MSME's?
- 7) What is Udyami Mitra?

H) Correct the underlined word and rewrite the following sentence.

- 1) SIDBI is established to provide only long-term finance to the MSME's.
- 2) The NABARD has been recognised as the apex institution for industrial finance.

- 3) Khadi was symbol and the spirit of self reliance in post independence India.
- 4) Self-help groups are based on the fundamental principle of to earn profit.
- 5) World Bank provides high interest loan.

Q.2 Explain the following terms/concepts.

- 1) Udyami Mitra
- 2) KVIC
- 3) World Bank
- 4) Self-Help-Group
- 5) Collateral free loan

Q.3 Study the following case/situation and express your opinion.

- 1) Anand completed his MBA and wants to start a Small Scale Industry. He is good at using technology. He has very good business idea in mind and looking for a lender or investor.
 - i) Who is promoter or businessman in this case?
 - ii) What is full form of SSI?
 - iii) Suggest digital ways to find lender or investor for this initiative.

Q.4 Answer in brief.

- 1) State any four features of NABARD.
- 2) State any four objectives of KVIC
- 3) Write any four features of World Bank.
- 4) Describe any two features of self-help Group.
- 5) Describe any two features of SIDBI.

Q.5 Justify the following statements.

- 1) SIDBI acts as an institute for promotion of MSMEs.
- 2) SIDBI provides different types of financial and non-financial services through its subsidiaries.
- 3) The NABARD has been recognized as the apex institution for agricultural finance.
- 4) KVIC plays an important role in development of entrepreneurship.
- 5) Mutual Trust is the soul of SHG.
- 6) SHGs plays an important role in empowerment of women.
- 7) World Bank plays vital role in social development.

Q.6 Attempt the following.

- 1) State the different forms of finances provided by SIDBI.
- 2) State the role of SIDBI in sustainable development.
- 3) Explain role of NABARD in financing rural industries.
- 4) Explain objectives of KVIC.

- 5) Explain the role of KVIC in employment generation.
- 6) Explain in detail democratic setup in SHGs.
- 7) Explain organizational structure of World Bank .

Q.7 Answer the following.

- 1) Write important features of SIDBI.
- 2) Write important features of NABARD.
- 3) Write important features of KVIC.
- 4) Write important features of SHGs.
- 5) Write important features of World Bank.



7

Business Environment

7.1 Introduction

7.1.1 Meaning

7.1.2 Definition

7.2 Importance of Business Environment

7.3 Dimensions of Business Environment

7.4 New Economic policy and Business

7.5 Impact of new economic policy on Business Environment

Summary

Exercise

- Rahi** : Uncle, it seems that you are very happy today, what is the secret?
- Shopkeeper** : Of course Rahi, you know my business is doing very well due to the occurrence of Diwali and Ramzan in the same week.
- Rahi** : Oh, that is great coincidence. Uncle I want this T shirt, please pack it.
- Shopkeeper** : Here it is. (gives Rahi T shirt and receipt)
- Rahi:** (Surprised to see the receipt)Oh Uncle I didn't get such type of computerized receipt before, which mentions GST.
- Shopkeeper** : Yes my child you are right. We must adopt new technology from time to time to grow the business.
- Rahi** : It's true. Please give me a carry bag.
- Shopkeeper** : I am sorry Rahi, but you know better that there is a ban on plastic and there is a fine for those who violate the law.
- Rahi** : Oh, I am sorry. Bye.
- Shopkeeper** : Bye.

Social, technological, and legal environment affects the business. Hence the business need to pay proper attention towards various dimensions of the business environment to run the business successfully.

7.1 INTRODUCTION

Like human being, business also does not function in an isolated vacuum. It functions within a whole process of relevant environment and negotiates its' way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. Successful

business does not only recognize different elements of the environment but also influence them. The business must continuously monitor and adapt to the environment in order to survive and prosper. Disturbances in the environment may either spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise and respond to the various opportunities and threats in its environment.

The success of every business depends on adapting itself to the environment within which it functions.

7.1.1 Meaning

Business environment comprises of such factors which can affect business, such as the strength, weaknesses, internal power, relationship and orientations of the organization, government policies and regulations, nature of the economy and economic conditions, socio cultural factors, demographic trends, natural factors, and global trends.

The term business environment generally refers to the external environment which includes factors outside the business leading to opportunities or threats of the business.

7.1.2 Definitions

Bayard O. Wheeler: “The total of all things external to firm and industries which affect their organization and operations is called as Business Environment.”

William F. Glueck: “Business Environment is the process by which strategists monitor the economic, governmental, market, supplier, technological, geographic and social settings to determine opportunities and threats to the firms”.

According to **Barry M. Richman** and **Melvyan Copen**, ‘Environment factors of constraints are largely if not totally external and beyond the control of individual enterprises and their arrangement.’

The business environment constitute threats to the firm and offers opportunities for potential market including several factors. From the above definitions one can conclude that business environment consists of internal as well as external factors which constitute threats to a firm or they provide opportunities to exploit.

7.2 IMPORTANCE OF BUSINESS ENVIRONMENT

There is an intimate interaction between business and environment which helps in strengthening the business firm and using its resources more effectively. To be more specific, proper understanding of various dimensions of business environment helps the business in following way:

- 1. Determining opportunities and threats:** The interaction between business and its environment identifies opportunities and threats to business. It helps the business enterprises for overcoming challenges successfully.
- 2. Identifying firm’s strength and weakness:** Business environment helps to identify the individual strength and weakness in view of the technological and global development.

3. **Continuous learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding the skill to meet the predicted changes in realm of business.
4. **Image Building:** Environmental understanding helps the business organization in improving their images by showing their sensitivity to the environment within which they are working. It also includes meeting the expectations of consumers, government, employees etc.
5. **Meeting Competition:** It helps the firm to analyze the strategies of the competitors and formulate their own strategies accordingly.
6. **Giving Direction for growth:** The interaction with environment leads to opening up new frontiers of growth to the business firms. It enables the business to identify the areas of growth and expansion of their activities.

7.3 DIMENSIONS OF BUSINESS ENVIRONMENT

On the basis of the extent of intimacy with the firm, the environmental factors may be classified into two types of environment; the internal environment and external environment.

The internal factors such as personnel, physical facilities, organization and functional etc. are generally regarded as controllable factors. On the other hand external factors of environment are beyond the control of a business.

BUSINESS ENVIRONMENT (DIMENSIONS AND THEIR FEATURES)

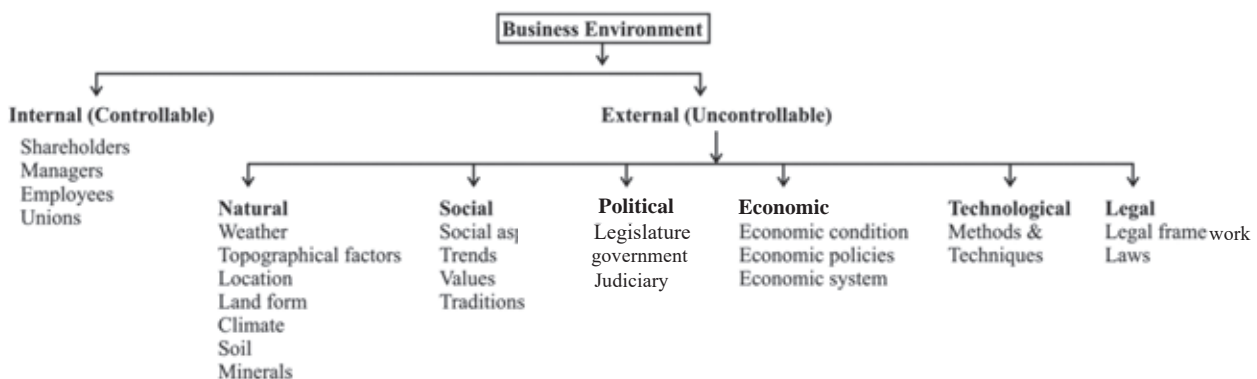


Figure 7.1

The term business environment generally refers to the external environment and includes factors outside the firm i.e. economic environment, political environment, legal environment, socio-cultural environment, technological environment, natural environment and global environment.

INTERNAL (CONTROLLABLE) FACTORS :

The policies decided by shareholders, managers, labour unions and the employees are known as Internal Environmental factors which can be controlled. On this context following factors of internal environment are discussed as follows :

1. **Value System:** The value system of the founder and those at the top management has important bearing on the choice of business. Value systems is important to success of business.

2. **Vision, Mission and Objectives:** The business domain of the company, priorities direction of development, business philosophy and business policy etc. are guided by the vision, mission and objectives of business.
3. **Management Structure and Nature:** The composition of Board of Directors, extent of professionalism of management etc. are important factors influencing business decisions.
4. **Internal Power Relationship:** The support of the top management to different levels of employees, shareholders and BOD have important influence on the decision and their implementation. The relation between the member of BOD and the chief executive is also critical factors.
5. **Human Resources:** The characteristics of human resources like skill, quality, moral, commitment and attitude etc. Could contribute to the strength and weakness of an organization.

Other Factors:

- i. **Physical Assets and Facilities:** Production capacity technology and efficient distribution logistics etc are the factors which influence on the competitiveness.
- ii. **Marketing Resources:** Quality of marketing, brand equity and distribution network etc. have direct affect on business.
- iii. **Financial Factors:** Financial Policies, financial position and structure etc. also affect business performances, strategies and decisions.

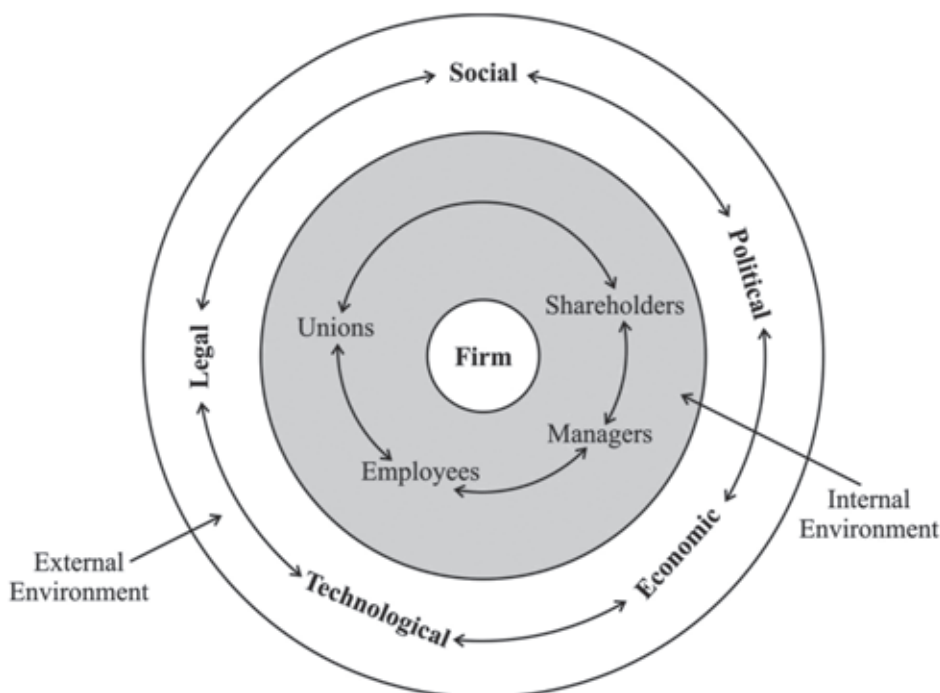


Figure 7.2

EXTERNAL (UNCONTROLLABLE) FACTORS

7.3.1 NATURAL ENVIRONMENT

The factors which influence the business are geographical and ecological factors such as natural resource endowments, weather and climatic conditions, topographical factors and location aspects in the global context. The natural environment comprises factors like climate, minerals, soil, landforms, rivers and oceans and natural resources etc. All elements of natural environment have considerable influence on the functions of a business.

Manufacturing is one of the aspect of business which depends on physical environment for inputs like raw material, skilled labour, water and fuel etc. Trade and commerce between two nations is dependent on the geographic factors. Due to the natural factors, certain areas are more suitable for production of certain goods while other areas are in need of such goods. Some business like mining of coal and ores, drilling of oil and most important agricultural production depends on nature.

Today environmental pollution and the disturbance of ecological balance causes great concern, government policies aim at the preservation of environmental purity, ecological balance and conservation of non-replenishable resources etc. These have resulted in additional responsibilities and problems for business.



Activity

- **Natural Environment:** Find out raw material being available in abundance in your area. How many industries or business units set up is based on it ?

7.3.2 SOCIAL ENVIRONMENT

The social attitude is important for business practices to cope with it. The modern business is a social system in itself, and it is also a part of the larger social system represented by society in general. Clearly, there should be some reciprocal relationship between business and society. To put it shortly, the business should adapt itself to the social environment accordingly.

Another feature which affects the business is the class structure of the society which tells about the social role and organizations and the development of social institutions. Class structure depends upon the various factors like occupation of the people, their education, income level, social status, attitude towards living, work and social relationship and above all, their attitude towards business. Every society develops its own culture which means how the members of that society behave and interact with each other in the society. In addition to this other remarkable factors, includes aspects like customs, traditions, values, ethics, beliefs, social trends, poverty, literacy, life expectancy rate and other accepted behavior patterns which are as follows:

1. **Social aspect :** Important aspect of social environment are literacy level, educational system, cultural heritage, standard of living and mobility of labour etc.
2. **Social trends :** In India social trends are changing very fast. Urban population is becoming more health and fitness conscious. People in large numbers are going for fast food items and gyms. In view of these trends fast food outlets and gyms are coming up in urban and semi urban area.

- 3. Social values :** Social Values based on customs, ethics, beliefs help business to meet the demand as per customer need. For example, Home Budget System will never be accepted in rural area due to the customs.
- 4. Traditions :** Celebration of Diwali, Eid, Christmas and other festivals also affect the business.



Activity

- **Social Environment** Discuss with your parent and other relatives and find out the changes in their consumption habits over the last five years. Analyse the impact of these changes on business.

7.3.3 POLITICAL ENVIRONMENT

All business firms are affected by the government and its policies. Political forces decide the nature of business, programmes and projects to be undertaken for development of the country. Political environment includes stability and peace in the country, specific attitudes of elected representative. Political stability gives the signal of strength, confidence to various interest groups and investors in the long term projects. Similarly, ideology of the political parties influences the business organization and attitudes of government officials towards business has an impact on business.

India is the democratic country, Indian political system comprises three vital institutions like Legislature, Government and Judiciary.

- 1. Legislature:** Legislature is very powerful because powers such as policy making, law making, budget approving, executing control etc. are in the hands of legislature.
- 2. Government:** For business consideration, we should know what are government's responsibilities towards business. Government policies does affect business organization. Therefore government should frame policies for business organization.
- 3. Judiciary:** Judiciary is the third political institution that determines the manner in which the work of executives has been fulfilled and it settles the relationship between citizens on one hand and between citizens and the government on the other hand.

7.3.4 ECONOMIC ENVIRONMENT

The survival and success of business firm fully depends on economic environment. The Economic environment comprises of economic condition, economic policies and economic system, basic economic philosophy, infrastructure, national income, money supply, saving stages in economic development and trade cycles are also the major factors which make up the total economic environment. Some important factors are as follows :

Economic Condition: The economic condition of the nation refers to the present state of economy in the country or region. Economic condition of the nation is based on the gross domestic product, per capita income, availability of capital, growth of foreign trade and strength of capital market.

Economic policies: All business activities are directly influenced by the economic policies which are framed by the government from time to time. Government keeps on changing these policies keeping in the view of the development. Industrial policy, monetary policy, foreign investment

policy, export-import policy, agricultural policy, education policy and public expenditure policy are important economic policies. Every business must function strictly within the policy framework and respond to the change therein.

Economic system: The scope of private business and the extent of government regulation of economic activities depend on the nature of economic system i.e. capitalist, socialist and mixed.

- A) **Capitalist Economy** -This economy is also known as free market economy. This system stresses on individualism which believes in private ownership. e.g. U. S. A.
- B) **Socialist Economy** - In this economic system factors of productions are organized, managed and owned by government. Socialist economy does not involve an equal division of existing wealth among the people. e.g. China
- C) **Mixed Economy** - Factors of productions are jointly owned by government and private individuals. e.g. India

7.3.5 TECHNOLOGICAL ENVIRONMENT

Technological environment consists of the methods and techniques adopted for production. The varying technological environments affect the designing of products. Technology is the most dramatic force shaping the destiny of people and business. Technological changes are fast and keep pace with it, business should be ever alert to adopt technological changes from time to time.

It may be noted that scientific research for innovation in product and services is a regular activity in business firm. Because now a days no firm can afford to persist with the outdated technologies.

E.g. Digital India, initiative by Government of India.



Activity

- **Technological Environment** : Visit to the post offices, banks and other offices in your area and make note of changes that have taken place due to the change in information technology.

7.3.6 LEGAL ENVIRONMENT

Business in a country can be started, regulated, controlled and expanded only within the legal framework of a country. In this connection all countries of the world have a separate set of laws for the control and direction of business. All business managers should have the knowledge of law for taking decision.

Some important laws influencing the business are:

- i. Indian Contract Act, 1872 (2017)
- ii. Workmen's Compensation Act,1923 (2010)
- iii. Industrial Dispute Act,1947 (2016)
- iv. Standards of Weight and Measures Act,1969 (2016)
- v. Consumer Protection Act, 1986 (2018 proposed)
- vi. Competition Act, 2002

Years in the bracket either denotes amendments or proposed amendments in the act.



Activity

- **Legal Environment** : Visit to the retailer in your area and make note of changes that have taken place due to the GST and ban on plastic bags.

7.4 NEW ECONOMIC POLICY AND BUSINESS

India's post independence industrial development policy failed, so the government introduced the New Economic Policy on 24th July, 1991 known as liberalization, privatization and globalization (LPG policy).

Liberalization: Government of India adopted the policy of liberalization while facing a severe crisis. Liberalization refers to the process of eliminating unnecessary controls and restrictions for smooth functioning of business.

Through the liberalization process Indian economy has opened up and started interacting with the world in a large way. This has resulted into easy entry of foreign business in India, tough competition and efficiency.

□ Indian economic liberalization includes the following:

1. Abolishing Industrial Licensing System.
2. Reduction in physical restrictions on import and import duties.
3. Reformation of financial system.
4. Reduction in taxation.
5. Reduction in controls on foreign exchange.
6. Changing the approach towards industrial sickness.
7. Freedom to decide the scale of business activities.
8. Attracting foreign investment.
9. Freedom in fixing prices of goods and services.
10. Opening of basic telecommunication sectors.

Liberalization helps in achieving a high growth rate, easy availability of goods at competitive rates, high foreign exchange reserve, strong rupee, and good industrial relation etc.

Privatisation: Privatisation refers to reduce the involvement of state or public sectors by involving of private sector in economic activities. Privatization implies many government sectors to be sold or given to private individual hands to run them.

□ Need for privatization:

1. More Efficiency
2. Less political Interference
3. Reduction in labor problem
4. Ensuring accountability
5. Capital Market discipline

❑ **Privatization includes the following.**

1. Reduction in number of industries reserved for the public sector and introduction of selective competition in the reserved area.
2. Disinvestment of shares of selected public sector in order to raise resources and to encourage wider participation of general public and workers in the ownership of business.
3. Improvement in performance through MOU (Memorandum of Understanding) system.

Privatization is an effective tool for restructuring and reforming the public sector which runs without significant aim and mission while private sector is perceived to be fundamentally more self motivated, profitable and reliable for superior quality of products and services.

Globalisation: Globalisation means integration of national economy and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people.

In other words globalization means a 'boundary less world'. All nations would be interdependent leading to better interactions regarding improvements in the global economy.

Globalization has a serious implication on socio-economic and political sphere of life.

❑ **Globalization includes the following:**

1. Removing anti export biasness.
2. Minimization of very high import tariffs.
3. Placing lesser reliance on quantitative restrictions on imports.

❑ **Features of globalization:**

1. Freedom to set and operate business anywhere in the world.
2. Buying and selling goods from/ to any country of the world.
3. To lessen the distance between the local and international market.
4. Direct foreign participation.
5. Exchange of the new ideas and technology across the world.

❑ **Positive Impact of Globalization:**

1. Global agreement in trade.
2. Spreading the market and economic policies around the world.
3. Physical and geographical boundaries are diminished and world become a global village.
4. Customers are only concerned about the product quality, price, design, value and appeal.
5. Globalization has created an economically interdependent international environment.
6. Increased the trend towards privatization of manufacturing and service sector.

7.5 IMPACT OF NEW ECONOMIC POLICY ON BUSINESS

1. Increase in the competition in various firms.
2. More demanding customers.
3. Tremendous changes in technological environment.
4. Necessity for change.
5. Need for developing human resource.
6. The customer oriented market.

7. Discontinuation budget support by the government.
8. Business organizations must work hard in order to survive.
9. Necessity of the expertise in various field.

SUMMARY

Business environment connotes internal as well as external forces, factors and institutions. Some of them can be controlled and are beyond the control of the business and they affect the functioning of the business.

Bayard O. Wheeler: “The total of all things external to firm and industries which affect their organization and operation is called as Business Environment.”

- **IMPORTANCE OF BUSINESS ENVIRONMENT**

1. Determining opportunities and threats.
2. Giving direction for growth.
3. Continuous learning.
4. Image Building.
5. Meeting competition.
6. Identifying firm’s strengths and weaknesses.

- **DIMENSIONS OF BUSINESS ENVIRONMENT**

- **Natural environment:**

The natural environment of business consist of factors like climate, minerals, soil, landforms, rivers and ocean, natural resources, etc. which have considerable influence on the functions of business.

- **Social environment:**

The social environment of business consists class structure of the society. Class structure depend upon the occupation, education, income level, social status, attitude towards living, their attitude towards business and social culture. The culture includes aspects, customs, traditions, values, ethics, beliefs, social trends, poverty, literacy, life expectancy rate and other accepted behavior patterns.

- **Political environment:**

Political environment includes stability and peace in the country, specific attitudes of elected government, ideology of the political parties. Indian political system comprise three vital institutions like Legislature, Government and Judiciary.

- **Economic environment:**

In economic environment the main affecting factors are economic condition, economic policies and economic system. With this planning, basic economic philosophy, infrastructure, national income, money supply, saving stages in economic development and trade cycles are also the major factors which make up the total economic environment.

- **Technological environment:**

Technological environment consist the methods and techniques adopted for production. The varying technological environments affect the designing of products. It may be noted that scientific research for innovation in product and services is a regular activity in business firm.

- **Legal environment:**

A business can be started and nurtured to grow into big business only within the legal framework of laws, regulations and court decisions of the country.

- **New Economic Policy**

Liberalization: Liberalization refers to the process of eliminating unnecessary controls and restrictions on smooth functioning of business. Through the liberalization process Indian economy has opened up and started interacting with the world in a big way.

Privatization: Privatization refers to reduce the involvement of state or public sector by involving of private sector in economic activities. Privatization is an effective tool for restructuring and reforming the public sector running without significant aim and mission. As private sector is perceived to be fundamentally more self motivated and reliable for superior quality of products and services.

Globalization: Globalization means integration of economies and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people.

- **Impact of Government policy changes on Business and Industry:**

1. Increasing competition.
2. More demanding customers.
3. Rapidly changing technological environment.
4. Need for developing human resource.
5. Market has become customer oriented.

- **Career Opportunities**

- 1) Financial Advisor
- 2) Legal Advisor
- 3) Tax Consultant
- 4) Technical Expert
- 5) Computer Operator (Data, Tally, Programming and office Automation)
- 6) Fashion designer
- 7) GST expert

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EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) Business environment has tremendous impact on
a) business b) government c) Society
- 2) The new Industrial policy was formulated in
a) 1947 b) 1951 c) 1991
- 3) Changes in ruling government is an aspect of environment.
a) political b) technological c) economic
- 4) Literacy level is an aspect ofenvironment.
a) social b) legal c) political
- 5) Privatization implies reduction in the role ofsector.
a) public b) private c) foreign
- 6) Globalization is concerned with market.
a) global b) local c) rural
- 7) means linking national economy to the world economy.
a) Globalization b) Privatization c) Liberalization
- 8) Environment awareness providessignal.
a) warning b) alarming c) soft

B) Match the pairs.

1)

Group 'A'		Group 'B'	
A)	Globalization	1)	Profit motive
B)	Privatization	2)	2006
C)	Liberalization	3)	Borderless economy
D)	New economic policy	4)	Service Motive
E)	Social Environment	5)	Internal factor
		6)	Disinvestment
		7)	Social Values
		8)	1991
		9)	Abolishing license policy
		10)	GATT

2)

Group 'A'		Group 'B'	
A)	Internal environment	1)	Knowledge of law
B)	Political environment	2)	Taxation policy
C)	Legal environment	3)	Technology
D)	Economic environment	4)	Traditions
		5)	WTO
		6)	Controlled by business
		7)	High cost
		8)	Ideology of political party

C) Give one word/phrase/term.

- 1) Uncontrollable factors of the business environment.
- 2) The environment of business that includes customs and traditions, values, social trends.
- 3) The process of transferring ownership of business enterprise, agency or public service from the public service to private sector.
- 4) A boundary less world where there would be free flow of goods, services, information, capital and people across nation.

D) State True or False.

- 1) External factors of business environment are controllable factors.
- 2) Business is the product of different environmental factors.
- 3) Business and environment are inseparable parts.
- 4) There is no benefit of globalization on Indian economy.
- 5) New economic policy promoted the liberal economic policy.
- 6) There is no benefit of privatization to Indian economy.
- 7) There is no need of consideration of the business environment factors in business.

E) Complete the sentence.

- 1) The term of Business Environment generally refers to
- 2) helps the business enterprises for overcoming challenges successfully.
- 3) Geographical and Ecological factors are included in Environment.
- 4) Literacy is the important part of Environment.
- 5) Stability and peace in the country includes in Environment.
- 6) Indian political system comprises vital institutions.
- 7) Limited involvement of government in public sector refers to
- 8) Integration of economy and society through cross country is called as

F) Select the correct option.

- 1) In how many types environmental factors can be classified?
(Two / Three / Four)
- 2) Which factors of Business Environment regards as controllable?
(Internal / External)
- 3) Who frames the economic policy of the business?
(Government / Business / citizen)
- 4) Which economic system in known as free market economy?
(Socialist / Mixed / Capitalist)

G) Correct the underlined word and rewrite the following sentence.

- 1) External factors of business environment are controllable.
- 2) Internal factors of business are beyond control.
- 3) Natural resources are related to political environment.
- 4) Privatization helps for global village.

H) Answer in one sentence.

- 1) Which factors are included in internal environment?
- 2) What are the powers of legislature?
- 3) Which factors influence the economic condition of the Nation?
- 4) Who possess the factors of production in socialist economy?
- 5) In which environment are the methods and techniques of production included?
- 6) When did Indian government launch New Economic Policy?
- 7) What is useful to reduce political interference in industry?
- 8) How is the boundary less world possible?

Q.2 Explain the following terms/concepts.

- 1) Business environment.
- 2) Liberalization.
- 3) Privatization.
- 4) Globalization.
- 5) Social environment.
- 6) Economic environment.
- 7) Political environment.
- 8) Internal environment.

Q.3 Study the following case/situation and express your opinion.

- 1) 1) The court passes an order to ban polythene bags as the bags are creating many environmental problems which affects the life of people in general.
2) Society in general is more concerned about quality of life. The government decided to give subsidy to jute industry to promote this business.
 - i) Identify the different dimensions of business environment.
 - ii) Comment on it.
- 2) Just after declaration of Lok Sabha 2014 result, the Bombay Stock Exchange Sensex rose by 1000 points in a day.
 - i) Identify the environmental factor which led to this rise giving reason.
 - ii) Explain any two other dimensions of the environment.
- 3) Anchor company manufacturing light tubes increased expenditure on Scientific Research and Development and discovered a technology that made it possible to produce an energy efficient light tubes that lasts at least twenty times as long as a standard tubes. It resulted in growth and profitability of the company.
 - i) Identify the dimension of business environment.
 - ii) State importance of business environment.
- 4) Make in India is an initiative launched by the government of India. It focuses on job creation and skill development and it is in twenty five sectors of the economy. Under the initiative, brochures on these sectors and web portal were released. The initiative aims at

high quality standards and minimizing the impact on environment. It also seeks to attract foreign capital investment in India.

- i) Identify dimension of business environment.
 - ii) Comment on it.
- 5) Government of India is seriously thinking to allow oil marketing under public sector, by fixing their own price for petroleum products.
- i) Name the economic reform related to this decision.
 - ii) Name other two reforms recommended in new economic policy.

Q.4 Distinguish between.

- 1) Social environment and Economic environment
- 2) Political environment and Legal environment
- 3) Liberalization and Privatisation
- 4) Globalization and Liberalization
- 5) Privatization and Globalization

Q.5 Answer in brief.

- 1) State any four factors of social environment.
- 2) Describe any two factors of economic environment.
- 3) State any four features of globalization.
- 4) State any four reason of need for privatization.

Q.6 Justify the following statements.

- 1) External factors of business environment are beyond control.
- 2) Business firm should be aware of the changes in society.
- 3) Political stability builds up confidence among business people.
- 4) Economic environment has direct influence on business.
- 5) Social trends provide business opportunities.
- 6) An adequate knowledge of rules and regulations is essential for better business performance.

Q.7 Attempt the following.

- 1) Importance of business environment.
- 2) Social environment.
- 3) Economic environment.
- 4) Political environment.
- 5) Impact of new economic policy on business and industry.

Q.8 Answer the following.

- 1) What is business environment? Explain the importance of business environment.
- 2) Explain the new economic policy in details.



8

Introduction to Management

8.1 Introduction -

8.1.1 Meaning

8.1.2 Definition

8.2 Characteristics of Management

8.3 Levels of Management

8.4 Management as an Art, Science and Profession

Distinguish Between

Summary

Exercise

Recently Shalvi completed her MBA in Finance. Her father is running their traditional family grocery shop. She got selected in renowned company but she has decided to join their family shop instead of job. When she joined the business, she realized that there is a tremendous scope for changes in management policies and administration. She found that they had under utilized space, had limited variety of grocery, untrained staff, less monitoring of working hours of staff, old fashioned heavy arrangements of material, traditional billing method etc. On the contrary she found that they had very loyal and sincere staff that are ready to learn new ways of dealing in the business. She had quality discussion with her father about necessity of some changes in current style of business and then made a complete makeover of the shop by applying management and marketing policies.

They arranged the goods into different sections, used modern type of furniture, added products other than grocery and displayed in very attractive way. They installed CCTV, bar code system for billing and provided training to their staff for its use. They declared discounts, offers, free home delivery facility etc. to consumers. Staff were assured of 5% to 10% extra remuneration depending on their performance. After this, the shop has taken a form of modern departmental store.

As a result of all such changes, the business expanded and profit increased. Her father and all family members thought it was a miracle and everyone appreciated Shalvi's efforts. But Shalvi said to her father that it was not a miracle. It happened just because of use of appropriate management principles and policies.

8.1 INTRODUCTION

Management is the key word of today. In our day to day life, many times we come across to this word with different meaning. The common objectives of our families are to fulfill the needs and

desires of all family members in a satisfactory way. For achieving these objectives, every month, the Head of the family keeps continuous attention in making balance between their total expected expenditures, savings for safety and security of whole family and their earnings. If they are not able to make proper plan for this objective and its application accordingly, definitely it will affect on all the family members negatively. For balancing these things effectively, they are using various techniques and methods such as budget, classification of needs, arrangement of resources, proper decisions and review at the end of the month etc. along with all family members. Whatever efforts they are taking to achieve their objectives is called as management. Similarly, we can observe all such aspects in every business organization

Management is an ancient activity. Since the earliest stage of evolution of mankind i.e. living at specific place in a group to conduct activities like cultivation, fishing, hunting etc. we could observe the existence of management. In short, whenever there is a group activity, management is required. The importance of management has been underlined in all civilizations.

Management is indispensable in all organizations whether it is a business firm, a government, a hospital, a college or a club etc. Management is a creative force which helps in the optimum utilization of resources.

8.1.1 MEANING

The English verb “manage” comes from the Italian word ‘maneggiare’ (to handle, especially tools or a horse), which derives from the two Latin words ‘manus’ which means hand and ‘agere’ which means to act.’ The traditional concept of management was limited to complete the activity. But in modern days, the meaning and scope of management has widened to a greater extent. The exhaustive concept of management includes various aspects of handling the activities, managing the human resources and managing the situations. Management is universal in nature. Every organization requires making timely decisions, procurement of resources like men, money, material and method, coordination of activities, leading the people, evaluation of performance and taking corrective actions. On this context, it is important to know the definition and meaning of the term ‘Management.’

8.1.2 DEFINITION

□ Following are some of the important definitions of management:

1. **Mary Parker Follet**

“Management is an art of getting things done through others.”

According to this traditional definition, management focuses on completing the work through workforce. However, management of other resources such as material, machine etc. has not been considered in detail in this definition.

2. **Henry Fayol**

“To manage is to forecast and plan, to organize, to command, to coordinate, and to control.”

In this definition, Henry Fayol has emphasized on different functions of management to achieve the goal in a systematic manner. While doing the given task, employees need proper directions about how to work and co-ordination of all the activities is also equally important.

3. **Fredrick Winslow Taylor**

“Management is knowing exactly what is to be done and seeing that it is done in the best possible manner.”

As per this definition, management is considered as a science. The author says that manager should have exact knowledge about organizational goals and with optimum utilization of available resources the goal should be achieved in a best way.

4. **George Terry**

“Management is the process consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and resources”

The definition considers that management is the synchronization of all functions with the help of utilization of all available resources efficiently and achieving the desired goal. The role of a manager is to plan, to organize the resources, to implement and to control the employees.



Activity

- Collect more definitions of management authored by various management thinkers such as Peter Drucker, Stephen R. Covey with the help of reference books and authentic websites.
- Prepare a scrapbook of this collected information which you can use it for your own reference for further study. Wherever necessary, take the guidance of your teacher.

8.2 CHARACTERISTICS OF MANAGEMENT

Management has the following characteristics:

- 1. Management is Goal Oriented:** Management is a purposeful activity which is done to achieve a specific goal. When organization achieves the goal, it is called as a success of that organization. This success depends on proper management of all resources. For example, a game is played to win, a business is carried on to earn profit, a government functions to look after the overall administration of a country etc. These goals are decided before conducting the activity and manager takes the effort to achieve these goals. So management is a goal oriented activity.
- 2. Management is a Group Activity:** Management is done for coordination of all resources effectively and efficiently. The activities are done by a team or a group under the guidance of a manager. We have seen this in the definition of management that management means getting things done through the others as well as the decisions are taken by the group i.e. the shareholders or board of directors of the organization for the group i.e. employees.
- 3. Management is Intangible:** Management is not a separate function of organization. These are the collective efforts of manager or a group leader. Management is continuously working on synchronization of planning, organizing, decision making, directing, and controlling which cannot be seen physically. However, the results of best management can be experienced in the form of increased profit, smooth functioning of the organization, achievement of the desired goal etc.
- 4. Management is a Continuous Process:** Continuity is an integral part of management. It is essential throughout the life of organization. Management is necessary to begin the activity, to run the activity smoothly and to control the activity.

This is never ending process. Just like the breath is essential to survive, management is essential for the survival of the organization.

5. **Management is Situational:** Management include techniques like forecasting which help in taking timely and appropriate decisions to handle a particular situation. So definitely the decisions should be based on some principles, techniques and theories of management. While taking the decision situational priorities and conditions are taken into consideration. The technique useful in one situation may not be used in another situation.
6. **Management is Universal:** Management is universal in character. The principles and theories of management are equally applicable to everywhere and in every field such as defence, government administration, business, profession, education, hospital, politics, and social activities and even in family functioning. These principles are guidelines which are flexible and capable of adaptation to every type of organization where the efforts of human resources are to be coordinated.
7. **Management is Dynamic:** Management is dynamic and not static in character. It deals with human efforts, different situations and different activities. It adopts changes in the form of technological change, socio-economical change, political change, environmental change, change at international level and change in business pattern, etc. to achieve the goal. The adaptation of computers in the place of typewriters, the financial transactions through electronic mode, e-filing of data are the few examples which characterizes that management is dynamic.

8.3 LEVELS OF MANAGEMENT

“Organization is a group of person who work together to achieve a common goal”. In this process, various people work together according to their position, qualities and skills under the management of specific person or a group of persons. However, the size of every organization is not same. Some organizations are small, some are medium and some are large. The style of managing the organization may differ for all these scales but classification of all human resources into different groups is essential for the organization.

In case of small organization e.g. traditional grocery shop or stationery shop, the classification is simple. But in a large scale organization, such classification process is complicated. Therefore, it is done by making different parts in the organization.

These parts are called as Levels of Management. The levels are made according to the size and requirement of the organization. Usually there are three levels of management.



□ **Top Level Management:**

This is the ultimate authority in the organization which includes Board of Directors, President, Chief Executive Officer, Managing Directors etc. Top level management frames the vision, mission and long term objective of the organization and decides the policy to achieve the objectives.

The functions of Top Level Management are as follows:

1. To decide the long term objectives of the organization.
2. To frame the plans and policies to achieve objectives.
3. To see that the policies are properly implemented.
4. To create various departments and positions.
5. To appoint the In charge or head i.e. managers at middle level management and give them directions to carry out different activities.
6. To evaluate the performance of various departments and human resources.

□ **Middle Level Management:**

It is a level between the top level and lower level of management which works under top level authorities. It is concerned with the implementation of plans and policies which are decided by the top level management. It includes In charge or Head of various departments e.g. Finance Manager, Production Manager, Sales Manager, Human Resources Manager, Marketing Manager etc. They work on getting things done which are decided by top level managers with the help of lower level of management.

The functions of Middle Level Management are as follows:

1. To link between the top and lower level management.
2. To understand the plans and policies framed by top level management.
3. To prepare the plan of action according to the nature of the department in accordance with achieving the goals of overall organization.
4. To assign the duties and responsibilities to the staff working in the department.
5. To train the staff for carrying out different activities in future.
6. To appoint lower level staff.
7. To give timely report to top level management and coordinate the departmental activities.

□ **Lower Level Management:**

Lower level management works under middle level management. It is also called as operational or supervisory level of management. It includes Superintendents, Supervisors, Foremen and other Junior Executives.

The functions of Lower Level Management are as follows:

1. To work as per the instructions from middle level management or In charge of the department.
2. To assign work to the subordinates.
3. To give instructions to subordinates.
4. To direct the subordinates wherever necessary.
5. To solve the problems and settle the disputes of the subordinates.
6. To look after the repairs and maintenance of machinery, tools and equipments etc.
7. To conduct quality check of the product or service from time to time.



Activity

Levels of Management

Topic : Big Bazaar

Make three groups of the students to play the role of levels of management. First group should be of top level managers, second should be of middle level and third should be of lower level staff. Let them express their views and ideas on their roles and functions.

8.4 MANAGEMENT AS AN ART, A SCIENCE AND A PROFESSION

Management is universal in nature. It exists everywhere. It is an inherent part of every type of organization. On this context, it is said that without effective management, it is difficult to achieve the goal. It is difficult to decide the exact nature of management. It changes according to the change in direction of its application. It looks different from different dimensions. Therefore, it is essential to study management separately from these all three dimensions which are as follows: as an art, as a science and as a profession.

Management as an Art:

What is an art?

“Art is the bringing about a desired result through the application of skills” An art is also creative ability and innovativeness of a person. This is inborn or natural quality of a person. However, with the help of proper education and practice one can develop the quality or qualities. Singing, dancing, acting, sports, drawing, skating, cycling, horse riding, directing the plays or movies, musician, magician etc. comes under the term ‘art’. In short, an art can be defined as a way of performance of inborn quality or a skill in which there is no compulsion of having a specific educational qualification. The result of an art may be different from person to person though they perform with the same quality or skill. That is the reason that every female singer cannot perform like Asha Bhosale or every cricket player cannot perform like Sachin Tendulkar.

□ The relation between Art and Management can be studied with the help of following points:

- 1. Personal Skills:** Every manager has to handle different situations, has to solve the resource problems, has to handle human resource etc. with his own style. This style differs from manager to manager and so the result. This is because of the difference in skill set and ability of a person.
- 2. Creativity:** It refers to the ability to find new ideas on one’s own to create something innovative. Manager finds out new ways to conduct the activities and achieves the desired goal. He develops new ideas according to the changes in business situation and in the business environment.
- 3. Regular Practice:** To develop any skill as an art needs consistent practice. Similarly manager tries to practice managing the things by using different techniques and skills to get perfection in it. Definitely this practice enables the manager to deal with different situations, different people and different organizations.

- 4. Personal Abilities:** Abilities of every person are different like skills. Manager uses his or her own abilities. With these abilities, manager coordinates the activities and guide people to achieve their goals.

Thus from the above discussion it is clear that manager need to be creative and skilled like an artist.

Management as a Science:

“Science refers to a systematically organized body of knowledge based on proper findings and exact principles and is capable of verification.” Any knowledge which is scientifically developed and consists of universally accepted principles is a science. e.g. Physics, Chemistry etc. In organisation, managers need to use various techniques and theories to stimulate the people for quality output such as planning, motivation, direction, control etc. It universally gives the results in similar direction. Therefore, it is also termed as a science.

□ The relation between Science and Management can be studied with the help of following points:

- 1. Systematic Body of Knowledge:** Science is based on systematic experiments, certain rules and principles. Management principles and functions are also based on the experiments which can be studied through different management theories and approaches introduced by various management thinkers.
- 2. Use of Scientific Methods of Observation:** In science the conclusions are drawn only on the basis of scientific methods of observation. Management also uses systematic methods for data collection, verification and analysis of that collected data, interpretation of data and then on this basis decisions are taken in the organization.
- 3. Cause and Effect Relationship:** Science is based on cause and effect relationship. After using specific formulae or combination, one can get particular result in science. Management theories are also based on such relationships e.g. an appropriate salary and healthy working conditions motivate people to work hard and to give best results. On the contrary, old conditions of machinery affects on speed of output of product etc.
- 4. Universal Applicability of Principles:** Scientific principles can be applied in all similar situations anywhere. This universality offers same result of principles anywhere. Similarly principles of management are universal. It can be applied in any condition and situation.

These points make it clear that the characteristics of science can be observed in management. Hence, management is a science. However, management is not a pure science like Mathematics or Chemistry in which results are accurate and quantitative in nature. Management considers the observations of human factor so it is a social science in which results can be observed in same direction, moreover qualitative in nature.

Management as a Profession:

“A profession may be defined as an occupation backed by specialized knowledge and training and to which entry is regulated by a representative body and duly recognized by the society.” Teacher, Doctor, Lawyer, Chartered Accountant come under the term profession. Modern approach has offered the status to management as an emerging profession. In this globalization phase, various academic schools have started management degree courses. e.g. Indian Institute of Management (IIM), PUMBA (Savitribai Phule Pune University’s MBA) etc. These courses have been developed by taking into consideration the need of management of organizations. Now a days, people choose management as a career. They acquire the required knowledge of the profession and train themselves for the managerial job.

□ **The relation between Profession and Management can be studied with the help of following points:**

- 1. Formal Education:** Profession needs formal education. Today's managers are also qualified with management diploma or degrees. They take formal training from management schools which helps them to work professionally.
- 2. Code of Conduct:** Code of conduct means well set rules and regulations to be followed by the professionals practicing in that field. Every profession has such code of conduct to control on the ethics of concerned profession. Lawyers has to follow the code of conduct framed by Bar Council of India, Architects has to follow the code of conduct framed by Council of Architects, Chartered Accountant has to work according to Institute of Chartered Accountants of India (ICAI) etc. However, for managers there is no such association of managers. Generally managers follow the code of conduct based on customs and traditions.
- 3. Expertise:** A professional is an expert in his or her field who has knowledge acquired through formal education. By practicing, they get a skill required for that profession. Manager also becomes an expert by practicing his or her knowledge and skills.
- 4. Registration:** Professionals need to register themselves with their associations i.e. In India, Chartered Accountants register themselves with Institute of Chartered Accountants of India. Without certificate they cannot carry out practice. In case of managers, there is no such body to register themselves. However, managers can take the membership of Chambers of Commerce which give them benefits.
- 5. Restricted Entry:** The entry in any profession is restricted. It needs a formal education e.g. Doctor, Lawyer, Chartered Accountant etc. However, such compulsion is not there for becoming a manager.

On the basis of above discussion, it is very difficult to say whether management is a profession or not. Management does not require any formal education, there is no separate governing body of regulation and there is no separate code of conduct for managers. Anyone who wants to run any business can work as a manager irrespective of formal education. Therefore, till the date, management has not received recognition as a Profession like Doctor, Lawyer, Teacher, Chartered Accountants etc.

From the above discussion it can be concluded that management is a combination of An Art, a Science and a Profession. It cannot be considered as only Art or only Science or only Profession. It is a combined activity.

A manager has to use his or her own skills in the form of innovative ideas, smart techniques and creativity to solve situational problems and achieve the goals. It means management is an art.

A manager has to work on the problems of organization by applying different principles, different techniques based on different theories. Conclusions are drawn after collecting and analyzing data. It means management is a science.

Now a day's people are adopting management as a career. They can take formal education and training of management and can work as a manager of an organization. There are behavioral rules based on customs and traditions which can be called as their code of conduct. It means management is a profession.

From the above points it can be concluded that management is a combination of an Art and Science. It is adopted as a Profession now days.



Activity

Group Discussion

Topic: Management as an Art or Science?

- Make two groups of the students and let one group to speak in favor of the topic and another in opposite of the topic.
- At the end of activity teacher will help the students to draw conclusions.

□ Distinguish between

Top Level, Middle Level and Lower Level

Sr. No.	Point of difference	Top Level	Middle Level	Lower Level
1)	Meaning	Top level refers to top position in the organization such as Board of Directors, CEO, President etc.	Middle level refers to middle positions in the organization such as Departmental head or functional managers such as Finance manager, Production manager etc.	Lower level refers to lower positions in the organization such as supervisors, foremen.
2)	Nature of Work	It is concerned with framing plans and policies of the organization.	It is concerned with implementation of policies framed by Top Level Management with the help of Lower Level staff.	It is concerned with actual execution of planning.
3)	Skills	Top Level requires conceptual or decision making skills than technical skills.	It requires combination of conceptual and technical skills.	Lower Level requires more technical skills than other skills.
4)	Promotion Policy	At top Level, promotion is given on merit.	At this level, promotion is based on merit as well as seniority basis	At this level, for promotion seniority is preferred.
5)	Time Frame	Top Level considers longer period of time i.e. 5 to 20 years.	It considers medium term i.e. 1 to 5 years	It considers very shorter term i.e. up to 1 year.

6)	Responsibility	Top Level is responsible to Shareholders, Government and Society.	It is responsible to Top Level Management	It is responsible to Middle and Top Level Management
7)	Flow of orders	Orders and instructions are passed to Middle Level.	Orders and instruction are passed to Lower Level and report of the work is submitted to Top Level.	Implementation is done as per the orders and reports are submitted to Middle Level.

SUMMARY

□ Meaning and Definition

- Management is an activity which is essential in every walk of life.
- The word Management is originated from the two Latin words ‘manus’ which means hand and ‘agere’ which means to act.
- Management is an art of getting things done through others.
- Management is the coordination of resources through the process of planning, organizing, directing and controlling in order to attain desired goals.

□ Characteristics of Management

1. Management is Goal oriented
2. Management is a Group Activity
3. Management is Intangible
4. Management is a Continuous Process
5. Management is Situational
6. Management is Universal
7. Management is Dynamic

□ Levels of Management

There are three levels of management:

- **Top Level:** It decides the long term objectives of organization and frame the plans and policies and take decisions.
- **Middle Level:** It works under top level management. This level is concerned with implementation of plans and policies in the organization with the help of Lower level management.
- **Lower Level:** It is a supervisory level of management which consists of superintendents, supervisors, foreman and junior executives. They get instructions from the authorities and direct subordinates wherever necessary.

❑ Management as an Art, Science and Profession

Management is an art because it involves skill of individual, innovativeness, creativity, regular practice and personal abilities.

Management is a science because it is a systematic body of knowledge and scientific methods. The principles of management are universal.

Management is also a profession. Management professionals have adequate knowledge and ability which is helpful to handle different situations. They are trained people having formal education in management schools and have a code of conduct.

❑ Career Opportunities

Further Courses available after Graduation in commerce :

M. Com., MBA, DBM, PGDM etc.

• Career in-

A) Managerial jobs in all types of organization at global level in various sectors:

1. Finance
2. Human Resource Development
3. Marketing
4. Information Technology
5. Production
6. Logistics
7. International Business
8. Banking Sector etc.

B) Self Employment

❑ References

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- 3) Dr.T.N.Chhabra, 'Principles & Practice of Management', DHANPAT RAI & CO (P) LTD. (INDIA), 2005.
- 4) <https://en.m.wikibooks.org>
- 5) <https://en.m.wikibooks.org>
- 6) Wikipedia



EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) Management is
a) dynamic b) static c) selective
- 2) Management uses method of observation.
a) unscientific b) artificial c) scientific
- 3) To help top level management in co-ordinating the activities is the function of level management.
a) middle b) lower c) top

- 4) To look after maintenance of machinery is the function of level management.
 - a) top
 - b) middle
 - c) lower
- 5) Management is..... oriented action.
 - a) policy
 - b) profit
 - c) goal

B) Match the pairs.

Group 'A'		Group 'B'	
A)	Management	1)	Need of creativity
B)	Management as a professtion	2)	Can be seen
C)	Top level management	3)	Administration
D)	Management as an art	4)	Intangible
E)	Lower level management	5)	Formal education
		6)	Policy framing
		7)	Implementation of policies
		8)	Selective
		9)	Directing subordinates to complete the task
		10)	Cause effect relationship

C) Give one word / phrase / term.

- 1) The art of getting things done through others.
- 2) The second level of Management.
- 3) Systematic body of knowledge.
- 4) The level of management related to Managing Director
- 5) Level of management that link top level and lower level management.

D) State True or False.

- 1) Management is an ancient activity.
- 2) Management is not objective oriented.
- 3) In small organization also management is required.
- 4) Middle level management forms policy of an organization.
- 5) Various principles and techniques are used in management.

E) Find the odd one.

- 1) Management is an art, a science, commerce, a profession.
- 2) Singer, Actor, Dancer, Doctor.
- 3) Doctor, Chartered Accountant, Lawyer, Singer.
- 4) Lower level, Middle level, Top level, High level.
- 5) Board of Directors, President, Purchase Manager, Chief Executive Officer (CEO).
- 6) Departmental Head, Finance Manager, Production Manager, Supervisor.
- 7) Supervisor, Foreman, Finance Manager, Office Supertendent.

F) Complete the sentences.

- 1) The English verb 'manage' came from the Indian word
- 2) To manage is to forecast, to plan, to organize, to command, to co-ordinate and to
- 3) Organization is a group of person who work together to achieve a
- 4) Link between the top level and lower level of management is called as
- 5) Lower level management works under
- 6) Art is the bringing about a desired result through the application of
- 7) Any knowledge which is scientifically developed and consists of universally accepted principles is known as a
- 8) Science is based on systematic experiments, on certain rules and on
- 9) Teacher, Doctor, C. A., Lawyer comes under the term

G) Select the correct option.

A		B
1)	Top level	.....
2)	.....	Lower level
3)	Middle level	.....
4)	.....	Doctor
5)	Singer	.....

(Fiance Manager, Art, CEO, Profession, Supervisors)

H) Answer in one sentence.

- 1) What is called as management?
- 2) Name the levels of management?
- 3) What is Top level management?
- 4) What do you mean by Middle level management?
- 5) What is lower level management?
- 6) What do you mean by an art?
- 7) What is seience?
- 8) What is the meaning of a profession?

I) Arrange in proper order.

- 1) Middle level management, Top level management, Lower level management.
- 2) Departmental Head, CEO, Supervisor, Managing Director.
- 3) Office clerk, Shareholders, Managing Director, Board of Directors.

J) Correct the underlined word and rewrite the following sentence.

- 1) Management is only an art.
- 2) There are five levels of management.
- 3) Lower level management works under top level management.

- 4) Middle level management works under lower level management.
- 5) Management is a pure science.
- 6) The entry in any profession is not restricted.
- 7) Professionals need informal education.

Q.2 Explain the following terms/concepts.

- 1) Top level management
- 2) Middle level management
- 3) Lower level management

Q.3 Study the following case/situation and express your opinion.

- 1) While working in a company, Pranav used to give order to his subordinates about what is to be done and which work is to be done? In this organization, various employees like Pratap are doing their work assigned by Pravin. In this company, Pravin submit his report of work completion to Pranav after completing the work done by the employees like Pratap.
 - i) Identify different levels of management in above mentioned company.
 - ii) Find the level of Pranav in management of company.
 - iii) Explain the functions and role of Pratap in his company.
- 2) Shankar Patil is an advocate and he is running his profession in a very good manner. His younger brother Prashant Patil has done very beautiful and artistic decoration of his brother's office with seating arrangement and symbol of Justice as his hobby. Vishwas Patil, older brother of Shankar Patil is a science graduate and doing farming in best way. He exports the farm production. On the basis of above information:
 - i) Identify the source of income of Shankar Patil.
 - ii) What is the qualification of Prashant Patil as a decorator?
 - iii) Mention two features of profession.

Q.4 Distinguish between

- 1) Top level management and middle level management.
- 2) Middle level management and lower level management.
- 3) Top level management and lower level management.

Q.5 Answer in brief.

- 1) State any four features of mangement.
- 2) Write any four functions of Top Level Management.
- 3) State any four functions of Middle Level Management.
- 4) State any four functions of Lower Level Management.
- 5) State any two point of relationship about management as an Art.
- 6) Explain any two points of relationship about management as a Science.
- 7) State any two points of relationship about management as a Profession.

Q.6 Justify the following statements.

- 1) Management is essential in professional and non-professional activities.
- 2) Levels of Management depends on the size of organization.
- 3) Management is a group oriented action.
- 4) Management is an art.
- 5) There is no need of registration for managers.
- 6) Management is a continuos process.
- 7) Planning is a task of top level management.

Q.7 Attempt the following.

- 1) State the definition of management.
- 2) State the features of management.
- 3) State management is as a science.
- 4) State the relation between the management and art.
- 5) State the importance of management.
- 6) State the similarities between management and profession.
- 7) State the functions of lower level management.

Q.8 Answer the following.

- 1) What is management ? State the characteristics of management.
- 2) Discuss whether management is an art, science or profession.



Answerkeys

Chapter 1 Introduction of Commerce and Business

- Q. 1 A)** 1) a professional person 2) manufacturing 3) trade
4) professionals 5) secondary 6) transport
7) business 8) profit, 9) society
10) time.
- B)** A - 4, B - 3, C - 5, D - 1
- C)** 1) Business 2) Economic Activities 3) Trade
4) Auxiliaries to trade 5) Construction Industry 6) Industry
7) Commerce 8) Transport 9) Warehousing
10) Profession
- D)** True - 1, 2, 3, 6, 7, 9 False - 4, 5, 8, 10.
- E)** 1) Manufacturing Industry 2) Wholesale Trade
2) Manufacturing 4) Machinery
- F)** 1) earn money 2) Commerce 3) economic
4) business 5) fees 6) Employer
7) Profit 8) form 9) wholesale
10) Retailer
- G)** 1) External trade 2) Import trade 3) Export trade 4) Retailer
- I)** 1) Economic 2) Goods 3) Can not transferred
4) Business 5) Transport 6) Industry
7) earn profit

Chapter 2 Trade

- Q.1 A)** 1) b) Wholesaler 2) a) higher 3) b) large
4) b) last 5) a) manufacturer 6) c) imported by India
7) c) shipping bill 8) b) Peddlers 9) b) Market Traders
10) b) Speciality shop retailers 11) b) Super Market.
- B)** 1) Ans- A-5, B-3, C-4, D-2, E-1
2) Ans A-3, B-1, C-2 D-7
- C)** 1) Itinerant Retailer 2) Retailer
3) Chain stores 4) One price shop
5) Street traders 6) Indent
- D)** True – 1, 7, 6, 9
False – 2, 3, 4, 5, 8

- E) 1) General stores 2) Market Traders 3) Malls
- F) 1) barter 2) consumers 3) retailers 4) manufacturers
5) price 6) credit 7) consumers 8) Supermarket
9) Chain stores 10) One price shop 11) American 12) foreign
- G) 1) large 2) in 3) One price shop 4) local
5) large 6) large 7) single 8) same
- I) 1) International trade 2) Import 3) High
4) Retailer 5) Foreign
- J) 1) producer, wholesaler, retailer, consumer
2) local market, state market, national market, international market
3) preliminary state, pre-import stage, Import stage, Post-import stage

Chapter 3 Small Scale Industry and Business

- Q. 1 A) 1) b) unemployment 2) a) labour 3) a) high
4) a) business 5) c) labour 6) a) first
7) a) 40%
- B) A - 3, B - 1, C - 6, D - 2, E - 8
- C) 1) Small Scale Industries sector
2) Small Scale Industries
- D) True - 1, 4,
False - 2, 3,
- E) 1) Spare Parts 2) Sericulture
- F) 1) Small scale 2) Second 3) low 4) labour
5) less 6) industrial
- G) 1) Small manufacturing sector
2) Micro manufacturing sector
3) Medium manufacturing sector
4) Micro services sector
5) Small services sector
- I) 1) unemployment 2) labour 3) outdated 4) small
5) Decision of Business Area
- J) 1) b – a – d – c

Chapter 4 Forms of Business Organisation - I

- Q. 1 A) 1) maximum 2) co-parceners 3) karta
4) compulsory 5) limited 6) law
7) compulsory 8) limited 9) 1912
10) Common Seal.

- B)** A - 4, B - 6, C - 8, D - 3, E - 1
- C)** 1) Managing Committee 2) Sole Trader 3) Sole trading concern
4) Co-parceners 5) Nominal partner 6) Public Company
7) Partnership Deed 8) Service 9) Co-operatives Society
- D)** True - 1, 2, 3, 4, 5, 6, 7, 8, 9
False - 10, 11, 12
- E)** 1) NGO 2) Shareholder
- F)** 1) Private entities 2) Sole Trading concern 3) Patnrship Firm
4) Active partner 5) Partnership at will 6) KARTA
7) democracy 8) one member, one vote 9) one share, one vote
10) less 11) consumers 12) 2013
- G)** 1) Partnership Firm 2) C0-operative Society 3) Public Company
4) Sole Trading Concern 5) Private Company
- I)** 1) freely 2) two 3) Compulsory
4) maximum secrecy 5) two members 6) KARTA
7) 1932

Chapter 5 Forms of Business Organisation - II

- Q. 1 A)** 1) a) Annual budget 2) a) Statutory Corporation
3) a) Parliament 4) a) 51 5) a) The President of India
6) a) Comptroller and Auditor General of India 7) a) legal
8) c) Government 9) a) Economical
- B)** 1) A - 6, B - 1, C - 4, D - 5 E - 3
- C)** 1) Private Sector Organisations 2) Public Sector Organisations
3) Private Sector 4) Public Sector
5) Public Sector Organisations 6) Departmental Organisation
7) Departmental Organisation 8) Departmental Organisation
9) Departmental Organisation 10) Departmental Organisation
11) Statutory Corporation 12) Statutory Corporation
13) Statutory Corporation
- D)** True - 1, 2, 4, 5, 7, 8
False - 3, 6, 9, 10
- E)** 1) Bank of India 2) Bharat Heavy Electrical Limited
3) Dabur 4) Tata Motors
- F)** 1) legal 2) Departmental Organisation
3) Statutory Corporation 4) Company 5) Economic
- H)** 1) artificial 2) answerable 3) many 4) no separate existence
5) public sector

Chapter 8 Introduction to Management

- Q. 1**
- A)** 1) a) dynamic 2) c) scientific 3) a) middle
4) b) lower 5) c) goal
- B)** A - 4, B - 5, C - 6, D - 1, E - 9
- C)** 1) Management 2) Middle Level 3) Science
4) Top level Management 5) Middle level management.
- D)** True - 1, 3, 5
False - 2, 4
- E)** 1) Commerce 2) Doctor 3) Singer
4) High level 5) Purchase Manager 6) Supervisor
7) Finance Manager.
- F)** 1) managgiare 2) control 3) common goal
4) middle level management 5) middle level Management.
6) skills 7) science 8) principles
9) profession.
- G)** 1) CEO 2) Supervisors 3) Finance Manager
4) Profession 5) Art.
- I)** 1) Top level management,
Middle level management,
Lower level management.
2) CEO,
Managing Director,
Departmental Head,
Supervisor.
3) Shareholders,
Board of Directors,
Managing Directors,
Office Clerk.
- J)** 1) An Art, a commerce and a profession 2) Three level
3) Middle level 4) Top level
5) Social Science 6) restricted
7) formal education





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