215en01

MODULE - I

Maximum Marks	Hours of Studies
12	25

Introduction to Business

We live in a business environment. It is an indispensable part of society. It satisfies our wants by providing variety of goods and services through wide networking of business activities. This module has been designed to enable the learners to be aware of the world of business, recognize its importance, objectives, understand the different types of business activities and new developments like e-commerce as well as appreciate the responsibilities of business towards different stakeholders.

Lesson 1 : Nature and Scope of Business

Lesson 2 : Industry & Commerce

1

NATURE AND SCOPE OF BUSINESS

When we look around us, we observe that most of the people are engaged in various activities. Teachers teach in the schools, farmers work in the fields, workers work in the factories, drivers drive vehicles, shopkeepers sell goods, doctors attend patients and so on. In this way, people are busy during the day and sometimes during the night throughout the year. Now the question arises as to why we all keep ourselves busy. The answer is to satisfy our wants. By doing so, we either discharge various obligations or earn money through which we can buy goods and avail services.

In this lesson let us learn more about various types of activities in which we all keep ourselves busy to satisfy our wants. We shall learn in detail about 'Business' as a human activity.

OBJECTIVES

After studying this lesson, you will be able to:

- define human activities;
- distinguish between economic and non-economic activities;
- define the term 'business';
- identify various characteristics of business;
- explain the objectives of business;
- explain the social responsibilities of business; and
- explain the types, causes and effects of pollution and role of business to reduce environmental pollution

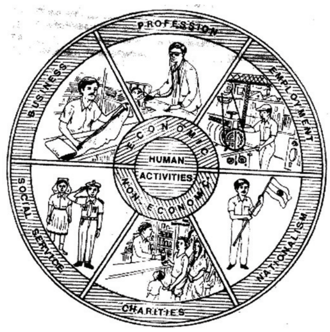
1.1 HUMAN ACTIVITIES

Activities which human beings undertake are known as human activities. We can divide these activities into two categories:

(i) Economic activities and (ii) Non-economic activities

(i) Economic activities

Activities, which are performed with an objective to earn money, are known as economic activities. For example, farmers grow crops to sell them, a factory or office employees work and get wages or salaries, a business person earns profit through buying and selling of goods or services, these activities are economic activities.



Human Activities

(ii) Non-economic activities

Activities, which are not performed to earn money but to get some satisfaction, are called non-economic activities. These activities are performed to discharge social obligation or for physical fitness or for recreation etc. People visiting places of worship, providing relief to the victims of flood and earthquake, engaging in sports activities, gardening, listening to radio or watching television are few examples of non-economic activities.

Difference between Economic and Non-Economic Activities

Basis	*Economic activities*	*Non-economic activities*
i. Purpose	Earning motive.	Social and Psychological motive.
ii. Outcome	Lead to creation of wealth and assets.	Lead to satisfaction and happiness.
iii. Expectation	People expect profits or money income.	People don't expect profits or money income.
iv. Consideration	They are guided by rational consideration as they involve the use of scare economic resources such as land, labour, capital etc.	They are motivated by emotional and sentimental reasons. No economic consideration is involved.

INTEXT QUESTIONS 1.1

I. State whether the following statements are true or false by writing 'T' against true statement and 'F' against false statement.

i. A doctor attending to patients in his/her clinic is engaged in an economic activity.

ii. A mother stitching clothes for her children is engaged in an economic activity.

iii. A tailor stitching clothes for his customers is engaged in an economic activity.

iv. Distributing food to beggars outside the temple is a non-economic activity.

v. Sachin Tendulkar playing cricket for the country is performing a non-economic activity.

II. State which of the following activities are economic and which are non-economic :-

i. Playing football with friends.

ii. Teaching in a school.

iii. Attending to one's relative who is unwell.

iv. Listening a radio.

v. Selling fruits and vegetables in the local market.

vi. Preparing food at home for family members.

vii. Working in an office.

1.2 TYPES OF ECONOMIC ACTIVITIES

We know that economic activities are undertaken to earn money. Generally, people engage themselves in such activities on a regular basis and are said to be engaged in their occupation. Occupations may be classified into three broad categories.

(i) Business: Business refers to an occupation in which goods and services are produced and sold in return of money. It is carried out on a regular basis with the prime objective of making profit. Mining, manufacturing, trading, transporting, storing, banking, and insurance are examples of business activities.

Business

(ii) Profession: A person may not be an expert in every field. So, we require services of others who specialize in one field or other. For example, we need the services of doctors for our treatment, lawyers to get legal support etc. They are all engaged in profession.


Profession

Thus, profession refers to an occupation, which requires specialized knowledge and training to pursue it and primary objective of every profession is to provide service. A professional body regulates every profession. These professionals have a code of conduct developed by the concerned professional body.

(iii) **Employment:** Employment refers to an occupation in which a person works regularly for another and gets wages/salary in return. Government servants, company executives, bank officials, factory workers are said to be in employment. In employment there are certain terms and conditions regarding work to be performed, hours of work, amount of wages/salary and other facilities, if any. The employer who offers employment normally decides these conditions. The person seeking a job must join the work only after being satisfied with the terms and conditions. The remuneration payable to an employee is fixed and is paid in the form of wage or salary.

Employment

Differences between Business, Profession and Employment

Basis of difference	Business	Profession	Employment
1. Nature of work	Supply of goods and services to the customers for money.	Specialized personal services for a fee with discretion to work.	Performing work according to the orders of the employer with no discretion.
2. Qualifications	No minimum qualifications required.	Education and training in a specific field is necessary.	Specialised knowledge not necessary in all cases.
3. Capital	Capital investment required according to the nature, size and scale of business.	Limited capital required for establishment.	No capital required.

4. Motivation	Earning profits from sale of goods and providing services to the customers.	Fixed professional fees for services rendered.	Fixed wage or salary.
5. Risk	There is risk of loss. Profits are uncertain.	Fixed income. Liability for negligence of duty.	Regular fixed wages or salaries, no risk.
6. Code of conduct	No specific code of conduct.	A rigid professional code of conduct to maintain high standards of profession.	Contractual terms and conditions of employment.

INTEXT QUESTIONS 1.2

I. Fill in the blanks with suitable words :

i. The economic activity in which one is engaged on a regular basis is called his/her__________.

ii. A professional requires _______ and training in a particular field.

iii. The occupation in which people work for others and earn fixed income is called _____________.

iv. A professional body regulates every profession by laying down the ___________ for all professionals.

v. The terms and conditions of employment are decided by the ______________.

II. Match the phrases in column A with those in column B:

Column A	Column B
i. Primary objective of business	(a) Special skill
ii. Primary objective of profession	(b) Making profit
iii. Essential requirement for a profession	(c) Profession
iv. Occupation of a Chartered Accountant	(d) Providing service

1.3 MEANING OF BUSINESS

You find a variety of goods available in the market. You buy those goods as and when you require them. Do you know how these goods come to the market? Who makes these goods and who brings them to the market? Actually, all these goods are produced at some specific places, then somebody brings these goods from the place of production to the place of distribution. Only then we are able to buy these goods and use them as per our requirement.

Business

Again you must have observed some people are engaged in activities like transportation of goods and passengers, banking, insurance, advertising, supply of electricity, telephone etc. These are all service activities and are performed by the people to earn their livelihood.

In all the above activities, be it production, distribution, purchase or sale of goods and services, monetary gain is expected in each case and also, they are performed on a continuous basis. Thus, business refers to any human activity undertaken on a regular basis with the object to earn profit through production, distribution, sale or purchase of goods and services.

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

1.4 CHARACTERISTICS OF BUSINESS

The essential characteristics of business are as follows:

(i) **Deals in goods and services:** People in business are engaged in production and distribution of goods and services. The goods may be consumer goods like bread, butter, milk, tea, etc. or capital goods like plant, machinery, equipments, etc. The services may be in the form of transportation, banking, insurance, warehousing, advertising and so on.

(ii) **Sale or exchange of goods and services:** If a person produces or buys a product for self-consumption or for gifting it to another, he is not engaged in business. But when he produces or buys goods to sell it to somebody, he is engaged in business. Thus, in business the goods and services produced or purchased must be exchanged for money or for goods (under barter system) between the buyers and sellers. Without sale or exchange of goods the activities cannot be treated as business.

(iii) **Regular exchange of goods and services:** The production or buying and selling activities must be carried out on a regular basis. Normally, an isolated transaction is not treated as business. For example, if Raju sold his old car to Hari, it is not considered as business , unless he continues to carry buying and selling of cars on a regular basis.

(iv) **Requires investment:** Every business activity requires some amount of investment in terms of land, labour or capital. These resources are utilised to produce a variety of goods and services for distribution and consumption.

(v) **Aims at earning profit:** Business activities are performed with the primary objective of earning income by way of profit. Without profit it is not possible to survive for a long period. Earning of profit is also required to grow and expand the business.

(vi) **Involves risk and uncertainty of income:** We know that every business aims of earning profit. The businessman who invests the various resources expects a fair amount of return. But, inspite of his/her best efforts, the reward he/she gets is always uncertain. Sometimes he/she enjoys profits and also times may come when he suffers heavy losses. This happens because the future is unpredictable and businessperson has practically no control over certain factors that affects his/her earnings.

1.5 EVOLUTION OF BUSINESS

We all know that India has a very rich cultural heritage. However, it is not known to many that India was a well developed country in terms of its economy and business. Excavations, written records, literature and above all, India's immense wealth that attracted several foreigners to attack India are testimony to this fact. The Indian civilization was not only agriculture based but there was also flourishing trade and commerce both inside and outside the country. It had contributed immensely to the world of business in different fields. Indian business was unique, innovative, dynamic and qualitatively superior to many other countries of that time.

In the early days Indian economy was totally based on agriculture. People used to produce whatever they required for their self-consumption. There was no need for sale or exchange of goods. But later on, needs of the people increased and so did the production. People began to specialise in producing different items of luxury and daily use and did not have skills and time left for producing other items of their use. However, they were able to produce surplus items with increase in their efficiency. So, a system of exchanging surplus items with the items of need was evolved. This was the beginning of trade.

It is normally understood that India has progressed a great deal in the modern time, especially after independence, in the field of business and trade. India has become a strong country in terms of industrial growth so much so that we are able to produce almost all goods of our use indigenously. This however, does not mean that there was no growth and development in these fields in the past in India. In fact, India has a very rich heritage in trade and commerce, which can make any Indian feel proud of. People will be surprised to know that India began its journey in the field of trade and commerce as back as 5000 B.C. Historical evidence are there to prove that there were planned cites were available in India at that time and Indian textile, jewellery and perfumes used to be admired by the people all over the world. Indian traders were using currency for business since a long time. There used to be guilds to protect the interest of traders, artisans and producers. This is an indication of the complex development of trade and commerce in India. Apart from the strong network of internal trade routes, India had also established trade links with the Arabs and Central and South East Asia. India had been in the business of producing a number of metal items like brass and copper idols, vessels, ornaments and pieces of decoration. India used to export as well as import a number of items to and from different part of the world. It is also well known that the British first came to India as traders, which led to the establishment of their rule here.

India has also contributed to the world of trade and business in a number of ways. The numerical system of calculation used even in modern time, was developed in India. The joint family system and division of labour in business have evolved here, which are practised even today. The modern technique of customer focussed business has been an integral part of Indian business since long.

Thus, we can say that India has a rich heritage in trade and commerce which has contributed to its growth.

INTEXT QUESTIONS 1.3

I. Rahul, a shopkeeper, is engaged in a number of activities, which he calls as business. Examine each of them and state whether do you agree with him or not.

Write 'Agree' or 'Disagree' against each statement:

i. Rahul sold bread to customers in his shop.

ii. He bought a pen to gift it to his younger sister.

Notes

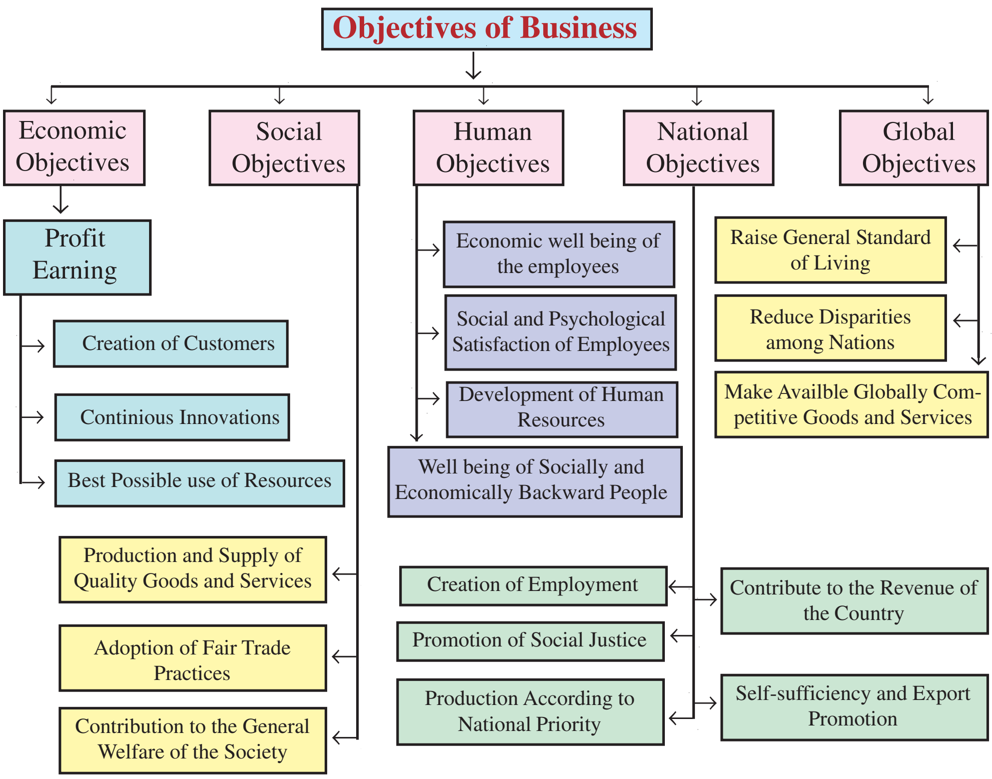
iii. He sold his old television set to his neighbour for Rs. 3,000.
iv. Rahul bought eggs from the poultry farm to sell to his customers.
v. Rahul sells a packet of milk worth Rs. 10 to a customer for Rs. 12.
vi. Rahul bought vegetables worth Rs. 30 for his family.
vii. He distributed biscuits free of cost to poor children from his shop.

II. Given below are some statements about business. Some are right and some are wrong. Write 'R' against right statements and 'W' against wrong statements:

i. Business has no role to play in national integration as it only deals in goods and services.
ii. Business does not contribute to improvement in the standard of living of the people.
iii. Industrial research is carried out to develop new and innovative products.
iv. Business does not allow import of goods from foreign countries.
v. Business helps in reducing poverty by generating employment.
vi. Business creates a positive image of the country through display and sale of products in international trade fairs and exhibitions.

1.6 CLASSIFICATION OF OBJECTIVES OF BUSINESS

All the business activities are performed with some objectives. The objectives of business may be classified as –



1.6.1 ECONOMIC OBJECTIVES

Economic objectives of business refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which includes creation of customers, regular innovations and best possible use of available resources.

Profit Earning

Profit is the lifeblood of business, without which no business can survive in a competitive market. Thus, profit making is the primary objective for which a business unit is brought into existence. Profits help businessmen not only to earn their living but also to expand their business activities by reinvesting a part of the profits.

In order to achieve this primary objective, certain other objectives are also necessary to be pursued by business, which are as follows:

i) Creation of customers

A business unit cannot survive unless there are customers to buy the products and services. Again a businessman can earn profits only when he/she provides quality goods and services at a reasonable price. For this it needs to attract more customers for its existing as well as new products. This is achieved with the help of various marketing activities.

ii) Continuous innovations

Business is highly dynamic and an enterprise can continue to be successful only by adopting itself to change in its environment. Innovation means changes, which bring about improvement in products, process of production and distribution of goods. Reduction in cost and increase in sales gives more profit to the businessman. Use of power-looms in place of handlooms, use of tractors in place of hand implements in farms etc. are the results of innovation.

iii) Best possible use of resources

As you know, to run any business you must have sufficient capital or funds. The amount of capital may be used to buy machinery and raw materials, to employ men and have cash to meet day-to-day expenses. Thus, business activities require various resources like men, materials, money and machines. This objective can be achieved by employing efficient workers, making full use of machines and minimizing wastage of raw materials.

INTEXT QUESTIONS 1.4

Given below are some statements relating to the economic objectives of business. Some statements are true and some are false. Identify the true statements:

i Creation of demand for goods is the primary objective of business.

ii. Profits are expected to be earned by businessmen in proportion to the amount of capital invested in business.

iii. It is not always necessary for businessmen to make the best possible use of materials.

iv. Businessmen should use profits earned from the business only for their own living.

v. Generation of employment is the primary economic objective of business.

1.6.2 SOCIAL OBJECTIVES

Social objectives are those objectives of business, which are desired to be achieved for the benefit of the society. No activity of the business should be aimed at giving any kind of trouble to the society. Social objectives of business include production and supply of quality goods and services, adoption of fair trade practices and contribution to the general welfare of society and provision of welfare amenities.

(i) Production and supply of quality goods and services

Since the business utilizes the various resources of the society, the society expects to get quality goods and services from the business. The objective of business should be to produce better quality goods and supply them at the right time and at a right price. They should charge the price according to the quality of the goods and services provided to the society.

(ii) Adoption of fair trade practices

In every society, activities such as hoarding, black-marketing and over-charging are considered undesirable. Besides, misleading advertisements often give a false impression about the quality of products. The business unit must not create artificial scarcity of essential goods or raise prices for the sake of earning more profits. All these activities earn a bad name and sometimes make the businessmen liable for penalty and even imprisonment under the law. Therefore, the objective of business should be to adopt fair trade practices for the welfare of the consumers as well as the society.

(iii) Contribution to the general welfare of the society

Business units should work for the general welfare and upliftment of the society. This is possible through running of schools and colleges for better education, opening of vocational training centres to train the people to earn their livelihood, establishing hospitals for medical facilities and providing recreational facilities for the general public like parks, sports complexes etc.

INTEXT QUESTIONS 1.5

State which of the following statements relating to social objectives of business are right and which are wrong?

i. Social objective of business is based on the assumption that what is good for business is also good for society.

ii. Production and supply of quality goods to the consumer is the social objective of business.

iii. Creation of demand for the product is a social objective of business.

iv. Establishment of sports complex for the public is the economic objective of business.

v. Hoarding and black-marketing are considered desirable on the part of business.

1.6.3 HUMAN OBJECTIVES

Human objectives refer to the objectives aimed at the well-being as well as fulfillment of expectations of employees as also of people who are disabled, handicapped and deprived of proper education and training. The human objectives of business may thus include economic well-being of the employees, social and psychological satisfaction of employees and development of human resources.

(i) Economic well being of the employees

In business employees must be provided with fair remuneration and incentives for performance, benefits of provident fund, pension and other amenities like medical facilities, housing facilities etc. By this they feel more satisfied at work and contribute more for the business.

(ii) Social and psychological satisfaction of employees

It is the duty of business units to provide social and psychological satisfaction to their employees. This is possible by making the job interesting and challenging, putting the right person in the right job and reducing the monotony of work. Further, grievances of employees should be given prompt attention and their suggestions should be considered seriously when decisions are made. If employees are happy and satisfied they can put their best efforts in work.

(iii) Development of human resources

Employees as human beings always want to grow professionally. Their growth requires proper training as well as development. Business can prosper if the people employed can improve their skills and develop their abilities and competencies in course of time. Thus, it is important that business should arrange training and development programmes for its employees.

(iv) Well being of socially and economically backward people

Business units being inseparable parts of society should help backward classes and also people those are physically and mentally challenged. This can be done in many ways. For instance, vocational training programme may be arranged to improve the earning capacity of backward people in the community. Business units can also help and encourage meritorious students by awarding scholarships for higher studies.

INTEXT QUESTIONS 1.6

Below are given some statements regarding human objectives of business. State which of them are "true" and which are "false":

i. Businessmen should pay proper remuneration which will motivate the workers for work.

ii. Business units should provide social and psychological satisfaction to the employees.

iii. Businessmen should not help disabled persons unless they are employed in business.

iv. Business units should ignore the suggestions given by the employees while taking important decisions.

v. Helping physically handicapped persons in the society is an economic objective of business.

1.6.4 NATIONAL OBJECTIVES

Being an important part of the national economy, every business must have the objective of fulfilling national goals and aspirations. The following are the national objectives of business.

(i) Creation of employment

One of the important national objectives of business is to create opportunities for gainful employment of people. This can be achieved by establishing new business units, expanding markets, widening distribution channels, etc.

(ii) Promotion of social justice

As a responsible citizen, a businessman is expected to provide equal opportunities to all persons with whom he/she deals. She/he is also expected to provide equal opportunities to all the employees to work and progress. Towards this objective special attention must be paid to weaker and backward sections of the society.

(iii) Production according to national priority

Business units should produce and supply goods in accordance with the priorities laid down in the plans and policies of the Government. One of the national objectives of business in our country should be to increase the production and supply of essential goods at reasonable prices.

(iv) Contribute to the revenue of the country

The business owners should pay their taxes and dues honestly and regularly. This will increase the revenue of the government, which can be used for the development of the nation.

(v) Self-sufficiency and Export Promotion

To help the country to become self-reliant, business units have the added responsibility of restricting import of goods. Besides, every business unit should aim at increasing exports and adding to the foreign exchange reserves of the country.

INTEXT QUESTIONS 1.7

Fill in the blanks with suitable word(s) from those given in brackets:

i. To produce and distribute essential goods at a reasonable price is a/an ______________ objective of business. (social, national, human)

ii. To help the country to become self-reliant business units should aim at increasing _________________. (export, import, prices)

iii. Business units should pay taxes honestly and_______________.(occasionally, frequently, regularly)

iv. Business should provide equal opportunities to all its ___________________. (owners, employees, suppliers)

1.6.5 GLOBAL OBJECTIVES

Earlier India had a very restricted business relationship with other nations. There was a very rigid policy for import and export of goods and services. But, now-a-days due to liberal economic and export–import policy, restrictions on foreign investments have been largely abolished and duties on imported goods have been substantially reduced. This change has brought about increased competition in the market. Today because of globalisation the entire world has become a big market. Goods produced in one country are readily available in other countries. So, to face the competition in the global market every business has certain objectives in mind, which may be called the global objectives. Let us learn about them.

(i) **Raise general standard of living**

Growth of business activities across national borders makes available quality goods at reasonable prices all over the world. The people of one country get to use similar types of goods that people in other countries are using. This improves the standard of living of people.

(ii) **Reduce disparities among nations**

Business should help to reduce disparities among the rich and poor nations of the world by expanding its operation. By way of capital investment in developing as well as underdeveloped countries. It can foster their industrial and economic growth.

(iii) **Make available globally competitive goods and services**

Business should produce goods and services which are globally competitive and have huge demand in foreign markets. This will improve the image of the exporting country and also earn more foreign exchange for the country.

1.7 SOCIAL RESPONSIBILITY OF BUSINESS

We all know that people engage in business to earn profit. However, profit making is not the sole function of business. It performs a number of social functions, as it is a part of the society. It takes care of those who are instrumental in securing its existence and survival like- the owners, investors, employees, consumers and government in particular and the society and community in general. So, every business must contribute in some way or the other for their benefit. For example, every business must ensure a satisfactory rate of return to investors, provide good salary, security and proper working condition to its employees, make available quality products at reasonable price to its consumers, maintain the environment properly etc.

However, while doing so two things need to be noted to view it as social responsibility of business. First, any such activity is not charity. It means that if any business donates some amount of money to any hospital or temple or school and college etc., it is not to be considered as discharge of social responsibility because charity does not imply fulfilling responsibility. Secondly, any such activity should not be such that it is good for somebody and bad for others. Suppose a businessman makes a lot of money by smuggling or by cheating customers, and then runs a hospital to treat poor patients at low prices his actions cannot be socially justified. Social responsibility implies that a businessman should not do anything harmful to the society in course of his business activities.

Thus, the concept of social responsibility discourages businessmen from adopting unfair means like black-marketing, hoarding, adulteration, tax evasion and cheating customers etc. to earn profit. Instead of this, it encourages them to earn profit through judicious management of the business, by providing better working and living conditions to its employees, providing better products, after sales-service, etc. to its customers and simultaneously to control pollution and conserve natural resources.

INTEXT QUESTIONS 1.8

Fill in the blanks with appropriate words.

i. Every business operates within a __________.

ii. Social responsibility of business refers to all such duties and ________ of business that are directed towards the welfare of society.

iii. Giving good return to the investors by providing ____ goods at high price to consumers is not fulfilling social responsibility.

iv. To avoid government regulations business houses should discharge their duty _________.

v. The earnings of business depend upon the public ________ of its activities.

vi. Today because of ____________ the entire world has become a big market.

vii. _____________ implies that a businessman should not do anything harmful to the society in course of his business activities.

viii. The concept of social responsibility _____________ businessmen from adopting unfair means like black-marketing, hoarding, adulteration, tax evasion and cheating customers etc. to earn profit.

1.8 RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS(OBLIGATIONS OF BUSINESS)

After getting some idea about the concept and importance of social responsibility of business let us look into the various responsibilities that a business has towards different groups with whom it interacts. The business generally interacts with owners, investors, employees, suppliers, customers, competitors, government and society. They are called as interest groups because by each and every activity of business, the interest of these groups is affected directly or indirectly.

(i) Responsibility towards owners and Investor

The primary responsibilities of business towards its owners are to:

a. run the business efficiently;
b. proper utilisation of capital and other resources;
c. growth and appreciation of capital;
d. regular and fair return on capital invested;
e. ensuring safety of their investment;
f. regular payment of interest; and
g. timely repayment of principal amount.

(ii) Responsibility towards Creditors

a. to make payment timely;
b. to ensure safety of credit allowed by them; and
c. to follow norms of business as followed by others.

(iii) Responsibility towards employees

The responsibilities of business towards its employees include:

a. timely and regular payment of wages and salaries;
b. proper working conditions and welfare amenities;
d. opportunity for better career prospects;
e. job security as well as social security like facilities of provident fund, group insurance, pension, retirement benefits etc;
f. better living conditions like housing, transport, canteen, crèches etc; and
g. timely training and development.

(iv) Responsibility towards suppliers

The responsibilities of business towards the suppliers are:

a. giving regular orders for purchase of goods;
b. dealing on fair terms and conditions;
c. availing reasonable credit period; and
d. timely payment of dues.

(v) Responsibility towards customers

The responsibilities of business towards its customers:

a. products and services must be able to take care of the needs of the customers;
b. products and services must be qualitative;
c. there must be regularity in supply of goods and services;
d. price of the goods and services should be reasonable and affordable;
e. all the advantages and disadvantages of the product as well as procedure to use the products must be informed to the customers;
f. there must be proper after-sales service;
g. grievances of the consumers, if any, must be settled quickly; and
h. unfair means like under weighing the product, adulteration etc. must be avoided.

(vi) Responsibility towards competitors

The responsibilities of business towards its competitors are not to :

a. offer exceptionally high sales commission to distributers, agents etc;
b. offer to customers heavy discounts and /or free products in every sale; and
c. defame competitors through false or ambiguous advertisements.

(vii) Responsibility towards government

The various responsibilities of business towards government are:

a. setting up units as per guidelines of government;
b. payment of fees, duties and taxes regularly as well as honestly;
c. not to indulge in monopolistic and restrictive trade practices;
d. conforming to pollution control norms set up by the government; and
h. not to indulge in corruption through bribing and other unlawful activities.

(viii) Responsibility towards society(community)

A society consists of individuals, groups, organizations, families etc. They all are the members of the society. They interact with each other and are also dependent on each other in the performance of almost all activities. There exists a relationship among them, which may be direct or indirect. Business, being a part of the society, also maintains its relationship with all other members of the society. Thus, it has certain responsibilities towards society, which may be as follows:

a. to help the weaker and backward sections of the society;
b. to preserve and promote social and cultural values;
c. to generate employment;
d. to protect the environment;
e. to conserve natural resources and wildlife;

f. to promote sports and culture; and

g. to provide assistance in the field of developmental research on education, medical science, technology etc.

INTEXT QUESTIONS 1.9

Following are the various responsibilities of business towards the different interest groups as discussed above. State which responsibility relates to which particular group.

i. Protection of environment.

ii. Better living conditions like housing, transport, canteen, crèches etc.

iii. Promotion of sports and culture.

iv. Opportunity for better career prospects

v. Regular supply of goods and services

vi. Proper working conditions and welfare amenities

vii. Goods and services at reasonable and affordable price.

viii. Prompt after sales services.

ix. Conservation of natural resources and wildlife.

1.9 ENVIRONMENTAL POLLUTION AND ROLE OF BUSINESS

To preserve the society it is important to protect the environment. And, therefore, every business must take measures to protect the environment rather than damaging it. In this section let us learn more about different types of environmental pollution and role of business. Environmental pollution refers to contamination of environment by various substances that have adverse effects on living and non-living matters.

Environmental pollution is of three types:

i. Air Pollution ii. Water Pollution iii. Land Pollution

(i) Air Pollution

Air Pollution

As we know the air we breathe contains several gases, dust particles etc. Our body mechanism helps us in filtering the unwanted ones and retaining those required for our survival. This is also true in case of other natural things like forests, river etc. Thus, air pollution refers to the presence of any unwanted gases, dust particles etc. in the air, that can cause damage to people as well as nature.

Causes of Air Pollution

Let us know how air gets polluted. Some of the common causes of air pollution are:

a. Emission of fumes from vehicles.
b. Emission of smoke, dust and chemicals from manufacturing plants.
c. Emission of gases and dust arising from atomic plants
d. Emission of smoke from oil refineries, burning of trees and plants in forests, burning of coal etc.

Impact of Air Pollution

Air pollution has a lot of impact on our surroundings and on us. Some of them are-

- Presence of gases in air, which are not required by human beings, animals and birds, creates serious health problems. It can create diseases like asthma, cough and cold, blindness, hearing loss, skin disease etc. It also causes genetic disorders. In the long run and in extreme cases it can also be fatal.
- Air Pollution creates smog in the winter, which is caused by smoke and dust when they mix with fog. It reduces natural visibility and irritates the eyes and respiratory tract.
- Ozone layer is a protective layer of gases around our earth, which protects us from harmful ultraviolet rays that come from the sun. It gets depleted because of air pollution and thereby causes gene mutation, genetic defects and skin cancer.
- The temperature of the earth increases due to air pollution. This is because whatever heat our earth receives from the sun is not radiated to the atmosphere due to the excessive presence of gases like carbon dioxide, methane, nitrous oxide etc.
- Air pollution causes acid rain which means excessive presence of various poisonous gases like sulphur dioxide, nitrogen oxide etc. in the rainwater. This causes lot of damage to vegetation, trees and marine life, buildings and monuments etc.

Environment is also polluted through excessive noise, known as **Noise Pollution**. Noise simply means an unwanted sound that causes irritation. It is caused by modern machinesand gadgets such as rail engines, loud speakers, generators, aeroplanes, vehicles, machineries, telephones, televisions etc. It initially distorts communication process, but prolonged exposure to noise pollution can cause loss of hearing, headache, irritation, highblood pressure, neurological or psychological disorders etc.

(ii) Water Pollution

Have you seen river Yamuna in Delhi? Are you aware about the Clean Ganga project? These two questions almost immediately remind us about the extent to which the water of our rivers has been polluted. Water pollution refers to contamination of water due to presence of unwanted and harmful substances thus, making water unfit for use.

Water Pollution

Causes of Water Pollution

The various reasons of water pollution are:

a. Drainage of human excreta into rivers, canals etc.

b. Improper sanitation and sewage system.

c. Dumping of wastes and effluents by various industrial units into the rivers and canals.

d. Drainage of toxic substances like chemicals and fertilizers used in cultivation, into streams and rivers.

e. Dumping of garbage, dead bodies and almost everything used in rituals into the nearby water sources by households.

Effects of Water Pollution

The effects of water pollution are:

a. It can create health hazards among human beings, animals and birds resulting into diseases like typhoid, jaundice, cholera, gastroentytis etc.

b. It can endanger lives of various aquatic species.

c. It can lead to scarcity of drinking water as the water of rivers and canals as well as underground water gets polluted.

INTEXT QUESTIONS 1.10

I. Fill in the blanks with appropriate words from the text

i. Our behaviour should not be ________________ to others.

ii. Desirable acts and conduct of the people are recognised and __________ in the society.

iii. Business ethics do not permit the business to sell ___________ goods.

iv. Social values form the ________________ for social responsibilities.

v. Paying taxes to the government honestly and regularly is guided by ______________.

II. Match the followings

Column A	Column B
i. Environmental Pollution	a) Mixture of smoke, dust and fog.
ii. Air Pollution	b) Responsible for noise pollution
iii. Water Pollution	c) Presence of unwanted substances in the atmosphere causing inconvenience.
iv. Smog	d) Imbalance in the proportion of gases and dust particles in air
c. Aeroplanes	e) Contamination of water due to excessive presence of harmful substances.

(iii) Land Pollution

Land Pollution refers to dumping of useless, unwanted as well as hazardous substances on the land that degrades the quality of soil we use. Our land gets polluted because of the human carelessness towards the soil.


Land Pollution

Causes of Land Pollution

The main causes of land pollution are:

a. Excessive use of fertilizers, chemicals and pesticides in cultivation.
b. Disposal of solid waste of industries, mines and quarries.
c. Disposal of solid waste from construction of roads, buildings etc.
d. Effluents of some plants which are not absorbed by soil.
e. Excessive use of plastic bags, which are non-biodegradable.
f. Dumping of non-composable wastes from households, hotels and hospitals as well as from industries. These may include combustible items like plastic, cloth, wood etc., and non combustible items like metal, glass, ceramics, cement etc.

Effects of Land Pollution

Land Pollution has the following harmful effects:

a. Reduces the area of cultivable land.
b. Causes health hazards as it contaminates the sources of food.
c. Causes damage to the landscape.
d. Leads to water and air pollution.

1.10 ROLE OF BUSINESS IN ENVIRONMENTAL POLLUTION

From the above discussion on environmental pollution, one thing can clearly be seen that, it is business that mainly contributes to all type of pollution -air, noise, water and land. Business causes pollution in the following ways:

(a) Emission of gas and smoke from manufacturing plants.

(b) Use of machines, vehicles etc. contributing to noise pollution;.

(c) Deforestation due to acquisition of forest lands for setting up plants.

(d) Growth of urbanization and industrialization.

(e) Disposal of wastes and effluents into rivers and canals.

(f) Disposal of solid wastes in the open space.

(g) Mining and quarrying activities.

(h) Increasing use of transport.

Business can help in three ways to control environmental pollution- Preventive, Curative and Awareness.

(i) Preventive Role

It means business should take all steps so that no further damage is done to the environment. For this, business must follow the regulations laid down by government to control pollution. Businessmen should come forward to play a major role in preventing further damage done to the environment by human beings.

(ii) Curative Role

It means business should rectify whatever damage has been done to the environment. In addition, if it is not possible to prevent pollution then simultaneous curative measures can be taken. For example, planting of trees (a forestation programme) can substantially reduce air pollution near the industrial area.

(iii) Awareness Role

It means making people (both the employees as well as the general public) aware about the causes and consequences of environmental pollution so that they voluntarily try to protect rather than damage the environment. For example, business can undertake public awareness programmes. Now-a-days, we find that some business houses have taken the responsibility to develop and maintain parks and gardens in cities and towns, which shows that they care for the environment.

INTEXT QUESTIONS 1.11

I. Which of the following statements are true and which are false?

i. Excessive use of fertilizer, chemicals and pesticides in cultivation causes air pollution.

ii. Excessive use of plastic bags causes land pollution.

iii. Plantation near industrial areas helps reduce water pollution.

iv. Land pollution increases the quantum of cultivable land in our country.

v. Business houses should make the people aware about the causes and consequences of environmental pollution.

II. Multiple Choice Questions

i. Which of the following activity is a non-economic activity?
(a) Selling bread to a customer.
(b) Selling old television to a neighbour.
(c) Gifting a pen to a friend.
(d) Purchase books for resale.

ii. Which of the following is not an occupation?
(a) Business (b) Profession
(c) Employment (d) Going for Morning Walks.

iii. Which of the following is not a characteristics of Business?
(a) Dealing in goods-in-trade.
(b) A father teaching his son.
(c) Involves risk and uncertainty of income.
(d) Aims at earning profits.

iv. Economic objectives of a business do not include.
(a) Creation of customers (b) Continuous innovations
(c) Generation of employment (d) Best possible use of resources.

v. Social objectives of business include.
(a) Contribution to the general welfare of the society.
(b) Best possible use of economic resources.
(c) Creation of customers.
(d) Profit generation.

WHAT YOU HAVE LEARNT

Activities which human beings undertake are known as human activities. They are of two types – economic activities and non-economic activities. Activities undertaken to earn money are called economic activities. Activities undertaken with social and psychological motive are called non-economic activities.

- Economic activities undertaken on a regular basis to earn one's livelihood is called occupations. Occupation can be of three types: (i) Profession (ii) Employment and (iii) Business.
- Profession is an occupation requiring specialised knowledge and training. A professional has to follow certain code of conduct framed by a professional body. The primary objective of every profession is to provide service.

- Employment is an occupation in which a person works regularly for another in return for a fixed income. He has to follow the terms and conditions of employment as decided by the employer.
- Business is an activity involving regular production or purchase of goods and services for sale, transfer and exchange with the object of earning profit.
- The characteristics of business include sale or exchange of goods and services on a regular basis. It involves investment of money with the objective of earning profit but there may be risk and uncertainty of return.
- Anything that the business organization wants to achieve over a specified period of time is called business objective.
- Types of Business objectives:
  → Social Objectives
  → Economic Objectives
  → Human Objectives
  → National Objectives
  → Global Objectives
- Social responsibility of business refers to all duties and obligations of business directed towards the welfare of society.
- Understanding social responsibilities properly is essential for businessmen as:
  → it creates a goodwill for the business among the public.
  → it fosters long-term survival and growth of business.
  → it provides satisfaction to the employees which is directly related to productivity.
  → Consumers have become conscious about their rights.
- Every business is a part of society and the business is responsible towards each segment of the society, which may be called as various interest groups. These interest groups consist of owners, investors, employees, suppliers, customers, competitors, government and society.
- Social values may indicate good and desirable business conduct in the best interest of society.
- Business ethics suggest ways and means to conduct the business affairs according to morally justified principles.
- Environmental pollution refers to contamination of environment by substances that have adverse effects on living and non-living matter.
- Environmental pollution is of three types:
  i. Air Pollution,
  ii. Water Pollution, and
  iii. Land Pollution

- Every business has three types of roles to play for the control of environmental pollution
  → Preventive, curative and awareness roles.

TERMINAL EXERCISE

1. Give two examples each of economic and non-economic activities.
2. Distinguish between Economic and Non-economic activities on the basis of
   (i) Purpose
   (ii) Outcome
3. What is meant by an occupation?
4. Explain any two characteristics of employment.
5. Explain any two characteristics of profession.
6. Define the term ‘business.
7. Why do we call a person doing carpentry as engaged in a vocation?
8. A cobbler making shoes for himself is not engaged in business, why?
9. Describe the main characteristics of business.
10. What is meant by business? Describe any two characteristics of business.
11. How is business different from profession? Answer in about 60 words.
12. Discuss the broad categories of business activities, giving examples?
13. Explain the three types of occupations people are generally engaged in.
14. If there is no regularity in dealings, an activity cannot be called business. Do you agree? Give reasons in support of your answer.
15. Despite uncertainty of return, why is a businessman willing to invest money in the business?
16. Profit earning is the main objective of business. Explain.
17. Explain the economic objectives of business.
18. Enumerate the social objectives of business.
19. Explain the importance of national objectives of business.
20. Enumerate and explain the human objectives of business.
21. Explain the global objectives of business.
22. What is meant by social responsibilities of business?
23. Prepare a list of the interest groups with whom business interacts in its day-to-day activities.
24. Why should business be responsible to the society? Give any three reasons.
25. State the responsibilities of business towards customers.
26. In what way should the business be responsible to the government?
27. Define environmental pollution and state the types of environmental pollution.

28. Explain the various causes of air pollution.
29. State three important impacts of air pollution.
30. What are the effects of water pollution?
31. How does business pollute the environment? State any five points.
32. Describe the role of business in preventing environmental pollution.
33. Enumerate the important events that influenced Indian business during the British rule.
34. India has contributed significantly to the world of business. Describe any four contributions to support this statement.

ANSWER TO INTEXT QUESTIONS

1.1 I. (i) T, (ii) F, (iii) T,
(iv) T, (v) F

II. (i) Non-economic, (ii) Economic,
(iii) Non-economic, (iv) Non-economic
(v) Economic, (vi) Non-economic,
(vii) Economic

1.2 I. (i) Occupation, (ii) Specialized knowledge,
(iii) Employment, (iv) Code of conduct , (v) Employer

II. (i) b, (ii) d, (iii) a, (iv) c

1.3 I. (i) Agree, (ii) Disagree, (iii) Disagree,
(iv) Agree, (v) Agree, (vi) Disagree,
(vii) Disagree

II. (i) W, (ii) W, (iii) R,
(iv) W, (v) R, (vi) R

1.4 (i) False, (ii) True, (iii) False, (iv) False, (v) False

1.5 (i) Wrong , (ii) Right, (iii) Wrong, (iv) Wrong, (v) Wrong

1.6 (i) True , (ii) True, (iii) False, (iv) False, (v) False

1.7 (i) Social, (ii) Export, (iii) Regularly, (iv) Employees.

1.8 (i) Society, (ii) Obligations, (iii) Inferior, (iv) Voluntarily,
(v) Image, (vi) Globalization, (vii) Social responsibility,
(viii) Discourages

1.9

Society	:	i, iii, ix
Employees	:	ii, iv, vi
Customers	:	v, vii, viii

1.10	I.	(i) harmful,	(ii) appreciated,		(iii) adulterated,	
		(iv) base,	(v) business ethics			
	II.	(i) c,	(ii) d,	(iii) e,	(iv) a,	(v) b
1.11	I.	(i) False,	(ii) True,	(iii) False,	(iv) False,	(v) True
	II.	(i) c,	(ii) d,	(iii) b,	(iv) c,	(v) a

ACTIVITIES FOR YOU

- Find out from ten working people around you what they do to earn a living. Classify these under Business, Profession and Employment.
- Talk to a shopkeeper or any other businessman and find out
  - The type of goods or services they deal in;
  - The resources they invest, like land, labour and capital etc.
  - The risk and uncertainties they face in earning profit.
- Collect information from books, magazines and newspapers about the important items of export and import in India presently. Also find out the names of at least five ports used for foreign trade in our country.
- Find out from a shop–keeper or any other businessman of your locality about what are their objectives of running the business. Classify these objectives on the basis of the different types of objectives you have learnt about in this lesson.
- Identify any two responsibilities which should be discharged by the shopkeepers of your locality, for the welfare of the society.
- Is your environment polluted? If yes, then make a list of the causes of such pollution. What action would you like to suggest preventing environmental pollution?

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2

INDUSTRY AND COMMERCE

Business represents organized efforts by an individual or group of individuals engaged in making a living. The term 'business' has been defined by different authors in their own way. According to Urwick and Hunt, "Business is any enterprise which makes, distributes, or provides any article or service, which other members of the community need and are able and willing to pay for. It, therefore, includes all those activities which involve production or purchase of goods or rendering of certain services with the object of selling them at a profit. Business comprises all profit seeking activities and enterprises that provide goods and services necessary to an economic system.

OBJECTIVES

After studying this unit, you will be able to:

- classification of business activities;
- industry and its types;
- commerce- trade and its auxiliaries;
- define the term e-commerce;
- describe the categories of e-commerce; and
- discuss the advantages of e-commerce.

2.1 CLASSIFICATION OF BUSINESS ACTIVITIES

The basic cause of all productive activities is the unlimited wants of human being and the need to satisfy them. Human wants are many and also complex in nature. Though the basic requirements of human beings are three viz., food, clothing and shelter. We are consuming many other things which have to be generally paid for. For example tooth paste and soap you use, the bread you eat, the furniture you use, the dress you wear, the T V you watch are some of the examples. Have you ever thought of how these things are made available to you? Each one of them has a long process behind it. The manufacturer produces goods for the consumer. Generally the manufacturer may take the help of middleman like the wholesalers and retailers to distribute the goods to the consumer.

Business activities may be broadly classified into two categories: (i) Industry, and (ii) Commerce. Industry is concerned with the production of goods and materials, while commerce is mainly concerned with their distribution.

2.2 INDUSTRY

The production side of business activity is referred as industry. It is a business activity, which is related to the raising, producing, processing or manufacturing of products. The products are consumer's goods as well as producer's goods. Consumer goods are goods, which are used finally by consumers. E.g. Food grains, textiles, cosmetics, etc. Producer's goods are the goods used by manufacturers for producing some other goods. E.g. Machinery, tools, equipments, etc. Expansion of trade and commerce depends on industrial growth. It represents the supply side of market. The term industry refers to that part of the business activity which is concerned with:

An Industry

i. Extracting materials like coal, iron ore, petroleum (called extractive industry);

ii. Processing and converting raw materials into finished products like soap, bread, fans, machines, cement (called manufacturing industry); and

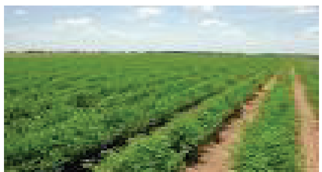
iii. Construction activity like buildings, dams, bridges, roads (called construction industry).

Thus, the activities of human beings engaged in extraction, production, processing, construction and fabrication of goods come under industry. In another sense, industry means a group of factories usually specializing in a particular product line. For example, all those factories which produce cotton textiles together constitute cotton textile industry. All the cement factories together constitute cement industry.

2.3 CLASSIFICATION / TYPES OF INDUSTRIES

There are various types of industries. These are mentioned as follows:-

(i) Primary Industry: Primary industry is concerned with production of goods with the help of nature. It is a nature-oriented industry, which requires very little human effort. e.g. Agriculture, farming, forestry, fishing, horticulture, etc.



An Agricultural Farm

(ii) **Genetic Industry:** Genetic industries are engaged in re-production and multiplication of certain spices of plants and animals with the object of sale. The main aim is to earn profit from such sale. e.g. plant nurseries, cattle rearing, poultry, cattle breeding, etc.

Genetic Industry

(iii) **Extractive Industry:** Extractive industry is concerned with extraction or drawing out goods from the soil, air or water. Generally products of extractive industries come in raw form and they are used by manufacturing and construction industries for producing finished products. e.g. mining industry, coal mineral, oil industry, iron ore, extraction of timber and rubber from forests, etc.

Mining Industry

(iv) **Manufacturing Industry:** Manufacturing industries are engaged in transforming raw material into finished product with the help of machines and manpower. The finished goods can be either consumer goods or producer goods. e.g. textiles, chemicals, sugar industry, paper industry, etc.

Manufacturing Industry

(v) **Construction Industry:** Construction industries take up the work of construction of buildings, bridges, roads, dams, canals, etc. This industry is different from all other types of industry because in case of other industries goods can be produced at one place and sold at another place. But goods produced and sold by constructive industry are erected at one place.

A Building under Construction

(vi) **Service Industry:** In modern times service sector plays an important role in the development of the nation and therefore it is named as service industry. The main industries, which fall under this category, include hotel industry, tourism industry, entertainment industry, etc.

Service Industry

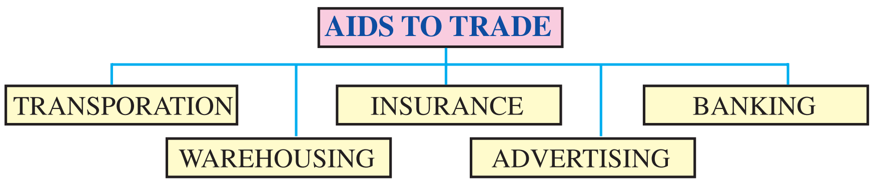
2.4 COMMERCE

While industry is concerned with the production of goods, commerce is concerned with making the same available to those who need them. In other words, commerce is mainly concerned with distribution of goods. It embraces all those functions which are essential for maintaining a free and uninterrupted flow of goods. Therefore, the term commerce includes 'trade' and 'aids to trade'.

2.5 TRADE

The term 'trade' is used to denote buying and selling. Therefore, one who buys and sells is a trader. A trader is a middleman between the producer and the consumer. Trade may be wholesale trade or retail trade. A wholesale trader purchases in large quantities from the producers, and sells in small quantities to the retail traders. A retail trader is one who purchases from the wholesale trader or sometimes directly from the producer, and sells in smaller quantities to the ultimate consumers.

2.6 AIDS TO TRADE (AUXILIARIES TO TRADE)



All activities that facilitate smooth flow of goods from manufacturing centres to the consumption centres are called aids or auxiliaries to trade. Aids to trade may be classified into five categories: (i) transportation, (ii) warehousing, (iii) insurance, (iv) advertising, and (v) banking. These are briefly explained below.

Transportation: Selling all the goods produced at or near the production centres is not possible. Hence, goods are to be sent to different places where they are demanded. The medium which moves men and materials from one place to another is called transport.

Transport can be of three types:

i. Land transport - road, rail

ii. Air transport - aeroplane

iii. Water transport - boat, ship

Warehousing: Storage is indispensable in these days of mass production. The goods should be stored carefully from the time they are produced till the time they are sold, hence, the need for warehousing. Warehouses are also called godowns.

Insurance: The goods may be destroyed while in production process or in transit due to accidents, or in storage due to fire or theft, etc. The businessmen would like to cover these risks. Insurance companies come to their rescue in this regard. They undertake to compensate the loss suffered due to such risks. For this purpose, the business has to take an 'insurance policy' and pay a certain amount regularly, called 'premium'.

Advertising: Advertising is an effective aid in selling the goods. The producer, through advertisement, communicates all information about his goods, to the prospective consumers and create in them a strong desire to buy the product. Advertising can be carried in different ways. It can be indoor or outdoor. Communicating with people through advertising, when they are in their homes, is called indoor advertising. Examples of this type are advertising through newspapers, radio, 'television, etc. Communicating with people, when they go out from their homes, is called outdoor advertising. Examples of this type are advertisements in cinema theatre, wall posters, and hoardings at prominent places.

Banking: Now-a days we cannot think of business without banks. To start the business or to run it smoothly we require money. Banks supply money. A bank is an organization which accepts deposits of money from the public, withdrawable on demand or otherwise, and lends the same to those who need it. Banks also provide many services required for the business activity. Here. We have attempted to give just an overview of various business activities.

INTEXT QUESTIONS 2.1

I. Tick the correct alternative.

   i. Industry is concerned with **production/distribution.**

   ii. Commerce is mainly concerned with **production/distribution.**

   iii. One who buys and sells in large quantities is a **wholesaler/ retailer.**

   iv. The medium which moves men, materials from one place to another is called **insurance/transport.**

II. Dalmia Oil Mills produce refined oil. The entire production is lifted by Ruchi Oil Depot, who in turn sells it to various retailers. Mrs. Priti purchased 2 kg of oil from Balaji Groceries. Name the following:

		Name
i)	Manufacturer	______________
ii)	Wholesaler	______________
iii)	Retailer	______________
iv)	Consumer	______________

2.7 MEANING AND DEFINITION OF E-COMMERCE

The Internet is now a flourishing industry. With the technology advancing at a fast rate, more and more people are open to computers and internet. Increasingly they are learning to utilize the Internet for their day to day needs. Here e-commerce websites take a front seat, moving out to the millions of people searching for your kind of product or services online. Putting it simply, e-commerce or Electronic Commerce means buying and selling of goods and services on the Internet. Before making any decision in business, it is worth taking into consideration the benefits, the company would reap on implementation of the new strategy of e-commerce. So, the first and foremost thing that you need to know is whether your kind of business needs an ecommerce feature enabled website?

Difference between Traditional Business and E-business

Basis of Differences	Traditional Business	E-business
i.Formation	Difficult	Easy
ii.Physical Presence	Necessary	Not necessary
iii.Cost of Establishment	More	Less
iv. Operating cost	High, due to investment in procurement, Marketing and distribution.	Low because physical. facilities not required
v. Dealing Time	More	Less,because trans-actions are settled on Internet.
vi. Opportunity for inter-personal touch	More	Less
vii. Length of Business Cycle	Longer, because sequen-tial relationship among various business processes.	Shorter, because of completion of various business processes generally at the same time.
viii. Government Help	Less	More, because of giving priority to IT sector.
ix. Global Reach	Less	More

E-Commerce (**e-commerce**) or **e**lectronic commerce, a subset of ebusiness, is the purchasing, selling, and exchanging of goods and services over computer networks (such as the Internet) through which transactions or terms of sale are performed electronically. In practice, this term and a newer term, e-business, are often used interchangeably. For online retail selling, the term e-tailing is sometimes used.

Electronic commerce is the conduct of financial transactions by electronic means. With the huge success of commerce on the Internet, e-commerce usually refers to shopping at *online stores* on the World Wide Web, also known as e-commerce Web sites. E-Commerce can be broken into four main categories: B2B, B2C, C2B, and C2C.

2.8 TYPES OF E-COMMERCE

E-commerce can be classified as follows:

B2B (Business-to-Business): Companies doing business with each other such as manufacturers selling to distributors and wholesalers selling to retailers. Pricing is based on quantity of order and is often negotiable.

B2C (Business-to-Consumer): Businesses selling to the general public typically through catalogs utilizing shopping cart software. By dollar volume, B2B takes the price, and the consumer to do the transaction .

	Business	Customers
Business	B2B	C2B
Customers	B2C	C2C

Types of e-commerce

C2B (Consumer-to-Business): A consumer posts his project with a set budget online and within hours companies review the consumer's requirements and bid on the project. The consumer reviews the bids and selects the company that will complete the project. C2B empowers consumers around the world by providing the meeting ground and platform for such transactions.

C2C (Consumer-to-Consumer): There are many sites offering free classifieds, auctions, and forums where individuals can buy and sell things to online payment systems like Pay Bill where people can send and receive money online with ease. eBay's auction service is a great example of where person-to-person transactions take place everyday since 1995. Companies using internal networks to offer their employees products and services online not necessarily online on the Web are engaging in B2E (Business-to-Employee) ecommerce.

Other Forms of e-Commerce that involve transactions with the government—from procurement to filing taxes to business registrations to renewing licenses. There are other categories of e-commerce, but they tend to be superfluous, some of these are:

G2G (Government-to-Government), G2E (Government-to-Employee), G2B (Government-to-Business), B2G (Business-to-Government), G2C (Government-to-Citizen), C2G (Citizen-to-Government).

2.9 ADVANTAGES OF E-COMMERCE

You may have realised that business transactions conducted electronically have a wide scope. E-commerce is applicable to wholesale as well as retail business. Buying and selling through internet may take place round the clock between business units in different parts of the world. Let us discuss the advantages of e-commerce.

(i) **Wider choice**: With the help of a well-developed computer networking system, business units can operate at the national as well as global level. The customers thus, have a wider choice of products and services. The businessmen also get a wider market for their products and services.

(ii) **Improved customer services**: Suppliers of goods and services can offer a wide range of services to the customers, before as well as after sales such as information about products, guidance for use, responding to customers' querries about quality and usefulness of the product, etc.

(iii) **Quick response to customer needs**: In e-commerce business transactions take far less time as compared to the normal process of buying and selling. This is because the producers cut short the distribution channel and supply products and services directly to consumers.

(iv) **Cost saving and price reduction**: There is substantial cost saving in business transactions conducted through e-commerce. There is no need to display goods in showrooms or keep large stock in godowns. The number of employees required to carry on the business is less. Thus, the cost of operation naturally comes down. So the customers may get goods at a lower rate.

(v) **Market information**: Access to market information available through the internet enables business concerns to identify varied customer needs and produce new goods and better services accordingly.

INTEXT QUESTIONS 2.2

Multiple Choice Questions

i. The industries engaged in growing of plants are known as
   (a) Construction Industries (b) Manufacturing Industries
   (c) Extractive Industries (d) Genetic Industries.

ii. Industries engaged in the construction of building, roads and bridges etc. are known as
   (a) Construction Industries (b) Manufacturing Industries
   (c) Extractive Industries (d) Genetic Industries.

iii. E-Commerce means buying and selling goods and services.
   (a) Electronically (b) In person
   (c) Through Post offices (d) Through T.V.

iv. Aid to trade includes
   (a) Banking (b) Manufacturing
   (c) Buying (d) Selling.

v. E-Commerce does not include
   (a) A2A (b) B2B
   (c) B2C (d) G2G

WHAT YOU HAVE LEARNT

- Any activity carried with the intention of making profit is called business. A person engaged in business is called a businessman. Business activities may be broadly classified into two categories—industry and commerce. Industry is concerned with the processing of materials and production of goods, whereas commerce is concerned with the distribution of those materials and goods.

- Commerce is a broad term which conventionally includes trade and aids to trade. Trading is an activity of buying and selling. In order to help or facilitate trade, activities like transportation, warehousing, insurance, advertising, banking, etc., are necessary. These are called aids or auxiliaries to trade.

TERMINAL EXERCISE

1. What do you mean by business? Explain the various types of business activities.

2. Define e- commerce. Describe its advantages.
3. What is meant by Industry? Discuss various types of Industries.
4. What are the types of e-commerce?
5. What is meant by the auxiliaries to trade? Explain
6. As a businessman what are the different aids to trade you are using in your daily transaction of business? Comment.

ANSWER TO INTEXT QUESTIONS

2.1. I. (i) Production, (ii) Distribution, (iii) Wholesaler, (iv) Transport

II. (i) Dalmia Oil Mills, (ii) Ruchi Oil Depot, (iii) Balaji Groceries, (iv) Mrs. Priti

2.2. (i) d, (ii) a, (iii) a, (iv) a, (v) a

ACTIVITY FOR YOU

- Identify five business activities being carried on in, your locality. Classify them into 'Industry' or 'Commerce'. Further, under Industry, can you tell whether they are primary, secondary or tertiary industries?

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MODULE - II

Maximum Marks 15

Hours of Studies 35

Forms of Business Organisation

On the basis of to size, ownership and managerial requirements business units have a defined organizational structure. After studying this module the learners shall be able to classify the business enterprises into various forms of organization like Sole Proprietorship, Partnership Firms, Hindu Undivided Family, Cooperative Societies and Joint Stock Companies.

3

SOLE PROPRIETORSHIP, PARTNERSHIP & HINDU UNDIVIDED FAMILY

We go to the market to buy items of our daily need. In the market, we find a variety of shops, some of them small and some of them big. We may see some persons selling vegetables, rice, pulses, peanuts, newspapers etc. on the roadside. We may also find cobbler repairing shoes on the footpath. Everyday you come across such type of shops in your locality. But have you ever tried to know how these businesses are run? Who are the owners of these businesses? What exactly does an owner do for any business? You may say, the owner invests capital to start the business, takes all decisions relating to business, looks after the day to day functioning of the business and finally, is responsible for the profit or loss. Yes, you are right. The owner does exactly all these things. If you go a bit further, you will find that in some businesses a single individual performs all these activities. This is called sole proprietorship. In some business group of individual join together to become owners of business and share the profits and losses. This is another form of business organization is known as partnership. Another form of business which is owned by the members of a Joint Hindu family and in which the family possesses some inherited property. It is known as Hindu Undivided Family Business.

In this lesson let us find out more about these types of business organisations.

OBJECTIVES

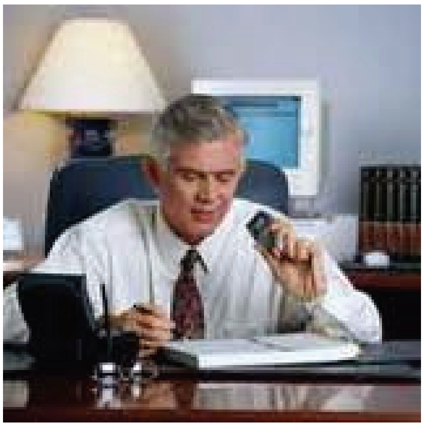
After studying this lesson, you will be able to:

- explain the meaning of sole proprietorship form of business organisation;
- list the characteristics of sole proprietorship;
- describe the advantages and limitations of sole proprietorship;
- understand the meaning of partnership;

- identify the features of partnership form of business organisation;
- state the advantages and limitations of partnership form of business organisation;
- explain the concept of limited liability partnership; and
- explain Joint Hindu Family business with its characteristies, merits and limitations

3.1 MEANING OF SOLE PROPRIETORSHIP

'Sole' means single and 'proprietorship' means ownership. It means only one person or an individual is the owner of the business. Thus, the business organisation in which a single person owns, manages and controls all the activities of the business is known as sole proprietorship form of business organisation. The individual who owns and runs the sole proprietorship business is called a 'sole proprietor' or 'sole trader'. A sole proprietor pools and organises the resources in a systematic way and controls the activities with the sole objective of earning profit.



Sole Properitor

3.2 CHARACTERISTICS OF SOLE PROPRIETORSHIP

Sole proprietorship has the following characteristics :

i. **Ease of formation:—** An ideal form of ownership should be easy to form. Ease of formation implies minimum of legal and other formalities. Sole proprietorship is easy to form.

ii. **Single Ownership :** A single individual always owns sole proprietorship form of business organization. That individual owns all assets and properties of the business. Hence, he alone bears all the risk of the business. Thus, the business of the sole proprietor comes to an end at the will of the owner or upon his death.

iii. **No sharing of Profit and Loss :** The entire profit arising out of sole proprietorship business goes to the sole proprietor. If there is any loss it is also to be borne by the sole proprietor alone. Nobody else shares the profit and loss of the business with the sole proprietor.

iv. **One man's Capital :** The capital required by a sole proprietorship form of business organisation is totally arranged by the sole proprietor. He provides it either from his personal resources or by borrowing from friends, relatives, banks or other financial institutions.

Notes

v. **One-man Control :** The controlling power in a sole proprietorship business always remains with the owner. The owner or proprietor alone takes all the decisions to run the business.

vi. **Unlimited Liability :** The liability of the sole proprietor is unlimited. This implies that, in case of loss the business assets along with the personal properties of the proprietor shall be used to pay the business liabilities.

3.3 ADVANTAGES OF SOLE PROPRIETORSHIP

The sole proprietorship form of business is the most simple and common in our country. It has the following advantages :

i. **Easy to Form and Wind up :** A sole proprietorship form of business is very easy to form. With a very small amount of capital one can start the business. Legal formalities are minimum just like formation, it is also very easy to wind up the business. It is the owners, sole discretion to form or wind up the business at any time.

ii. **Direct Motivation :** The profits earned belong to the sole proprietor alone and he bears the risk of losses as well. Thus, there is a direct link between effort and reward. If he works hard, then there is a possibility of getting more profit and vice versa This provides strong motivation for the sole proprietor to work hard.

iii. **Quick Decision and Prompt Action :** In a sole proprietorship business the sole proprietor alone is responsible for all decisions. Since no one else is involved in decision making it becomes easy to take quick and prompt action on the basis of decision taken.

iv. **Better Control :** In sole proprietorship business, the proprietor has full control over each and every activity of the business. He is the planner as well as the organiser, who co-ordinates every activity in an efficient manner. Since the proprietor has all authority with him, it is possible to exercise better control over business.

v. **Maintenance of Business Secrets :** In the case of sole proprietorship business, the proprietor is in a very good position to keep his plans to himself since management and control are in his hands. There is no need to disclose any information to others.

vi. **Close Personal Relation :** The sole proprietor is always in a position to maintain good personal contact with the customers and employees. Direct contact enables the sole proprietor to know the likes, dislikes and tastes of the customers. Also, it helps in maintaining close and friendly relations with the employees and thus, business runs smoothly.

vii. **Provides Self-employment :** Sole proprietorship form of business organization provides self employment opportunities to the people. Not only is the owner self-employed, sometimes he also creates job opportunities for others. You must have observed in different shops that there are a number of employees assisting the owner in selling goods to the customers. Thus, it helps in reducing poverty and unemployment in the country.

3.4 LIMITATIONS OF SOLE PROPRIETORSHIP

One-man business is the best form of business organisation because of the above-discussed advantages. However, all types of ownership have some limitations and the sole proprietorship is no exception. Let us learn those limitations.

i. **Limited Capital :** In sole proprietorship business, it is the owner who arranges the capital required for the business. It is often difficult for a single individual to raise a huge amount of capital. The owner's own funds as well as borrowed funds sometimes become insufficient to meet the requirement of the business for its growth and expansion.

ii. **Lack of Continuity :** The existence of sole proprietorship depends on the owner. The business may come to an end as and when the sole proprietor so decides or in the event of his death.

iii. **Limited Size :** In sole proprietorship form of business organisation there is a limit beyond which it becomes difficult to expand its activities. It is not always possible for a single person to supervise and manage the affairs of the business if it grows beyond a certain limit.

iv. **Lack of Managerial Expertise :** A sole proprietor may not be an expert in every aspect of management. He/she may be an expert in administration, planning, etc., but may be poor in marketing.

INTEXT QUESTIONS 3.1

Fill in the blanks with suitable words in the following statements relating to sole proprietorship business :

i. The sole proprietor may not be able to raise adequate __________ for the expansion of business.

ii. The life of the business depends on the life of the ______________ .

iii. Due to limited financial resources and limitation of the expertise of the owner, the business may lack professional _____________ .

iv. The business is suitable for simple business where ________ skill is required.

v. Sole proprietorship best caters the needs of customers where the market for the product is __________ and __________________ .

3.5 MEANING OF PARTNERSHIP

You have studied that sole proprietorship form of business organisation has certain limitations. Its financial and managerial resources are limited. It is also not possible to expand the business activities beyond a certain limit. In order to overcome these drawbacks, another form, i.e., partnership form of business has come into existence. Let us first find out what is 'partnership'

Picture of a Partnership

Suppose you want to open a restaurant in your locality. You will need to gather a lot of things. You may find that it is not possible to arrange the money required to start and run the business alone. You may then talk to your friends and all of you agree to run the restaurant by contributing a certain amount of money and the other things required. So all of you join hands together to become the owners and share the profits and losses. This is another form of business organization, which may be known as partnership.

It is basically a relation between two or more persons who join hands to form a business organisation with the objective of earning profit. The persons who join hands are individually known as 'Partner' and collectively a 'Firm'. The name under which the business is carried on is called 'firm name'. Sultan Chand & Co. Ram Lal & Co. Gutpa & Co. are the names of some partnership firms.

A partnership firm is governed by the provisions of the Indian Partnership Act, 1932,. Section 4 of the Indian Partnership Act, 1932, defines partnership as "a relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

3.6 CHARACTERISTICS OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

After having a brief idea about partnership, let us identify the various features of this form of business organisation.

i. **Two or more Members** – At least two members are required to start a partnership business. But the number of members should not exceed 10 in case of banking business and 20 in case of other business.

ii. **Agreement :** Whenever you think of joining hands with others to start a partnership business, first of all, there must be an agreement between all of you. This agreement contains -

- the amount of capital contributed by each partner,
- profit or loss sharing ratio;
- salary or commission payable to the partners, if any;
- duration of business, if any;
- name and address of the partners and the firm;
- duties and powers of each partner;
- nature and place of business; and
- any other terms and conditions to run the business.

iii. **Lawful Business** – The partners should always join hands to carry on any kind of lawful business. To indulge in smuggling, black marketing etc, can not be called partnership business in the eye of the law.

iv. **Sharing of Profit** – The main objective of every partnership firm is sharing of profits of the business amongst the partners in the agreed proportion. In the absence of any agreement for the profit sharing, it should be shared equally among the partners.

v. **Unlimited Liability**– Just like the sole proprietor the liability of partners is also unlimited. That means, if the assets of the firm are insufficient to meet the liabilities, the personal properties of the partners, if any, can also be utilised to meet the firm's liabilities.

vi. **Voluntary Registration** – It is not compulsory that you register your partnership firm. However, if you don't get your firm registered, you will be deprived of certain benefits, therefore, it is desirable. The effects of non-registration are :

- Your firm cannot take any action in a court of law against any other party for settlement of claims.
- In case there is any dispute among partners, it is not possible to settle the settlement of claims, through a court of law.
- Your firm cannot claim adjustments for amount payable to or receivable from any other party through a Court of law.

vii. **Principal Agent Relationship**– All the partners of a firm are the joint owners of the business. They all have an equal right to actively participate in its management. Every partner has a right to act on behalf of the firm. When a partner deals with other parties in business transactions, he/she acts as an agent of the others and at the same time the others become the principal. So there always exists a principal agent relationship in every partnership firm.

viii. **Continuity of Business** – A partnership firm comes to an end in the event of death, lunacy or bankruptcy of any partner. Even otherwise, it can discontinue its business at the will of the partners. At any time, they may take a decision to end their relationship.

3.7 ADVANTAGES OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

Partnership form of business organisation has certain advantages, which are as follows:

i. **Easy to form** – Like sole proprietorship, the partnership business can be formed easily without any legal formalities. It is not necessary to get the firm registered. A simple agreement, either oral or in writing, is sufficient to create a partnership firm.

ii. **Availability of large resources** – Since two or more partners join hands to start partnership business it may be possible to pool more resources as compared to sole proprietorship. The partners can contribute more resources as compared to sole proprietorship. The partners can contribute more capital, more efforts and also more time for the business.

iii. **Balanced decisions** – The partners are the owners of the business. Each of them has equal right to participate in the management of the business. In case of any conflict they can sit together to solve the problems. since all partners participate in decision-making, there is less scope for reckless and hasty decisions.

iv. **Sharing of losses** – In a partnership firm all the partners share the business risks. For example, if there are three partners and the firm suffers a loss of Rs. 12,000 during a particular period, then all partners may share it and the individual burden will be Rs. 4,000 only.

3.8 LIMITATIONS OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

Inspite of all these advantages as discussed above, a partnership firm also suffers from certain limitations, some of them are as follows :

i. **Unlimited Liability** – All the partners are jointly as well as individually liable for the debts of the firm to an unlimited extent. Thus, they can share the liability among themselves or any one can be asked to pay all the debts even from his personal properties.

ii. **Uncertain Life** – The partnership firm has no legal entity separate from its partners. It comes to an end with the death, insolvency, incapacity or the retirement of any partner. Further, any dissenting member can also give notice at any time for dissolution of partnership.

iii. **Limited Capital** – Since the total number of partners cannot exceed 20,the capital to be raised is always limited. It may not be possible to start a very large business in partnership form.

iv. **Non transferability of share** – If you are a partner in a firm you cannot transfer your share of interest to outsiders without the consent of other partners. This creates inconvenience for the partner who wants to leave the firm or sell part of his share to others.

3.9 LIMITED LIABILITY PARTNERSHIP

A corporate business vehicle that enables professional expertise and entrepreneurial initiative to combine and operate in flexible, innovative and efficient manager, providing benefits of limited liability while allowing its members the flexibility for organizing their internal structure as a partnership is called LLP.

1. With the growth of the Indian economy, the role played by its entrepreneurs as well as its technical and professional manpower has been acknowledged internationally. It is felt opportune that entrepreneurship, knowledge and risk capital combine to provide a further impetus to India's economic growth. In this background, a need has been felt for a new corporate form that would provide an alternative to the traditional partnership, with unlimited personal liability on the one hand, and, the statue-based governance structure of the limited liability company on the other, in order to enable professional expertise and entrepreneurial initiative to combine, organize and operate in flexible, innovative and efficient manner.

2. The limited Liability Partnership (LLP) is viewed as an alternative corporate business vehicle that provides the benefits of limited liability but allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form would enable entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP would also be a suitable vehicle for small enterprises and for investment by venture capital.

3. Keeping in mind the need for the day, the Parliament enacted the Limited Liability Partnership Act, 2008 which received the assent of the President on 7th January, 2009.

The salient features of the LLP Act 2008 inter alia are as follows :

(i) The LLP shall be a body corporate and a legal entity separate from its partners. Any two of more persons, associated for carrying on a lawful business with a view to profit, may by subscribing their names to an incorporation document and filing the same with the Register, form a Limited Liability Partnership. The LLP will have perpetual succession;

(ii) The mutual rights and duties of partners of an LLP inter se and those of the LLP and its partners shall be governed by an agreement between the LLP and the partners subject to the provisions of the LLP Act 2008. The act provides flexibility to devise the agreement as per their choice. In the absence of any such agreement, the mutual rights and duties shall be governed by the provisions of the LLP Act.

(iii) The LLP will be a separate legal entity, liable to the full exptent of its assets, with the liability of the partners being limited to their agreed contribution in the LLP which may be of tangible or intangible nature or both tangible and intangible in nature. No partner would be liable on account of the independent or un-authorized actions of other partners of their misconduct. The liabilities of the LLP and partners who are found to have acted with intent to defraud creditors or for any fraudulent purpose shall be unlimited for all or any of the debts or other liabilities of the LLP;

(iv) Every LLP shall have at least two partners and shall also have at least two individuals as Designated Partners, of whom at least one shall be resident in India. The duties and obligations of Designated Partners shall be as provided in the law;

INTEXT QUESTIONS 3.2

Fill in the blanks with appropriate word given in bracket.

i. It is _______ (not necessary, necessary) to get the partnership firm registered.

ii. The partnership firm is a ________________(flexible, rigid) form of business organization.

iii. In partnership, business risk is ______ (shared, not shared) by all the partners.

iv. Partnership is a/an ________ (group, individual) effort.

v. LLP act was framed in the year________. (2008, 2010)

3.10 MEANING OF JOINT HINDU FAMILY BUSINESS

The Joint Hindu family business refers to a business which is owned by the members of a joint Hindu family. It is also known as Hindu Undivided Family Business. This form of organisation exists under Hindu law and is governed by the law of succession. The joint Hindu family form is a form of business organisation in which the family possesses some inherited property. The inheritance of the property is among the male members. The share of ancestral property is inherited by a member from his father, grandfather and great grandfather. Thus, three successive generations can simultaneously inherit the ancestral property. For purposes of running of joint Hindu family business, only male members are entitled who are referred to as coparceners. The oldest member is known as the *Karta.*

Picture of a Joint Hindu Family

3.11 FEATURES OF THE JOINT HINDU FAMILY BUSINESS

i. **Membership by birth :** Membership of a Joint Hindu family business is automatic by birth of a male child. It is not created by an agreement among family members.

ii. **Management :** The management vests in the *Karta,* the eldest member of the family. However, the *Karta* may associate other members of the HUF to assist him.

iii. **Liability :** The *Karta* has unlimited liability, i.e. even his personal assets can be used for payment of business dues. Every other coparcener has a limited liability upto his share in the HUF property.

iv. **No Maximum limit :** There is no restriction on the number of coparceners of the HUF business. However, the membership is restricted to three successive generations.

v. **Minor members :** A male child at the time of birth becomes a coparcener. Thus, an HUF does not restrict membership to minors.

vi. **Unaffected by death :** The HUF business continues even after the death of a coparcener including the *Karta.* The next senior most surviving male member of the HUF becomes the *Karta.* However, it may come to an end if all the members notify that they are not members of the Joint Hindu Family.

3.12 MERIT OF JOINT HINDU FAMILY BUSINESS

i. **Economic security and status to the members :** The Joint Hindu Family business provides members a sense of security and belonging because of the financial stake they possess in it. It also gives them status in society while dealing with others.

ii. **Continuity of business :** The business has a continuity. It is not affected by death or lunacy of members, including the *Karta.* Till such time that the members jointly do not decide to terminate it, the business continuous to exist.

iii. **Family pride :** Members are likely to work with dedication, loyalty and care, because the work involves the family name. The business is not only an economic unit but also a matter of family prestige.

3.13 LIMITATIONS OF JOINT HINDU FAMILY BUSINESS

i. **Unlimited liability :** The *Karta* is personally liable for all business obligations. For payment of business debts, his personal property can be sold if the business assets are insufficient.

ii. **Limited access to capital :** The *Karta* has limited scope for raising capital. Her/his own funds may be insufficient for expansion. This reduces the scope for business growth.

iii. **Karta too powerful :** An incompetent *Karta* may ruin the business since all business decisions are taken by him.

iv. This form of business organisation is perhaps the natural economic extension of the joint Hindu family. It serves to provide economic security and status to members. It continues to have an important place in Indian business.

INTEXT QUESTIONS 3.3

I. Fill in the blanks by choosing a suitable word(s) :

(i) HUF stands for ____

(ii) ____________ successive generations can simultaneously inherit the ancestral property.

(iii) Members of Joint Hindu Undivided family are known as ___________

(iv) Oldest member of the Joint Hindu Undivided family is known as ______

(v) __________ has unlimited liability.

II. Multiple Choice Questions

i. Himanshi is running a business in sole-proprietorship. Due to loss in business she decided to wind up her business. On the day of winding up the assets are worth Rs. 5 lakhs and liabilities (all creditors) are worth Rs. 10 lakhs. Himanshi has her personal property of Rs. 600000. How much do you think the creditiors will get at the time of winding up of business?

(a) Rs. 5 Lakhs (b) Rs. 10 lakhs
(c) Rs. 7 lakhs (d) Rs. 11 lakhs.

ii. Limitations of sole Proprietorship do not include.
(a) Limited Capital (b) Lack of Continuity
(c) Unlimited size (d) Lack of Managerial Expertise.

iii. Indian Partnership Firms are governed by Indian Partnership act
(a) 1932 (b) 1956
(c) 2008 (d) 1912

iv. Characteristics of JHF do not include
(a) Membership by birth (b) Unlimited Liability of Karta
(c) Unaffected by death (d) Youngest Member of family is Karta.

v. Members of Joint Hindu Family are known as:
(a) Partners (b) Members
(c) Coparceners (d) Owners

WHAT YOU HAVE LEARNT

- Sole Proprietorship is a form of business organization in which a single person owns, managers and controls the business enterprise with all authority, responsibility and risk.
- In sole proprietorship business there is single ownership. The sole proprietor controls the business and his/her liability is unlimited. The proprietor bears the profit or loss and invests the capital from own sources. He/she may borrow it from friends and relatives or may take loan from banks and other financial institutions. Starting and operating the business does not requires any legal formalities.
- Sole proprietorship business is easy to form and wind up. In this business, decisions are taken quickly, better control can be exercised over the business activities and secrecy can be maintained
- Partnership is the relation between two or more persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
- LLP provides the benefits of limited liability but allows its members the flexibility of organizing their internal structure as partnership based on mutually arrived agreement.
- The persons who join hands are individually known as ‘Partner’ and collectively a ‘Firm’. The name under which the business is carried on is called ‘Firm name’.
- The Joint Hindu Family business refer to business which is owned by the members of Joint Hindu Family.

- For purpose of running of Joint Hindu Family business, only male members are entitled who are referred to as Co-Parcerner.
- The oldest member of the family is known as the Karta.

TERMINAL EXERCISE

1. Define 'Sole proprietorship'.
2. What is meant by Sole Proprietorship form of business organisation ?
3. Can a sole proprietorship business exist forever ? Justify you answer.
4. Describe how sole proprietorship facilitates employment generation ?
5. State the maximum number of partners in case of banking and other business?
6. Define Partnership?
7. State any four features of a partnership form of business organization?
8. Define Joint Hindu Family?
9. State characteristics of Joint Hindu Family?
10. Write down the silent features of LLP.

ANSWER TO INTEXT QUESTIONS

3.1 (i) Capital , (ii) Proprietor/owner, (iii) Management, (iv) Manual, (v) Small, local

3.2 (i) not necessary, (ii) flexible, (iii) shared, (iv) group, (v) 2008

3.3 I. (i) Hindu Undivided Family, (ii) Three, (iii) Coparcener, (iv) Karta (v) Karta

II. (i) b, (ii) c, (iii) a, (iv) d, (v) c

ACTIVITY FOR YOU

- Survey various businesses around you and found weather they are sole traders, partnership or joint hindu family business. Also note the characteristics by which they differ from each other.

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4

COOPERATIVE SOCIETIES AND JOINT STOCK COMPANIES

In the previous chapter, we learnt about sole proprietorship, partnership as different forms of business organization. But there are other organizations which undertake business activities whose prime objective is not only to earn profit but also to provide services. Although some amount of profit is essential to survive in the market, their main intention is not to generate profit and grow. We all have heard about Tata Steel, Reliance Industries, Coal India, Reliance Power, DLF, Ranbaxy etc. But some questions have come in our mind who owns them? What they do? What is the size of the company? What is the volume of financial transaction of these companies? Let us know more about them.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the meaning of Co-operative Societies;
- state the characteristics of Co-operative Societies;
- identify different types of Co-operative Societies;
- discuss the advantages and disadvantages of Co-operative Societies;
- define Joint Stock Company;
- explain the salient features of Joint Stock Companies;
- identify the different types of Joint Stock Companies;
- discuss the Advantages and Limitations of Joint Stock Companies;
- suggest the suitability of Joint Stock Company as a form of Business organization; and
- meaning of Multinational Company

4.1 MEANING OF CO-OPERATIVE SOCIETY

The Cooperative moment has been the outcome of the economic and social imbalances caused by the Industrial Revolution, Cooperative Societies have acquired significance in both capitalist countries as the US and Japan, as well as in socialist countries.

Notes

The term co-operation is derived from the Latin word co-operari, where the word *co* means 'with' and *operari* means 'to work'. Thus, co-operation means working together. It means those who want to work together with some common economic objective can form a society which is termed as "co-operative society". It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their individual resources, utilize them in the best possible manner, and derive some common benefit out of it.

Picture of Cooperative Society

"Cooperation is a form of organization wherein persons voluntarily associate together as human beings, on a basis of equality, for the promotion of economic interests of themselves".

For example , if the students of a particular locality join hands to provide books of different standard and thus, form a co-operative society. Now they can buy books directly from the publishers and sell them to students at a cheaper price. Because they buy books directly from the publishers and thereby the middlemen's profit is eliminated. Do you think it would have been possible on the part of a single consumer to buy books directly from the publishers. Of course, not, this could only be possible through mutual cooperation only.

4.2 CHARACTERISTICS OF CO-OPERATIVE SOCIETIES

A co-operative society is a special type of business organization different from other forms of business organization you have learnt earlier. Let us discuss its characteristics.

1. ***Voluntary Association***: A Cooperative Society is a voluntary association of persons. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.
2. ***Open Membership***: The membership of a Co-operative Society is open to all those who have a common interest. Membership is not restricted on the basis of caste, sex, colour or religion, but may be limited to the employees of a particular organisation.
3. ***Separate Legal Entity***: A cooperative undertaking must seek registration under the Cooperative Societies Act, 1912, or under the relevant

Cooperative Societies Act of the State Government. A cooperative society, has a separate legal existence, distinct from its members.

4. ***Source of Finance***: The capital of a cooperative society is raised from among its members in the form of share capital. However, it can easily raise loans and secure grants from government after its registration.
5. ***Service Motive***: The primary aim of a cooperative society is service to its members, though it may also in the process happen to earn reasonable profits for itself.
6. ***Voting Power***: Each member has only one vote, irrespective of the number of shares held by him or her.

4.3 TYPES OF CO-OPERATIVE SOCIETIES

Co-operatives socities may be classified on the basis of the nature of services rendered by them. The following are the main types of cooperatives societies.

1. ***Consumer's Co-operative Societies***: These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They purchase goods directly from the producers, this eliminate the middlemen in the process of distribution. Kendriya Bhandar, Apana Bazar and Super Bazar are examples of consumers' co-operative societies.
2. ***Producers Co-operative Societies***: These societies are formed to protect the interest of producers who are basically small in size, by making available items of their needs for production like raw materials, tools and equipments and machinery, etc. Handloom societies like APPCO, Bayanika, Haryana Handloom, etc., are examples of producers' co-operative societies.
3. ***Marketing Cooperative Societies***: These are cooperatives societies of small producers and manufactures who find it difficult to sell their products individually. These societies collect the products from the individual members and takes the responsibility of selling those products in the market. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.
4. ***Thrift and Credit Cooperative Societies***: These societies are formed to provide financial support to the members. They accept deposits from members and grant them loans at reasonable rates of interest in times of need. Village Service Co-operative Society and Urban Cooperative Banks are examples of co-operative credit society.
5. ***Cooperative Group Housing Societies***: These are residential societies which are formed to provide residential houses to members. They

purchase land and construct houses or flats and allot the same to members.

INTEXT QUESTIONS 4.1

Fill in the blanks with suitable word(s) in the following statements:

i. A co-operative society is a _______ association of individuals who come together to achieve common _______ objectives.

ii. The motive of cooperative society is to provide ________ to the members.

iii. A cooperative society have separate ________ from the members.

iv. A co-operative society works on the principle of self-help as well as _____.

v. Consumers' co-operative societies help to eliminate _______ in the process of distribution goods.

vi. Apna Bazar and Kendriya Bhandar are example of _____ co-operative societies.

4.4 ADVANTAGES OF CO-OPERATIVE SOCIETY

A Co-operative form of business organization has the following advantages:

1. ***Voluntary Organization***: It is a voluntary organization that can flourish under both the capitalist and socialist economic systems.
2. ***Democratic Control***: A Co-operative Society is controlled in a democratic manner. The management is democratic, based on the one man, one vote concept.
3. ***Open Membership***: Those persons who have common interest can form a co-operative society. Any competent person can become a member at any time he/she likes and can leave the society at will.
4. ***Elimination of Middlemen's Profit***: Generally the profit of middlemen is eliminated because through cooperatives the members control their own supply of goods, which were purchased by them directly from different manufacturers.
5. ***Limited Liability***: The liability of members in case of co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietorship and partnership the properties of members of the co-operative societies are free from any kind of risk because of business liability.
6. ***Stable Life***: A co-operative society has a fairly stable life and it continues to exist for a long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members.

4.5 LIMITATIONS OF CO-OPERATIVE SOCIETY

Besides the above advantages, the co-operative form of business organization also suffers from various litimitions. Let us know these limitations.

1. ***Lack of Motive***: The members do not work with full zeal and devotion as there is no profit motive.
2. ***Limited Capital***: The amount of capital that a cooperative society can raise from its member is very limited because the membership is generally confined to a particular section of the society.
3. ***Problems in Management***: The management of a cooperative may not be particularly competent, because a cooperative generally offers only low scales of remuneration to the staff employed.
4. ***Lack of Commitment***: The success of a cooperative depends on the loyalty of its members, something that is neither assured nor can be enforced.
5. ***Lack of Co-operation***: The co-operative societies are established with the objective of mutual co-operation. But it is generally seen that there is a lot of friction between the members because of personality differences, ego clash, etc. The selfish attitude of members may sometimes being an end to the society.

INTEXT QUESTIONS 4.2

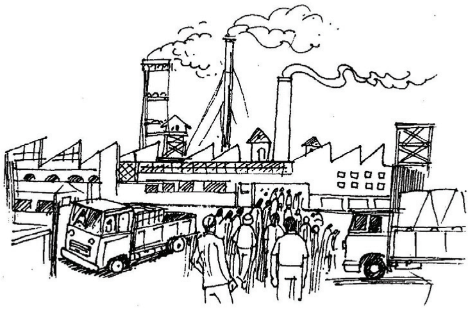
Which of the following statements about co-operative societies are true or false?

i. Any competent person can become a member of a cooperative society, at any time.
ii. The liability of the members is limited.
iii. It can exist for a long time due to a legal entity separate from its members.
iv. The society is managed by one person only.
v. The Co-operative Societies are formed to provide service rather than maximizing profit.
vi. Co-operative Societies are formed to provide service rather than maximizing profit.
vii. Professional managers do not prefer to work in co-operative societies because they do not get adequate remuneration.
viii. The success of a cooperative society depends on the loyalty of its members, something that is neither assured nor can be enforced.

4.6 MEANING OF JOINT STOCK COMPANY

The companies in India are governed by the Indian Companies Act, 1956. According to the Act 'a company means a company formed and registered under this act'

It is an artificial person created by law, having a separate legal entity, with perpetual succession and a common seal.



Picture of a Joint Stock Company

The capital of a company is divided into a number of shares of equal value. Members of the company holding one or more shares, are called the company's shareholders

4.7 CHARACTERISTICS OF A JOINT STOCK COMPANY

1. ***Artificial legal Person***: A company is an artificial person created by law and existing only in contemplation of law. A human being who takes birth, grows, enters into relationships and dies, whereas a joint stock company also takes birth, grows, enters into relationship and dies. However, it is called an artificial person as its birth, existence and death are regulated by law.
2. ***Separate Legal Entity***: A company has a separate legal entity distinct from its members. It can own property and enter into contracts in its own name. It can sue and be sued in its own name.
3. ***Perpetual Succession***: A company enjoys a perpetual succession and its life is not affected by the death, insolvency, lunacy, etc. of its members or directors.
4. ***Limited Liability***: Liability of the members of a limited company is limited to the value of the shares subscribed by them or to the amount of guarantee given by them.
5. ***Common Seal***: A company has a common seal because being an artificial person it cannot sign for itself.
6. ***Transferability of Shares***: The shares of a public limited company are freely transferable. They can be purchased and sold through the Stock Exchange.
7. ***Separation of Ownership and Management***: The number of members of a public company is generally very large so all of them or most of them cannot take part in the day to day management of the company. The company is managed by Board of Directors who are elected by the members, hence the ownership of a company is seprated from its managements.

INTEXT QUESTIONS 4.3

Which of the following statement is True and which is False?

i. Legal formality is required to form a Joint Stock Company.

ii. The shares of a public limited company are freely transferable.

iii. The shareholders of a Joint Stock Company have unlimited liability.

iv A Joint Stock Company cannot own property on its own name.

4.8 TYPES OF COMPANIES

On the basis of ownership companies can be of four different types - Private Limited Company, Public Limited Company and Government Company and Multinational company.

Private Company

According to Indian Companies Act 1956 , Private Company means a company which has a minimum paid-up capital of one lakh rupees or such higher paid up capital, as may be prescribed, and by its articles. It has following features :

(a) Restricts the right of its members to transfer their shares.

(b) Limits the number of its members to fifty only.

(c) Prohibits any invitation to the public to subscribe for any shares or debentures of the company; and

(d) Prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.

Public Company

According to Indian Companies Act 1956, Public Company is defined as a company which is not a Private Company. It has following features :

(a) Its shares can be transferred freely.

(b) Has a minimum paid up capital of five lakh rupees or such higher paid up capital, as may be prescribed.

(c) Whose members have limited liability.

(d) The number of shareholders can be up to the number of issued and subscribed shares or even more but the minimum number should not be less than seven.

4.9 DIFFERENCE BETWEEN PRIVATE LIMITED AND PUBLIC LIMITED COMPANIES

1. In the case of a private company minimum number of persons required to form a company is two, while it is seven in the case of a public company.

2. A private company has to have a minimum paid up capital of Rs. 1 lakh, whereas a public company has to have a minimum paid up capital of Rs. 5 lakh.
3. In case of a private company the maximum number of members must not exceed fifty whereas there is no such restriction on the maximum number of members in case of a public company.
4. In private company the right to transfer shares is restricted, whereas in case of public company the shares are freely transferable.
5. A private company cannot issue a prospectus, while a public company may invite the general public to subscribe for its Shares or Debentures.
6. A private company must have at least two Directors, whereas a public company must have at least three Directors.
7. A private company can commence business immediately after receiving the certificate of incorporation, while a public company can commence business only when it receives a certificate to commence business from the Registrar of Companies.
8. A private company need not hold a statutory meeting but a pubic company must hold a statutory meeting and file a statutory report with the Registrar.
9. Two members personally present form the quorum in a private company but in a public company this number is five members.

INTEXT QUESTIONS 4.4

Fill in the blanks with suitable word(s) in the following statements:

1. There should be at least ___________________ members in a Private Limited Company.
2. Freely transfer of shares from one member to another is not possible in case of ______________ Limited Company.
3. Hindustan Machine Tools is ________________ Company.
4. Minimum amount of capital required to start a private limited company is Rs ______________.

4.10 ADVANTAGES OF JOINT STOCK COMPANIES

There are many advantages which the company form of business organization enjoys over other form of business organizations some of them are as follows:

1. ***Limited Liability***: Shareholders of a company are liable only to the extent of the face value of shares held by them.
2. ***Large Financial Resources***: Company form of ownership enables the collection of huge financial resources. The capital of a company is

divided into shares of small denominations so that people with small means can also buy the shares of a company.

3. ***Continuity***: A company enjoys uninterrupted business life. As a body corporate, it will continue to exist even if all of its members die or desert it.
4. ***Transferability of Shares***: The shares of a pubic limited company can be freely transferred by the members without the consent of other members.
5. ***Diffused Risk***: The risk of loss in a company is spread over a large number of members.
6. ***Social Benefits***: The company organization helps to mobilize savings of the community and invest them in industry.

4.11 LIMITATIONS OF JOINT STOCK COMPANIES

1. ***Difficulty of Formation***: It is a very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of companies.
2. ***Excessive Government Control***: A company is subject to elaborate statutory regulations in its day-to-day operations. Periodical reports. Audit and Publications of accounts is obligatory.
3. ***Oligarchic Management***: The management of a company is supposed to be democratic but in practice company becomes an Oligarchy (rule by few).
4. ***Delay in Decision***: Too many levels of management create problems in taking decisions. A lot of time is wasted in calling and holding meetings and in passing resolutions.
5. ***Lack of Secrecy***: Under the Companies Act, 1956 a company is required to disclose to the public a variety of information on its working. This results in lack of secrecy.

4.12 SUITABILITY OF JOINT STOCK COMPANY

The company form of organization is suitable for large business concerns. It has made it possible to accumulate large amounts of capital required for large scale operations. Machine manufacturing, information technology, iron and steel, aluminum, fertilizers, and pharmaceutical etc., are generally organized in the form of Joint Stock Company.

4.13 GOVERNMENT COMPANY

A Government Company has been defined by the Indian Companies Act 1956 as one of which not less than 51 per cent of the paid-up share capital is held by the Government (Union or State) and includes subsidiaries of such companies. The audit of Government companies is done at the instance of the Comptroller and Auditor General of India (CAGI) and the reports presented before the Parliament.

A Government Company

Instances of prominent Government companies in India would include Hindustan Machine Tools (HMT), Coal India, SAIL,NTPC, MTNL, ONGC etc.

Other particular characteristic of a Government company may be listed as follows:

1. It has a separate legal existence.
2. Either the whole or at least 51 per cent of the total paid up share capital is held by the Government.
3. All the Directors or a majority of them are appointed by the company.
4. Its employees are not civil servants.

INTEXT QUESTIONS 4.5

Fill in the blanks with suitable word(s) in the following statements:

i. The liability of members of a joint stock company is limited to the extent of the ____________.
ii. A joint stock company form of business organization is managed by ____________.
iii. The cost of formation of a company is very ____________.
iv. Indian Oil Corporation and ONGC are the example of ____________.
v. The risk of loss in a company is spread over a large number of ____________

4.14 MEANING OF MULTINATIONAL COMPANIES

It is a company which carries on business not only in the country of its incorporation but also in one or more other countries. Such a company may produce goods or arrange services in one or more countries and sell these in the same or other countries. You might have heard about many Multinational Companies (MNCs) running business in

Multinational Company

India, like Philips, LG, Hyundai, General Motors, Coca Cola, Nestle, Sony, McDonald's City Bank, Pepsi Foods, Cadbury, etc.

The Multinational Companies enjoy several advantages by way of huge earnings due to large-scale production and distribution activities across national borders.

4.15 ADVANTAGES OF MULTINATIONAL COMPANIES

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

(ii) **Generation of Employment:** Expansion of industrial and trading activities by Multinational Companies leads to creation of employment opportunities and raising the standard of living in host countries.

(iii) **Use of Advanced Technology:** With substantial resources Multinational Companies undertake Research and Development activities which contribute to improved methods and processes of production and thus, increase the quality of products. Gradually, other countries also acquire these technologies.

(iv) **Growth of Ancillary Units:** Suppliers of materials and services and ancillary industries often grow in host countries as a result of the operation of Multinational Companies.

(v) **Increase in Exports and Inflow of Foreign Exchange:** Goods produced in the host countries are sometimes exported by Multinational Companies. Foreign exchange thus earned contributes to the foreign exchange reserves of host countries.

(vi) **Healthy Competition:** Efficient production of quality goods by Multinational Companies prompt the domestic producers to improve their performance in order to survive in the market.

4.16 LIMITATIONS OF MULTINATIONAL COMPANIES

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

i. **Least concern for priorities of host countries:** Multinational Companies generally invest capital in the most profitable industries and do not take into account the priorities of developing basic industries and services in backward regions of the host country.

ii. **Adverse effect on domestic enterprises:** Due to large-scale operation and technological skills, Multinational Companies are often able to dominate the markets in host countries and tend to acquire monopoly power. Thus, many local enterprises are compelled to close down.

Notes

iii. **Change in tradition:** Consumer goods, which are introduced by Multinational Companies in the host countries, do not generally conform to the local cultural norms. Thus, consumption habits of people as regards food and dress tend to change away from their own cultural heritage.

INTEXT QUESTIONS 4.6

I. Given below are some statements about Multinational Company. State which of them are true and which are false :

(i) Multinational Companies slow down the economic development of the under developed countries.

(ii) Multinational Companies help to earn foreign exchange for the host countries.

(iii) Domestic producers improve their performance because of Multinational Companies.

(iv) Generally Multinational Companies invest money in profitable industries.

(v) Multinational Companies never dominate the markets of the host countries.

II. Multiple Choice Questions

i. Cooperative societies do not have the following characteristics

(a) Open Membership (b) Separate legal entity
(c) Profit Motive (d) Voting Power

ii. Which of the following is not an example of consumer cooperative society?

(a) Apna Bazar (b) Kendriya Bhandar,
(c) Super Bazar (d) Narain Group Housing Society.

iii. Liability of the members of a cooperative society is

(a) Limited (b) Unlimited
(c) Joint (d) Joint & Several.

iv. The success of a cooperative society depends on

(a) Loyalty of its members (b) Central Government
(c) State Government (d) Local Self Government

v. In a Private Limited Company, capital is contributed by:

(a) Central Government (b) Public and Government only
(c) Its own members only (d) Issue of shares to Public only.

WHAT YOU HAVE LEARNT

- A Cooperative Society is a voluntary association of individuals having common needs who join hands for the achievement of common economic interest of the poorer sections of society through mutual help.
- Characteristics of a Cooperative societies :
  1. Voluntary Association
  2. Open Membership
  3. Separate Legal Entity
  4. Source of Finance
  5. Service Motive
  6. Voting Power:
- A cooperative society can be formed under the Indian Cooperative Societies Act, 1912, with a minimum of ten members. For registration, an application along with bye laws of the society has to be submitted to the Registrar of co-operative societies.
- **Types of Cooperatives Societies :** Consumer's Co-operative Societies, Producers Co-operative Societies, Marketing Cooperatives Societies, Thrift and Credit Societies, Cooperative Group Housing Societies.
- **Advantages of Co-operative Societies :** Voluntary Organization, Democratic Control, Open Membership, Elimination of Middlemen's Profit, Limited Liability, Stable Life.
- **Limitations of Co-operative Societies :** Lack of Motive, Limited Capital, Problems in Management, Lack of Commitment, Lack of Co-operation.
- A Joint stock company is an artificial person created by law, having separate legal entity, with perpetual succession and a common seal. The companies are governed by the Indian Companies Act , 1956.
- **Characteristics of Joint Stock Company :** Artificial legal person, Separate legal entity, Perpetual Succession, Limited Liability of members, Common Seal, Transferability of Shares, Seperation of Ownership and Management.
- **Types of Companies :** Private limited Companies, Public Limited Companies, Government Companies, Multinational Companies.
- **Advantages of Joint Stock Company :** Limited Liability, Large Financial Resources, Continuity, Transferability of Shares, Diffused

Risk, Social Benefits.

- **Limitations of Joint Stock Companies :** Difficulty of Formation, Excessive Government Control, Oligarchic Management, Delay in Decision, Lack of Secrecy.
- **Government Company:** A company in which at least 51 percent shares are held by Central or State Government(s).
- **Multinational Company:** It is a company which carries on business not only in the country of its incorporation but also in one or more other countries

TERMINAL EXERCISE

1. What is the meaning of cooperative society ?
2. What are the activities undertaken by a Consumer's Co-operative Society?
3. Give two examples each of consumer's cooperative societies and producers cooperative societies.
4. What is meant by Thrift and Credit Society ?
5. What are the causes of conflict and lack of motivation among members of a cooperative society.?
6. Give the difference between ' Producers co-operative society' and 'Marketing cooperative society'.
7. What is meant by Joint Stock Company.?
8. State the advantages of Joint Stock Company.
9. State the meaning of Multinational Company
10. Describe any four characteristics of Joint Stock Company.
11. What are the features of Private Limited Company ? How does it differ from Public Limited Company. ?
12. Distinguish Between Private Limited and Public Limited Company.
13. Enumerate the advantages of Joint Stock Company.
14. State the limitations of Joint Stock Company.
15. Give five examples of Multinational Companies.

ANSWER TO INTEXT QUESTIONS

4.1 (i) Voluntary , Economic (ii) Services (iii) Legal entity
(iv) mutual help (v) middlemen (vi) Consumer

4.2 (i) true (ii) true (iii) true (iv) false
(v) true (vi) true (vii) true (viii) true

4.3 (i) true, (ii) true (iii) false (iv) false

4.4 (i) two (ii) private (iii) Government (iv) one lakh

4.5 (i) face value of shares held by them
(ii) Board of directors
(iii) high
(iv) Indian multinational companies
(v) members.

4.6 I. (i) False, (ii) True, (iii) True, (iv) True, (v) False
II. (i) c, (ii) d, (iii) a, (iv) a, (v) c

ACTIVITIES FOR YOU

- Search any cooperative society in your locality. Try to find out
  a) Activities of the society
  b) Number of members of the society
  c) Any problem faced by the society.

- Search any one company whether it is private, public, government or multinational and try to gather information regarding its incorporation and the operation of their business.

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7

COMMUNICATION SERVICES

All of us know that man is a social animal. He cannot survive in isolation. As a member of the society he is dependent on others. For most of the things he has to take help from others. But the question is, how does one know what the other wants? One has to convey his feelings, thoughts, ideas, requirements, experiences, etc. to another in such a way that the latter understands those correctly. The same thing happens with business also. It provides information to the customers, government, owners, and employees. etc. and at the same time receives information from them. In this lesson let us know, how people convey their feelings, thoughts, ideas, messages, etc.

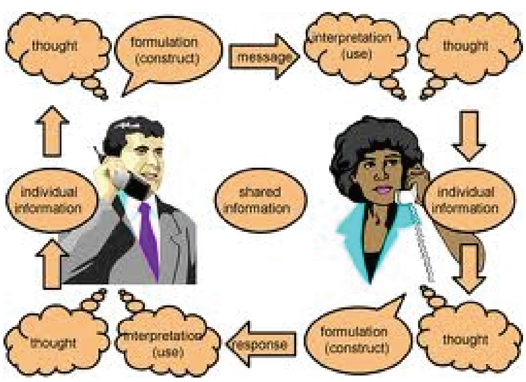
OBJECTIVES

After studying this lesson, you will be able to :

- define communication;
- state the elements of the communication process;
- explain the importance of communication in business;
- identify the types of communication;
- describe different means of communication; and
- explain barriers of communication.

7.1 MEANING OF COMMUNICATION

Every day you talk to the members of your family, friends and relatives on various matters. You receive letters from your friends and relatives on different occasions. You also reply to their letters. Sometimes to convey urgent message you send telegrams or make telephone calls. In this process you are able to share the information with others.



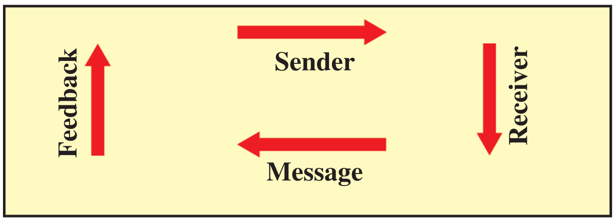
Picture Showing Communication

Similarly they also share their experiences with you. You must have observed that in an office the officer rings a bell to call the attendant, people stop their vehicles at road-crossings after looking to the red light of the traffic signal and then start moving after seeing the green light. In a school, students assemble for prayer after hearing the school bell. Through these means some message is conveyed and understood even without speaking or writing. All these activities of sharing or exchanging information, ideas and experiences between two or more persons are known as communication.

Communication may be defined as – "A process of sharing facts, ideas, opinions, thoughts and information through speech, writing, gestures or symbols between two or more persons".

This process of communication always contains messages, which are to be transmitted between the parties. There are two parties to communication – one is " **Sender**', who sends the message and the other '**Receiver**', who receives it. Generally the process of communication is said to be complete when the receiver understands the message and gives the feedback or response. At road-crossings red light of the traffic signal sends the message to stop the vehicle. When people stop their vehicles by seeing the red light, it is the feedback or response. This feedback may be in any form. Even while talking to your friend 'nodding of the head' is treated as feedback. Thus, feedback becomes an essential element in the process of communication along with message, sender and receiver.

Hence 'Communication Process' includes the following elements :



Communication Process

Sender – The person who sends the message. Also known as the source.

Receiver – The person who receives the message

Message – Subject matter of communication. It may contain facts, ideas, feelings or thoughts.

Feedback – Receiver's response or reaction or reply to the message, which is directed towards the sender.

For sending the message to the receiver or getting the feedback from the receiver we need a medium, which is called as a medium or means of communication. It carries the message to the receiver and brings the feedback from the receiver.

INTEXT QUESTIONS 7.1

I. Write 'T' against a true statement and 'F' against a false one.

(i) Sharing or exchanging information, ideas ad experiences between persons means communication.

(ii) The process of communication may not always contain a message.

(iii) Feedback is one of the elements of the process of communication.

(iv) A traffic police showing a stop sign to the public is the sender of message in the process of communication.

II. Fill in the blanks with appropriate words/terms :

(i) A person who sends message is known as ___________ .

(ii) Receiver's response to the message is termed as _________

(iii) A person who receives message is called as ____________

(iv) Subject matter of communication may contain ___________

(v) The feedback of any message is always directed towards ______

7.2 IMPORTANCE OF COMMUNICATION

1. It is used to express facts, figures and ideas.
2. It is used within the firm as a means of controlling its operations, coordinating the activities of departments and employees and motivating personnel.
3. It provides important external links between the firm, its suppliers and customers.
4. Communaction helps business to operate efficiently, as well as creates a good public image .
5. Communication educates people, widens their knowledge and broadens their outlook.
6. It tries to overcome the barriers of language and personal contact.
7. It helps people to know about new discoveries, new techniques, new products etc.
8. Due to communication more and more people are able to take advantage of achievements made by others.

7.3 TYPES OF COMMUNICATION

When we talk to others or write to them, communication takes place between us. But for such a communication, language is essential. Communication with the help of words known as **Oral/Verbal** communication is made through words spoken. Communication through spoken works is known as oral communication, which may be in the form of lectures, meetings, group discussions, conferences, telephonic conversations, radio message etc. In written communication, message is transmitted through written words in the form of letters, memos, circulars, notices, reports, manuals, magazines, handbooks, etc.

Types Of Communication

- **Verbal(oral)**
- **Written**

Written communication may be 'Visual', 'Aural', or 'Gestural'. Sometimes you look into some pictures, graphs, symbols, diagrams etc. and some message is conveyed to you. All these are different forms of written(visual) communication. For example, the traffic policeman showing the stop sign, a teacher showing a chart of different animals are visual communication.

Bells, whistles, buzzers, horns etc. are also the instruments through which we can communicate our message. Communication with the help of these type of sounds is called 'aural' communication. For example, the bell used in schools and colleges to inform students and teachers about the beginning or end of periods, siren used in factories to inform the change of work–shift of the workers are examples of aural communication.

Communication through the use of various parts of the human body, or through body language is termed as gestural communication. Saluting our national flag, motionless position during the singing of national anthem, waving of hands, nodding of head, showing anger on face, etc. are examples of gestural communication.

INTEXT QUESTIONS 7.2

I. Fill in the blanks with appropriate words :

i. Communication with the help of words is known as __________

ii. Communication through spoken works is known as __________

iii. Communication through the use of various parts of human body is known as ________________

iv. Communication with the help of pictures, symbols, diagrams etc. is known as ________________

II. Write 'V' to the phrase that illustrates Verbal Communication or 'NV' to the phrase that illustrates Non Verbal Communication.

i. A person reading a letter.

ii. A teacher looking to a student with anger.

iii. Saluting the national flag.

iv. Talking to a shopkeeper

v. Nodding head silently.

7.4 MEANS OF COMMUNICATION

There are various ways through which we communicate with each other. These may be called as the means of communication. In face-to-face contact we use different parts of our body or we directly talk to others while communicating our message. Where face-to-face communication is not possible, we take the help of some other means through which we usually convey our messages. For example, we may use letters to convey written messages; talk to others over telephones; send telegrams and use various other modern other modern machines like computers, fax machine, etc. to communicate our messages. The means to be used in our communication process depend upon the purpose of communication. For example, to send any urgent message we generally use telephone; for any important matter for which a written document is required, we use letter, telegram, fax, etc. Now-a-days modern technology has given us a wide option to choose the means according to our requirement and liking. Let us discuss some of the important means of communication commonly used in business.

Letters : Letters are a written form of communication. These can be sent or received by individuals or organisations. Written messages in the form of letters can be delivered to the receivers through special messenger, post offices or private couriers.

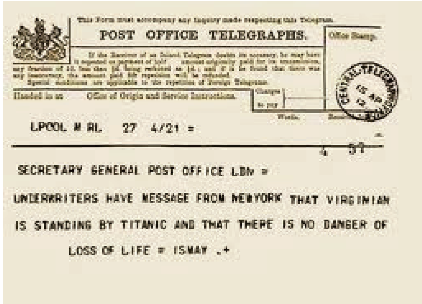
Letter Writing

This method is mostly used where fact-to-face communication is difficult or other means are not easily available. It helps in keeping a record of the communication. The cost involved is low in this means of communication.

Telegrams : It is also a form of written communication by which messages can be sent quickly to distant places. It is generally used when there is an urgency of communicating any important message. It transmits message much faster than

Notes

ordinary postal mail. This facility is available in all telegraph offices, where on payment of specific charge, we send our message. Charges are payable on the basis of number of words used in writing the message including the address of the receiver and sender's name. Hence, telegraphic messages are written in brief.


POST OFFICE TELEGRAPHS.

LPOOL M RL 27 4/21 =

SECRETARY GENERAL POST OFFICE LDN =

UNDERWRITERS HAVE MESSAGE FROM NEWYORK THAT VIRGINIAN IS STANDING BY TITANIC AND THAT THERE IS NO DANGER OF LOSS OF LIFE = ISMAY .+

A figure of a Telegram

Telegrams can be sent as ordinary or express. Express telegrams travel faster than ordinary telegrams, for which extra charge is to be paid. To send telegrams to foreign countries cablegrams are used. Telegrams can also be sent by using telephone, which is called as phonogram. Here by ringing up the telegraph office through a telephone, the message can be recorded and later the telegraph office transmits the message to the receiver.

Telephones : Telephone is a very popular form of oral communication. It is widely used for internal and external business communications. Long distance communication is facilitated by STD (Subscriber Trunk Dialing) while international communication can be made through ISD (International Subscriber Dialing) facilities. Both government and private agencies provide telecom services. Telephone is mostly preferred as it helps in establishing instant contact between the parties to communications. In business firms as well as government and private offices automatic switchboards known as private automatic branch exchange (PABX) are installed to facilitate internal as well as external communication.

A figure of Telephone

Now-a-days mobile phones are very popular as they give an access to the receiver at any time, anywhere. This is an improvement over the fixed line telephone. It possesses many modern features like Short Messaging Services (SMS), Multi Media Messaging Services (MMS) etc., by using these services written messages can be sent to the receivers. Both private as well as government organizations provide these services. MTNL. BSNL, Airtel, Idea, Hutch, Reliance and Tata are the leading mobile service providers in our country through CDMA(code division multiple access),and GSM(global system for mobile communication).


Telex Machine

Telex : Telex provides a means of printed communication using Teleprinter. Teleprinters consist of machines installed at different places which are connected to a central exchange through cable. In each machine a standard keyboard is fitted. Any message typed by using those keyboards at one end is automatically typed at the other end. Hence instant transmission is possible.

Fax : Fax or facsimile is an electronic device that enables instant transmission of any matter, which may be handwritten or printed like letters, diagrams, graphs, sketches, etc. By using telephone lines this machine sends the exact copy of the document to another fax machine at the receiving end. Far sending any message, the documents on which message, diagram or drawing is typed or drawn has to be put in the fax machine and the fax number (a telephone number) of the other party has to be dialed. Then the fax machine at the receiving end will instantly produce the replica of the matter. This is the most commonly used means of written communication in business. The main advantages of Fax system are easy operation, instant transmission of handwritten or printed matters, over any distance Telephone machine also records each transaction of communication. The only limitation is that fax machine accepts document up to a standard size. Again, as a usual practice, a copy of the same document is sent to the receiver through post for their record. Telephone receiver at the other end also makes a photocopy of the document immediately after receiving the message through fax machine, because there may be chances that the ink used by the machine may fade away after some time.


Fax Machine

E-mail : Electronic mail, popularly known as e-mail is a modern means of communication. The system makes use of electronic methods of transmitting and receiving information. In this case individuals, through the internet, open an e-mail account in their name from any ISP (Internet Service Provider). Then letters,


E-mail Communication

Notes

messages, pictures or sounds can be sent through their computer to the e-mail accounts of other individuals. Whenever the other person will access his e-mail account he receives the message. The information is communicated audio visually and the process is extremely fast. This method is gaining popularity with increased use of internet among the users.

Voice Mail : It is a computer-based system for receiving and responding to incoming telephone calls. It records and stores telephone messages through computer memory. The call can get the required information by dialing the voice mail number and then following the instructions of the computer. The individuals can also record their messages through voice mail. The receivers at their own convenience can get the message from the machines and take action accordingly. You can get information regarding admission, examination and result of NIOS through an interactive Voice Mail System, which has been installed at its headquarters at NOIDA. You can dial any of the two telephone numbers, 0120-4626909 or 0120-4626910 to get information from the voice mail.

Voice Mail System

Teleconferencing : Conference generally refers to meeting of people for consultation or discussion regarding any common issues. Here people sit together and interact face to face with each other. But, teleconferencing is a system through which people interact with each other without physically sitting in front of others. People can hear the voice and see the picture of others and also respond to their queries even if sitting in different countries. It requires the use of modern electronic derives like telephone, computers, television etc. For every teleconferencing a central controlling unit is required that facilitates the entire process of communication. There are two different types of teleconferencing one, audio-conferencing and other, video-conferencing. Let us know more about them.

A Scene of Teleconferencing

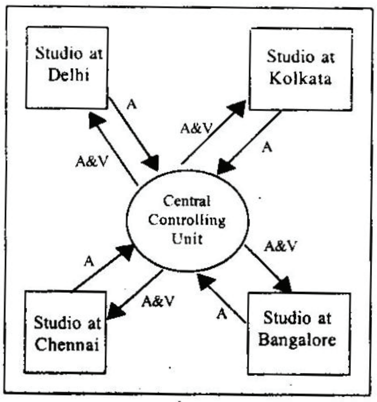
Audio-Conferencing– It is a two-way audio communication system in which the participants listen to the voice and respond immediately sitting at different places. People may listen to the voice through radio or television and put their queries by using telephone.

A Scene of Audio Conferencing

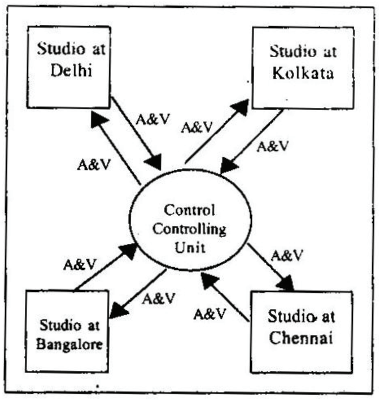
Video-conferencing– Besides listening to the voice, the participants of the conference can also see the picture of each other while talking themselves. This is called video-conferencing. There are two different types of video conferencing process.

i. **One-way video and two-way audio :** It this system, the participants can listen to the voice and see the picture of the persons sitting in the studio. The audience maintains a contact with the studio through telephone and the persons in the studio listen to the voice of the participants.

ii. **Both way audio and video :** Here participants at both the ends i.e., studio as well as audience end, are able to listen to the voice and see the picture of each other while talking amongst themselves.



One-way video and two-way audio



Both way video and audio

7.5 BARRIERS TO COMMUNICATION

Though communication is a pervasive activity, it is often unsatisfactory in practice. The interchange of ideas and information is blocked by several barriers. The barriers to effective communication are described below :

1. **Badly Expressed Message:** Often the message is expressed in poorly chosen words or empty phrases. There is lack of coherence, inadequate vocabulary and inappropriate language. This lack of clarity and precision leads to unnecessary clarifications, costly errors and misunderstanding. Often the translation of the information is faulty and the message is irrelevant. This *language* or *semantic problem* may also arise because different people interpret the same words or symbols differently due to difference in their education, perception and background. This semantic barrier can be overcome by broadening the outlook of every manager so that he can understand the mind of other persons.

2. **Screening or Filtering:** Successive transmissions of the same message may be rendered less accurate because of its filtration. At each level

the message is screened by the receiver and only such information is passed further which gives a favorable impression of the sender. This premature evaluation of the communication distorts the message. Some managers fail to communicate due to their laziness or on the assumption that everybody knows. A manager must develop cooperative relationship with his subordinates. he should listen to and understand their attitude to avoid filtering of information.

3. **Inattention:** Sometimes, people fail to read bulletins, notices, minutes and reports. They do not listen the communication attentively. Subordinates may believe that the information is not important enough to communicate. Such errors of judgment make communication ineffective. Superiors have the tendency of non-listening. There may be lack of motivation to communicate due to poor facilities or delay in transmission.

4. **Unclarified Assumptions:** When the assumptions underlying the message are not clarified, misunderstanding may arise between the sender and the receiver of the message. For instance, a customer sends a message that he will visit the vendor's plant at a particular time assuming that the vendor will provide transportation, boarding and lodging facilities. But the vendor assumes that the customer is arriving to attend a wedding and will make a routine call at the plant. These unclarified assumptions will spoil their relationship.

5. **Resistance to Change:** Human beings by nature prefer to avoid disturbances in their daily routine and generally resist new ideas. They want to maintain the *status quo*. Everybody likes to receive that information which confirms his present belief and tends to ignore any thing that is contrary to such belief. When the communication involves a change that seriously affects employees, they may not take the message seriously. Changes affect different people differently and one may take time to think through the full meaning of a message. A manager should provide sufficient time and assistance to enable employees to adjust themselves to change.

6. **Mutual Distrust:** Effective communication is impossible when there is lack of confidence and mutual understanding between superior and subordinates. I*ll*-considered judgment or illogical decisions may prompt subordinates to delay action. In the absence of an open mind and willingness to see things through the eyes of others, people perceive same things differently. Management should create an atmosphere of mutual trust and confidence to enable people to appreciate each others point of view.

7. **Status and Position :** Subordinate may not disclose the facts fully because of the fear of the consequences of such disclosure. They may deliberately mislead the superior or may hesitate to seek clarifications due to the feeling that it will lower down their prestige. Superiors tend to keep maximum possible information with them to avoid listening to the subordinates. The barrier created by differences in status or position and fear can be removed through a free and fair two-way flow of information throughout the organization.

8. **Complex Organization Structure:** An organization structure involving several layers of supervision, use of staff specialists and a long chain of command is a major barrier to effective communication. Communication may break down at various levels of supervision. Organizational distance between workers and top management inhibits a free and fast flow of information and ideas along the chain of command. Management must improve the organization structure to remove this barrier.

INTEXT QUESTIONS 7.3

I. Match the columns correctly

	Column A		Column B
a.	Telegram	i.	Receiving and sending mails through internet
b.	Mobile Phones	ii.	Instant transmission of a printed document.
c.	Fax	iii.	Short Messaging Service
d.	Voice Mail	iv.	Payment according to number of words used.
e.	E-mail	v.	Computer based system of receiving and responding to incoming telephones calls.

II. Multiple Choice Questions

i. A system of communication in which payment is made according to number of words used, is called.

(a) Mobile Phones (b) Telex

(c) Telegrams (d) Pager

ii. Which of the following is an example of visual communication?
(a) A person saluting the national flag
(b) A person reading a letter
(c) A peon ringing a bell in the school
(d) A traffic policeman showing the stop signal.

iii. Which of the following is not an element of communication process?
(a) Sender (b) Receiver
(c) Message (d) Feedback to other than a sender

iv. The communication with the help of pictures, symbols, diagrams is called as:-
(a) Verbal Communication (b) Oral Communication
(c) Visual Communication (d) Written Communication

v. Which of the following means of Communication is used for short messaging service?
(a) Fax (b) Telegram
(c) Voice Mail (d) E-mail

WHAT YOU HAVE LEARNT

- Process of sharing facts, ideas, opinions, thoughts, information through speech, writing or gestures and symbols between individuals is known as communication.
- Elements of communication process are sender, receiver, message and feedback.
- Communication can be verbal or non-verbal.
- Communication with the help of words is known as verbal communication and without using words is called non-verbal communication.
- Verbal communication may be oral or written.
- Non-verbal communication may be visual, aural or gestural.
- There are various ways through which we communicate our message. These are called means of communication.
- Letters, Telegrams, Phones, Telex, Fax, E-mail, Pages, Teleconferencing are means of communication normally used to send the message to distant places.

TERMINAL EXERCISE

1. Define 'communication' in about 20 words.
2. Name the elements of the communication process.
3. What is meant by Business Communication?
4. "Letters are the best means of communication". Do you agree with this statement? Give reason.
5. Give a short description of Voice Mail in about two sentences.
6. Explain the meaning of 'verbal communication'.
7. Give any four points highlighting importance of communication in business.
8. "Telephone is a very popular form of oral communication". Do you agree? Give reasons.
9. Differentiate between Verbal and Non-Verbal communication.
10. Illustrate the communication process with the help of a diagram.
11. Explain the meaning of communication and its process.
12. State the different types of Non-verbal communication.
13. "E-mail is the fastest method of transmitting written messages". Explain.
14. You are an exporter and you want to mail an exact copy of a quotation to an importer in USA. Which means of communication would you use and why?

ANSWER TO INTEXT QUESTIONS

7.1 I. (i) T, (ii) F, (iii) T, (iv) T

II. (i) Sender, (ii) Feedback, (iii) Receiver, (iv) Facts, ideas, feelings or thoughts, (v) Sender

7.2 I. (i) Verbal communication (ii) Oral communication, (iii) Gestural communication, (iv) Visual communication

II. (i) V, (ii) NV, (iii) NV, (iv) V, (v) NV

7.3 I. (a)- (iv), (b)-(iii), (c)-(ii), (d)-(v), (e)-(i)

II. (i) c, (ii) d, (iii) d, (iv) c, (v) b

ACTIVITY FOR YOU

- Make a list of various means of communication available at your locality. Give priority to any one means as per your requirement. Consider the cost involved and the benefits you derive from that means of communication while giving priority.

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9

BANKING SERVICES

While walking in the streets of any town or city you might have seen some signboards on buildings with names-Canara Bank, Punjab National Bank, State Bank of India, United Commercial Bank, etc. What do these names stand for? Did you ever try to know about them? If you enter any such building you will find some kind of a business office. You will see some employees sitting behind counters dealing with visitors standing in front of them. You will find that some are depositing cash at one counter while some are receiving cash at another counter. Behind the counters in the office, you will see tables and chairs occupied by officers. On one side of the office you will also see a chamber (small partitioned room) where the manager is sitting with papers on his table. This is the office of a 'Bank'.

Let us know in detail about Banks and their activities.

OBJECTIVES

After studying this lesson, you will be able to:

- state the meaning of 'Bank';
- explain the role of 'Banking';
- identify the different types of Banks; and
- describe the functions of a commercial Bank.

9.1 MEANING OF BANK

An establishment authorized by a Government to accept deposits, pay interest, clear cheques, advance loans, act as an intermediary in financial transactions, and provide other financial services to its customers. You know people earn money to meet their day-to-day expenses on food, clothing, education of children, housing, etc. They also need money to meet future expenses on marriage, higher education of children, house building and other social functions. These are heavy expenses, which can be met if some money is saved out of the present income. Saving of money is also necessary for old age and ill health when it may not be possible for people to work and earn their living.

The necessity of saving money was felt by people even in older days. They used to keep money in their homes. With this practice, savings were available for use whenever needed, but it also involved the risk of loss by theft, robbery and other accidents. Thus, people were in need of a place where money could be saved safely and would be available when required. Banks are such places where people can deposit their savings with the assurance that they will be able to withdraw money from the deposits whenever required. People who wish to borrow money for business and other purposes can also get loans from the banks at reasonable rate of interest. Bank is a financial institution that accepts deposits and channels the money into lending activities.

Picture of Banks Logos.

"Bank is a lawful organization, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it."

Banks also render many other useful services – like collection of bills, payment of foreign bills, safe-keeping of jewellery and other valuable items, certifying the credit-worthiness of business, and so on. Banks accept deposits from the general public as well as from the business community. Any one who saves money for future can deposit his savings in a bank. Businessmen have income from sales out of which they have to make payment for expenses. They can keep their earnings from sales safely deposited in banks. Banks give two assurances to the depositors :

a. Safety of deposits, and
b. Withdrawal of deposits, whenever needed

On deposits, Banks give interest, which adds to the original amount of deposits. It is a great incentive to the depositors. It promotes saving habits among the public. On the basis of deposits banks also grant loans and advances to farmers, traders and businessmen for productive purposes. Thereby banks contribute to the economic development of the country and well being of the people in general. Banks charge interest on loans. The rate of interest is generally higher than the rate of interest allowed on deposits. Banks also charge fees for the various other services, which they render to the business community and public in general. Interest received on loans and fees charged for services which exceed the interest allowed on deposits are the main sources of income for banks from which they meet their administrative expenses. The activities carried on by banks are called banking activities. 'Banking' as an activity involves acceptance of deposits and lending or investment of money. It facilitates business activities by providing money and certain services that help in exchange of goods and services. Therefore, banking is an important auxiliary to trade. It not only provides money for the production of goods and services but also facilitates their exchange between the buyer and seller. You may be aware that there are laws which regulate the banking activities in our country. Depositing money in banks and borrowing from banks are legal transactions. Banks are also under the control of government. Hence they enjoy the trust and confidence of people. Banks depend a great deal on public confidence. Without public confidence Banks cannot survive.

9.2 DIFFERENCE BETWEEN BANKS AND MONEY-LENDERS

You may be thinking that a bank is like a moneylender who provides funds to borrowers and charges interest on the loan. But it is not so. A bank is quite different from a moneylender. A Bank performs two main functions. Firstly, it accepts deposits, and on that basis it lends money. The moneylenders, on the other hand, advance money out of their own private wealth and usually do not accept deposits from others. The following table shows the distinction between a bank and moneylender.

Basis	Banks	Moneylenders
1. Entity	Bank are organised institutions.	Moneylenders are individuals.
2. Activity	Banking activities include acceptance of deposits as lending of money.	Activities of moneylenders may not include acceptance of deopsits.
3. Clients	Banks meet the needs of people in general and the business community in particular.	Moneylenders meet the needs of agriculturists and poor people.
4. Security	Banks accept tangible and personal security against loans	Moneylenders generally accept gold, jewellery or land as security for giving loan.

5. Process of recovery of loans.	The process of recovery is flexible.	The process of recovery is rigid and strict.
6. Interest Rate	Interest charged by banks on loan is governed by RBI.	Rate of Interest is decided by the moneylender and is normally very high.

Notes

Role of Banking

Banks provide funds for the business and play a vital role in the development of a nation. Let us know about the role of banking.

- It encourages saving habits amongst people and thereby makes funds available for productive use.
- It acts as an intermediary between people having surplus money and those requiring money for various business activities.
- It facilitates business transactions through receipts and payments by cheques instead of currency.
- It provides loans and advances to businessmen for short term and long-term purposes.
- It also facilitates import export transactions.
- It helps in national development by providing credit to farmers, small-scale industries and self-employed people as well as to large business houses which leads to balanced economic development in the country.
- It helps in raising the standard of living of people in general by providing loans for purchase of consumer durable goods, houses, automobiles, etc.

INTEXT QUESTIONS 9.1

Fill in the blanks with suitable word (s):

i. A Bank accepts deposits from people and ________ money to those who need it for various purposes.

ii. Banks act as ________ between people having surplus money and those borrowing money.

iii. Banking facilitates business activities and is considered as an important auxiliary to ___________.

iv. Banks facilitate payment through _________ instead of currency.

v. A ___________ advances money out of his own private wealth and generally does not accept deposits from others.

9.3 TYPES OF BANKS

There are various types of Banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. On the basis of functions, the banking institutions in India may be divided into the following types:

Types of Banks

- Central Bank
- Commercial Banks
  - (i) Public Sector Banks
  - (ii) Private Sector Banks
  - (iii) Foreign Banks
- Development Banks
- Co-operative Banks
  - (i) Primary Credit Societies
  - (ii) Central Co-operative Banks
  - (iii) State Co-operative Banks
- Specialised Banks (EXIM Bank SIDBI, NABARD)

a) Central Bank

A Bank which is entrusted with the functions of guiding and regulating the banking system of a country is known as its Central bank. Such a bank does not deal with the general public. It acts essentially as Government's banker; maintain deposit accounts of all other banks and advances money to other banks, when needed. The Central Bank provides guidance to other banks whenever they face any problem. It is therefore known as the banker's bank. The Reserve Bank of India is the central bank of our country.

The Central Bank maintains records of Government revenue and expenditure under various heads. It also advises the Government on monetary and credit policies and decides on the interest rates for Bank deposits and Bank loans. In addition, foreign exchange rates are also determined by the central Bank. Another important function of the Central Bank is the issuance of currency notes, regulating their circulation in the country by different methods. No other Bank than the Central Bank can issue currency.

b) Commercial Banks

Commercial Banks are banking institutions that accept deposits and grant short-term loans and advances to their customers. In addition to giving short-term loans, commercial banks also give medium-term and long-term loan to business enterprises. Now-a-days some of the commercial Banks are also providing housing loan on a long-term basis to individuals.

Types of Commercial Banks: Commercial banks are of three types i.e., Public sector banks, Private sector Banks and foreign Banks.

(i) **Public Sector Banks:** These are banks where majority stake is held by the Government of India or Reserve Bank of India. Examples of public sector banks are: State Bank of India, Corporation Bank, Bank of Baroda, Punjab National Bank, Canara Bank, Bank of India and Oriental Bank of Commerce, etc.

(ii) **Private Sectors Banks:** In case of private sector banks majority of share capital of the Bank is held by private individuals. These Banks are registered as companies with limited liability. For example: The Jammu and Kashmir Bank Ltd., ICICI Bank Ltd., Development Credit Bank Ltd, Lord Krishna Bank Ltd., Bharat Overseas Bank Ltd., Global Trust Bank, ING Vysya Bank, etc.

(iii) **Foreign Banks:** These Banks are registered and have their headquarters in a foreign country but operate their branches in our country. Some of the foreign banks operating in our country are Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard & Chartered Bank, Grindlay's Bank, etc. The number of foreign banks operating in our country has increased since the financial sector reforms of 1991.

c) Development Banks

Business often requires medium and long-term capital for purchase of machinery and equipment, for using latest technology, or for expansion and modernization. Such financial assistance is provided by Development Banks. They also undertake other development measures like Public Sector Banks comprise 19 nationalized banks and State Bank of India and its 7 associate Banks subscribing to the shares and debentures issued by companies, in case of under subscription of the issue by the public. Industrial Finance Corporation of India (IFCI) and State Financial Corporations (SFCs) are examples of development banks in India.

d) Co-operative Banks

A co-operative Bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often formed by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide a wide range of banking and financial services to their members.

People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. When a co-operative society engages itself in banking business it is called a Co-operative Bank. The society has to obtain a license from the Reserve Bank of India before starting banking business. Any co-operative bank as a society has to function under the overall supervision of the Registrar, Co-operative Societies of the State. As regards banking business, the society must follow the guidelines issued by the Reserve Bank of India.

Types of Co-operative Banks

There are three types of co-operative banks operating in our country. They are primary credit societies, central co-operative banks and state co-operative banks. These banks are organized at three levels, village or town level, district level and state level.

(i) **Primary Credit Societies:** These are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small area so that the members know each other and are able to watch over the activities of all members to prevent frauds.

(ii) **Central Co-operative Banks:** These banks operate at the district level having some of the primary credit societies belonging to the same district as their members. These banks provide loans to their members (i.e., primary credit societies) and function as a link between the primary credit societies and state co-operative banks.

(iii) **State Co-operative Banks:** These are the apex (highest level) co-operative banks in all the states of the country. They mobilise funds and help in its proper channelization among various sectors. The money reaches the individual borrowers from the state co-operative banks through the central co-operative banks and the primary credit societies.

e) Specialised Banks

There are some banks, which cater to the requirements and provide overall support for setting up business in specific areas of activity. EXIM Bank, SIDBI and NABARD are examples of such banks. They engage themselves in some specific area or activity and thus, are called specialised banks. Let us know about them.

i. Export Import Bank of India (EXIM Bank): If you want to set up a business for exporting products abroad or importing products from foreign countries for sale in our country, EXIM bank can provide you the required support and assistance. The bank grants loans to exporters and importers and also provides information about the international market. It gives guidance about the opportunities for export or import, the risks involved in it and the competition to be faced, etc.

ii. Small Industries Development Bank of India (SIDBI): If you want to establish a small-scale business unit or industry, loan on easy terms can be available through SIDBI. It also finances modernisation of small-scale industrial units, use of new technology and market activities. The aim and focus of SIDBI is to promote, finance and develop small-scale industries.

iii. National Bank for Agricultural and Rural Development (NABARD): It is a central or apex institution for financing agricultural and rural sectors. If a person is engaged in agriculture or other activities like handloom weaving, fishing, etc. NABARD can provide credit, both short-term and long-term, through regional rural banks. It provides financial assistance, especially, to co-operative credit, in the field of agriculture, small-scale industries, cottage and village industries handicrafts and allied economic activities in rural areas.

INTEXT QUESTIONS 9.2

Identify the type of Bank being talked about in each of the following statements:

i. The commercial Bank where the majority of share capital is held by the private individual.

ii. The Bank that provides assistance and guidance for export of products abroad.

iii. The Bank formed by a group of people to serve their common interest.

iv. The Bank that issues currency notes.

v. The commercial Bank where the Government holds majority stake.

9.4 FUNCTIONS OF COMMERCIAL BANKS

The functions of commercial Banks can be classified into two types.

(A) Primary functions; and

(B) Secondary functions.

Notes

Let us discuss about these functions in detail.

(A) Primary functions : This is the main function which is performed compulsorly by every Bank or we can say that the organisation which performs these functions is known as a Banks.

The primary functions of a commercial bank include:

a) Accepting deposits; and

b) Granting loans and advances.

a) Accepting deposits

The most important activity of a commercial Bank is to mobilise deposits from the public. People who have surplus income and savings find it convenient to deposit the same with Banks. Depending upon the nature of deposits, funds deposited with Bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

b) Grant of loans and advances

The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies according to the purpose and period of loan and also the mode of repayment.

i) Loans

A loan is granted for a specific time period. Generally commercial banks provide short-term loans. But term loans, i.e., loans for more than a year may also be granted. The borrower may be given the entire amount in lump sum or in instalments. Loans are generally granted against the security of certain assets. A loan is normally repaid in instalments. However, it may also be repaid in lump sum.

ii) Advances

An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day-to-day requirements of business. The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

Types of Advances

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting bills of exchange. Let us learn about these.

a) Cash Credit

Cash credit is an arrangement whereby the bank allows the borrower to draw amount upto a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires. Interest is charged on the amount actually withdrawn. Cash Credit is granted as per terms and conditions agreed with the customers.

b) Overdraft

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit may be allowed either on the security of assets, or on personal security, or both.

c) Discounting Bills of Exchange

Banks provide short-term finance by discounting bills, i.e., making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonoured on the due date, the bank can recover the amount from the customer.

B) Secondary functions

In addition to the primary functions of accepting deposits and lending money, banks perform a number of other functions, which are called secondary functions. These are as follows :

a. Issuing letters of credit, travellers' cheque, etc.
b. Undertaking safe custody of valuables, important document and securities by providing safe deposit vaults or lockers.
c. Providing customers with facilities of foreign exchange dealings.
d. Transferring money from one account to another; and from one branch to another branch of the bank through cheque, pay order, demand draft.
e. Standing guarantee on behalf of its customers, for making payment for purchase of goods, machinery, vehicles etc.

INTEXT QUESTIONS 9.3

Which of the following statements are True and which are false?

i. Loans and advances are both granted by banks to customers for a long period of time.
ii. Banks keep customers jewellery and important documents safe with them.

Notes

iii. Banks grant loans to students for their studies at reasonable interest rate.

iv. Discounting of bills of exchange is done by banks free of cost.

v. Through overdraft, a customer can withdraw more money than the amount available in his/her bank account.

9.5 CENTRAL BANK

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated. Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India. Its main function is the general superintendence and direction of the Bank's affairs and advise the Central Board on local matters and to represent territorial and economic interests of local cooperative and indigenous banks; to perform such other functions as delegated by Central Board from time to time.

9.6 BANK DEPOSIT ACCOUNT

You have already learnt that the main banking activities consist of acceptance of deposit from the public for the purpose of lending to businessmen and others who may seek loans. Actually the money deposited in any bank is mostly the saving of the people. As you know, if someone earns money and has regular income, he or she not only spends it for day-to-day expenses but also tries to save a part of the income for future needs. Money may be needed in future for various purposes like medical treatment in case of illness in the family, expenses on account of marriage, or for higher studies of the children, or to celebrate religious festivals, etc. The money saved to meet future needs may be kept at home. But will it be safe at home? It may be stolen. Moreover, the money saved will remain idle at home without any return. So people keep their savings with someone where it will be safe and earn a return. Bank is such a place where money deposited remains safe and also earns interest. In this lesson, we shall learn about the types of deposit accounts that can be opened in a bank, and also discuss how a savings bank account can be opened and operated.

9.7 TYPES OF BANK DEPOSIT ACCOUNTS

Bank deposits serve different purposes for different people. Some people cannot save regularly; they deposit money in the bank only when they have extra income. The purpose of deposit then is to keep money safe for future needs. Some may want to deposit money in a bank for as long as possible to earn

Notes

interest or to accumulate savings with interest so as to buy a flat, or to meet hospital expenses in old age, etc. Mostly businessmen, deposit all their income from sales in a bank account and pay all business expenses out of the deposits. Keeping in view these differences, banks offer the facility of opening different types of deposit accounts by people to suit their purpose and convenience. On the basis of purpose they serve, bank deposit accounts may be classified as follows:

a. Savings Bank Account
b. Current Deposit Account
c. Fixed Deposit Account
d. Recurring Deposit Account.

Let us briefly discuss the nature of the above accounts.

a. **Savings Bank Account** : If a person has limited income and wants to save money for future needs, the Savings Bank Account is most suited for his purpose. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited any time in this account. Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using ATM card. Normally banks put some restriction on the number of withdrawals from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on saving bank account varies from bank to bank and also changes from time to time. A minimum balance has to be maintained in the account as prescribed by the bank.

b. **Current Deposit Account** : Big businessmen, companies and institutions such as schools, colleges, and hospitals have to make payment through their bank accounts. Since there are restriction on number of withdrawals from saving bank account, that type of account is not suitable for them. They need to have an account from which withdrawals can be made any number of times. Banks open current account for them. Like saving bank account, this account also requires certain minimum amount of deposit while opening the account. On this deposit bank does not pay any interest on the balances. Rather the accountholder pays certain amount each year as operational charge.

For the convenience of the accountholders banks also allow withdrawals of amounts in excess of the balance of deposit. This facility is known as overdraft facility. It is allowed to some specific customers and upto a certain limit subject to previous agreement with the bank concerned.

c. **Fixed Deposit Account** (also known as Term Deposit Account): Many a time people want to save money for long period. If money is deposited in savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn a interest at a higher rate.

This type of deposit account allows deposit to be made of an amount for a specified period. This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed. However, on request, the depositor can encash the amount before its maturity. In that case Banks give lower interest than what was agreed upon. The interest on fixed deposit account can be withdrawn at certain intervals of time. At the end of the period, the deposit may be withdrawn or renewed for a further period. Banks also grant loan on the security of fixed deposit receipt.

d. **Recurring Deposit Account :** This type of account is suitable for those who can save regularly and expect to earn a fair return on the deposits over a period of time. While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period. The account can be opened by a person individually, or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings Bank deposit but lower than the rate allowed on a fixed deposit for the same period.

INTEXT QUESTIONS 9.4

I. Which of the following statements are true and which are false?

i. Deposits made in savings bank account serve to meet present as well as future needs.

ii. A fixed amount is required to be deposited in a Fixed Deposit Account every month.

iii. The rate of interest on deposits made in a Recurring Deposit Account is relatively higher than on savings bank deposits.

iv. Current Deposit Account can be opened only by businessmen, not by an educational institutions.

v. Home Construction Saving Deposit Account is a type of recurring deposit account.

vi. The rate of interest allowed on fixed deposit depends on the length of the period for which the deposit is made.

vii. In the case of savings bank account withdrawal of money is allowed only by the account-holder.

viii. Banks do not pay interest on the balance of current deposit account.

II. Fill in the blanks with suitable word.

i. Savings Bank Account can be opened with a ____________ amount of deposit.

ii. A fixed Deposit Account carries interest at a rate, which is ____________ than that on savings bank account.

iii. Overdraft facility is allowed to holders of __________ deposit account.

iv. Money can be withdrawn from current account by issuing ____________.

v. The rate of interest allowed on the balance of recurring deposit account is ________ than the rate allowed on fixed deposit account.

9.8 HOW TO OPEN A SAVINGS BANK ACCOUNT

To open a savings bank account in a commercial bank, you have to first decide what amount of money you would like to deposit initially. You may enquire and find out from the nearest bank what is the minimum amount to be deposited while opening a savings bank account. You have to deposit at least that amount or more, if you want. On entering a bank (any branch of a bank) you will find a counter for enquiry (or a counter with: 'May I help you' board). Having known the minimum amount to be deposited, you should ask for a form of application for opening Savings Bank Account. You are not required to pay anything for it. You should then take the following steps:

i. Filling up the Form

The application form has to be filled up giving the following necessary information:

a. Name of the person (applicant)

b. His/her occupation

c. Residential Address

d. Specimen signature of the applicant

e. Name, address, account number and signature of the person introducing the applicant. Besides the above information you have to give an undertaking that you will abide by the rules and regulations of the bank, which are in force. At the end of the application form, you have to put your signature. (In some banks it is required to attach two passport size photographs of the applicant along with the application.)

ii. Proper Introduction

Every bank requires that a person known to the bank should introduce the applicant. It may be convenient to be introduced by a person having already an account in that bank. Some banks may accept the attested copy of Passport or Driving Licence, if any, of the applicant. In that case personal introduction is not necessary. Introduction is required to prevent the possibility of opening of account by an undesirable person.

iii. Specimen Signature

The applicant has to put his/her specimen signatures at the blank space provided on the application form for that purpose. In addition, specimen signatures have to be put separately on a card on which a photograph of the applicant has to be pasted, along with his/her name and account number.

After the above steps have been taken and the officer concerned is satisfied that the application form is in order, money is to be deposited at the cash counter after filling in a printed 'Pay-in-slip'. An account number will then be allotted and written on the application form as well as the card having your specimen signatures. At the same time you will be issued a Pass Book with the initial deposit recorded in it. All future deposits and withdrawals are entered in the Pass Book, which will be handed over to you. If you want to use cheques for withdrawal or payment of money out of your deposits, a cheque book will be issued on your request. A cheque form is a printed form in which you may issue an order to the bank to pay the amount specified in it to a person.

9.9 PROCEDURE FOR OPERATING SAVINGS BANK ACCOUNT

Once you have opened the account, you must also know how to operate the account. In other words, you have to know the procedure to be followed for further deposits to be made in the account and for withdrawing money from the account.

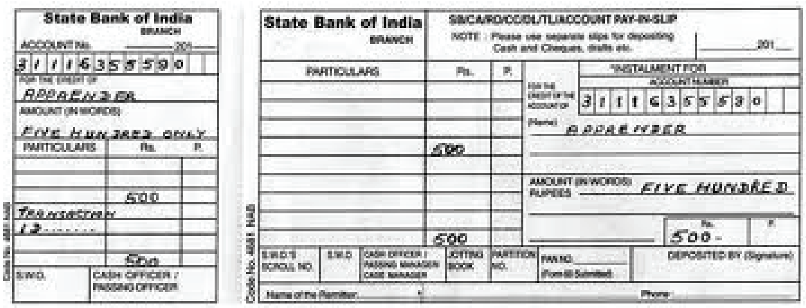
i. Deposit in the Account

How will you deposit money in your account? You have already used a 'Pay-in-slip' for deposit of the initial amount while opening your account. It is a printed form, which you get in the bank. Each 'pay-in-slip' has two parts divided by perforation, the right-hand part known as 'foil' and the left-hand part known as 'counter-foil'. The slip has to be filled up while depositing cash or a cheque. Separate pay-in-slip form will have to be filled up while depositing both cash and cheques.

Suppose you have to deposit cash in your account. The pay-in-slip has to be filled up giving the date of deposit, your name or account-holder's name if you

Notes

deposit money in somebody's account, account number, and the amount deposited in figures and words. Besides you have to enter on the slip, in the place indicated, how many currency notes of different denominations (Rs. 5, 10, 20, 50, 100, etc.) are being deposited along with the amount against the types of notes. The bank has have a counter for cash receipts. You have to sign and present the pay-in-slip there and also hand over the amount of cash. The receiver will keep the foil (right hand part) of the pay-inslip while the left-hand part (counter-foil) will be rubber-stamped, signed by him, and returned to you.


State Bank of India
BRANCH
ACCOUNT No.
PARTICULARS Rs. P.
500
500
S.W.O.
CASH OFFICER / PASSING OFFICER
State Bank of India
BRANCH
NOTE : Please use separate slips for depositing Cash and Cheques, drafts etc.
PARTICULARS Rs. P.
500
500
AMOUNT (IN WORDS) RUPEES FIVE HUNDRED
500 -
DEPOSITED BY (Signature)

Specimen of pay-in-slip

Instead of cash, suppose you have to deposit cheque, which you have got in payment of your salary from the office in which you are employed. You may like to deposit it in your bank account instead of going to another bank to encash it. Your bank will collect the amount of the cheque and record it as a deposit in your savings bank account.

To deposit the cheque you have to use the pay-in-slip again, filling in particulars like the date of deposit, the account number, name of the account-holder, the serial number and date of the cheque, name and address of the bank on which the cheque is drawn, and the amount of the cheque in figures and words. After signing the slip, you have to attach the cheque with the foil by an all pin (steel pin), and present the slip at the counter for cheque receipt. The person at the counter will keep the foil with the cheque attached, and return to you the counter-foil with bank rubber stamp and his signature. In some banks, there is a box kept near the counter. The bank rubber stamp is also available at the counter. The depositor is to put the rubber stamp on the foil and counterfoil. Then after separating the counter-foil, the cheque along with the foil is to be dropped in the box through a slit.

ii. Withdrawal from Deposit Account

You deposit your savings for use in future. The need for money may arise any time. So you should know how to get back your money from the bank. In the above section you have learnt about the procedure for deposit of money in the savings bank account. Let us know the procedure for withdrawal of money from your account.

Money can be withdrawn by using

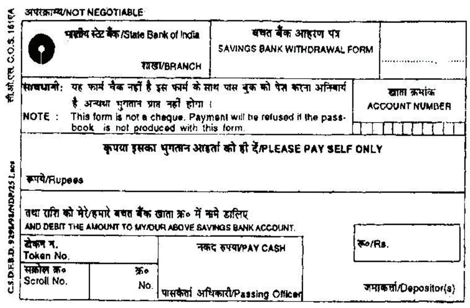
a) Withdrawal form

b) Cheque

c) ATM card

a. Withdrawal Form: Every bank has printed withdrawal forms, which can be used by account holders to withdraw cash from deposit accounts.

The form has to be filled in, mentioning the date of withdrawal, account number, amount to the withdrawn (in figures and words) and the signature of the account holder. You have to produce it along with your pass book at the counter at which your account is handled. At the counter the officer concerned generally passes the form for payment after checking the balance in the account and the signature on the withdrawal form against the specimen signatures on record. The amount of withdrawal is recorded in the pass book, and payment is made at the counter if the amount is within a certain limit (say, Rs. 5,000), otherwise a disc or token is given which bears a number. This has to be presented at the cash payment counter for receiving the amount withdrawn.



अपरक्राम्य/NOT NEGOTIABLE

भारतीय स्टेट बैंक/State Bank of India

शाखा/BRANCH

बचत बैंक आहरण पत्र
SAVINGS BANK WITHDRAWAL FORM

सावधानी: यह फार्म चैक नहीं है इस फार्म के साथ पास बुक को पेश करना अनिवार्य है अन्यथा भुगतान प्राप्त नहीं होगा।

NOTE : This form is not a cheque. Payment will be refused if the pass-book is not produced with this form.

खाता क्रमांक
ACCOUNT NUMBER

कृपया इसका भुगतान आहर्ता को ही दें/PLEASE PAY SELF ONLY

रुपये/Rupees

तथा राशि को मेरे/हमारे बचत बैंक खाता क्र० में नामे डालिए
AND DEBIT THE AMOUNT TO MY/OUR ABOVE SAVINGS BANK ACCOUNT.

टोकन न.
Token No.

स्क्रोल क्र०
Scroll No.

क्र०
No.

नकद रुपया/PAY CASH

पासकर्ता अधिकारी/Passing Officer

रु०/Rs.

जमाकर्ता/Depositor(s)

Specimen of withdrawal form

b. Cheque: As an account-holder, you can withdraw cash from your savings bank account by making use of a cheque also.

…………....20........

Pay to ……......................................……...or Bearer

Rupees……………………………………………………......……………….........

……………………………………………………………………………………

STATE BANK OF INDIA

J.N.U., N.Delhi *Rs.*

MSBL/97

6 5 3 0 0 3 1 1 0 0 0 2 0 5 6 1 0 **Signature**

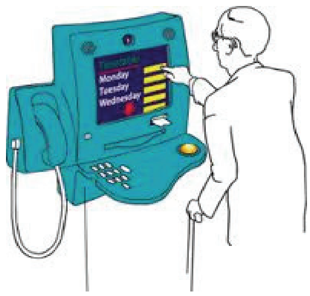
Specimen of Cheque

Cheques can also be issued for payment to other parties. Thus, a cheque issued to another person can be either encashed by him at the bank, or deposited in his account in some other bank.

Withdrawal by issue of cheque requires the same procedure to be followed as that for withdrawal by filling in and signing the withdrawal form explained above. In both cases the amount of withdrawal is recorded in the books of the bank in the relevant savings bank account. Interest allowed on the balance of deposit is also recorded in the relevant accounts maintained in the books of account of the bank. These are also entered in the Pass Book as and when presented by the account-holder to the bank.

c. ATM Card: Banks issue ATM card to its depositors for easy withdrawal of money from their accounts. This card is used for withdrawal of money from saving and current deposit account through Automated Teller Machine (ATM). It is a magnetic card, which can be operated by using a particular secrete number. It is the most convenient system of withdrawal of money.

- **Teller Counters :** To facilitate quick transaction, banks provide teller counters to withdraw money from the deposit account. There are two types of teller counters:
  a) Manual teller counter; and
  b) Automatic teller counter.



Teller System

In manual teller counters banks generally allow withdrawal of money from the savings accounts for amount upto a limit. The cheque or withdrawal form is presented at the counter and payment is made after verifying the balance in the account, and tallying the specimen signature of the account holder.

In automatic teller counters ATMs are installed to handle cash transactions 24 hours without any break. There is no need to appoint anybody to verify your balance, compare the specimen signature or hand over or take over the cash. Let us learn how an ATM machine operates.

When a bank installs ATMs, it gives a magnetic card along with a secret code number to every accountholder. This code number is called Personal Identification Number (PIN). When a cardholder wants to withdraw or deposit money, first he has to establish his identity to operate the ATM by mentioning his PIN. When an ATM card is inserted into the machine it asks for the PIN. The PIN can be entered either by using the keyboard or touching the screen of the machine.

Speciemen of ATM card

Once the identity is established then money can either be deposited or withdrawn simply by following the instruction given by the machine. For deposit of cash it is required to keep the amount in a special envelop, which is available at the ATM center. After sealing the envelope and writing the necessary information on it, the envelope will be kept near a slit. Then on pressing the deposit button the envelope will automatically be entered into the machine. The bank officials will collect those envelops at regular intervals and credit the amount in the respective accounts. Similarly, withdrawal of money can be made by pressing or touching the withdrawal button and then mentioning the amount of money required. The exact amount of money will be made available to you instantly through the outlet.

INTEXT QUESTIONS 9.5

I. Which of the following statements are true and which are false?

(i) Pay-in-slip is required to be used while opening a savings bank account.

(ii) Withdrawal form cannot be used by an account-holder if he/she uses cheques for withdrawing cash from savings bank account.

(iii) A savings bank account-holder cannot introduce another person at the time of opening a savings bank account.

(iv) The Pass Book must be presented by the account-holder for entering deposits and withdrawals by the bank.

(v) Application form for opening a savings bank account is available free of charge.

(vi) To make payment to a third party by cheque, the name of the party must be mentioned on the cheque.

(vii) Cheque Book is issued by the bank only on the request made by an account-holder.

(viii) A Pass Book is issued by the bank immediately after opening of the savings bank account.

II. Fill in the blanks with appropriate word's:

i. Counterfoil of the pay-in-slip is returned to the ________________ by the bank.

ii. The right-hand part of the pay-in-slip is called the _________.

iii. A cheque needs to be attached to the _________ of the pay-in-slip before depositing.

iv. Before payment of a cheque, the signature of the account-holder is verified with the ____________ .

v. The Teller system helps quick ___________ of cash by account-holders.

vi. Deposit of cash into savings bank account can be made at the ___________ counter.

9.10 E-BANKING (ELECTRONIC BANKING)

E-banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels. E-banking includes the systems that enable financial institution customers, individuals or businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the Internet. With advancement in information and communication technology, banking services are also made available through computer. Now, in most of the branches you see computers being used to record banking transactions. Information about the balance in your deposit account can be known through computers. In most banks now a days human or manual teller counter is being replaced by the Automated Teller Machine (ATM). Banking activity carried on through computers and other electronic means of communication is called 'electronic banking' or 'e-banking'. Let us now discuss about some of these modern trends in banking in India.

- **Automated Teller Machine**

A machine at a bank branch or other location which enables a customer to perform basic banking activities (checking one's balance , withdrawing or transferring funds) even when the bank is closed. Banks have now installed their own Automated Teller Machine (ATM) throughout the country at convenient locations. By using this, customers can deposit or withdraw money from their own account any time.

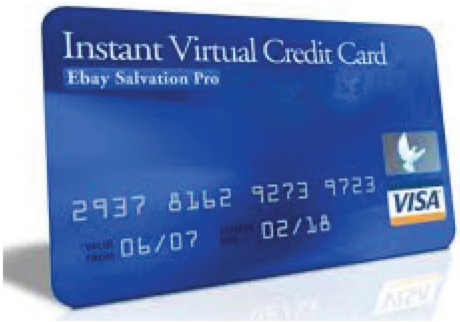
- **Debit Card**

A card which allows customers to access their funds immediately, electronically. Banks are now providing Debit Cards to their customers having saving or current account in the banks. The customers can use this card for purchasing goods and services at different places in lieu of cash. The amount paid through debit card is automatically debited to (deducted from) the customers' account.

Debit Card

- **Credit Card**

A card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing. Interest usually begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating. Credit cards are issued by the bank to persons who may or may not have an account in the bank. Just like debit cards, credit cards are used to make payments for purchase, so that the individual does not have to carry cash. Banks allow certain credit period to the credit cardholder to make payment of the credit amount. Interest is charged if a cardholder is not able to pay back the credit extended to him within a stipulated time period. The interest rate chargedis generally quite high.



Credit Card

- **Net Banking**

The Internet provides a secure medium for transferring funds electronically between bank accounts, and also for making banking transactions over the Internet. All banking activities that were conventionally carried by visiting a bank can now be done through a computer with Internet access. Credit cards transactions are a form on Internet Banking. With Net-Banking, you can not only view your account balance but also open a Fixed Deposit, transfer funds, pay your electricity, telephone or mobile phone bills and much more. Presently, through Net-Banking, you can view not only your in Bank account but also your account(s) in other Banks. So you can actually view your Bank accounts in different Banks at the same time on one screen.

Net Banking System

Thus, when banking transactions such as transfers, payments and often home loan applications can be made via the Internet, then it is known as Net Banking.

Net Banking allowing individuals to perform banking activities at home, via internet. Online banking through traditional banks enable customers to perform all routine transactions, such as account transfers, balance inquiries, bill payments, and stop-payment requests, and some even offer online loan and credit card applications.

Account information can be accessed anytime, day or night, and can be done from anywhere. With the extensive use of computer and Internet, banks have now started transactions over Internet. The customer having an account in the bank can log into the bank's website and access his bank account. He can make payments for bills, give instructions for money transfers, fixed deposits and collection of bill, etc.

- **Phone Banking**

A system in which customers can access their accounts and a variety of banking services up to 24 hours a day by telephone or it is a facility enabling customers to make use of banking services, such as oral payment instructions, account movements, raising loans, etc., over the telephone rather than by personal visit. In case of phone banking, a customer of the bank having an account can get information of his account, make banking transactions like, fixed deposits, money transfers, demand draft, collection and payment of bills, etc. by using telephone. As more and more people are now using mobile phones, phone banking is possible through mobile phones. In mobile phone a customer can receive and send messages (SMS) from and to the bank in addition to all the functions possible through phone banking.

Phone Banking

INTEXT QUESTIONS 9.6

I. Match the statement in column A with the word(s) / terms in column B:

Column A	Column B
(i) The banking facility that helps us to make payments out of our bank account without actually carrying money with us.	(a) ATM
(ii) The banking facility enabling us to deposit or withdraw cash 24 hours a day.	(b) Phone Banking
(iii) The facility that helps us to perform banking Transactions over the Internet.	(c) Credit Card
(iv) We can get information about the balance in our bank account over the mobile phone using this facility	(d) Debit Card
(v) The facility that enables us to make payment for purchase of goods by taking credit from the bank	(e) Net Banking

II. Multiple Choice Questions

i. Which of the following is not a function of Centeral Bank?
a) Guiding and regulating the Banking System of a country
b) Acts essentially as Government Banker
c) Deals with the General Public
d) Maintains deposite accouts of all other Banks.

ii. Which of the following is not a commercial Bank?
a) State Banke of India b) Reserve Bank of India
c) ICICI Bank d) Punjab National Bank

iii. Which of the following is not a type of advance provided by Commercial Bank?
a) Cash Credit
b) Overdraft
c) Collecting and Supplying Business Information
d) Discounting of Bills

iv. Fixed Deposit Account facility is availed by :
a) Businessman
b) Salaried people
c) People want to save money for long period
d) Who want to get the interest on monthly basis

v. Which is not a valid document to withdraw the money from the Bank?
a) Cheque b) Withdrawl form
c) Personal Identity Card d) ATM Card

WHAT YOU HAVE LEARNT

- A Bank is an institution that accepts deposits from public and lends money to the people who need it.
- Banking is an important auxiliary to trade.
- Banks encourage savings and act as an intermediary between depositors and borrowers.
- They help in credit transactions, facilitate export and import, help in national development and raise people's standard of living.
- Types of banks
    - The Central Bank, (RBI in India), acts as the government banker and issues currency notes in the country. It also acts as the banker's bank.

  - The Commercial Banks provide short and medium term loans and charge interest on it. They are of three types – Public Sector Banks, Private Sector Banks and Foreign Banks.
  - Development Banks lend funds to business for medium to long term.
  - Co-operative Banks are formed to serve common interest of members. In India, we have Primary Credit Societies at (village level), Central co-operative Banks at (district level) and State Co-operative Banks at (State level).
  - EXIM Bank provides guidance and support to exporters and importers.
  - NABARD helps in financing agricultural and other rural activities.
- Functions of Commercial Banks:
  - Primary functions include accepting deposits, granting loans, advances, cash, credit, overdraft and discounting of bills.
  - Secondary functions include issuing letter of credit, undertaking safe custody of valuables, providing consumer finance, educational loans, etc.
- Bank deposits serve different purposes for different people. Keeping in view these differences, banks offer the facility of opening different types of deposit accounts by people to suit their convenience and purposes, as follows:
  - Savings Bank Account
  - Current Deposit Account
  - Fixed Deposit Account
  - Recurring Deposit Account
- There are different types of Recurring Deposit Accounts, like Home Safe Account, Cumulative-cum-Sickness Deposit Account, House construction Deposit Account, etc.
- To open a Savings Deposit Account in a commercial bank, you have to take the following steps: Filling up the form, Proper introduction, Spacemen Signature.
- E-banking: With advancement in information and communication technology, banking is performed electronically through Credit Card, Debit Card and ATM, etc.

TERMINAL EXERCISE

1. Define the term 'Bank'.
2. What is meant by 'Banking'?
3. Give two examples each of (a) Private Sector Commercial Banks; and (b) Foreign Banks, in India.
4. What facility is provided by credit cards to a bank's customers?
5. What is meant by cash credit?
6. What function does 'Development Bank' perform?
7. Explain the role of banking in about 100 words.
8. What is meant by Central Bank?
9. What are the functions performed by (a) EXIM Bank; and (b) NABARD.?
10. Give any four secondary functions of a commercial bank.
11. Explain the primary functions of a commercial bank.
12. Explain the different types of commercial bank giving example of each.
13. Distinguish between banks and moneylender on the basis of (i) Entity; (ii) Security; (iii) Activity; and (iv) Clients.
14. Describe the functions performed by a commercial bank.
15. Explain the recent development in the field of banking by giving examples of the latest facilities being offered to customers.
16. What is meant by co-operative bank? Explain the types of co-operative banks in India.
17. Describe the procedure of opening a savings bank account in a bank.
18. State the procedure for depositing cash in the savings bank account.
19. What procedure will you follow for depositing a cheque in your savings bank account?
20. Describe the use of withdrawal form for operating savings bank account.
21. What particulars do you have to fill in the form of application while opening a savings bank account?
22. State how will you withdraw cash from your savings bank account.
23. Describe briefly the use of pay-in-slips for depositing cash or cheques into the savings bank account.
24. What is pay-in-slip? State its utility.
25. Can you withdraw an amount in excess of the balance in your savings bank account? Give reason in support of your answer.
26. What is ATM? How does it help the customers of the bank?
27. While opening a savings bank account, why is it necessary to arrange introduction of the applicant by a person known to the bank?

Notes

28. What are the different methods of withdrawing money from the saving bank account?

ANSWER TO INTEXT QUESTIONS

9.1 (i) lends, (ii) intermediary / middleman, (iii) trade, (iv) cheque, (v) moneylender

9.2 (i) Private Sector Bank, (ii) EXIM Bank, (iii) Co-operative Bank (iv) Central Bank, (v) Public Sector Bank

9.3 (i) F, (ii) T, (iii) T, (iv) F, (v) T

9.4 I. (i) T, (ii) F, (iii)T, (iv) F, (v) T, (vi) T, (vii)F, (viii) T

II. (i) nominal, (ii) higher, (iii) current account, (iv) cheque, (v) same

9.5 I. (i) T, (ii) T, (iii) F, (iv) F, (v) T, (vi) T, (vii) T, (viii) T

II. (i) depositor, (ii) foil, (iii) foil, (iv) specimen signature (v) withdrawl, (vi) bank

9.6 I. (i) (d), (ii) (a), (iii) (e), (iv) (b), (v) (c)

II. (i) c (ii) b (iii) c (iv) b (v) c

ACTIVITIES FOR YOU

- Make a list of Banks operating in your locality and classify them according to their functions.
  - i. Go to the nearest branch of any bank and collect a pay-in-slip form used for depositing money. Try to fill it with the help of imaginary figures.
  - ii. Collect information about
    - a. Minimum amount required to open various deposit accounts;
    - b. Rate of interest payable on savings bank, recurring and fixed deposit accounts;

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10

INSURANCE SERVICES

You must have seen shops in the market. In these shops many articles are stored for sale. Some of you might have seen factories where machines are installed to manufacture products. You may also be knowing about trains, trucks, ships, etc. that carry goods from one place to another. All these involve lot of money and there is always a risk of loss on their way. For example, storing goods in the shop for sale involves lot of money spent on buying those products and there is always a risk that the products may get damaged before they are sold. The damage may be due to accidents like fire, natural calamities or even because of riot or theft.Similarly in factories the machines may break down causing heavy loss. During transportation the goods may get damaged or destroyed due to accident. Under all these circumstances there is always a loss incurred by the businessman. Not only the assets or properties of businessman, he himself is also not out of danger because of the risk involved in some of the activities unertaken by him on day-to-day basis. He may suffer any disease or face accident which may cause a great loss to his family.

Can these risks be avoided or minimized? Is there anything to take care of these risks? Let us learn all about it in this lesson.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the nature of business risks;
- define insurance;
- explain the importance of insurance;
- identify different types of insurance;
- describe the salient features of life insurance, fire insurance, marine insurance and other types of insurance; and
- state the principles applicable to a contract of insurance.

10.1 NATURE OF BUSINESS RISKS

If you decide to engage yourself in any business activity your main objective will naturally be to earn profit. It is the most important objective of every business because without profit your capital will get reduced and may be totally lost. So you will do your best to manage your business efficiently. Sometimes you may find that sale of goods produced in your factory is declining. That is a warning signal. You may then try to find out the reasons behind it. If you can identify the reasons, you may find some remedies. Suppose you find that imported goods of the same quality are being sold by competing traders at a much lower price. You have to face the loss as a result of the change in market conditions. There may be other reasons, that may also result in loss of income or profit. Goods may be lost in course of transportation. There may be accidental fire in the godown, workers of the factory may go on strike. You may not be able to anticipate or control some of these possibilities. This is the concept of risk. Risk is the possibility of loss or damage due to factors over which the businessman has little or no control.

All business activities are subject to uncertain events or happenings and may suffer loss or damage. Timely precaution can be taken to avoid some of the losses. But certain losses and damages have either to be borne by the businessman himself, or if possible, shared with others.

The possibility of loss or damage can be divided into two broad categories: uncertainties and risks. Uncertainties are the events, which cannot be foreseen. But risks can be anticipated in the light of past experience. The chances of fire in the factory or godown depend upon precautions taken to prevent its occurrence, or having necessary preparedness to keep the resulting loss to a minimum level. So, is the case with loss or damage by theft or accidents.

Now, take another type of situation. Every person has to think of his future needs when he is not able to work or suffers from old age and illness. This is not an uncertain occurrence. Illness is bound to be there for living beings sometime or the other and more likely after a certain age. It is also necessary to consider that death may strike at a time when there will be a family to be looked after and provided with a means of living.

There are also risks, which have a significant place in business. While goods are transported from place to place, there may be accidents causing, damage or loss of goods. Trains may be derailed, bridges may collapse, or airplane may crash due to engine trouble. Trucks may be looted on their way to another city. Damage may be caused to goods sent by ship at the time of loading or unloading at sea ports. Can such damages or losses be shared with any other party? Let us note how these can be shared by means of insurance.

TYPES OF RISKS

Speculative Risk :	Risks relating to business judgment based on speculation. For example change in fashion, govt. policy etc.
Pure Risk :	Risks where the chance of loss is predictable.
Property Risk :	Related to Loss of property.
Personnel Risk :	Related to life or health of the people.
Financial Risk :	Related to financial transactions of the business.
Marketing Risk :	Risk associated with marketing of goods.

10.2 MEANING OF INSURANCE

Simply speaking, insurance is the means by which risks of loss or damage can be shifted to another party called the insurer on the payment of a charge known as premium. The party whose risk is shifted to the insurer is known as the insured. Obviously insurer is generally an organization (Insurance Company), which is willing to share the loss or damage and it is also qualified to do so.

Insurance is a contract between the insurer and insured whereby the insurer undertakes to pay the insured a fixed amount, in exchange for a fixed sum known as premium, on the happening of a certain event (like at a certain age or on death), or compensate the actual loss when it takes place, due to the causes mentioned in the contract.

If you think about the basis of insurance, you will realize that it is a form of co-operation through which all the insured, who are subject to a risk, pay premium and only one or few among them who actually suffer the loss or damage is/are compensated. Actually, the number of parties exposed to a risk is very large and only a few of them might actually suffer loss during a certain period. The insurer (company) acts as an agency to spread the actual loss suffered by a few insured parties among a large number of parties.

INTEXT QUESTIONS 10.1

Which of the following statements are true and which are false?

(i) The possibility of loss or damage to goods or human beings is known as risk.

(ii) Change of fashion is a personnel risk.

(iii) Losses caused by uncertain events of insured goods have to be borne by businessmen themselves.

Notes

(iv) Some risks can be taken care of by precautions such as risk of breakdown of machinery.

(v) Insurance is the means of shifting risks of loss to a party willing and qualified to share the loss.

(vi) The amount paid by the insured to the insurer is known as premium.

10.3 IMPORTANCE OF INSURANCE

To appreciate the importance of insurance we have to discuss the benefits that we derive from it.

As explained in the previous section, insurance serves as a very useful means of spreading the effects of personal as well as business risks by way of loss or damage among many. Thus, the insured have a sense of security. Individuals who pay premium periodically out of current income can look forward to an assurance of receiving a fixed amount on retirement or his family being secured in the event of his death. Businessmen also pay premium for insurance of risk of loss without constant worry about the possibility of loss or damage.

Insurance plays a significant role particularly in view of the large-scale production and distribution of goods in national and international market. It is an aid to both trading and industrial enterprises, which involve huge investments in properties and plants as well as inventories of raw materials, components and finished goods. The members of business community feel secured by means of insurance as they get assurance that by contributing a token amount they will be compensated against a loss that may take place in future.

From the national economic point of view, insurance enables savings of individuals to accumulate with the insurance companies by way of premium received. These funds are invested in securities issued by big companies as well as by Government.

Individuals who insure their lives to cover the risks of old age and death are induced to save a part of their current income, which is by itself of great importance.

Insurance is also a source of employment for the people. The people get employed directly in its offices of the insurance company spread over the country and it also provides opportunities to the people to earn their livelihood by working as agent of the insurance companies.

INTEXT QUESTIONS 10.2

Fill in the blanks with suitable words given in brackets.

(i) Insurance is a means of spreading the ________ of a few among many. (loss, expense)

Notes

(ii) The members of the business community feel ________ because of insurance. (secured, unsecured)

(iii) Insurance companies invest their funds in corporate and Government ______ (loans, securities)

(iv) Insurance is an aid to ________ as well as commerce. (industry, trade)

10.4 TYPES OF INSURANCE

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

(i) Life Insurance

(ii) Fire Insurance

(iii) Marine Insurance, and

(iv) Other types of insurance such as burglary insurance, motor vehicle insurance, etc.

Until recently Life Insurance Corporation of India (LIC) and General Insurance Corporation with its subsidiaries happened to be the only organizations engaged in life and general insurance business in India. Now a number of other private companies have entered this service sector. Let us consider the salient feature of each of these types.

(i) Life Insurance

A contract of life insurance (also known as 'life assurance') is a contract whereby the insurer undertakes to pay a certain sum either on the death of the insured or on the expiry of a certain number of years. In return, the insured agrees to pay an amount as premium either in a lump sum or in periodical installments, annually, half-yearly, quarterly or monthly. The risk insured against in this case is certain to happen. Hence, life insurance is also referred to as life assurance. The written form of contract is known as life insurance policy. It provides for the payment of a fixed sum to the insured or his legal heirs as the case may be either on a fixed date or on the happening of an event, which is certain. Businessmen can provide for life insurance of all their employees by way of group insurance. It also develops loyalty among employees and can be used as a security for raising loans.

There are two basic types of life assurance policies (a) Whole-life policy, and (b) Endowment Policy. A whole life policy runs for the whole life of the insured and premium is payable all along. The sum assured becomes due for payment to the heirs of the insured only after his death. An endowment policy on the other hand, runs for a limited period or upto a certain age of the insured. The sum assured becomes due for payment at the end of the specified period or on the death of the insured, if it occurs earlier.

(ii) Fire Insurance

A contract of fire insurance is a contract whereby the insurer, on payment of premium by the insured, undertakes to compensate the insured for the loss or damage suffered by reason of certain defined subject matter being damaged or destroyed by fire. It is a contract of indemnity, that is, the insured cannot claim anything more than the value of property lost or damaged by fire or the amount of policy, whichever is lower. The claim for loss by fire is payable subject to two conditions, viz; (a) there must have been actual fire; and (b) fire must have been accidental, not intentional; the cause of fire being immaterial. The basic principle applied with regard to claim is the principle of indemnity. The insured is entitled to be compensated for the amount of actual loss suffered subject to a maximum amount for which he had taken the policy. He cannot make a profit through insurance. For example, if a person takes a fire insurance policy of Rs. 20,000/- on certain goods. Out of these, goods worth Rs. 15,000/- are destroyed by fire. The insured can only claim an amount to the extent of loss i.e., Rs. 15,000/- (and not Rs. 20, 000/-) for the damage from the insurance company.

(iii) Marine Insurance

Marine insurance is an agreement (contract) by which the insurance company (also known as underwriter) agrees to indemnify the owner of a ship or cargo against risks, which are incidental to marine adventures. It also includes insurance of the risk of loss of freight due on the cargo. Marine insurance that covers the risk of loss of cargo by storm is known as cargo insurance. The owner of the ship may insure it against loss on account of perils of the sea. When the ship is the subject matter of insurance, it is known as hull insurance. Further, where freight is payable by the owner of cargo on safe delivery at the port of destination, the shipping company may insure the risk of loss of freight if the cargo is damaged or lost. Such a marine insurance is known as freight insurance. All marine insurance contracts are contracts of indemnity.

The followings are the different types of marine insurance policies

(a) **Time Policy** – This policy insures the subject matter for specified period of time, usually for one year. It is generally used for hull insurance or for cargo when small quantities are insured.

(b) **Voyage Policy** - This is intended for a particular voyage, without any consideration for time. It is used mostly for cargo insurance.

(c) **Mixed Policy** – Under this policy the subject matter (hull, for example) is insured on a particular voyage for a specified period of time. Thus, a ship may be insured for a voyage between Mumbai and Colombo for a period of 6 months under a mixed policy.

(d) **Floating Policy** - Under this policy, a cargo policy may be taken for a round sum and whenever some cargo is shipped the insurance company declares its value and the total value of the policy is reduced by that amount. Such shipments may continue until the total value of the policy is exhausted.

DIFFERENCE BETWEEN FIRE, MARINE AND LIFE INSURANCE

S.No.	Basis of Difference	Fire Insurance	Marine Insurance	Life Insurance
1.	Compensation	Amount insured or Actual loss which ever is less is given as compensation.	Purchase price of goods and 10-15 percent profit is given as compensation.	No loss is compesable only specific amount is paid.
2.	Insurable Interest	Insurable interest must exist both at the time of taking policy as well as the time of loss.	Insurable interest must exist at the time of loss.	Insurable interest must exist at the time of taking policy.
3.	Assignment of Policy	No Assignment without permission of Insurance Company.	No Assignment without permission of Insurance Company.	No Assignment is done.
4.	Nature of Risk	Uncertain	Uncertain	Certain but the time is uncertain.
5.	Period	Normally for one year.	Normally for one year.	It is taken for a long term.
6.	Premium	Premium depends upon the amount insured.More the amount insured more will be the Premium.	Premium depends upon nature of perils.	Premium depends upon the age of the insured and term of policy.
7.	Object	To cover the risk of fire.	To cover the sea perils.	Protection and Investment.
8.	Surrender	Cannot be surrendered before expiry.	Cannot be surrendered before expiry.	can be surrendered before maturity.

(iv) Other types of Insurance

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

(a) **Motor vehicles Insurance**: Insurance of all types of motor vehicles-passenger cars, vans, commercial vehicles, motor cycles, scooters, etc., covers the risks of damage of the vehicle by accident or loss by theft, as also risks of liability arising out of injury or death of third party involved in an accident. Third party risk insurance is compulsory under the Motor Vehicles Act.

(b) **Burglary Insurance**: Under this insurance the insurance company undertakes to indemnify the insured against losses from burglary i.e., loss of moveable goods by robbery and theft by breaking the house.

(c) **Fidelity Insurance**: As a protection against the risks of loss on account of embezzlement or defalcation of cash or misappropriation of goods by employees, businessmen may get policies issued covering the risks of loss on account of fraud and dishonesty on the part of employees handling cash or in charge of stores. This is called fidelity insurance policy. The employees may also be required to sign a fidelity guarantee Bond.

(d) **Personal accident and sickness Insurance:** These are policies which can be taken out against death or disability in special circumstances, for example by traveling through flights, etc.

(e) **Liability Insurance:** This type of policy covers the risk of liability for the injury or death of someone else. These are two main forms as (i) Employers liability- covers the employers legal liability for the safety of each employee.(ii) Public liability- covers the liability of individuals and business for members of public visiting their premises.

(f) **Property Insurance**: Covers a wide variety of items from goods in transit or in store to building or contents. Applies to both the business persons and the private householders.

INTEXT QUESTIONS 10.3

Which of the following statements are true and which are false?

(i) Marine insurance contracts are ordinary contracts while life insurance is a contract of indemnity.

(ii) Fire insurance covers the risk of loss by fire where the cause of fire is immaterial for making a claim from the insurance company

(iii) A ship may be insured against loss by perils of sea.

(iv) For an endowment policy, the insured has to continue paying premium for the whole life.

(v) In life insurance, premium may be paid in a lump sum or in annual installments.

(vi) In marine insurance, time policy is often used for hull insurance.

(vii) Fidelity insurance is not compulsory for owners of business.

(viii) The principle underlying the contract of indemnity is to ensure that the insured cannot make profit out of insurance.

10.5 PRINCIPLES OF INSURANCE

There are certain principles that may apply to the contracts of insurance between insurer and insured. These principles are discussed below.

i. Utmost goods faith

Insurance contracts are the contracts of mutual trust and confidence. Both parties to the contract i.e., the insurer and the insured must disclose all relevant information to each other.

The insurer must honour all the promises made in the policy, intentional withholding of information invalidates the contract. For example, while entering into a contract of life insurance, the insured must declare to the insurance company if he is suffering from any disease that may be life threatening. If he fails to do so and afterwards it is established that the insured was suffering from a desease which was the cause of his death, then the insurance company shall not be liable to pay any claim.

ii. Insurable interest

It means financial or pecuniary interest in the subject matter of insurance. It means that if there is a loss due to the damage of the insured property or to the assured life it will be the personal loss of the insured. A person has insurable interest in the property or life insured if he stands to gain from its existence or loose financially from its damage or destruction. In case of life insurance, a person taking the policy must have insurable interest at the time of taking the policy. For example, a man can take life insurance policy in the name of his wife and if later they get divorced this will not affect the insurance contract because the man had insurable interest in the life of his wife at the time of entering into the contract.

In case of marine insurance insurable interest must exist at the time of loss or damage to the property. In contract of fire insurance, it must exist both at the time of taking the policy as well as at the time of loss or damage to the property.

iii. Indemnity

The word indemnity means to restore someone to the same position that he/she was in before the event concerned took place. This principle is applicable to the fire and marine insurance. It is not applicable to life insurance, because the loss of life cannot be restored.

The purpose of this principle is that the insured is not allowed to make any profit from the insurance contract on the happening of the event that is insured against. Compensation is paid on the basis of amount of actual loss or the sum insured, which ever is less.

iv. Contribution

The same subject matter may be insured with more than one insurer. In such a case, the insurance claim to be paid to the insured must be shared or contributed by all insurers in proportion to the ammount of insurance of individual insurers.

v. Subrogation

In the contract of insurance subrogation means that after the insurer has compensated the insured, the insurer gets all the rights of the insured with regard to the subject matter of the insurance. For example, suppose goods worth Rs. 20,000/- are partially destroyed by fire and the insurance company pays the compensation to the insured, then the insurance company can take even these partially destroyed goods and sell them in the market.

vi. Mitigation

In case of a mishap the insured must take all possible steps to reduce or mitigate the loss or damage to the subject matter of insurance. This principle ensures that the insured does not become negligent about the safety of the subject matter after taking an insurance policy.

The insured is expected to act in a manner as if the subject matter has not been insured.

vii. Causa-proxima (nearest cause)

According to this principle the insured can claim compensation for a loss only if it is caused by the risk insured against. The risk insured should be nearest cause (not a remote cause) for the loss. Only then the insurance company is liable to pay the compensation. For example a ship carrying orange was insured against losses arising from accident. The ship reached the port safely and there was a delay in unloading the oranges from the ship. As a result the oranges got spoilt. The insurer did not pay any compensation for the loss because the proximate cause of loss was delay in unloading and not any accident during voyage.

INTEXT QUESTIONS 10.4

Fill in the blanks using appropriate word(s).

i. The principle of utmost good faith is based on ____________ between insurer and insured.

ii. In life insurance contract the insurer must have insurable interest at the time of ___________.

iii. The purpose behind the principle of ___________ is that, the insured is not allowed to make profit from the insurance contract.

iv. If there are two or more insurers and the insurance claim is paid by one of them, other insurers have to contribute ________ to the insurer who has paid the claim.

WHAT YOU HAVE LEARNT

- Risk is the possibility of loss or damage due to causes over which we have little or no control. All business activities have to face the risks of loss or damage due to uncertain events or happenings.
- Insurance is a means by which the risks of loss or damage can be shifted to another party (the insurer) on payment of a charge known as premium. The party whose risk is shifted to the insurer is known as the insured.
- Insurance is based on a contract between the insurer and insured whereby the insurer, in exchange for a fixed sum (premium), undertakes to pay the insured a specified amount on the happening of a certain event (like the insured reaching old age), or pay the amount of actual loss when it takes place due to the risk insured.
- **Importance of Insurance:** Insurance is a simple means of sharing the burden of loss or damage among many people. It plays a significant role in business in view of the large-scale production and distribution of goods in national and international markets. It is an aid to both commercial and industrial enterprises. It enables the insurance company to invest the premium received from the various policy holders into securities which is ultimately used for national development. Insurance is also a source of employment for many people.
- **Types:** Insurance as a service activity may be classified into four broad types:

Life Insurance	:	Whole-life policy, Endowment policy
Fire Insurance	:	Time policy
Marine Insurance	:	Voyage policy, Mixed policy, Floating policy
Others Kinds of Insurance	:	Motor-vehicles insurance, Burglary insurance, Fidelity insurance, Personal accident and sickness Insurance, Liability Insurance, Property Insurance.

TERMINAL EXERCISE

1. What is meant by 'business risk'?
2. Define Insurance.
3. Why is insurance considered important? List any two reasons.
4. What does 'Endowment' life policy mean?
5. What is a 'Voyage Policy'?
6. What is meant by 'Hull' insurance?
7. How insurance is important as an aid to trade and industry? Explain.
8. How does whole life policy differ from endowment life policy? Why is life insurance also called life assurance?
9. Explain the types of risks which are covered by (i) Motor Vehicles insurance; (ii) Fidelity insurance.
10. What purpose does Marine Insurance Policy serve? Explain the different types of marine policies, which may be of use to exporters and importers.
11. A person suffering from cancer did not disclose this fact while taking a life insurance policy. Name the principle he violated and explain it about 50 words.
12. At what time there should be insurable interest in, a) Life insurance; b) fire insurance; and c) Marine insurance.

ANSWER TO INTEXT QUESTIONS

10.1	i. True,	ii. False,	iii. False,	iv. True,
	v. True,	vi. True		
10.2	i. Loss,	ii. Secured,	iii. Securities,	iv. Industry
10.3	i. False,	ii. True,	iii. True,	iv. False,
	v. True,	vi. True,	vii. True,	viii. True

10.4	i. Mutual trust and confidence,	ii. Contract,
	iii. Indemnity,	iv. Proportionately

ACTIVITIES FOR YOU

- Students may be prepared to make enquiry about the number of shopkeepers in their localities who have got insurance cover against loss by fire.
- Students may be required to enquire from the neighbours about the number of persons who have taken life insurance policy whether whole-life or endowment policies.

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CHANNELS OF DISTRIBUTION

Are you aware that the study material of Business Studies, which is now in your hands, is prepared at the Headquarters of the National Institute of Open Schooling (NIOS) situated at Noida (UP). How did it come to your hands? Was it available at your study centre or you bought it from the market? If you got it from your study centre, then just think for a while: how did it reach your study centre? Actually, after publishing the study material, NIOS sent this material to your study centre and then you collected it from there. Similarly, the NIOS study material available in the market is directly purchased by the booksellers from NIOS. Then, the booksellers sell it to you.

Thus, the study material prepared by NIOS reached you either through your centre or through booksellers. In a similar way most of the goods and services we use in our daily life also come from the producers or manufacturers and reach us through some people. In this lesson, you will learn how the goods and services of your need reach to you.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the meaning of channels of distribution;
- identify different channels of distribution;
- describe the functions of wholesalers and retailers;
- distinguish between wholesalers and retailers;

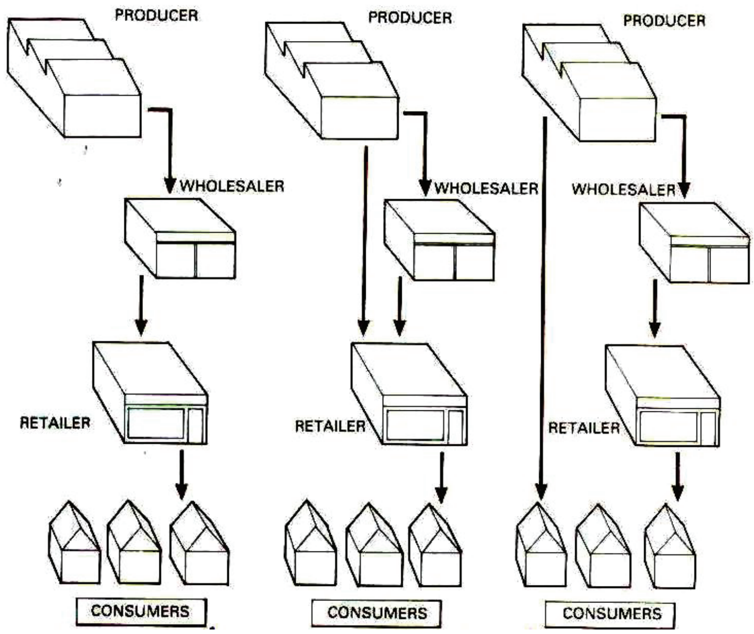
13.1 MEANING OF CHANNELS OF DISTRIBUTION

You know that the main purpose of trade is to supply goods to the consumers living in far off places. As goods and services move from producer to consumer they may have to pass through various individuals, let us take an example. A farmer living in Srinagar has an apple orchard. Once the apples are ripened he sells the apples to an agent of Delhi. The agent collects the apples from Srinagar, packs them, and sells them to a wholesaler of Delhi fruit market. The retailers buy apples from the wholesalers in small quantities to sell them to the consumers.

Finally, we purchase apples from the vendors as per our requirement. Thus, we find that while coming from the producer at Srinagar, the product reaches the consumers by passing through several hands like an agent, a wholesaler and a retailer. All these three are called middlemen.

These middlemen are the connecting links between producers of goods, on one side and consumers, on the other. They perform several functions such as buying, selling, storage, etc. These middlemen constitute the channels of distribution of goods. Thus, a channel of distribution is the route or path along which goods move from producers to ultimate consumers.

The route taken by goods as they move from producer to consumer is known as Channel of Distribution as shown by the following figure :



13.2 TYPES OF CHANNELS

Normally goods and services pass through several hands before they reach in the hands of the consumer for use. But in some cases producers sell goods and services directly to the consumers without involving any middlemen in between them, which can be called as direct channel. So there are two types of channels, one direct channel and the other, indirect channel.

Direct channel include from Producer to Consumer. While indirect channels are of various types such as :

(i) Producer ⟶ Agent ⟶ Wholesaler ⟶ Retailer ⟶ Consumer
(ii) Producer ⟶ Wholesaler ⟶ Retailer ⟶ Consumer
(iii) Producer ⟶ Agent ⟶ Consumer
(iv) Producer ⟶ Wholesaler ⟶ Consumer and
(v) Producer ⟶ Retailer ⟶ Consumer

Common Channels of Distribution

(i) Direct Channel

In this channel, producers sell their goods and services directly to the consumers. There is no middleman to come between the producers and consumers. The producers may sell directly to consumers through door-to-door salesmen and through their own retail stores. For example, Bata India Ltd, HPCL, Liberty Shoes Limited has their own retail shops to sell their products to consumers. For certain service organizations consumers avail the service directly. Banks, consultancy firms, telephone companies, transport services, etc. are examples of direct channel of distribution of service.

Producer ⟶ Consumer

(ii) Indirect Channel

If the producer is producing goods on a large scale, it may not be possible for him to sell goods directly to consumers. As such, he sells goods through middlemen. These middlemen may be wholesalers or retailers. A wholesaler is a person who buys goods in large quantities from producers; where as a retailer is one who buys goods from wholesalers or producers and sells ultimate by to consumers as per their requirements. The involvement of various middlemen in the process of distribution constitute the indirect channel of distribution. Let us look into some of the important indirect channels of distribution.

Producer ⟶ Retailers ⟶ Consumer

This is the common channel for the distribution of goods to ultimate consumers. Selling goods through wholesaler may be suitable in case of food grains, spices, utensils, etc. and mostly of items, which are smaller in size.

Under this channel, the producers sell to one or more retailers who in turn sell to the ultimate consumers. This channel is used under the following conditions –

Producer ⟶ Wholesaler ⟶ Retailer ⟶ Consumer

(i) When the goods cater to a local market, for example, breads, biscuits, patties, etc.
(ii) When the retailers are big and buy in bulk but sell in smaller units, directly to the consumers.

Departmental stores and super bazars are examples of this channel.

INTEXT QUESTIONS 13.1

Complete the following statements using suitable words:

(i) Route or path along which goods move from the producer to ultimate consumer is known as ___________.

(ii) A retailer acts as a ___________ between the wholesaler and the ultimate consumers.

(iii) Where goods are sold through middlemen, it is known as ___________ channel of distribution.

(iv) Where goods are sold directly to consumers without using services of middlemen, it is known as ___________ channel.

(v) In the direct channel, producers sell goods to customers through door-to-door salesmen and through their own ___________.

13.3 WHOLESALERS AND RETAILERS

Wholesalers and retailers are important middlemen who generally facilitate flow of goods from the producers to the consumers. Let us study in details about them.

13.3.1 Wholesalers

Wholesalers are one of the important middlemen in the channel of distribution who deal with the goods in bulk quantity. They buy goods in bulk from the producers and sell them in relatively smaller quantities to the retailers. In some cases they also sell goods directly to the consumers if the quantity to be purchased is more. They usually deal with a limited variety of items and also in a specific line of product, like iron and steel, textiles, paper, electrical appliances, etc. Let us know about the characteristics of wholesaler.

Characteristics of Wholesalers

The followings are the characteristics of wholesalers:

(i) Wholesalers buy goods directly from producers or manufacturers.

(ii) Wholesalers buy goods in large quantities and sell in relatively smaller quantities.

(iii) They sell different varieties of a particular line of product. For example, a wholesaler who deals in paper is expected to keep all varieties of paper, cardboard, card, etc.

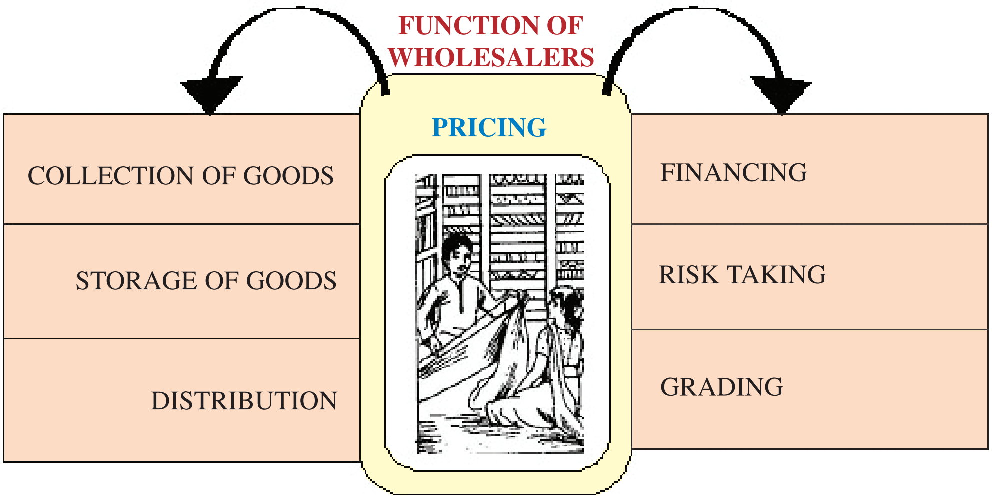
(iv) They may employ a number of agents or workers for distribution of products.

(v) Wholesalers need large amount of capital to be invested in his business.
(vi) They generally provide credit facility to retailers.
(vii) They also provide financial assistance to the producers or manufacturers.
(viii) In a city or town they are normally seen to be located in one particular area of the market.

For example, you can find cloth merchants in one area, book publishers and sellers in another area, furniture dealers in a different area.

Functions of Wholesalers

You have well understood the meaning of wholesaler and listed their characteristics. Now let us know about the functions of wholesalers.



Following are the functions, which a wholesaler usually performs.

(a) **Collection of goods**: A wholesaler collects goods from manufacturers or producers in large quantity.

(b) **Storage of goods**: A wholesaler collects the goods and stores them safely in warehouses, till they are sold out. Perishable goods like fruits, vegetables, etc. are stored in cold storage.

(c) **Distribution**: A wholesaler sells goods to different retailers. In this way, he also performs the function of distribution.

(d) **Financing**: The wholesaler provides financial support to producers and manufacturers by providing money in advance to them. He also sells goods to the retailer on credit. Thus, at both ends the wholesaler acts as a financier.

(e) **Risk taking**: The wholesaler buys finished goods from the producer and keeps them in the warehouses till they are sold. Therefore, he assumes the risks arising out of changes in demand, rise in price, spoilage or destruction of goods.

(f) **Grading:** He classifies the goods in different categories since all the collected goods are not of same quality. He grades the goods on the basis of quality, size and weight etc. He also undertakes packaging of goods which facilitates trade. Some wholesalers also perform the function of branding. They give brand names to the products they deal in.

(g) **Pricing:** The final prices are set by the wholesalers. They provide stability to the prices by regulating supply of goods in accordance with the demand for them. They influence market conditions, the demand for the goods and the taste of the people and make necessary arrangements to meet the demand when it comes up.

INTEXT QUESTIONS 13.2

Which of following statements about wholesalers are true and which are false?

(i) They buy goods directly from retailers, for sale to customers.

(ii) They generally provide credit facility to producers as well as to retailers.

(iii) They collect goods in large quantities and store them safely till they are sold out.

(iv) Wholesalers require small amount of capital investment for their business.

(v) They are located at a number of places in different markets near the customer.

(vi) They buy goods of a large variety in small quantities for sale.

13.3.2 Retailers

Retailers are the traders who buy goods from wholesalers or sometimes directly from producers and sell them to the consumers. They usually operate through a retail shop and sell goods in small quantities. They keep a variety of items of daily use.

Characteristics of Retailers

The following are the characteristics of retailers:

(i) Retailers have a direct contact with consumers. They know the requirements of the consumers and keep goods accordingly in their shops.

(ii) Retailers sell goods not for resale, but for ultimate use by consumers. For example, you buy fruits, clothes, pen, pencil etc. for your use, not for resale.

(iii) Retailers buy and sell goods in small quantities. So customers can fulfil their requirement without storing much for the future.

(iv) Retailers require less capital to start and run the business as compared to wholesalers.

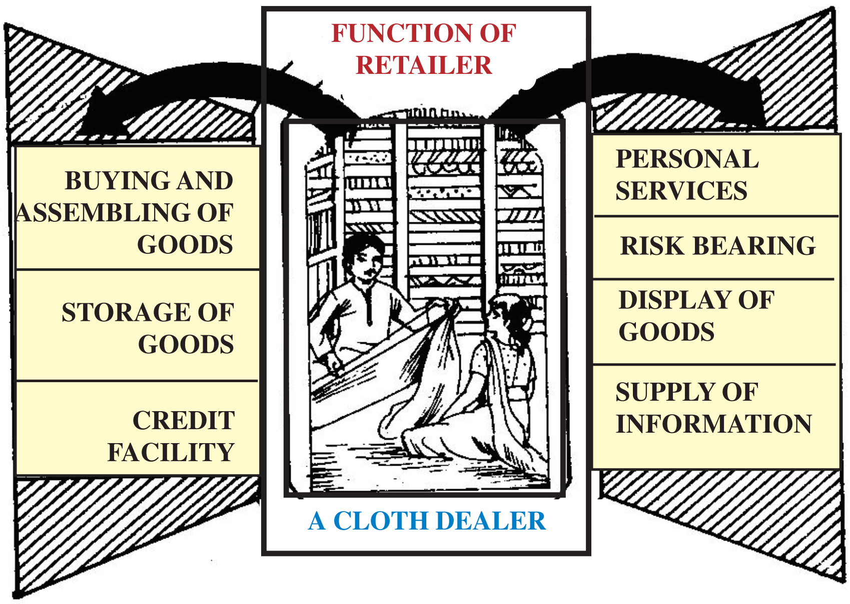
(v) Retailers generally deal with different varieties of products and they give a wide choice to the consumers to buy the goods.

(vi) Retailers purchase the goods on credit but normally sell them for cash.

(vii) Retailers give special attention towards the decoration and display of goods in their shops. This is done to attract customers.

Functions of Retailers

All retailers deal with the customers of varying tastes and temperaments. Therefore, they should be active and efficient in order to satisfy their customers and also to induce them to buy more. Let us see what the retailers do in distribution of goods.



(i) **Buying and Assembling of goods**: Retailers buy and assemble varieties of goods from different wholesalers and manufacturers. They keep goods of those brands and variety which are liked by the customers and the quantity in which these are in demand.

(ii) **Storage of goods**: To ensure ready supply of goods to the customer retailers keep their goods in stores. Goods can be taken out of these store and sold to the customers as and when required. This saves consumers from botheration of buying goods in bulk and storing them.

(iii) **Credit facility**: Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers. Credit facility is also provided to those customers who buy goods in large quantity.

(iv) **Personal services:** Retailers render personal services to the customers by providing expert advice regarding quality, features and usefulness of the items. They give suggestions considering the likes and dislikes of the customers. They also provide free home delivery service to customers. Thus, they create place utility by making the goods available where ever they are demanded.

(v) **Risk bearing:** The retailers have to bear many risks, such as risk of:

(a) fire or theft of goods

(b) deterioration in the quality of goods as long as they are not sold out.

(c) change in fashion and taste of consumers.

(vi) **Display of goods:** Retailers display different types of goods in a very systematic and attractive manner. It helps to attract the attention of the customers and also facilitates quick delivery of goods.

(vii) **Supply of information:** Retailers provide all information about the behaviour, tastes, fashions and demands of the customers to the producers through wholesalers. They become a very useful source of information for marketing research.

13.4 DISTINCTION BETWEEN WHOLESALERS AND RETAILERS

You have studied about wholesalers and retailers. You might have noticed that both of them differ in their style and function. Let us find out these differences.

Wholesalers	Retailers
(i) Buy goods in large quantities	(i) Buy goods in small quantities.
(ii) Buy goods directly from producers.	(ii) Generally buy goods from the wholesalers.
(iii) Deals in limited variety of goods.	(iii) Deals in wide range of products.
(iv) Require more capital to start and run the business	(iv) Require less capital to start and run the business.
(v) Sells goods for resale purpose.	(v) Sells goods for consumption.
(vi) No direct contact with consumers.	(vi) Direct contact with consumers.
(vii) No special attention is given to decoration of shop.	(vii) In order to attract the attention of customers retailers give more attention to decoration of shop.

INTEXT QUESTIONS 13.3

I. From the sentences given below, mark (W) for those belonging to wholesalers and (R) for retailers in the boxes given against each:

(i) Selling goods in small quantities ( )
(ii) More capital required ( )
(iii) Sale of goods for resale ( )
(iv) Dealing in a limited range of goods only ( )
(v) Direct contact with consumers ( )

II. Answer the following questions:

(i) What are the types of risks borne by the retailers? Mention any two risks.

(ii) How do the producers get benefits from the functions of retailers? Write the benefits arising from any two functions.

(iii) Suppose two or three shopkeepers sell the same type of goods in your locality. From which shopkeeper would you like to purchase your requirements?

III. Multiple Choice Questions

i. Direct Channel includes only.
(a) Producer $\longrightarrow$ Retailer $\longrightarrow$ Consumer
(b) Producer $\longrightarrow$ Consumer
(c) Producer $\longrightarrow$ Wholesaler $\longrightarrow$ Consumer
(d) Producer $\longrightarrow$ Agent $\longrightarrow$ Consumer

ii. The trade in which bulk quantity of goods are sold to trader is called
(a) Foreign Trade (b)Wholesale Trade
(c) In Land Trade (d) Retail Trade

iii. Wholesaler is an important link between
(a) Producer and Wholesaler (b) Retailer and Consumer
(c) Producer and Consumer (d) Producer and Retailer

iv. The likes and dislikes of consumers reach to wholesalers form time to time through-
(a) Advertisement (b) Newspaper
(c) Retailers (d) Consumers

v. The main features of a wholesaler is –
(a) To advertise the products
(b) To sell the goods at cheap rates
(c) To deal in variety of goods
(d) To purchase the goods from producers and sell it to retailers

WHAT YOU HAVE LEARNT

- Channels of distribution is the route taken by goods as they move from producers to consumers. When producers sell goods and services directly to the consumers, it is a direct channel.Where a number of middlemen are involved in the process of distribution it is an indirect channel.
- Wholesalers are those middlemen in the channel of distribution who deal in goods in bulk quantity. They sell goods to retailers and in some cases directly to consumers. Wholesalers perform the functions of collection and storage of goods, distribution, financing, risk taking, gradidng and pricing.
- Retailers are the traders who by goods from wholeselers and sell them to the consumers. They perform various functions as buying and assembling of goods, storage of goods, credit facility, personal services, risk bearing, display of good and supply of information.

TERMINAL EXERCISE

1. What is meant by Channels of Distribution?
2. Give four examples of services that are distributed through the direct channels.
3. Explain the different channels through which a product moves from producers to ultimate consumers.
4. Define wholesaler. How do they serve as an important link in the channel of distribution?
5. Give any four characteristics of retailers.
6. Explain the role of retailers in distribution of goods.
7. State any five differences between wholesalers and retailers.
8. Explain the functions of wholesalers.

ANSWER TO INTEXT QUESTIONS

13.1 (i) channel of distribution, (ii) middleman, (iii) indirect, (iv) direct, (v) retail stores

13.2 (i) False, (ii) True, (iii) True, (iv) False, (v) False (vi) False

13.3 I. i. R ii. W iii. W iv. W v. R

II. (i) Any two of the followings:

a. Loss of goods by fire or theft.

b. deterioration in the quality of goods as long as they are not sold out.

c. change in fashion and taste of consumers

(ii) a. They Help in marketing by assembling and display of goods.

b. They bear risks that would otherwise have been borne by producers.

c. They supply information to producers about the tastes and preferences of consumers.

(iii) From that shop which we would like to purchase our requirements from the shopkeeper who:

a. charges reasonable price

b. provides after sales services

c. provides variety of goods according to our tastes and preferences

d. provides facilities like credit sales, home delivery etc.

III. (i) b, (ii) b, (iii) c, (iv) 4, (v)d

ACTIVITY FOR YOU

- Visit a shop nearer to your residence and find out from its functions whether it is a retailer or wholesaler.

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15

ADVERTISING

After passing examination, suppose you want to start a small business in your locality. You have sufficient space and required funds and skill to run it. But, how will customers come to know about your business? Unless people know about it who is going to come to your business? Are you able to think what you should be doing to make people aware that there is a business? Actually, if the quality of goods and services of the business is good, it can attract some people. But you must also take some measures on a continuous basis to make people aware about the location of your business, the quality and variety of goods available there, so that you can get customers regularly. In fact, every businessman involves in this activity of making people aware about his/her products and services so as to increase his sales. Let us learn more about this activity in this lesson.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the meaning of advertising;
- describe the importance of advertising;
- identify various media of advertising; and
- suggest the suitability of each media of advertising.

15.1 MEANING OF ADVERTISING

In a newspaper you not only read news on current affairs, sports, etc., but you also come across several information or message about some products or services like air conditioners, cycles, hair oils, transporters, builders, etc. You also come across such information in journals, magazines, roadside hoardings, radio, television, etc. This information makes you aware about the products or services in terms of their availability, price and features. So, whenever you feel a requirement for such products or services you try to go to the place of their availability, look at the quality and features and buy them if they meet your requirement. For example, while listening to radio you come across a product called "XYZ hair oil". Then while going to buy hair oil you ask the shopkeeper to show you that product. You like the fragrance and find the price reasonable and purchase it for your use. There can be many such examples of different nature, like a builder selling flats on installment basis, a shopkeeper giving discounts, a new product being launched by a manufacturer, so on and

Media used in Advertising

so forth. It is obvious that the very purpose of giving such information is to make the customers aware about any product or service and induce them to buy it. Therefore, it is always the manufacturer, the trader or the service provider who wants to give such information to attract customers for promoting his sales. This entire promotional activity is called advertising, where the manufacturer or the trader or the service provider is called a sponsor or advertiser; the message or the information supplied is called advertisement and the medium through which such information is supplied like journal, magazines, hoardings, television etc. are called the media of advertising.

Definition of Advertising

The American Marketing Association defines advertising as "any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor." Advertising is non-personal as it is not directed to any single individual. Secondly, the sponsor i.e. the manufacturer or producer is identified as his name and address is always contained in an advertisement and he also bears all the cost involved in the process. Thirdly, the producer can also promote an idea regarding quality, design, packing and pricing, etc. of any product or service. Thus, we can say, advertising consists of all activities involved in presenting a sponsored message regarding a product, service or an idea.

Features of Advertising

By looking into the meaning and definition of advertising we can sum up the following features of advertising.

(i) **Non-personal presentation of message–** In advertising there is no face-to-face or direct contact with the customers. It is directed to the prospective buyers in general.

(ii) **Paid form of communication-**In advertising the manufacturer communicates with prospective customers through different media like, newspapers, hoardings, magazines, radio, television etc. He has to pay certain amount for using some space or time in those media.

(iii) **Promotion of product, service or idea –**Advertisement contains any message regarding any particular product, service or even an idea. It makes people aware about the product and induces them to buy it.

(iv) **Sponsor is always identified –**The identity of the manufacturer, the trader or the service provider who issues advertisement is always disclosed.

(v) **Communicated through some media-** Advertisements are always communicated through use of certain media. It is not necessary that there will be just one medium. All the media may also be used.

15.2 IMPORTANCE OR OBJECTIVES OF ADVERTISING

You have learnt that the main purpose of advertising is to communicate message or information to the customers. But while communicating such message or information it also serves beneficial for the sponsor or advertiser. Let us look into the various objectives of advertising.

i. **To educate customers-**Can you remember the advertisement of *Tata Namak* on television? In this advertisement it is said that *Tata Namak* is good for health as it contains Iodine. This message educates you that iodine is good for health and *Tata Namak* contains iodine.

ii. **To create demand for new product-**You read in newspaper that a new type of pen called 'Gel pen' is introduced in the market, which is very economical and convenient in writing. This motivates you to buy the said pen. Similarly, many students like you shall also buy gel pen after coming to know about it through advertisement. This will create a demand for the new product launched in the market.

iii. **To retain existing customers-**You might remember that Nirma washing powder was a very popular detergent. But, after Wheel powder came to the market the sale of Nirma suddenly decreased. Then the manufacturers of Nirma improved the product and advertised about the same in different media. After knowing this the persons who were earlier using Nirma did not switch over to Wheel and continued using Nirma. In this manner Nirma sustained its existing demand. Thus, advertising helps the manufacturers not only to create a demand for a new product but also to retain the existing customers.

iv. **To increase sales-**We have learnt that advertising creates demands for new products and sustains the demand of old one. Thus, with increase in demand, the sale of the product also increases.

v. **To assist salesman-**In most of the advertisements the salient features of a product, its qualities and its uses are expressed in detail. This assists a salesman to sell the product quickly without spending time in explaining and convening the customer.

INTEXT QUESTIONS 15.1

State which of the following statements are 'true' and which are 'false?

(i) The sponsor contacts the customers personally through advertisements.

(ii) The cost of the advertisement is borne by the sponsor.

(iii) Advertising helps in educating customers about different products and their use.

(iv) Advertising helps to promote the sales of existing as well as new products.

(v) Salesmen get no help from advertising while selling goods and services to customers.

15.3 MEDIA OF ADVERTISING

So far, you have learnt that advertisements are communicated by using some media like, newspaper, journals, radio, television, etc. The following diagram shows some commonly used media of advertising :

Media of Advertising

Print Media
1. Newspapers
2. Periodicals

Electronic Media
1. Radio
2. Television
3. Internet

Other Media
1. Hoardings
2. Posters
3. Vehicular Display

Let us learn in details about these media.

(A) Print Media

Print media is a very commonly used medium of advertising by businessman. It includes advertising through newspaper, magazines, journals, etc. and is also called press advertising.

1. Newspapers

You must have read Newspapers. In our country newspapers are published in English, Hindi and in other regional languages. These are the sources of news, opinions and current events. In addition, Newspapers are also a very common medium of advertising. The advertiser communicates his message through newspaper which reaches to crores of people.

Newspaper

Advantages

Advantages of Newspaper Advertising are as below:

i. Newspapers normally have wide circulation and a single advertisement in the newspaper can quickly reach to a large number of people.

ii. The cost of advertising is relatively low because of wide publication.

iii. Generally newspapers are published daily. Thus, the same advertisement can be repeated frequently and remind readers every day.

iv. The matter of advertisement can be given to newspapers at a very short notice. Even last minute changes in the content is also possible. This makes advertising quite flexible.

v. Newspapers are published from different regions and in different languages. Hence, they provide greater choice to advertisers to approach the desired market, region and readers through local or regional language.

Limitations

Newspaper advertising suffers from some limitations as mentioned below:

i. Newspapers are read soon after they are received and then are kept generally in some corner of the houses. After 24 hours we get a fresh newspaper and this makes the life of the newspaper short.

ii. People read newspapers mainly for news and pay casual attention to advertisement.

iii. Illiterate persons can not read and thus, newspaper advertising does not benefit them.

2. Periodicals

Periodicals (Magzines)

Periodicals are publications which come out regularly but not on a daily basis. These may be published on a weekly, fortnightly, monthly, bimonthly, quarterly or even yearly basis. For example you must have come across magazines and journals like Outlook, India Today, Frontline, Yojana, Femina, etc. published regularly in English, Grah Shobha, Nandan and Champak in Hindi. Similarly there are also periodicals in Hindi and other regional languages. All these periodicals have a large number of readers and thus, advertisements published in them reach a number of people.

Advantages

i. Periodicals have a much longer life than newspapers. These are preserved for a long period of time to be referred in future or read at leisure or read again, whenever required.

ii. Periodicals have a selected readership and so advertisers can know about their target customers and accordingly selective advertisements are given. For example, in a periodical like Femina, which is a magazine for women, advertisements related to products to be used only by males are rarely published. However, manufacturers of products and services to be used by females prefer to give advertisement in this magazine.

Limitations

i. Advertising in periodicals is costlier.

ii. The number of people to whom the advertisements reach through periodicals is small in comparison to newspapers.

iii. The advertisement materials are given much in advance; hence last minute change is not possible. This reduces flexibility.

(B) Electronic Media

This is a very popular form of advertising in the modern day marketing. This includes Radio, Television and Internet. Let us look into detail about these.

1. Radio Advertising

All of us are aware about a radio and must have heard advertisements for various products in it.

In radio there are short breaks during transmission of any programme which is filled by advertisements of products and services. There are member of popular programmes sponsored by advertisers, on radio in which adverisements are given at regular intervals.

Radio Advertising

Advantages

(i) It is more effective as people hear it on a regular basis.

(ii) It is also useful to illiterates, who can not read and write.

(iii) There are places where newspapers reading may not be possible, but you can hear radio. For example, you can hear radio while travelling on road or working at home; but you can not read newspaper. Similarly, while driving you can hear a radio but cannot read a newspaper.

Limitations

(i) A regular listener may remember what he has heard. But, occasional listeners tend to forget what they have heard in Radio.

(ii) The message that any advertisement wants to communicate may not be proper as there is no chance to hear it again immediately. There may be some other disturbances that distort communication.

(iii) In comparison to Television, Radio is less effective as it lacks visual impact.

2. Television Advertising

With rapid growth of information technology and electronic media, television has topped the list among the media of advertising. TV has the most effective impact as it appeals to both eye and the ear. Products can be shown, their uses can be demonstrated and their utilities can be told over television. Just like radio, advertisements are shown in TV during short breaks and there are also sponsored programmes by advertisers.

Advertisment of Television

Advantages

(i) It is most effective as it has an audio-visual impact.

(ii) With catchy slogans, song and dance sequences, famous personalities exhibiting products, TV advertising has a lasting impact. For example, who can forget Aamir Khan saying "Thanda Matlab Cocacola" or Sachin Tendulkar in Pepsi advertisement?

(iii) With varieties of channels and programmes advertisers have a lot of choice to select the channel and time to advertise.

(iv) With regional channels coming up any person even illiterates can watch the advertisements and understood it by seeing and hearing.

Limitations

(i) TV advertisements are usually expensive to prepare as well as to telecast.

(ii) With almost every manufacturer trying to communicate their message through TV advertising the impact among the viewers is also reducing. Now-a-days people are switching on channels whenever there is a commercial break.

3. Internet Advertising

Advertisement on Internet

Are you aware about internet? Infect it is the latest method of communication and gathering information. If you have a computer with an access to internet you can have information from all over the world within a fraction of second. Through internet you can go to the website of any manufacturer or service provider and gather information. Sometimes when you do not have website addresses you take help of search engines or portals. In almost all the search engines or portals different manufactures or service providers advertise their products.

Advantages

(i) Information from all over the world is made available at the doorsteps.

(ii) User can see the advertisement at any time and as per their requirement.

Limitations

(i) It is not accessible without a computer.

(iii) It is not suitable for illiterate and those having no knowledge about the operation of Internet.

(C) Other Media

All the media of advertising discussed above are mostly used by consumers while they are at home or inside any room, except radio and newspapers or magazines to some extent. Moreover in all these media, the consumer has also to spend some money to access the advertisement. However, there are other media available, where the consumer has to spend nothing and he can see such advertisements while moving outside. Some of such advertising are hoardings, posters, vehicular displays, gift items, etc.

1. Hoardings

While moving on roads you must have seen large hoardings placed on iron frames or roof tops or walls. These are normally boards on which advertisements are painted or electronically designed so that they are visible during day or night. The advertisers have to pay an amount to the owners of the space, where the hoardings are placed.

Advertisement on Hoardings

2. Posters

Posters are printed and posted on walls, buildings, bridges etc to attract the attention of customers. Posters of films which are screened on cinema halls are a common sight in our country.

Advertisement on Posters

3. Vehicular displays

You must have seen advertisements on the public transport like buses, trains, etc. Unlike hoardings these vehicles give mobility to advertisements and cover a large number of people.

Advertisement on Vehicles

INTEXT QUESTIONS 15.2

I. Match the following:

(i) Advertisement of Birla White Cement on a Bus — a. Electronic Media

(ii) Advertisement of ICICI bank in India Today — b. Other media

(iii) Advertisement of Maggie Noodles in TV — c. Print Media

II. Multiple Choice Questions

i. Which of the following are not the features of Advertising?

(a) Personal presentation of message
(b) Paid form of Communication
(c) Sponsor is always identified
(d) Communicated through some media.

ii. Print media of advertising does not include
(a) Newspaper (b) Periodicals
(c) Internet (d) Posters

iii. Electronic Media of advertising include
(a) Hoardings (b) Vehicular Displays
(c) Internet (d) Poster

iv. Advertisement through TV is not always suitable because
(a) Visual as well as sound effect
(b) Direct appeal
(c) Costly
(d) Non availability of T.V. to all

v. Suitability of Radio advertisement does not include
(a) Need of visual effect (b) Remote areas
(c) Illiterate persons (d) Particular region or specific customer.

15.4 SUITABILITY OF MEDIA OF ADVERTISING

The advertisers must look into the suitability of each medium of advertising in relation to their product. For this purpose, they must look into the nature of the product or service to be advertised, the target customers for such product, the amount of allocated funds for such advertising and the availability of space and time in each medium. However, in general, the suitability of each medium of advertising can be summarized as follows:

1. **Newspapers :** These are suitable for consumer goods designed for general public. In case of new products to be launched, newspaper advertising is very useful as the same space can be occupied on a regular basis. Newspapers are also suitable for advertisements regarding clearance sale, exchange offers, etc.
2. **Periodicals :** These are suitable for products required by the target customers of the periodicals. For example, advertisement of any books can be given in journals like Readers' Digest as the target customers of this periodical is assumed to be a reader, similarly interior decorators, architects, builders can advertise in magazines specifically containing items of design and decoration. Consumer goods products can be advertised in any periodical having wide circulation.
3. **Radio :** Radio is suitable for advertising different varieties of products. However, the timing is important for radio advertising. For example, after farmers come back from field they normally listen to radio and during this time any firm producing agricultural products can advertise or sponsor their programmes.

4. **Television :** Choice of channels and programmes is important for the advertisers to advertise their product in TV. For example, in Cartoon Network channel, products for use of children can be advertised. Similarly, during any serials or films, consumer goods required by the family can be advertised. This medium is also suitable for products those require live demonstration while selling those to the consumers.

WHAT YOU HAVE LEARNT

- Advertising includes all the activities involved in presenting any product or service or idea by any producer, trader or service provider to prospective customers.
- Advertising incurs some cost and it is borne by the producer, trader or service provider known as sponsor or advertiser.
- The inherent message about the product or service or idea is called the advertisement.
- In every advertisement the identity of the sponsor is disclosed.
- The basic purpose of advertising is to educate the customers regarding the utility of the product/service and thereby to induce them to buy it.
- Advertisement also serves the purpose of creating a demand for any new product as well as maintaining and improving the existing demand for any product. Ultimately every advertising helps in increasing sales.
- There are various medium of advertising like newspaper and periodicals (print media); radio, television and internet (electronic media) and hoardings, posters, vehicular displays and gift items by manufacturer (other media). Each medium has its own advantages and disadvantages and suitability for specific products.

TERMINAL EXERCISE

1. What is meant by advertising? State its features.
2. Which medium of advertising has the audio-visual impact?
3. Which medium of advertising will be preferred by the blind?
4. What is advertising and what purposes does it serve?
5. What are the advantages and limitations of newspaper advertising?
6. Explain the advantages and limitations of advertising in periodicals?
7. What is radio advertising? Enumerate its advantages and limitations.
8. Describe any three points of importance of advertising.
9. Name any four items which are suitable for advertisement in Magazines, T.V. and hoardings.

10. What is meant by media of advertisement? State the different types of electronic media used for advertisement.
11. Explain the different types of media through which we get information without spending any money.

ANSWER TO INTEXT QUESTIONS

15.1 (i) False, (ii) True, (iii) True, (iv) True, (v) False

15.2 I. (i) b, (ii) c, (iii) a

II. (i) a, (ii) c, (iii) c, (iv) c, (v) a

ACTIVITY FOR YOU

- Make a list of products / services advertised through newspapers, television, radio and periodicals.

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17

RIGHTS AND RESPONSIBILITIES OF CONSUMERS

We often come across many people who complaint of having been supplied with inferior or adulterated goods for which they have paid full price. Similarly some people are seen grumbling that they have paid full fare but the seats of bus and train provided were very un-comfortable. So many a times people do not get the full worth of their money. They do not have a right to get the full value of their money spent for the goods and services they want to avail of.

Sometimes, people themselves are responsible for the inappropriate goods and services that are provided to them. Many a times, they do not know full details of the products or services they are interested in. Sometimes, they take the delivery of goods or avail the services without caring for their quality. Is it not their responsibility to give full details of the goods and services required by them? In this lesson let us learn the details about the rights and responsibilities of consumers.

OBJECTIVES

After studying this lesson, you will be able to:

- define the term consumer;
- distinguish between a consumer of goods and consumer of services;
- state the meaning of the term 'consumerism';
- explain the various rights of a consumer; and
- state the various responsibilities of consumers.

17.1 WHO IS A CONSUMER?

Simply speaking, consumer is a person who consumes or uses various goods and services. Goods may include consumable goods (like wheat flour, salt, sugar, fruits, etc.) or durable consumer goods (like television, refrigerator, toaster, mixer, bicycle, etc.). Services that we buy may include electric power, telephone, transport service, theatre service, etc. Thus, a consumer is one who buys goods and services for use. If a retail trader buys goods (say stationery items) from a wholesaler, he is not a consumer but a trader because he buys goods for resale.

Is the buyer, who is a consumer, only expected to use the goods? Not always. If you buy an exercise book for writing in it yourself, you are the buyer as well as user. Suppose your father buys food items, they are often meant for consumption by all members of the family. Or, when he buys detergent powder, it may be used by members of the family and any person who may be engaged in washing. So, a consumer buys goods which may be used by members of the family or someone else on behalf of the buyer.

Consumer is a person who buys goods or services to be used or consumed by himself/herself or by someone else on behalf of the buyer. Goods may include consumable items or durable consumer goods.

While services paid for may be transport, electricity, film-shows and the like. A 'consumer' may also be defined as "Anybody who chooses goods and services, spends money to obtain them and uses them to satisfy his/her needs".

Let us see what is the difference in position of a consumer of goods and that of a consumer of services. Services that we buy for our benefit may include transport service, like when we hire a taxi or auto-rickshaw, travel in a public bus or undertake rail journey to visit any place. If you have your own bicycle or scooter or motor-cycle, it may need repairs and you take it to a repairing shop. You pay for the service of the person who does the repair job. You are then a consumer of the service. Electricity or telephones that we use everyday either at home or at our work place are also services that we consume for which payment is made. A film-show seen for entertainment at cinema houses is also an example of service.

The main difference between goods and services consumed is that quality of goods can be physically verified before buying but the reliability and regularity of services cannot be verified before hand. For example, while buying a television you can have a demonstration of its functioning, picture quality, sound, etc. but you cannot verify whether the voltage of electricity supplied will be stable all the time. You can taste a sample of food item and then buy it or see whether fruits are over-ripe before buying. But you cannot verify whether a scooter or taxi driver will be cautious enough to avoid accidents or whether the clarity of sound and picture of a movie will be maintained throughout the show.

Besides, goods we buy can be consumed instantly or over a period of time. We can store cereals for a week or month, and a refrigerator can be used for several years with necessary repairs from time to time. But we cannot do so with (say) transport services or repairs, electric supply or telephone service or a film show.

INTEXT QUESTIONS 17.1

Answer the following questions using the words 'yes' or 'no'

i. One who buys goods may or may not be a consumer. Is it so?

ii. Is it correct to say that anyone who consumes food must be its buyer?

iii. Can a shopkeeper be regarded as a consumer if he buys a readymade shirt for his own use?

iv. I have paid membership fee to a public library and use it for reading books and journals. Am I a consumer of services?

v. Your friend bought a story book and having read it, sold it to a bookseller selling secondhand books at a lower price. Is your friend a consumer?

17.2 MEANING OF CONSUMERISM

As a consumer, you must be using goods and services from time to time. You may be having the experience of being exploited by some or the other suppliers. Sometimes they over-charge or supply inferior quality of goods and services. It is difficult to stop such exploitation by any consumer single handedly. The intensity of such exploitation may be restricted if consumers become alert and collectively take a stand against such malpractices. Self-effort on the part of consumers for safe-guarding themselves is known as "consumerism".

Consumerism refers to a movement by consumers to ensure fair and honest (ethical) practices on the part of manufacturers, traders, dealers and services providers in relation to consumers. The movement may be regarded an attempt by individual consumer activists and consumer associations for creating consumer awareness about the malpractices in the market and finding ways and means to protect their interests.

This movement will be successful if consumers are aware of their rights and responsibilities while using goods and services. Let us learn about the various rights and responsibilities of consumers.

Consumer Protection Act, 1986

Consumer Protection Act provides for consumer protection more comprehensively than any other law. Consumers can seek legal remedy for a wide range of unfair practices not only with respect to goods but also for deficiency in services like banking, insurance , financing, transport, telephone, supply of electricity or other energy, housing, boarding & lodging, entertainment,

amusement, etc. This Act also includes provision for the establishment of consumer protection councils at the centre and the state. For the settlement of consumer disputes, the act has provided for a semi-judicial system. It consists of District Forum, State Commission and National Commission for redressal of consumer disputes. These may be regarded as consumer courts.

17.3 RIGHTS OF CONSUMERS

You know that today consumers face various problems on account of competition in the market, misleading advertisements, availability of inferior quality of goods and services, etc. Hence protection of consumers' interest has become a matter of serious concern for the Government as well as public bodies. It is to safeguard the interest of consumers that Government has recognized certain rights of consumers. In other words, if consumers are to protect themselves from being exploited or cheated, they have to be given certain rights so that they are in a position to ensure that sellers of goods and service providers are more careful in dealing with them. For example, one of the rights of consumers is the right to choose. If you are aware of this right, you may ask for different varieties of the same product to be shown to you by the shopkeeper so that you can choose what you like. Sometimes, shopkeepers try to sell a particular brand of product on which they get higher commission on sale. It may not be of the good quality, or it may be available at a relatively lower price. This practice can be prevented if you exercise your right to choose the product and visit other shops if one shop does not have a large variety of the product.

Let us now discuss the various rights of consumers that are provided in the Consumer Protection Act 1986 :

(i) **Right to safety:** Consumers have a right to be protected against marketing of goods which are injurious to health and life. As a consumer if you are conscious of this right, you can take precautions to prevent the injury or if injury is caused in spite of precaution, you have a right to complain against the dealer and even claim compensation. For example, if you buy any medicine, the pharmacy selling it can be held responsible if the medicine proves harmful because it was substandard. Again if gas cylinder is used for cooking, you have to check that it does not leak when it is supplied to you. If it starts leaking afterwards, the supplier will be liable to pay compensation if the leakage of gas leads to fire and causes injury or death to anyone.

(ii) **Right to be informed:** Consumers also have the right to be informed about the quantity, quality, purity, standard or grade and price of the goods available so that they can make proper choice before buying any product or service. Also, wherever necessary, the consumer must be informed about the safety precautions to be taken while using the product to avoid loss or injury. Taking the example of gas cylinder again, the supplier must inform the user to stop the flow of gas with the help of the regulator when it is not in use.

(iii) **Right to choose:** Every consumer has the right to choose the goods needed from a wide variety of similar goods. Very often dealers and traders try to use pressure tactics to sell goods of inferior quality. Sometimes, consumers are also carried away by advertisements on the TV. These possibilities can be avoided if consumers are conscious of this right.

(iv) **Right to be heard:** This right has three interpretations. Broadly speaking, this right means that consumers have a right to be consulted by Government and public bodies when decisions and policies are made affecting consumer interests. Also, consumers have a right to be heard by manufactures, dealers and advertisers about their opinion on production and marketing decisions. Thirdly, consumers have the right to be heard in legal proceedings in law courts dealing with consumer complaints.

(v) **Right to seek redressal:** If and when any consumer has a complaint or grievance due to unfair trade practices like charging higher price, selling of inferior quality or unsafe products, lack of regularity in supply of services etc. or if he has suffered loss or injury due to defective or adulterated products, he has the right to seek remedies. He has a right to get the defective goods replaced or money refunded by the seller or dealer. He also has the right to seek legal remedies in the appropriate courts of law. Through this right the consumers are assured that their complaints will receive due attention. This right also provides for due compensation to consumers if they have suffered a loss or are put to inconvenience due to the fault of the supplier or manufacturer.

(vi) **Right to consumer education:** To prevent market malpractices and exploitation of consumers, consumer awareness and education are essentially required. For this purpose, consumer associations, educational institutions and Government policy makers are expected to enable consumers to be informed and educated about (a) the relevant

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laws which are aimed at preventing unfair trade practice; (b) the ways in which dishonest traders and producers may try to manipulate market practices to deceive consumers; (c) how consumers can protect their own interest; and (d) the procedure to be adopted by consumers while making complaints.

Steps have already been taken by many consumer organisation to educate consumers through pamphlets, journals and posters. TV programmes have also come to play an effective role in this connection.

INTEXT QUESTIONS 17.2

I. Match the phrases under column A and B

Column A	Column B
(i) Right to be heard	a) Seek legal remedy in court of law
(ii) Right to safety	b) Consultation with consumers regarding policy decision
(iii) Right to consumer education	c) Select the best quality item
(iv) Right to seek redressal	d) Protection against marketing of hazardous goods
(v) Right to choose	e) Information about relevant laws of consumer protection

II. State which of the following statements are true and which are false.

i) There is no need for businessmen to inform their customers about the quality of products because they can judge the quality themselves.

ii) Service providers are not responsible for allowing customers to seek remedies for poor quality of services supplied.

iii) Right to be heard will enable consumers to ensure due consideration of their interest at the appropriate forum.

iv) The right to be heard can effectively be exercised if the consumers are unorganized.

v) The consumer has the right to choose goods of his own choice and the business should give full freedom to consumers to choose.

17.4 RESPONSIBILITIES OF CONSUMERS

There is a well known saying that 'there cannot be rights without responsibilities'. Having examined the consumer rights and the purpose served by them, it is necessary to consider whether consumers should also be responsible enough to be entitled to exercise their rights. For instance, to be able to exercise their right to be heard, consumers should avail of the opportunities to know and keep informed about consumer problems. To exercise their right to seek redressal of complaints, consumers must take all precautions to choose the right goods at the right price and learn how to use the products to prevent injury or loss. Specifically, the responsibilities of consumers may include the followings:

(i) **Responsibility of self-help** It is always desirable that a consumer should not depend on the seller for information and choice as far as possible. As a consumer, you are expected to act in a responsible manner to protect yourself from being deceived. An informed consumer can always take care of his/her interest more than anyone else. Also, it is always better to be forewarned and forearmed rather than getting remedies after suffering a loss or injury.

(ii) **Proof of Transactions:** The second responsibility of every consumer is that the proof of purchase and documents relating to purchase of durable goods should be invariably obtained and preserved. For example, it is important to get a cash memo on purchase of goods You should remember that in case you have to make any complaint about defects in goods, the proof of purchase will enable you to establish your claim for repair or replacement of the goods. Similarly, durable consumer goods like TV, refrigerator, etc. carry warranty /guarantee cards issued by the dealers. The cards entitle you to get the service for repairs and replacement of parts, free of cost during a certain period after purchase.

(iii) **Proper claim:** Another responsibility that consumers are expected to bear in mind is that while making complaints and claiming compensation for loss or injury, they should not make unreasonably higher claims. Very often, consumers have to exercise their right to seek redressal in a court. There have been cases in which consumers claimed huge compensation for no apparent reason. This is regarded as an irresponsible act which should be avoided.

(iv) **Proper use of Product/services:** Some consumers, especially during the guarantee period, make rough use of the product, thinking that it will be replaced during the guarantee period. This is not fair on their part. They should always use the products properly. Besides the above responsibilities, consumers should be conscious of some other responsibilities. They should stick to the agreement made with manufacturers, traders and service providers. They should make timely payment in case of credit purchases. They should not tamper with the media of services, like electric and water meters, bus and train seats, etc. They should remember that they can exercise their rights only when they are willing to fulfill their responsibilities.

INTEXT QUESTIONS 17.3

I. Which of the following statements are right and which are wrong?

(i) A responsible consumer is one who tries to protect his interest on his own.

(ii) A consumer should never depend on the seller for information regarding the quality of a product.

(iii) If I have purchased any product after due precaution, I cannot exercise my right to seek redressal.

(iv) There is no need to use product carefully during the guarantee period.

(v) If as a consumer, I have suffered physical injury due to a defective electric heater and spent Rs. 5,000 on medical treatment, I should be entitled to claim compensation for Rs. 50,000.

II. Multiple Choice Questions

i. In which year consumer Protection Act was enforced?

(a)1972 (b) 1982 (c) 1986 (d) 1995

ii. How many rights of consumers are provided under the Consumer Protections Act 1986.

(a) 6 (b) 8 (c) 7 (d)4

iii. Responsibility of Consumer includes

(a) Proper use of Product/Service

(b) Right to Education

(c) Must fight for its rights

(d) Should always visit consumers courts

iv. Consumerism refers to movement by

(a) Government (b) Society

(c) Producers (d) Consumers

v. Which right provides due compassion to consumers?
(a) Right to be informed (b) Right to seek redressal
(c) Right to be heard (d) Right to choose

WHAT YOU HAVE LEARNT

- Consumer is a person who buys goods or services to be used or consumed by himself/herself or by someone else on behalf of the buyer. Goods may include both consumable items and durable consumer goods, while services paid for may include transport, electricity, film shows and the like.
- Consumerism refers to a movement by consumers so as to ensure fair and honest (ethical) practices on the part of manufacturers, traders, dealers and service providers in relation to consumers.
- Rights of the consumers are (i) Right to safety (ii) Right to be informed (iii) Right to choose (iv) Right to be heard (v) Right to seek redressal (vi) Right to consumer education.
- Responsibilities of the consumers are (i) Responsibility of self-help (ii) Proof of transaction (iii) Proper claim (iv) Proper use of product/ services.

TERMINAL EXERCISE

1. Define a consumer.
2. Distinguish between a consumer of goods and consumer of service.
3. Describe the concept of consumerism.
4. As a part of their right to consumer education, what should consumers expect to be educated about ?
5. Explain the various rights of consumers.
6. Who is a consumer? What are the responsibilities of a consumer?
7. What are the documents a consumer should preserve after buying durable goods?

ANSWER TO INTEXT QUESTIONS

17.1 (i) Yes, (ii) No, (iii) Yes, (iv) Yes, (v) Yes

17.2 I. (i) b, (ii) d, (iii) e,
(iv) a, (v) c

	II.	(i) False,	(ii) False,	(iii) True,
		(iv) False,	(v) True	
17.3	I.	(i) True,	(ii) True,	(iii) False,
		(iv) False,	(v) False	
	II.	(i) c,	(ii) a,	(iii) a,
		(iv) d,	(v) b	

Notes

ACTIVITIES FOR YOU

- Prepare a list of goods and services you are using in your day to day life.
- As a consumer have you ever faced any problem while buying goods and availing services? What action have you taken to protect your interest?

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18

CONSUMER PROTECTION

In the earlier lessons, you have studied about the various rights and responsibilities of consumers. You have also studied about 'consumerism', which is a movement aimed at making consumers aware of their problems and their rights, so that they may seek remedies for their losses and sufferings. In this lesson, we shall discuss why consumers need to be protected and what are the ways and means of protecting them from the unfair practices of businessmen.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the meaning of consumer protection;
- state the various problems faced by consumers;
- realise the need for consumer protection;
- identify the parties involved in consumer protection;
- outline the provisions of laws aimed at protecting consumers;
- discuss the jurisdiction of consumer courts established for redressal of consumer disputes; and

18.1 MEANING OF CONSUMER PROTECTION

You are familiar with the fact that consumers have certain basic rights like the right to safety, right to be informed, right to choose, and the right to be heard. But do we always remember these rights while buying goods? Perhaps not, But even if we are aware of these rights, sellers very often take advantage of our position and supply goods which are defective or harmful or unsafe and cause injury.

Suppose you have gone to buy edible oil in a store. The shopkeeper tells you that it is available in a closed tin or container. You want to be sure that the oil is not adulterated, that is, it is not mixed with some inferior or harmful oil. The shopkeeper will show you the name of the producer on the label and say that it is a well-known company which does not supply impure oil. But after using the oil you fall ill. Can you go to the shopkeeper and return the oil? No, he will not take back the partly used oil in the open tin. He will perhaps tell you that your illness must be due to something else. So, at best you can stop buying edible oil of the same brand. But what is the assurance that you will not face the same problem with the oil of another producer?

Again, take for example the defect that consumers may find in a fan regulator, or electric heater, or a TV. During the warranty period, the dealer may repair it free of charge, but the defect may be there even afterwards. What will you do? Suppose the defect in the electric heater causes injury. Is there any remedy? You may take it to the seller, who may put the blame on you, saying that you did not take necessary precaution while using it.

These are some instances of consumer helplessness even if he is an aware consumer. So, to safeguard the interest of consumers it is felt that some measures are necessary to help the common-man. Thus, consumer protection refer to the steps necessary to be taken or measures required to be accepted to protect consumers from business malpractices. It may be regarded as a movement like consumerism. This is necessary primarily because businessman aim at maximising profits and this is often done at the expense of consumers.

Let us consider the nature of business practices which prevail in our country causing monetary loss and injuries to health and life of people.

18.2 PROBLEMS FACED BY CONSUMERS

Consumers may be deceived in various ways by unscrupulous businessmen including traders, dealers, producers and manufacturers as well as service providers. Some of the following unfair practices must have come to your notice sometime or the other:

1. **Adulteration,** that is, adding something inferior to the product being sold. This is a practice we come across in the case of cereals, spices, tea leaves, edible oil, petrol, etc. For example, mustard oil may be adulterated with rape seed oil or argemone oil, black pepper is known to be adulterated with dry papaya seeds, petrol is mixed with kerosene oil, vanaspati may be mixed with ghee/butter. Sometimes, the inferior material used with the product may be injurious to health.
2. **Sale of spurious products,** that is, selling something of no value instead of the real product. This is often found in the case of medicines and drugs or health care products. Cases have been reported where ampules for injections contained only water or glucose water in bottles contained only distilled water.

3. **Use of false weights and measures** is another malpractice which some traders adopt while selling the goods. Goods which are sold by weight (kg.) like vegetables, cereals, sugar, etc., those sold by measures (meter) like textile fabrics, suit pieces, are sometimes found to be less than the actual weight or length. False weights (1Kg, 500 grams , 250 grams, etc) or measuring tapes or sticks having false markings are used for the purpose and buyers are cheated. Sometimes packaged goods and sealed containers (tins) contain less quantities, than what is stated on the label or packet. This cannot be easily verified. Sweets are often weighed along with the card board box which may weigh upto 50-100 grams. You pay for it at the same rate as the sweets.
4. **Sale of duplicates,** that is, goods that indicates a mark which shown it is of superior quality than what it actually is. For example, goods which are locally made, are sold at a higher price as imported items expected to be of superior quality. Certain products like washing soap, detergent powders, tube lights, jams, edible oil, even medicines, carry well known brand names although these are made by others.
5. **Hoarding and black-marketing** is another problem that consumer often face. When any essential commodity is not made available in the open market and stocks are intentionally held back by dealers it is known as hoarding. Its purpose is to create an artificial scarcity, to push up the prices. Black marketing is the practice of selling hoarded goods, secretly at a higher price. These practices are sometimes adopted when there is short supply of any product. You may have read in the newspapers sometime back about scarcity of onions in the open market in some states and high prices being charged by traders who had stocks.
6. **Tie-in-Sales:** Buyers of durable consumer goods are sometimes required to buy some other goods as a pre-condition to sale or may be required to pay after-sales service charges for one year in advance. You may have heard about tying up of new gas connections with the sale of gas stoves (burners). Also TV sets are sometimes sold on the condition that the buyers will make advance payment of a year's service charge.
7. **Offering gifts having no additional value,** or coupons to collect a gift on the next purchase of some product are practices aimed at alluring consumers to buy a product. Often gifts are offered after the price of the product on sale has been increased. Dealers also announce contests or lottery among buyers of a product without the intention of awarding any prize.
8. **Misleading advertisement** is yet another practice by which consumers are deceived. Such advertisements falsely represent a product or service to be of superior quality, grade or standard, or falsely asserts the need

for or usefulness of a product or service. A pharmaceutical company advertised that use of its paracetamol tablet did not have any side effects like aspirin, but it suppressed the experts' report that the use of paracetamol had adverse effect on the liver. A company announced in its advertisement that it was manufacturing 150 cc. scooters in technical collaboration with a foreign company, although no such collaboration had been entered into. In another case, a company used the trademark of a well-known company 'Philips' in its advertisement for TV sets, on enquiry it was found that the company did not have the necessary permission from Philips for the use of its trade mark on TV sets. It was a case of misrepresentation of facts although that company was authorised to use the trademark 'Philips' on its audio products (radio sets) only.

9. **Sale of sub-standard goods** i.e., sale of goods which do not conform to prescribed quality standard particularly for safety . Such products include pressure cookers, stoves, electric gadgets (heaters, toasters, etc.), and cooking gas cylinders.

INTEXT QUESTIONS 18.1

Which of the following statements are true and which are false?

i. Adulteration does not always mean mixing poisonous materials with the goods on sale.

ii. Tie-in-sales involve selling two items at the same price.

iii. A false representation about the quality of a product in an advertisement is a misleading avertisement.

iv. Black marketing means selling goods at the dead of night.

v. Consumer protection is a movement to safeguard interest of consumers.

18.3 NEED FOR CONSUMER PROTECTION

The necessity of adopting measures to protect the interest of consumers arises mainly due to their helpless position and the unfair business practices. No doubt consumers have the basic right to be protected from the loss or injury caused on account of defective goods and deficiency of services. However, consumers are unable to make use of their rights due to lack of awareness and ignorance. For example, as consumers we have the right to choose the goods of right quality from a variety of similar goods available in the market. But often we fail to make the right choice because of misleading advertisements by which we are carried away and buy sub-standard goods.

Under certain circumstances, we are helpless in the sense of our inability to verify the quality of products. The clever shopkeeper can deceive us by his persuasive words. If the date of expiry on a strip of medicinal tablets is not legible, we may be in a hurry and depend on what the seller tells us. If the medicine does not have the desired effect, we may go to the doctor again and request him to prescribe some other medicine, we forget that the medicine we bought might not have had the effect as we were supplied the medicne after its date of expiry.

Often we are guided by some of our beliefs without any basis. For instance, many of us believe that 'higher price indicates better quality' and so do not mind paying higher price for a product if the salesmen recommends it to be of good quality. Again, it is a common belief that imported goods are inevitably of a superior quality. So if there is a printed label or a mark that shows a product is made in a foreign country, we may buy it at a higher price without verifying its place of manufacture.

Processed food sold in packets, like potato chips, are not good for health. but young boys and girls buy these because they are tasty. Certain brands of soft drink are popular with young people as the brand ambassadors shown on the TV are popular film artists or cricketers and what they say carries lot of weight with their fans. Excessive use of soft drinks is also not good for health. If seems we have forgotten fresh lime water with sugar or salt as a good drink.

Producers of goods often put standard certification marks like ISI on the package which are genuinely certified. Similarly, if packaged good are sold short of weight we pay for, it is very difficulty to verify always the weights before buying. Sometimes the weighing machines are defective.

Above all, consumers are not fully aware of remedies open to them if goods are defective or there is deficiency of service.

So, you can very well realise why steps must be taken to protect consumers from business practices which are unfair and may cause loss and injury to health and other dangerous effects.

INTEXT QUESTIONS 18.2

Fill in the blanks choosing the appropriate words given within brackets:

(i) My neighbor always goes to the nearest shop to buy electrical goods because it is his basic right to _________ (check the price, choose, check the quality).

(ii) Young boys eat lot of processed food available in packets as they do not know that such food is bad for health and because they are not aware of their right to ________________ (reject bad food, get advice from others, information).

(iii) Some consumers prefer to pay high price for goods as they believe that it indicates _________ (that they are rich, that the shopkeeper charges fair price, that the goods are of superior quality).

(iv) When you buy a product with a new brand name on the basis of an advertisement claiming best quality and then find it defective, it is a case of __________advertisement. (good, untrue, misleading).

18.4 PARTIES TO CONSUMER PROTECTION

You have realised the need for steps to protect consumer interest. The question is, who will take those steps? Can consumers alone do it? Or, should we depend on the government? Can businessmen do anything? Actually, for effective consumer protection, it is essential that all the three parties must be involved, that is, (a) Consumers; (b) Businessmen; and (c) Government.

Let us consider what each of the parties can do:

(a) **Self-help is the best help,** So consumers should, as far as possible, take care of their own interest and protect themselves from market malpractices. For this purpose, it is necessary that they should try to know about their rights and exercise them. They should not depend on the good sense of businessmen. Consumers have a right to education and also a right to be heard. They should attend training programmes for consumers arranged by local consumer associations or by their own association and invite consumer activists to speak to them on consumer rights and remedies available under the law to protect them.

(b) **As regards businessmen,** it is expected that producers, distributors, dealers, wholesalers as well as retailers should pay due regard to consumer rights in their own interest. They should ensure supply of quality goods and services at reasonable prices. To prevent unfair practices, associations of traders, chambers of commerce and industry, and manufacturers' associations should entertain consumer complaints against their members and take proper action against those guilty of malpractice.

(c) **For Government,** consumer protection is a responsibility to be undertaken in the general interest of society. Enforcement of various laws and amending existing laws to protect consumer interests are required to be taken up in the light of viewpoints of consumer associations. Representations of consumer groups should also be associated with the policymaking bodies set up by government at the centre and the states. A number of measures have been taken by Government from time to time.

INTEXT QUESTIONS 18.3

State which of the following statements are true and which are false?

i. Nothing can be done by businessmen to protect the interest of consumers.

ii. Government is indifferent towards safeguarding consumer interest.

iii. Consumer associations should be invited to send their representatives to official bodies to hear consumer viewpoints on their problems.

iv. It is not enough to be aware of basic rights, consumers must assert the rights.

v. Consumers should not attend any training programme arranged by the local consumer association.

18.5 LEGAL PROTECTION TO CONSUMERS

A number of laws have been passed by the Government of India over the years to protect the interest of consumers. A brief outline of the purpose of these laws in given below:

(i) **Agricultural Products (Grading and Marketing) Act, 1937:** This Act provides for grading and certifying quality standard of agricultural commodities which are allowed to be stamped with AGMARK seal of the Agricultural marketing department of the Government.

(ii) **Industries (Development and Regulation) Act, 1951:** This Act provides for control over production and distribution of manufactured goods. According to this Act, the Central Government may order investigation of any industry, if it is of the opinion that there has been substantial fall in the volume of production, or a marked decline in the quality of a product, or any unreasonable rise in price. After due investigation, the Government may issue directions to set things right. If the directions are not acted upon, the Government may take over the concerned undertakings.

(iii) **Prevention of Food Adulteration Act, 1954:** This Act provides for severe punishment for adulteration of food articles. In the case of sale of adulterated food which is injurious to health and likely to cause death, life imprisonment with a minimum fine of Rs 3000 may be payable. Food inspectors are appointed and they have powers to lift samples and send them for analysis. Penalties are also provided under the act for offences committed by persons with regard to manufacture, import, storage, sale and distribution of adulterated food articles.

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(iv) **Essential Commodities Act, 1955:** Under this Act, the Government has power to declare any commodity as essential in the public interest. Thereby the Government can control the production, supply and distribution of the trading of such commodities. It also provides for action against anti-social activities of profiteers, hoarders and black-marketers.

(v) **The Standards of Weights and Measures Act, 1956:** This Act provides for the use of standard weights and standard measures of length throughout the country. 'Metre' has been specified as the primary unit for measuring length, and 'kilogram' as the primary unit for measuring weight. Before this act came into force, different system of weights and measures were used in different parts of the country like 'Pound', 'Chhatak' and 'Seer' as Weights, Yard, Inch and Foot for length, etc. These differences provided opportunities for traders to exploit the consumers.

(vi) **Monopolies and Restrictive Trade Practices Act, 1969:** Under the provisions of this Act, as amended in 1983 and 1984, consumers and consumer groups can exercise their right of redressal by filing complaints relating to restrictive and unfair trade practices. The Government has constituted the MRTP commission which is empowered to deal with consumer complaints after due investigation and enquiry. The Commission has power to award compensation for any loss or injury suffered by consumers.

(vii) **Prevention of Black-marketing and Maintenance of Essential Supplies Act, 1980:** The primary objective of this act is to provide for detention of persons with a view to prevention of black-marketing and maintenance of supplies of commodities essential to the community. The maximum detention for persons acting in any manner against the intention of the act can be imprisonment upto 6 months.

(viii) **Bureau of Indian Standards Act, 1986:** The Bureau of Indian Standards has been set up under this Act, replacing the Indian Standards Institution (ISI), to protect and promote consumer interest. It has two major activities : formulation of quality standards for goods and their certification through the BIS certification marks scheme by which manufacturers are permitted to use the standardisation mark (ISI) on their products after due verification of conformity with prescribed quality standards of safety and performance. The Bureau has set up a consumer affairs department to create quality conciousness among ordinary consumers. There is also a public grievances cell to which consumers can make complaint about the quality of products carrying ISI mark.

(ix) **Consumer Protection Act, 1986:** This Act provides for consumer protection more comprehensively than any other law. Consumers can seek legal remedy for a wide range of unfair practices not only with respect to goods but also for deficiency in services like banking, insurance , financing, transport, telephone, supply of electircity or other energy, housing, boarding & lodging, entertainment, amusement, etc. This Act also includes provision for the establishment of consumer protection councils at the centre and the state. For the settlement of consumer disputes, the act has provided for a semi-judicial system. It consists of District Forum, State Commission and National Commission for redressal of consumer disputes. These may be regarded as consumer courts.

INTEXT QUESTIONS 18.4

Which of the following statements are true and which are false?

i. The Prevention of Food Adulteration Act provides for severe punishment if food items are found to have been adulterated by any person.

ii. The Standards of Weights and Measures Act prescribes standard weights and measures to be used in different localities.

iii. Consumers associations cannot file complaints before the MRTP commission on behalf of consumers, only individual consumers can do so on their own behalf.

iv. The Essential Commodities Act controls the production and distribution of certain goods.

v. Consumer protection councils have been established at the centre and the states under the Consumer Protection Act.

vi. The Bureau of Indian Standards formulates quality standards for goods and permits quality certification marks to be used by producers.

vii. The Government has power to declare any commodity as essential in the public interest.

18.6 JURISDICTION OF CONSUMER COURTS

The judicial system set up under the Consumer Protection Act, 1986, consists of consumer courts at the ditrict level, state level and national level. These are known as District Forum, State Consumer Disputes Redressal Commission (State commission) and National Consumer Disputes Redressal Commission (National Commission). Any individual consumer or association of consumers can lodge a complaint in writing with the District, State or National level forum, depending on the value goods and claim for compensation, if any.

The district forum has the jurisdiction to deal with all complaints where the value of the goods or services or the compensation claimed does not exceed

Notes

Rs 20 lakhs. The State Commissions are empowered to deal with cases where the value or amount involved exceed Rs 20 lakh but does not exceed Rs One Crore. The State commissions also deal with appeals the against orders of the District Forum. The National commission has the juistisdiction to take up all claims and grievances exceeding the value of Rs. One crore. It has also appellate jurisdiction, that is, power to deal with appeals against orders passed by State Commissions. An aggrieved party can appeal to the Supreme Court against the orders of the National Commission.

18.7 PROCEDURE FOR REDRESSAL OF CONSUMER GRIEVANCES

As stated in the previous section consumer complaints can be filed by an individual consumer or association of consumers. The complaint may be filed before the District Forum for the district where the cause of action has arisen or where the opposite party resides, or before the State Commission notified by the State Government or the union territory, or it can be filed before the National Commission at New Delhi.

There is a nominal fees charged for filing a complaint. The complaint may be filed by the complainant or his/her authorised agent in person, or it may be sent by post. Five copies of the complaint are generally required to be filed along with the following information.

i) Name, description and address of the complainant;

ii) Name, description and address of the opposite party or parties, as the case may be;

iii) Facts relating to the complaint and when and where it arose;

iv) Documents, if any, in support of the allegations contained in the complaint (like cash memo, receipt, etc.)

v) The nature of relief which the complainant is seeking.

The complaint should be signed by the complainant or his/her authorised agent. It has to be addressed to the president of the District Forum or State Commission or National Commission. A complaint is required to be filed within a period of two years from the date on which the cause of action arose. If there is delay and it is excused by the concerned Forum/Commission, the reason must be on record.

Complaints are expected to be decided, as far as possible, within three months from the date of notice received by the opposite parties. For those complaints which require laboratory analysis or testing of products, the period is extended to five months.

Depending on the nature of complaint and relief sought by the consumer and facts of the case, the redressed Forum/Commission may order one or more of the following reliefs:

(a) Removal of defect in goods/deficiency in services.
(b) Replacement of the goods/restoration of the service.
(c) Refund of the price paid for goods or excess charge paid for service.
(d) Compensation for loss or injury suffered.

INTEXT QUESTIONS 18.5

I. Fill in the blanks with the suitable words chosen from those given within brackets:

(i) The District forum can deal with complaints which involve value of goods and compensation amounting to not more than __________. (Rs. 5 lakhs, Rs. 20 lakhs, Rs. 1 Crore)

(ii) When a complaint is submitted before the District forum that requires testing of the product, the case is to be decided within a period of _________ (3 months, 4 months, 5 months)

(iii) The National Commission has the jurisdiction of dealing with complaints involving value of goods above ________ (Rs. 20 lakhs, Rs. 50 lakhs, Rs. One crore)

(iv) An appeal against the order of State Commissions can be filed before the _______________ (Supreme Court, High Court, National Commission).

(v) State Commission can deal with cases involving value to goods/ compensation not exceeding ________. (Rs. 20 lakhs, Rs 50 lakhs, Rs. One crore)

II. Which of the following statements are right and which are wrong?

(i) A consumer's complaint can be filed only by the consumer himself/herself.

(ii) There is no need to give any fee for filing a complaint before the District forum.

(iii) A complaint may be submitted personally or sent by post.

(iv) The complaint has to be filed within one year from the date on which the cause of action arose.

(v) For a complaint relating to deficiency of telephone service, the relief sought may include removal of deficiency, restoration of the service, refund or adjustment of excess charge paid, as well as compensation for loss.

(vi) The complaint to be filed must be signed by the consumer or his authorised agent.

18.8 ROLE OF NON-GOVERNMENTAL ORGANISATIONS

Non- Governmental Organisations (NGOs) are those associations of people which aim at promoting the welfare of the public without any profit motive. They are voluntary bodies having a constitution and rules of their own, and are free from government interference. They depend on donations and partly on government assistance. NGOs dealing with consumer problems are known as consumer associations or consumer organisations.

The role of NGOs has become increasingly more significant over the last two decades. There are now more than 800 such organisations in India. These organisations are registered under the Societies Registration Act or the Companies Act or as Charitable Trusts.

NGOs have undertaken various activities as part of the consumer movement. They perform several functions, like:

(i) Create awareness about consumer rights and educate the general public about consumer problems and remedies through seminars, workshops and training programmes.

(ii) Provide legal aid to consumers by way, of assistance in seeking legal remedy.

(iii) Undertake advocacy of consumers' point of view as representative members of consumer protection councils and others official boards.

(iv) Arrange comparative testing of consumer products through their own testing apparatus or accredited laboratories so as to evaluate the relative qualities of competing brands and publish the test results for the benefit of consumers to become informed buyers.

(v) Publish periodicals and journals to disseminate information among readers about consumer problems, legal reporting and other emerging matters of interest. Most of these periodicals do not accept advertisements from business firms.

(vi) Make suggestions and recommend steps which government authorities should consider in policy making and administrative measures adopted in the interest of consumers.

(vii) Some NGOs have successful used Public Interest Litigation (PIL) to enforce consumer rights in several cases. In other words, NGOs have filed cases in law courts in the interest of the general public, not for any individual.

INTEXT QUESTIONS 18.6

I. Which of the following statements are true and which are false?

(i) NGOs are non-profit organisations.

(ii) Government rules and regulations generally govern the functioning of NGOs.

(iii) Seminars, workshops and training programmes held by NGOs involved in consumer movement are aimed at consumer education.

(iv) The NGOs exercise the right to be heard through the policy making and administrative bodies of the Government.

(v) The recommendations made by consumer organisations are considered by Government while amending relevant laws.

II. Multiple Choice Questions

i. Which are is not a problem faced by Consumer?

(a) Adulteration
(b) Sale of spurious products
(c) Hoardings and black Marketing
(d) Only one quality of products.

ii. Consumers are unable to make use of their rights due to lack of

(a) Awareness and ignorance
(b) Funds
(c) Education
(d) Coverage

iii. BIS means

(a) Bureau of Industrial Standards
(b) Bureau of Indian Standards
(c) Bureau of Internal Standards
(d) Bureau of Institution Standards

iv. Consumer courts does not includes

(a) District Forum (b) State Commission
(c) National Commission (d) Supreme Court

v. The district forum has the jurisdisction to deal with all complaints where the value of the goods or services or the compensation claimed does not exceed.

(a) Rs. 10 lakh (b) Rs. 20 lakhs
(c) Rs. 1 lakh (d) Rs. 1 Crore

WHAT YOU HAVE LEARNT

- Consumer protection refers to the steps necessary to be taken or measures required to be accepted to protect consumers from business malpractices.
- Nature of problems faced by consumers
  - → Adulteration of goods
  - → Sale of spurious products
  - → False weights and measures
  - → Sale of duplicate items
  - → Hoarding and black marketing
  - → Tie-in-sales
  - → Offering gifts
  - → Misleading advertisements
  - → Sale of substandard goods
- Need for consumer protection- the necessity of adopting measures to protect the interest of consumers arises mainly due to their helpless position and the unfair business practices.
- Parties to consumer protection
  - (i) Consumers
  - (ii) Businessmen
  - (iii) Government
- Legal protection to consumers
  - → Industries (Development and Regulation) Act, 1931
  - → Essential Commodities Act, 1955
  - → Prevention of Food Adulteration Act, 1954
  - → Prevention of Black-marketing and Maintenance of Essential Supplies Act, 1980.
  - → Bureau of Indian Standards Act, 1986
  - → Agricultural Products (Grading and Marketing) Act, 1937
  - → The Standards of Weight and Measures Act, 1956.
  - → Monopolies and Restrictive Trade Practices Act, 1969
  - → Consumer Protection Act, 1986.
- Judicial system set up for protection of consumers
- NGOs create awareness among the consumers about their rights and responsibilities, provide legal aid to consumers, represent various consumer protection councils and other policy making bodies.

TERMINAL EXERCISE

1. What is meant by consumer protection?
2. Why should consumers be protected?
3. Describe the various problems faced by consumers in their daily life?
4. Name the parties involved in consumer protection. Explain their role in protecting the interests of the consumers.
5. Enumerate the various Acts passed by the Government for protection of consumer's interest.
6. What information is required to be filed before the consumer courts while filing any complaint?
7. State the possible relieves which a consumer court may order in favour of consumers.
8. Mention the pecuniary jurisdiction of different consumer courts.
9. Describe the role of Non-Government Organizations in protecting the interest of consumers.
10. State the procedure to be followed for redressal of consumer grievances.

ANSWER TO INTEXT QUESTIONS

18.1 (i) True, (ii) False, (iii) True, (iv) False, (v) True

18.2 (i) Choose, (ii) information,
(iii) that the goods are of superior quality, (iv) misleading

18.3 (i) False, (ii) False, (iii) True, (iv) True, (v) False

18.4 (i) True, (ii) False, (iii) False, (iv) True,
(v) True, (vi) True, (vii) True

18.5 I) (i) Rs 20 lakh, (ii) 5 months, (iii) Rs One crore,
(iv) National Commission, (v) Rs One crore

II) (i) Wrong, (ii) Right, (iii) Right, (iv) Wrong,
(v) Right, (vi) Right

18.6 I. (i) True, (ii)False, (iii) True,
(iv) True, (v) True

II. (i) d (ii) b (iii) b (iv) d (v) b

ACTIVITY FOR YOU

- Collect the various information published in newspapers and magazines from time to time regarding protection of consumer interest.

MODULE - VI

Maximum Marks	Hours of Studies
12	25

Career Opportunities in Business

Every one of us at one stage or other has to choose a carrier for earning our livelihood. It is an important aspect of our life. The area of business offers a large number of avenues of employment both in terms of self-employment and wage-employment. Self-employment today appears to be the best solution for unemployment and growth of our country. Working for one self is a challenge and a joy by itself. Having this in view the present module has been designed to acquaint the learners with various career opportunities and the competencies required to enter the world of work.

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19 CHOOSING A CAREER

Many of you may be thinking of securing a job in business firm or running a business of your own. Career means occupation, which we want to adopt for earning livelihood, and choosing means to take proper decisions.

Most of your thoughts on what you want to become probably come from what you have heard while listening to radio or watching television; you may also be reading newspapers and magazines which advertise job vacancies or may have been advised by parents and relatives about what you should be. On the basis of your understanding you may think about the kind of work that can be handled easily by you. You may start thinking clearly about your abilities and aptitudes for the future work-life. This necessitates the knowledge of what employment opportunities are available and the abilities required for different types of employment.

In the present lesson, you will learn about different aspects of choosing a career i.e. concept, importance, avenues, competencies, etc. which may be useful to decide your own career.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the concept of 'career';
- recognize the importance of choosing a career;
- identify the various career avenues in business;
- explain the importance of self-employment;
- distinguish between self-employment and wage employment;
- enlist the competencies needed to pursue career in different avenues; and
- identify career in business on the basis of your own ability, interest and aptitude.

19.1 CONCEPT OF CAREER

Career literally means an occupation with which opportunities for advancement or promotion can be availed of in life. It does not mean simply the choice of vocation. It implies various positions; one may occupy in course of his/her work-life. In a broad or sense, career is an important aspect of one's life pattern. For instance, some of you who find a job of an office assistant may in course of time become office superintendent and may even be promoted as office manager.

Career means the progress and actions taken by a person throughout a lifetime especially those related to that person's occupations. A career is often composed of the jobs held, titles earned and work accomplished over a long period of time, rather than just referring to one position, while employees in some cultures and economies stay with one job during their career, there is an increasing trend among employees to chang jobs more frequently. For example, being a lawyer an individual's career could involve work for several different firms and in several different areas of law over his lifetime.

The work you do in different positions may be called your career-path and it is likely to influence your work habits and daily routine. Career covers a sequence of positions in a job or an occupation that a person is engaged in during his work-life and for which he/she develops abilities.

19.2 IMPORTANCE OF CHOOSING A CAREER

Planning plays a very important role in every aspect of life. To work in a proper flow, and planning for career, which we want to pursue in our future after acquiring certain level of qualification is also very necessary in today's competitive world. Choosing a career is an important aspect of life. The foundation stone of career building is laid down by the career you choose. In the past most of the people completed their studies and then would decide about their career. But the present generation has started making career moves well before completing their school education. Career choice will probably affect an individual's eventful life-style more than any other choices he/she makes. The influence of job touches many facets of life, shaping our values, attitudes, and habits. In a world dominated by cut-throat competition making right career choice in the beginning is very important. There is definitely a need that one should go through a process which will enlighten and inform the individual with respect to the various career options. In this process the individual will also discover his or her own abilities which are important parts of any career decision. Challenges and competition are the part of today's society, and therefore, Career Planning is the only task, which can guide us to do what we want to do in our life, rather than just aimlessly changing job frequently.

Career Planning is one of the broader aspects of learning in our existence. We all have some intentions and we all think to have stability in our future lives, and for that purpose, career planning serves as a key to success. Career Planning makes a person to think suitably about his positive and negative aspects. All about ones own interest, about his creativity becomes possible through proper analyzing oneself.

Career Planning basically starts, when a person finishes Secondary/ Higher Secondary level of education. After that level, a person could opt for that educational degree, which would help them out to have a good job opportunity according to his skills at the right time. Career Planning helps us to design and formulate our future smoothly. For example, if a person wants to be a banker, then he or she would choose to go for ICWA or CA or MBA in finance after completing Intermediate and Graduation in commerce or Business Administration.. Else he/ she could go for Masters in Commerce or even up to Doctorate level. Career planning is a life time process as we are always learning and growing, and as we do, our interests and needs also change.

INTEXT QUESTIONS 19.1

Which of the following statements are true and which are false?

(a) Career covers a sequence of positions in a job that a person is engaged in during his work life.

(b) Selection of a right career is essential in everybody's life.

(c) Today's generation has very few career options.

(d) Planning a career is not required at the early stage.

(e) Knowledge of various career options is helpful in choosing the right career.

19.3 CAREER AVENUES IN BUSINESS

When any body is engaged in an occupation, he/she is said to be employed. The occupation of people today is related with some economic activity, and one's career objective invariably is to be in employment, that is, to be engaged in an economic activity for earning one's livelihood. Choice of career actually involves opting for one of the following two alternatives:

(i) Wage employment or

(ii) Self-employment

Wage employment means serving another person for wages or salary. If someone is appointed as office assistant, he is expected to do what the office supervisor wants him to do, and he gets a monthly salary for his job. This type of employment is based on a contract between the employers and employee. The employee has to work for the employer, carry out the tasks assigned to him, and is remunerated for it. During working hours, the employee is to work under the supervision and control of the employer. Self-employment, on the other hand, refers to an occupation in which a person engages himself/herself in some economic activity on his own to earn his/her livelihood. Let us discuss briefly the job opportunities or avenues of wage employment.

19.4 WAGE EMPLOYMENT

Job opportunities or avenues of wage employment exist in Government offices, Railways, Banks, Insurance companies, factories, trading concerns and various other organizations including Schools, Colleges, Hospitals, etc. For clerical jobs, technical jobs, and other types of job at lower level; The nature of work to be undertaken depends upon the activities and objectives of the organization. Thus, office jobs in Government departments, Railways, Banks, Trading Organizations, Schools and Hospitals involve different types of clerical work. Similarly, the nature of work of the technical staff in industries and transport companies also vary according to their functional differences. Job opportunities for those who have passed the Secondary (class X) examination happen to be clerical jobs, or those of laboratory assistants in schools where the minimum qualification required is class X pass. But there are facilities for special training for them in ITIs and polytecheniques as well as state secretarial and commercial institutes. On completion of a technical or secretarial course, a person can find employment as technical staff in workshops or as office assistant or accounts clerk. With computer operation skill, he/she can be employed as computer operator.

Wage Employment

19.5 SELF-EMPLOYMENT

You have learnt how you can choose a career for yourself involving paid employment. When you accept an employment, you have to undertake work that is assigned to you by your employer and you get a fixed amount as your salary or wage. But instead of seeking a job, you may do something on your own to earn your living. You may run a bookshop, medical store, or tailoring shop, etc. If an individual engages in any economic activity and manages it on his own, it is known as self-employment.

Self Employment

In every locality, you may come across small stores, repair shops or service units. These establishments are owned and managed by a single person, sometimes they engage one or two assistants for help. Grocery stores, stationary shops, book shops, medical stores, tailoring shops, hair-cutting saloons, Telephone booths, beauty parlour, repair shops for electrical goods, bicycles, etc., are examples of activities which are based on self-employment. The owners of these stores or shops do earn their living from the income of the business of buying and selling or rendering services. They also bear the risk of loss if their income falls short of the expenses.

INTEXT QUESTIONS 19.2

Fill in the blanks by using appropriate words:

(i) Occupation of the people is always related with _______ activity.

(ii) At lower level, Government Departments mostly employ people for ___________ jobs.

(iii) For the jobs of a storekeeper a person must have the skill of preparing _______ order.

(iv) Ability to handle ________________ is necessary a most clerical jobs.

(v) Fluency in ______________ is essential for Telephone Operator.

(vi) _________ employment means serving anothers person for wages or salary.

(vii) An individual engages in any economic activity and manages it on his own, it is known as _________.

(viii) On completion of a technical or secretarial course, a person can find employment as ____________.

19.6 DIFFERENCE BETWEEN SELF-EMPLOYMENT AND WAGE EMPLOYMENT

You have learnt about self-employment and wage employment. Let us distinguish between these two on the basis of the following:

	Basis	Self employment	Wage employment
1.	Nature	Engage in activities on one's own.	Engage in activities assigned by the employer.
2.	Status or position	The position of the person is that of owner and may be that of an employer.	The position of the person is that of an employee.
3.	Income or earning	Income or earning is not fixed. It depends on the ability of the owner.	Income of the employed person is fixed and may be increased, if the employee so decides.

4.	Work involved	Work involved is aimed at earning more and increasing the volume of business. The nature of work cannot be decided in advance and may vary.	The work to be performed by the employee is specific and per-decide.
5.	Risk bearing	There is always risk of loss sometime and earnings may decline at times.	There is no risk of reduced income so long as the employee continues to work.
6.	Freedom of work	The owner is free to decide how to run the business depending on the available opportunities.	The employee has to work according to the terms and condition of employment.

19.7 POSSIBLE AREAS OF SELF-EMPLOYMENT

Having read about the characteristics of self-employment, you may like to know about the areas in which self-employment is possible. In the process of career planning you may consider the following areas for self-employment opportunity.

i. **Small scale retail business:** Single owners can easily start and manage small business units profitably with the help of one or two assistants. It can be a grocery store, stationery shop, or a cloth store, etc.

ii. **Providing services based on individual skills:** Services which can be rendered to customers by individuals on the basis of specialized skill can also be taken up by way of self employment. For example, repairing bicycles and scooters, watches and clocks, tailoring, hairdressing, etc. can be undertaken as individualized services to customers.

iii. **Occupations based on professional qualifications:** Activities which require professional training and experience are known as self employment. Thus, for example, practicing Doctors, Lawyers, Chartered Accountants, Pharmacists, Architects, etc. are self-employed on the basis of their specialized training and skills. They have small

establishments like a clinic, office space, chamber, etc. and offer services to clients with the help of one or two assistants.

iv. **Farming on a small scale:** Opportunities are also there for self-employment in small scale farming activities like dairy, poultry, fishery, horticulture, Seri-culture, etc.

v. **Village and cottage industries:** Activities like hand spinning and weaving, hand knitting, stitching garments, etc. can be taken up as self employment; these may be based on traditional inherited skills.

vi. **Arts and crafts:** Those who have been trained in certain craftsmanship or art can be self employed in such occupations as those of goldsmiths, blacksmiths, carpentry, etc.

19.8 PREFERENCE FOR SELF- EMPLOYMENT OVER WAGE- EMPLOYMENT

Self-employment is often regarded better than wage-employment for the following reasons:

(a) Self-employment offers opportunities for using one's own talents for one's benefit. You can use your ability and time in the most profitable manner through self-employment.

(b) Self-employment is possible even without large resources of capital and other facilities. For example, a replay-cum-service shop can be started with limited amount of capital.

(c) In self-employment, the person learns many things 'on the job' because he has to take all the decisions regarding his business activities for his own benefit.

INTEXT QUESTIONS 19.3

Which of the following statements are True and which are false?

(i) Self employment means engaging in any economic activity on one's own.

(ii) There is no limit to earning in wage employment.

(iii) Some amount of capital is needed even when a person provides individualized service for a price.

(iv) Self-employment in business involves risks of loss to be borne by the owners.

(v) A goldsmith cannot be self-employed as he has to work under a jeweller.

19.9 QUALITIES REQUIRED FOR SUCCESS IN SELF-EMPLOYMENT

Having learnt about the opportunities of self-employment in different areas, you may feel that choice of self-employment rather then paid employment as a career is quite attractive. But you should choose it as an option only if you possess the necessary qualities to succeed in self employment. Let us know the various qualities required to successfully pursue self-employment.

(i) **Mental abilities:** To be self-employed you need to have the ability to identify the most suitable area where there is opportunity of self-employment; also you should have the ability to take decisions with respect to all business operations; ability to deal with different types of customers is equally important and also the ability to anticipate problems and bear risks.

(ii) **Alertness and foresight:** A self employed person should be aware and alert about changes taking place in the market so as to adjust his operations. He should also have the foresight to anticipate changes to avail of opportunities and meeting threats likely to arise in the near future.

(iii) **Self-confidence:** In self-employment, the owner has to take all decisions; he must also have confidence in himself to overcome problems and also while dealing with suppliers / creditors, customers and government officials.

(iv) **Knowledge about business:** Any one who is self-employed in business must have full knowledge about the business, including technical knowledge and skill for running the business.

(v) **Acquaintance with relevant laws:** It is not necessary for one to be a legal expert, but to be self employed, one must have working knowledge of laws relating to the business and service activities in a particular place, which may include the Trade and Establishment Act, laws relating to sale tax and excise tax, if applicable, municipal regulations regarding location, pollution control, etc.

(vii) **Other personal qualities:** A person in self-employment should have the qualities of honesty, sincerity and be hard working.

INTEXT QUESTIONS 19.4

I. Fill in the blanks with appropriate words:

(i) In self-employment a person should have the ability to identify ____________.

(ii) To succeed in self-employment a person must have __________ in his own ability.

(iii) To be successful as owner of a business one should have __________ about the business.

(iv) Knowledge of accounting is necessary for a person in self-employment to ascertain__________.

(v) Entrepreneurship is related to quality of __________ and __________.

(vi) Self-employment provides opportunities of earning livelihood for those unable to pursue__________.

(vii) Your choice of career should be based on your ______ , _____, and ______.

(viii) You may start thinking about your strengths and __________.

(ix) Do not select a job for which you do not have __________.

(x) Communication skill is _________ in modern world for all jobs.

II. Multiple Choice Questions

i. Wage employment means
(a) Serving another person for wages or salary
(b) Doing business
(c) Engaging in some economic activity on his own
(d) None of the above

ii. Self employment means:-
(a) A contract between the employers and employee
(b) Serving another person for salary or wages
(c) Engaging in some economic activity on his own
(d) None of the above

iii. Which of the following is not a quality required for self employment.
(a) Formal education
(b) Alertness & Foresight
(c) Knowledge about business
(d) Acquaintance with relevant laws.

iv. Career Path means
(a) Work done in different job positions
(b) Way adopted for a career
(c) Getting Professional degree
(d) Getting a job title

v. Career Planning includes
   (a) Starting a own business
   (b) Thinking suitably about positive and negative aspects of a career
   (c) Joining a job
   (d) Making adjustments with the career

WHAT YOU HAVE LEARNT

- Career literally means an occupation with which opportunities for advancement or promotion can be availed off in life. Choosing career is an important aspect of life.
- Choice of career involves opting for one of two alternatives, viz. wage employment and Self-employment.
- Wage-employment means serving another person for wages or salary. Self-employment refers to a person engaging in some economic activity on his own to earn his livelihood.
- Avenues of wage-employment consists of clerical or technical jobs at lower level.
- Self-employment opportunities exist in several areas like small-scale retail business, providing services for a price, farming on a small scale, village and cottage industries, arts and crafts, etc.
- To pursue self-employment as a career, a person should possess certain mental abilities, alertness and foresight, self-confidence, knowledge about business, acquaintance with relevant laws, and knowledge on accounting.

TERMINAL EXERCISE

1. What is meant by (a) wage employment and (b) self-employment?
2. Define the term ‘career’.
3. Explain the importance of choosing a career.
4. State briefly the avenues of wage employment in the area of business.
5. Describe the importance of self-employment in the present context of unemployment.
6. How is self-employment an alternative to large-scale industries?
7. State any four qualities required for success in self-employment.
8. Explain the skills required for accounting job.
10. Identify motivational factors for self-employment.
11. Distinguish between self-employment and wage employment.
12. Enumerate the possible areas in which a person can be self-employed.

ANSWER TO INTEXT QUESTIONS

19.1 (i), (ii), (v) – True (iii), (iv) – False

19.2 (i) Economic, (ii) Clerical, (iii) Purchase,
(iv) Office machines, (v) Language, (vi) Wage,
(vii) Self employment, (viii) Technical Staff

19.3 (i), (ii), (iv) – True (ii), (v) – False

19.4 I. (i) Job opportunities for self-employment,
(ii) Confidence, (iii) Knowledge,
(iv) Profit or loss (v) Innovativeness, creativity,
(vi) Higher education, (vii) abilities, aptitude and interest,
(viii) weaknesses, (xi) interest,
(x) necessary

II. (i) a, (ii) c, (iii) a, (iv) c, (v) b

ACTIVITY FOR YOU

- Take out one week's "Employment News" or any other newspaper and identify the job vacancies according to your interest, ability and aptitude.

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ENTREPRENEURSHIP

You must be aware of the fact that earning is necessary for living. Your father, mother, brother, and others may be engaged in activities through which they earn a livelihood for the family. How do you plan to earn your livelihood? Would you like to take up a job in an organization or would you like to start your own business? The assumption of risk and responsibility in designing and implementing a business strategy or starting a business is called entrepreneurship. A teacher teaches in a school, a worker works in a factory, a doctor practices in a government hospital, a clerk serves in a bank, a manager works in a business concern to earn his living. These are the examples of people who are employees and earn money through salaries or wages given by their employers. This is known as wage-employment. On the other hand, a shopkeeper, a factory owner, a businessman, a doctor having his own clinic, earn money by running their own concerns. These are the examples of people who are self-employed. However, there are several self-employed individuals who not only create jobs for themselves but also generate jobs for many others. They may be termed as 'entrepreneurs'.

In this lesson you shall learn in detail about entrepreneurship – the concept, its importance and functions. You will also learn about the qualities of entrepreneurs and also their ability to set up small-scale enterprises. These may be useful for your future life.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the concept of entrepreneurship;
- recognize the importance of being an entrepreneur;
- describe the essential qualities of a successful entrepreneur;
- identify the functions of an entrepreneur; and
- explain the various aspects of setting up a small business enterprise.

20.1 MEANING OF ENTREPRENEURSHIP

Entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods". This may result in new organizations or may be part of revitalizing mature organizations in response to a perceived opportunity. The most obvious form of entrepreneurship is that of starting new business. The capacity and willingness to undertake conception, organization, and management of a productive venture with all posible risks and seeking profit as a reward.

An entrepreneur is a creative thinker. He is an innovator, who volunteers to take risk and invest money. In the process he generates jobs, solves problems, adds values and seeks excellence.

Thus, we find that, entrepreneurship consists of practices and skills of a person constantly trying for growth and excellence. This is being done by innovating an idea, object, product or service and put it to social use. To be an entrepreneur you need to possess some qualities. However, entrepreneurship is also referred to as a career oriented purposeful task that can be learnt. It may be noted here that, in the context of country's economic development, entrepreneurship is not always confined to big business. It is equally important to have small enterprises. As a matter of fact the economic growth and prosperity of many developed and developing countries is because of emergence of small enterprises.

20.2 IMPORTANCE OF BEING AN ENTREPRENEUR

The role of entrepreneurship and an entrepreneurial culture in economic and social development has often been underestimated. Over the years, however, it has become increasingly apparent that **entrepreneurship does indeed contribute to the economic development. Transforming ideas into economic opportunities is the crux of entrepreneurship.** History shows that economic progress has been significantly advanced by pragmatic people who are entrepreneurial and innovative, able to exploit opportunities and willing to take risks. Entrepreneurs produce solutions that fly in the face of established knowledge, and they always challenge the status quo. They are risk-takers who pursue opportunities that others may fail to recognize or may even view as problems or threats. Whatever the definition of entrepreneurship, it is closely associated with change, creativity, knowledge, innovation and flexibility-factors that are increasingly important sources of competitiveness in an increasingly globalized world economy. Thus, fostering entrepreneurship means promoting the competitiveness of businesses. Its importance can be expressed in the form mentioned below:

1) **Provides employment to the people:** - People often hold a view that all those who do not get employed anywhere jump into entrepreneurship, but in reality now a days most of the business are set by those who have other options available with them.

2) **Contributes towards research and development system:** - Almost 2/3rd of all innovations are due to the entrepreneurs. Without the boom of inventions the world would have been a much dry place to live in. Inventions provide an easier way of getting things done through better and standardized technology.

3) **Creates wealth for the nation and for the individuals as well:** - All individuals who search business opportunities usually, create wealth by entering into entrepreneurship. The wealth created by them plays a significant role in the development of the nation. The entrepreneurs contribute to the economy, in the form of products, and services Their ideas, thoughts, and inventions are also of a great help to the nation.

INTEXT QUESTIONS 20.1

Which of the following statements are true and which are false?

(i) Entrepreneurs take risks in converting ideas into action

(ii) Entrepreneurs are gamblers.

(iii) An entrepreneur constantly strives for the excellence.

(iv) Entrepreneurs are born not made.

(v) An entrepreneur generates employment for others.

(vi) Entrepreneur is an independent person.

20.3 QUALITIES OF A SUCCESSFUL ENTREPRENEUR

Let us now know about the qualities of a successful entrepreneur. There may be many qualities needed to successfully run an enterprise. However, the following qualities are considered important:

(i) **Initiative-**In the world of business, opportunities come and go. An entrepreneur has to be a man of action. He should be able to initiate action and take advantage of the opportunity. Once you miss the opportunity it will not come again. Therefore, initiative on the part of entrepreneur is a must.

(ii) Willingness to assume risk- In any business there is an element of risk. It implies that a businessman may be successful or unsuccessful. In other words, it is not necessary that every business shall earn profit. This deters individuals to take up business. However, an entrepreneur always volunteers to take risks to run a business and be successful.

(iii) Ability to learn from the experience- An entrepreneur may commit mistakes. However, once a mistake has been committed, it should not be repeated as that will lead to heavy losses. So, one should learn from his mistakes. An entrepreneur, therefore, should have the ability to learn from the experience.

(iv) Motivation- Motivation is the key to success. This is necessary for success in every walk of life. Once you get motivated to do something you will not rest unless you complete it. For example, sometimes you become so much interested in reading a story or a novel that you do not sleep unless you complete it. This kind of interest in the work comes through motivation. This is an essential quality of a successful entrepreneur.

(v) Self-confidence- For achieving success in life, one should have confidence in himself or herself. A person who lacks confidence can neither do any work himself nor can inspire others to work. Self-confidence is reflected in courage, enthusiasm and the ability to lead. A successful entrepreneur must have self-confidence.

(vi) Decision making ability- In running an enterprise, the entrepreneur has to take a number of decisions. He should therefore, be capable of taking suitable and timely decisions. In other words he must take right decision at the right time. In the present world, things move very fast. If an entrepreneur does not have the ability to take timely decision, he might miss opportunity and incur loss.

INTEXT QUESTIONS 20.2

Which of the following statements are true and which are false?

(i) An entrepreneur should learn after commiting the mistakes repeatedly.

(ii) A person who does not have decision making power connot be an entrepreneur.

(iii) Lack of self confidence is the secret of success of all entrepreneurs.

(iv) An entrepreneur should have the capacity to take timely decision.

20.4 FUNCTIONS OF AN ENTREPRENEUR

Some of the major functions of an entrepreneur are:

i) Identifying entrepreneurial opportunity – There are many opportunities in the world of business. These are based on human needs like food, fashion, education, etc., which are constantly changing. These opportunities are not realized by common man, but an entrepreneur senses the opportunities faster than others do. An entrepreneur therefore, has to keep his eyes and ears open and require imagination, creativity and innovativeness.

ii) **Turning ideas into action –** An entrepreneur should be capable of turning his ideas into reality. He collects information regarding the ideas, products, practices to suit the demand in the market. Further steps are taken to achieve the goals in the light of the information collected.

iii) **Feasibility study –** The entrepreneur conducts studies to assess the market feasibility of the proposed product or services. He anticipates problems and assesses quantity, quality, cost and sources of inputs required to run the enterprise. Such a blue print of all the activities is termed as a 'business plan' or a 'project report'.

iv) **Resourcing –** An entrepreneur needs various resources in terms of money, machine, material, and men to running the enterprise successfully. An essential function of an entrepreneur is to ensure the availability of all these resources.

v) **Setting up of the Enterprise –** For setting up an enterprise the entrepreneur will have to fulfill some legal formalities. He also tries to find out a suitable location, design the premises, install machinery and do many other things.

vi) **Managing the enterprise –** One of the important functions of an entrepreneur is to run the enterprise. He has to manage men, material, finance and organize production of goods and services. He has to market each product and service, after ensuring appropriate returns/ profits on the investment. Only a properly managed organization yields desired results.

vii) **Growth and Development –** Once the enterprise achieves its desired results, the entrepreneur has to explore another higher goal for its proper growth and development. The entrepreneur is not satisfied only with achieving a set goal but constantly strives for achieving excellence.

INTEXT QUESTIONS 20.3

Write two sentences in your own words about each of the following

(i) Feasibility Study

(ii) Resourcing

20.5 SETTING UP OF A SMALL BUSINESS ENTERPRISE

You have learnt about entrepreneurship and the various qualities required for becoming a successful entrepreneur. You have also learnt what exactly an entrepreneur does while starting a business unit. If you possess those qualities and confidence that you could be able to perform all those activities, you can now think about your own enterprise. But before you start your business let us study various factors required to be considered while setting up any small business.

(i) Who can start a small business?

Any one can start a small business unit. He may be - an exiting entrepreneur or a new one - having a business background or not - educated or uneducated - from rural area or urban area.

(ii) Arrangement of Finance

The entrepreneur has to analyze and find out the amount and the duration of finance required as well as the duration for such finance is needed in the business. The entrepreneur requires money to buy machinery, building, raw material, pay wages to labour, etc. Money spent on buying machinery, building, equipment, etc. is known as fixed capital. On the other hand, money spent on buying raw materials and paying wages and salaries, rent, telephone and electricity bills, etc. is known as working capital. The entrepreneur has to arrange for both fixed as well as working capital for his business. The finance can be raised by self-contribution or by borrowing from banks and other financial institutions. Money can also be borrowed from friends and relatives.

(iii) Selection of line of business

The process of launching a business begins when the entrepreneur start thinking about a line of business, which can be undertaken by him. He may consider business opportunities as per the market demand. He may go for an existing product or a new product. But before taking any step he has to ascertain the profitability of the business and the amount of capital investment. Having estimated the profitability and risk involved, the entrepreneur has to decide which line of business could be desirable to pursue.

(iv) Choice of form of organization

You have read about different forms of business organization in the earlier lessons. Now you have to choose the best form as per your requirement. Normally, a small business enterprise may preferably be started in the form of sole proprietorship or partnership.

(v) Location of the business

Special care should be taken while selecting the location of the business. An entrepreneur can start business in his own premises or in a rented premises. It can be located at a market place or in a commercial complex or in an industrial estate. While deciding the location, the entrepreneur should consider various factors like sources of supply of raw material, nearness to the market, availability of labour, transportation, banking and communication facilities, etc. Factories should be preferably located near the source of raw material and at a place that is well connected with rail and road transport facility. A retail business should be started near residential area or in a market place.

(vi) Availability of labour/workforce/employees

An entrepreneur cannot run the business alone. He has to employ people to help him. Skilled and Semi-skilled workers have to be recruited particularly for manufacturing work. Before starting the business, the entrepreneur must find out whether he will be able to get the right type of employees for the activities involved.

INTEXT QUESTIONS 20.4

I. Which of the following statements are true and which are false?

(i) Only rich persons can start a business.

(ii) A small industry can be started by an entrepreneur in his own premises or rented premises.

(iii) An entrepreneur should start a business far away from the customers residences.

(iv) Large amount of working capital is not required for small business.

(v) Sales promotion technique should be used for marketing the product.

II. Multiple Choice Questions

i. Which one of the them is not an importance of entrepreneur?
   (a) Provides employment to the people
   (b) Contributes towards research and development system
   (c) Creates wealth for the nation
   (d) Provides self sufficiency

ii. Point out the quality in an entrepreneur
   (a) Initiative (b) Lack of experience
   (c) Lack of confidence (d) Lack of decision making ability

iii. Which one in not function of an entrepreneuer?
   (a) Turning ideas into action
   (b) Feasibility study
   (c) Resourcing
   (d) Shutting down the existing business

iv. Who can start a business
   (a) Only highly educated person
   (b) Only an uneducated person
   (c) Only rich person
   (d) Any one of the above

v. While selecting of line a business, an entrepreneour must keep in his mind
   (a) Profitability (b) Risk involved
   (c) Profits (d) All above

WHAT YOU HAVE LEARNT

- An entrepreneur is a person who is creative and innovative in terms of identifying opportunities for business; has the ability to take risks and requisite attitude to run the business. In the process he not only engages himself but also generates jobs for others.
- Entrepreneurship thus, comprises of the various practices and skills of persons who constantly strive for growth and excellence through innovation, dynamism and acceptance of risk. A starting 'will' to set up an enterprise, essential skills to start and run the business, ability to hard work and take risk are the essential requirements for a successful entrepreneur.
- Entrepreneurs are required by every nation as they contribute a lot to its growth and economic development.
- An entrepreneur should have qualities like taking initiative,willingness to undertake risk, ability to learn from experience, self motivation, self confidence, hard work and ability to take right decisions.

- Entrepreneurs identify various business opportunities, turn their ideas into action, make feasibility study of their plans, arrange resources, set up enterprises and constantly try to grow.
- Any person whether educated or not, whether having business background or not, whether from rural area or urban area, can start a small business. What is essential is the 'will' and the self confidence.
- Money required for setting up small business enterprise can be arranged from own sources or borrowed sources or both. Money can be taken on loan from banks and other financial institutions.
- To be successful in running a small business enterprise you can opt for a product or a combination of products provided they have a demand in the market.

TERMINAL EXERCISE

1. Explain the concept of 'entrepreneurship'.
2. Give any three features of an entrepreneur.
3. State the importance of an entrepreneur.
4. Describe any three qualities of a successful entrepreneur.
5. Explain how motivation is a key to success.
6. Explain the various functions of an entrepreneur.
7. What are the factors you would like to consider if you start a small enterprise to produce ball pen.

ANSWER TO INTEXT QUESTIONS

20.1 (i) True, (ii) False, (iii) True,
(iv) False, (v) True, (vi) True

20.2 (i) False, (ii) True, (iii) False, (iv) True,

20.3 Self answer.

20.4 I. (i) False, (ii) True, (iii) False, (iv) False, (v) True
II. (i) d, (ii) a, (iii) d, (iv) d, (v) d

ACTIVITIES FOR YOU

- Visit the nearest small scale industry and observe its working.
- Meet any entrepreneur in your locality and discuss with him secrets of his success.

MODULE - VII

Maximum Marks	Hours of Studies
00	30

Practical / Project Work

The learns ultimately have to enter the field of work which may be wage employment or self employment. Their success at the place of work will depend upon how skillfully they have performed their assigned jobs. This module has been designed develop among the learners the skill of performing the assigned jobs using the case study approach, though this module is not the part of examination.