

# Organisation of Commerce and Management



Standard XII



# The Constitution of India

## Chapter IV A

### Fundamental Duties

#### ARTICLE 51A

**Fundamental Duties- It shall be the duty of every citizen of India—**

- (a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
- (b) to cherish and follow the noble ideals which inspired our national struggle for freedom;
- (c) to uphold and protect the sovereignty, unity and integrity of India;
- (d) to defend the country and render national service when called upon to do so;
- (e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities, to renounce practices derogatory to the dignity of women;
- (f) to value and preserve the rich heritage of our composite culture;
- (g) to protect and improve the natural environment including forests, lakes, rivers and wild life and to have compassion for living creatures;
- (h) to develop the scientific temper, humanism and the spirit of inquiry and reform;
- (i) to safeguard public property and to abjure violence;
- (j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;
- (k) who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

The Coordination Committee formed by GR No. Abhyas - 2116/(Pra.Kra.43/16) SD - 4  
Dated 25.4.2016 has given approval to prescribe this textbook in its meeting held on  
30.01.2020 and it has been decided to implement it from the educational year 2020-21.

# Organisation of Commerce and Management

**STANDARD - XII**



2020

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



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## The Constitution of India

### Preamble

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

JUSTICE, social, economic and political ;

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

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

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

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

## NATIONAL ANTHEM

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

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

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

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

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

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

## PLEDGE

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

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

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

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

## PREFACE

Dear students,

In standard XI you studied about commerce and business, forms of business organisations, institutional support to business, management and business environment. This standard XII textbook takes you further from where you left in standard XI.

This book gives you an insight about 'Principles of Management' and 'Functions of Management' which are essential for any business organisation. After learning about management, in 'Enterprenuership Development' you will learn about entrepreneur and scope for you as an entrepreneur in future. In today's scenario various activities are going on round-the-clock. 'Business Services' advocates importance of business services to various business organisations. We are now part of globalisaton, so 'Emerging Modes of Business' focuses on various emerging modes in business.

Students, you will also learn ' Social Responsibilities of Business'. 'Consumer Protection' and 'Marketing' put an emphasis on need of consumer protection and its Act 2019 and importance of marketing for business organisations respectively.

In every chapter, pictures, diagrams, activity boxes are included for better understanding of the concepts. An exercise and answer key are given for practice. Newly introduced 'Just to Know' is brain teaser and self explanatory itself. This book is designed in such a manner that it will simplify teaching - learning process and students as well teachers will enjoy this textbook.

This restructured syllabus is capable enough to enhance the understanding ability of the students. The implementation of this new syllabus will be from the academic year 2020-2021 for standard XII Commerce. More information has been given in the Q.R. Code on the title page.

We are confident that this book will guide the students properly in this competitive world of business.

We are grateful to subject committee members, study group members, reviewers, experts, designers, translators as they have rendered their thorough co-operation in the preparation of this book.



(Vivek Gosavi)  
Director

**Pune**

**Date : 21 February 2020**

**Bharatiya Saur : 2 Phalguna 1941**

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

## ORGANISATION OF COMMERCE AND MANAGEMENT STANDARD XII

### Competency Statement

| Unit No. | Chapter Name                                      | Competency Statements  |
|----------|---|--|
| 1)       | Principles of Management                          | <ul style="list-style-type: none"> <li>• Understands meaning and definitions of principles of management.</li> </ul>                     |
|          |   | <ul style="list-style-type: none"> <li>• Understands the nature and significance of principles of management.</li> </ul>                 |
|          |   | <ul style="list-style-type: none"> <li>• Understands theories of management.</li> </ul>  |
|          |   | <ul style="list-style-type: none"> <li>• Understands Henry Fayol's theory of management.</li> </ul>                                      |
|          |   | <ul style="list-style-type: none"> <li>• Understands Taylor's scientific management theory in detail.</li> </ul>                         |
| 2)       | Functions of Management                           | <ul style="list-style-type: none"> <li>• Understands functions of management</li> </ul>  |
|          |   | <ul style="list-style-type: none"> <li>• Understands meaning, definition and importance of functions of management</li> </ul>            |
| 3)       | Entrepreneurship Development                      | <ul style="list-style-type: none"> <li>• Understand entrepreneur intrapreneur and</li> </ul>   |
|          |   | <ul style="list-style-type: none"> <li>• Understands entrepreneurship development.</li> </ul>  |
|          |   | <ul style="list-style-type: none"> <li>• Understands initiatives in entrepreneurship development.</li> </ul>                             |
| 4)       | Business Services                                 | <ul style="list-style-type: none"> <li>• Understands various business services.</li> </ul>   |
|          |   | <ul style="list-style-type: none"> <li>• Understands types of banks</li> </ul>   |
|          |   | <ul style="list-style-type: none"> <li>• Understands e-banking</li> </ul>  |
|          |   | <ul style="list-style-type: none"> <li>• Understands principles and types of insurance</li> </ul>  |
|          |   | <ul style="list-style-type: none"> <li>• Understand different types of communication.</li> </ul>   |
|          |   | <ul style="list-style-type: none"> <li>• Understands functions and types of ware houses.</li> </ul>                                      |
|          |   | <ul style="list-style-type: none"> <li>• Understands types of transport.</li> </ul>  |
| 5)       | Emerging Modes of Business                        | <ul style="list-style-type: none"> <li>• Understands e-business.</li> </ul>  |
|          |   | <ul style="list-style-type: none"> <li>• Understands scope and benefits of e-business.</li> </ul>  |
|          |   | <ul style="list-style-type: none"> <li>• Understands online transaction process.</li> </ul>  |
|          |   | <ul style="list-style-type: none"> <li>• Understands outsourcing.</li> </ul>   |
|          |   | <ul style="list-style-type: none"> <li>• Understands BPO, KPO, LPO</li> </ul>  |
| 6)       | Social Responsibilities of Business organisations | <ul style="list-style-type: none"> <li>• Understands social responsibility of business.</li> </ul>                                       |
|          |   | <ul style="list-style-type: none"> <li>• Understands social responsibilities of business towards different groups of society.</li> </ul> |



|    |                     |  |
|----|---------------------|--|
|    |                     | <ul style="list-style-type: none"> <li>• Understands protection of environment.</li> <li>• Understands business ethics.</li> <li>• Understands CSR.</li> </ul>   |
| 7) | Consumer Protection | <ul style="list-style-type: none"> <li>• Understands consumer protection.</li> </ul>   |
|    |                     | <ul style="list-style-type: none"> <li>• Understands importance of consumer protection.</li> <li>• Understands rights of consumers.</li> <li>• Understands responsibilities of consumers.</li> <li>• Understands consumer redressal mechanism.</li> <li>• Understands role of NGO's</li> </ul> |
| 8) | Marketing           | <ul style="list-style-type: none"> <li>• Understands marketing.</li> </ul>   |
|    |                     | <ul style="list-style-type: none"> <li>• Understands types of market</li> <li>• Understands importance and functions of marketing.</li> <li>• understands marketing mix.</li> </ul>  |

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# Principles of Management

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## 1.1 INTRODUCTION

Dear friends, in XI standard, we have studied that management is everywhere. In every type of business organisation, non-business organization and even in social life; management is required. Management is the key to success in achievement of goal. Management is considered as one of the required sources of business organization like machines, materials and money. For establishing coordination between all other sources of organization, one needs to know about management. Therefore, it is observed that the importance of management is growing rapidly. Various management thinkers have introduced different management theories as per their field observation and systematic study. There are various principles, theories and techniques of management which give results in same direction. But its use is varying from organization to organization, situation to situation and person to person.

In brief, management sets the strategic goals in accordance with the vision-mission of the organization and makes decisions on how the overall organization will operate. Management is often included as a factor of production. It harmonizes all functions of business organization such as planning, organizing, staffing, coordinating and controlling, which are termed as functions of management.

## 1.2 MEANING AND DEFINITION

While achieving goal of an individual or an organization, it is always important to use different systems or techniques. Some of these techniques are accepted universally, hence, they are called as principles. It provides guideline to manager to conduct all organizational activities on specific bases. It helps the manager to take effective decisions and to achieve organizational goal.

"Principle is defined as a fundamental truth or proposition that serves as the foundation for a system of belief or behaviour or for a chain of reasoning."

In simple words, techniques or systems which give one directional result are called as principles. These principles are universal and applicable everywhere. Due to the basis of principles, managers need not work on trial and error basis. For Example, in cricket or in any other game, total play is designed and divided between the players according to their qualities and capabilities. In terms of management, it is called as division of work which is one of the principles of management.

### 1.3 NATURE OF PRINCIPLES OF MANAGEMENT

Management principles are formed to guide and influence the behavior of employees. These principles insist on improving efficiency of organizational resources in terms of profit. These principles also focus on best coordination between superior, subordinates and all the members of organization.

**The nature of management principles is given below:**

**1) Universal application:**

The principles of management are universal in nature. That means they can be applied to all types of organizations, irrespective of their size and nature. Their results may vary and application may be modified but these are suitable for all kinds of organizations. Similarly, they are applicable to all levels of management.

**2) General guidelines:**

Management principles provide general guidelines in tackling the organizational situations wisely as well as in solving the problems. They are not rigid. Which management principles are to be applied depends upon the situation, size and nature of organisation. For example, when we say fair remuneration, then the term 'fair' can vary as per the nature, size and financial condition of the organisation.

**3) Principles are formed by practice and experiments:**

The management principles are developed gradually with thorough research work. Systematic observations and experiments are conducted before developing them. The results of such experiments have been developed as a principle after its practice in organizations.

**4) Flexibility:**

Management principles are flexible in nature. It means they can be changed or modified according to the situation. Managers can be flexible while implementing principles to suit the requirement. The business situations keep on changing. Management principles can be adjusted or modified and can be used in the organisation according to its need.

**5) Behavioral in nature:**

Management is group activity. Management aims at achieving certain goal through a group of human being. Management principles are designed to influence human beings. These principles control a group of persons and direct them to achieve the objectives.

**6) Cause and effect relationship:**

Principles of management are the base for taking decisions. They determine the cause or reason for particular effect. For example, payment of good wages and incentives helps in increasing the output of workers or making effective advertisement increases the sale of a product.

## 7) **All principles are of equal importance:**

All principles of management are of equal importance. Those are to be practiced simultaneously to get best results in the form of achievement of predefined goals. If any specific principle is focused more and others are not followed with same focus, then it affects the working of organization. Management principles are the principles of social science. The nature of principles of management is not absolute like pure sciences i.e. Chemistry, Mathematics etc. With some modifications according to requirement, organization needs to apply the principles of management.

### 1.4 **SIGNIFICANCE OF MANAGEMENT PRINCIPLES**

As we have discussed the nature of principles of management, it can be said that management principles are applicable everywhere. They are in the form of pre-determined solutions for the problems which are recurring. They are guiding the manager so it is important for every manager to know them. In every type of organization or in group activity, one needs to apply principles according to nature, size and requirement of the organization. These principles are tested and practiced worldwide from many years. Therefore, it is important to study the significance or importance of management principles with the help of the following facts:

#### 1) **Provides useful insight to managers:**

The principles of management help the manager to understand the organisation. The study of the principles helps to improve the understanding of the situations and problems. It further helps the manager to find out the solutions to the problems and handle situations. Management principles are an outcome of the experience of various professional people. The use of these principles is helping managers about the manner in which he should act in different situations. This type of timely guidance reduces the wastage of resources and the goals can be achieved in appropriate manner.

#### 2) **Helpful in efficient utilization of resources:**

In every organization two types of resources are used i.e. physical resources (material, machines, money etc.) and human resources (manpower). The basic function of management is to make proper balance between these resources by putting them to optimum use and control on wastage of resources. While maintaining discipline and healthy working environment, management always uses techniques and principles. It helps in establishing cordial relationship between management and employees which increases the efficiency level of employees and also facilitates the effective administration. For example, Use of standard tools and machinery helps in increasing quality or productivity as well as in increasing level of efficiency of human resources.

#### 3) **Scientific decisions:**

In business organization, a scientific decision means systematic or balanced decision. Principles train the managers to handle critical situations tactfully otherwise the managers have to work always with trial and error method. With the use of various management principles, one can get an idea about how to analyze the situations, to search alternative options and their results.

#### 4) **Understanding social responsibility:**

Management principles are based on every aspect of organization. They are not developed only from view point of handling the resources effectively but they guide management in understanding social responsibility of organization. So that they can focus on providing



quality products at reasonable prices, avoiding artificial monopolistic situations in market, fair competition, fair remuneration, change in environment, healthy working place, standard tools and machinery etc.

**5) Encourages Research and Development (R and D):**

Principles of management are dynamic. Their nature goes on changing along with the changes in the business world. Over the years they have developed to suit the current need. It enables the managers to bring consistent improvement in them. Management adopts new trends at working place automatically. These guidelines help management to make comparison of used principles with its expected outcome. If needed, management can modify the principles according to situation as the management is having liberty to take the decisions on their own. This training helps in developing scientific approach towards research and development and growth and development of organisation. For example, R and D department always works on finding new techniques in the field of production, finance, marketing, human resources etc.

**6) Helps to coordinate and control:**

Management principles are the guidelines for better coordination and control. It is very challenging to create coordination and cooperation among different employees working in different departments. It is also difficult task for manager to keep control on the performances of employees. Management principles offer suitable systems while establishing coordination and control.

**7) Develops objective approach:**

With the help of various principles of management, one can develop an objective approach. Managers can identify the business opportunities, root causes of the problems in correct manner and can provide appropriate solutions on it. It builds confidence in the minds of the managers.

## 1.5 THEORIES OF MANAGEMENT

Management theories are the set of general rules that guide the managers to manage an organization. Theories are an explanation to assist employees to effectively relate to the business goals and implement effective means to achieve the same.

Various management thinkers have introduced theories which are based on different approaches. Management thinkers such as Fredrick Winslow Taylor, Elton Mayo, Henry Fayol etc. have introduced the theories which are based on different approaches. These theories are applicable in all type of organizations. With appropriate modifications, every manager can use these theories by adding some innovative techniques and strategies. It means these old theories are the basis of modern management theories.

Organizations, workforce and society are facing some common problems such as centralization of authority, stress, low motivation, environmental issues, behavioral problems, health problem, work-life balance, accountability etc. Theories of management definitely provide solution in such issues to the management people.

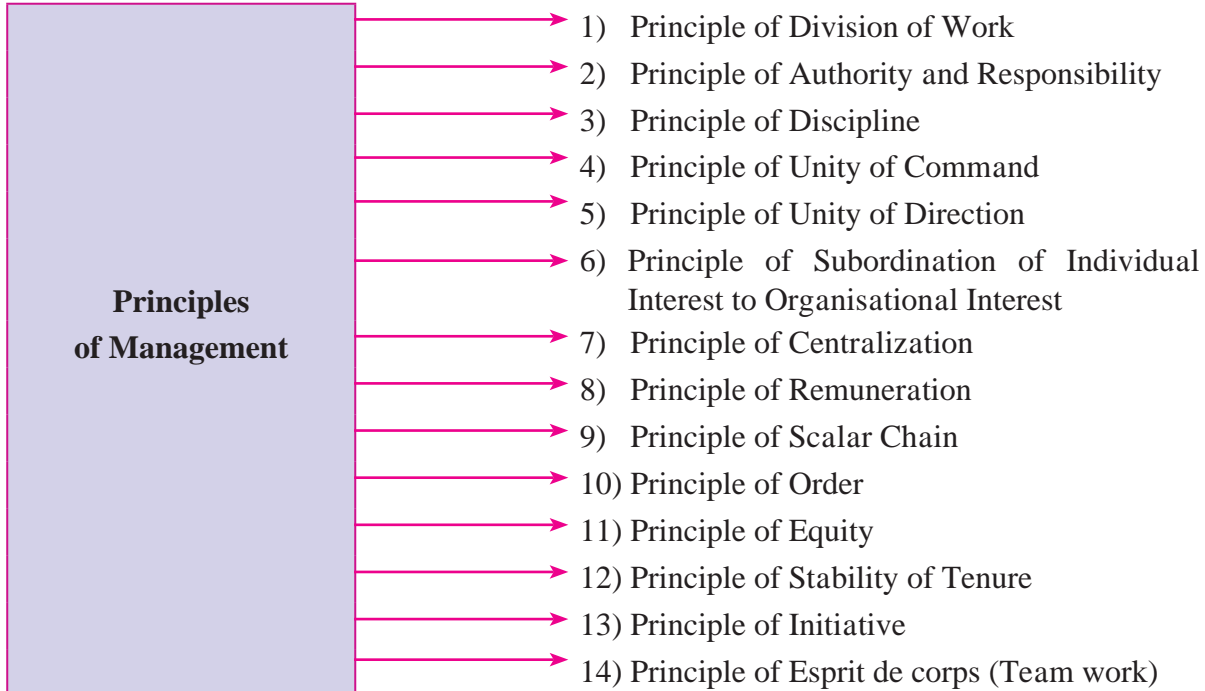
## 1.6 HENRY FAYOL'S ADMINISTRATIVE THEORY OF MANAGEMENT



Henry Fayol (1841-1925) was a French mining engineer who turned a leading industrialist and a successful manager. He started his career as a mining engineer in a French mining company and rose to the position of the Chief Managing Director.

After conducting many experiments and observations in organization, Fayol proposed 14 principles of management which are explained in his famous book 'General and Industrial Administration'. Due to his contribution in development of managerial thoughts he is called as '**Father of Modern Management**'. Fayol suggested 14 principles of management. These statements serve as a guideline for decision-making and management actions.

14 principles are summarized as follows:



### 1) Principle of Division of Work:

According to this principle, the work is divided into different kinds such as technical, financial, commercial, security operations, accounting and managerial. It is assigned to employees as per their qualities and capabilities. It helps in improving efficiency and expertise of employees which ultimately turns into expected productivity level.

**2) Principle of Authority and Responsibility:**

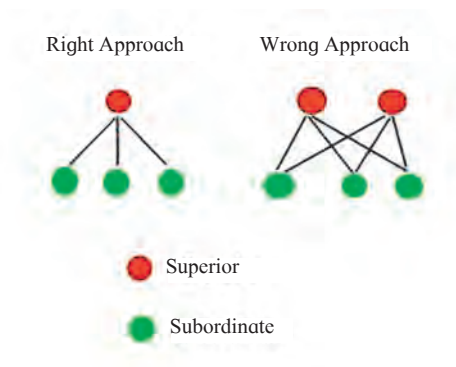
Authority is the right to take decisions. It is necessary to get the things done appropriately from subordinates. Authority always comes with the responsibility. If the manager is given the authority to complete a task within a given time, he should be held responsible if he does not complete the work in given time. Manager should have proper authorities to take managerial decision on his own in respect to the goal.

**3) Principle of Discipline:**

According to Fayol, discipline is the most essential thing in the organisation. Employees must obey and respect the rules that govern the organisation. Discipline helps to achieve the goals in the organisation. Good discipline is the result of effective leadership. There must be a clear understanding between the management and workers regarding the organisation's rules. Basic discipline should be observed at all levels of management.

**4) Principle of Unity of Command:**

Each member of organization should receive orders from only one superior. This principle helps in managing conflicts and solving disputes among people in organization. It also helps in avoiding confusion. If an employee receives commands from more than one authority, he will get confused and will not be able to take decision about whose orders should be followed. This is wrong approach. For this organizational hierarchy should be well defined. Each employee should know his immediate superior and should receive orders from him only.



**5) Principle of Unity of Direction:**

This principle states that 'there should be one head and one plan' in every organization. Each group in the organization should have the same objective and the group should be directed by one manager using single plan.

**6) Principle of Subordination of Individual Interest to Organisational Interest:**

According to this principle the interest of an individual must be given less importance than the interest of the organisation. While taking decision in the organisation the manager should always consider the interest of the whole group rather than the interest of a single employee. Similarly the employee should protect the interest of the organisation first and his personal interest should be subordinated. For example, in every game, the players are always thinking about winning the match as a team rather than their individual records.

**7) Principle of Centralization:**

Centralization refers to the concentration of powers and authorities. In some organisations this power is vested in one hand or few hands. This situation occurs in the small organisations. But, if the size of organisation is large then there is a decentralization of the power or authority.

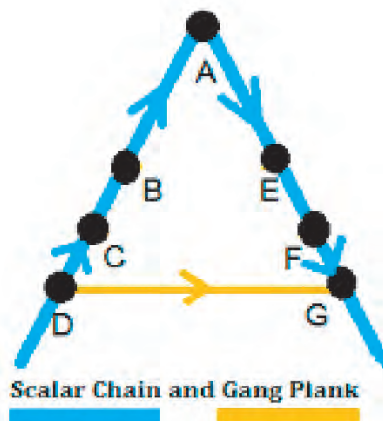
According to this principle there must be a proper balance between centralization and decentralization in the organisation. This is to be done according to the size of the organisation, nature of the activity etc.

**8) Principle of Remuneration:**

Appropriate remuneration to staff or employees is the principle to keep them satisfied financially as well as retain them for long span of time within the organization. The fair remuneration affects on the productivity and efficiency level in total. The remuneration should be fixed by taking into consideration the skill, expertise, knowledge, tenure, cost of living, market trend, profitability of organization etc.

**9) Principle of Scalar Chain:**

Scalar chain means the hierarchy of authority from the top level to the lower level for the purpose of communication. This helps to ensure the orderly flow of information and communication. Traditionally, organizations used to frame large scalar chain which is time consuming. For example, a General Manager informs the decision to respective Functional Manager, then Functional Manager will pass it to supervisor, the supervisor will inform it to Foreman and so on according to level of authority. For avoiding this longer chain and to take speedy decisions cross communication or direct communication is followed by various organizations which is known as Gang Plank. For direct communication, proper permission of the authorities is necessary.



In the above diagram, the communication between 'D' and 'G' should flow through proper hierarchy.

But to avoid delay or in emergency situation there will be direct communication. It is termed as Gang Plank.

**10) Principle of Order:**

This principle is based on 'A place for everything and everything in its place'. Human resources and materials should be in the right place at the right time for maximum efficiency. Human resources should be placed at right place and on right job. The principle focuses on the proper utilization of physical and human resources.

**11) Principle of Equity:**

Management should be fair as well as friendly to the subordinates. While dividing the work, delegating the authorities, deciding the monetary terms etc.. there should not be any discrimination between the employees. It is also suggested that the remuneration should not depend on the department but at the level on which subordinates are working. The employees

working on the same level but in different departments should be paid same wages. This equity will help in avoiding conflicts in the organisation.

**12) Principle of Stability of Tenure:**

At the time of recruitment of employees, the management should assure them about stability of tenure or job security. It plays very important role in creating sense of belongingness among the employees. Insecurity in job always affect the efficiency of employees adversely whereas job security minimizes employee turnover ratio.

**13) Principle of Initiative:**

Initiative refers to volunteering to do the work in an innovative way. The freedom to think and work on new ideas encourages employees to take initiative while working on given task. This initiative should be welcomed by the manager through discussion on the new ideas. It also helps in creating healthy organizational culture.

**14) Principle of Esprit de corps: (Team work)**

Henry Fayol has given emphasis on team work. Esprit de corps means union is strength. Running any organization is a group activity and human resources are the valuable asset of the organization. If all employees are working as a union and with mutual trust, the difficulties can be solved quickly. Therefore, as a leader, manager should create a spirit of team work and understanding among employees to achieve organizational goal easily.

Above 14 principles of Henry Fayol are very useful to manage the organization efficiently and effectively. These are also supportive to functions of management. These principles are very logical and therefore are applicable in modern management era.

Discuss an example of your favourite game like cricket. You will find each activity is based on-Fayol's Principles of management. Take the help of your Teacher.

**1.7 FREDRICK WINSLOW TAYLOR'S SCIENTIFIC MANAGEMENT THEORY**



Taylor (1856-1915) was an American who started his career as a machinist in Midvale Steelworks, Philadelphia and gradually through his hard work and progress, rose to the position of the Chief Engineer. He introduced his observations and experiments based on scientific data. Taylor's approach towards management is termed as scientific management. For this contribution in development of management thoughts, he is known as the "**Father of Scientific Management**".

Taylor's management theory is based on scientific experiments. This theory involves the application of scientific approach to decision making and solving them at the same time. According



to Taylor, problems should be solved by scientific techniques rather than the rule of thumb and a trial and error approach.

Definition of Scientific Management by **Fredrick Taylor**: "Scientific Management consists of knowing what you (i.e. management) want men to do exactly; and seeing it that they do it in the best and the cheapest manner."

### **Principles of Scientific Management:**

These principles are as follows:

#### **1) Science, Not Rule of Thumb:**

In order to increase organizational efficiency, the 'Rule of Thumb' method should be substituted with the methods developed through scientific analysis of work. Rule of thumb decisions are based on personal judgments of the manager. Taylor insisted upon scientific method for every small work. This principle is concerned with selecting the best way of performing a job after scientific analysis of that job and not by trial and error methods. Standard required time and standard output should be defined by the manager. This will help in saving time and human energy and will result into expected standard output. According to Taylor, even a small production activity like loading iron sheets into box cars can be scientifically planned.

#### **2) Harmony, Not Discord:**

According to this principle, there should be harmony between the employees and management. This coordination will help in minimizing conflicts between them. Perfect understanding between employees and management will be helpful in creating healthy work environment for achieving the desired goal i.e. success. Organization should think about maximum prosperity of employees also.

#### **3) Mental Revolution:**

Taylor introduced the concept of "Mental Revolution". This principle focuses on change in the attitude of employees and management towards each other. Both should realize their equal importance in organization. They should give full cooperation for achieving goal of organization. This will increase productivity and profits.

#### **4) Cooperation, Not Individualism:**

This principle emphasizes on mutual cooperation between workforce i.e. employees and management. Due to cooperation, trust, team spirit etc. internal competition will turn into healthy working environment. Management should always consider the suggestions given by employees in decision making process. Employees should be treated as an integral part of organisation in all respects. At the same time employees should resist themselves from going on strikes and making unnecessary demands from management. They should treat each other as two pillars of organization.

#### **5) Division of Responsibility:**

Proper division of work should always be accompanied with division of responsibilities between the managers and employees. Major planning is done by the top and middle level management authorities whereas employees are concentrating on its execution. The reporting is done as per the instructions given by their superiors. Managers should always help, encourage and guide the employees. It helps for best performances of managers as well as employees.

**6) Development of employer and employees for greater efficiency and maximum prosperity:**

Best performance of any organization always depends on the skills and capabilities of its employees to a great extent. Thus, providing training and development programmes to the employees whenever required, is very essential. It ultimately affects the profitability of the organization. Each employee should be given proper opportunity to attain greater efficiency and maximum prosperity.

**Techniques of Scientific Management**

Some of the major techniques of scientific management are as follows:

**1) Work Study:**

Before assigning the work to the available workforce, proper work study should be done by management. Work study consists of an organized, systematic and critical assessment of the various activities or functions. Work study is based on the techniques such as time study, motion study, method study and fatigue study.

**A) Time Study:**

It is the technique of observing and recording the time taken by an employee to complete a given task. With the help of time study, the precise time required for each element of work is determined. It is the technique used for fixing the standard time required to do a particular task under given condition. It is useful to measure the efficiency of an employee and to control the cost of work.

**B) Method Study:**

There are always various methods of completing the task. For best quality and cost effectiveness, identifying the best method of doing a particular job is very important but challenging task for a manager. It helps in reducing the wastage of time, raw material and in improving the utility of all resources as per predefined objectives. It is helpful in determining the methods for handling the raw materials, transportation, inspection, storage etc.

**C) Motion Study:**

The study of required motion means movement of an employee as well as of machine while completing a particular task is very important. It is helpful in eliminating unnecessary motions and finding the best method of doing a particular job. It also helps in improving the efficiency of the employees. Motion technique is used to know whether some elements of a job can be eliminated or their sequence can be changed for smooth flow of task.

**D) Fatigue Study:**

Generally long working hours without sufficient breaks, target pressure, heavy working tools, and poor working conditions result into physical and mental stress i.e. fatigue. It has an adverse effect on the health and efficiency of the employees. The study of fatigue and steps to reduce the level of fatigue is very important to maintain the operational efficiency of the employees.

**2) Standardization of Tools and Equipments:**

With the result of experiments conducted at work place, Taylor advocated standardization of tools and equipments. Standardized working environment and methods of production help to reduce spoilage and wastage of material, cost of production, fatigue among the workers and it improves quality of work.

### 3) **Scientific Task Setting:**

Taylor emphasized the need for fixing a fair day's work. Scientific work setting is important to prevent the employees from doing work much below their capacity. By using this technique, employees will complete the task according to standards given and management can keep proper control on optimum utilization of workforce.

### 4) **Scientific Selection and Training:**

Management can select right persons for the right jobs by using scientific selection procedures. It needs to fix job specifications as per requirement. Employees are selected according to pre-determined standards in an impartial way. After selection, management should provide the proper training programmes to increase their efficiency. :

### 5) **Functional Organization:**

In this concept of Taylor, planning is separated from implementation. That means, planning is done by different people and actual work is supervised by different people. Thus, every worker will be supervised by two different sets of supervisors. He recommended total eight foremen to control the various aspects of production. They are categorized as follows:

#### A) **At Planning Level:**

1. Route Clerk- tells how work moves from one machine to other.
2. Instruction Clerk- records instructions to complete the work.
3. Time and Cost Clerk- determines time in which work should be completed and workout the cost
4. Discipline- ensures that the workers are working as per factory rules.

#### B) **At Implementation Level:**

1. Gang Boss-actually gets the work done.
2. Speed Boss- ensures that the work is completed in specified time.
3. Repair Boss- handles security and maintenance of mechanism
4. Inspector- ensures that the work is done as per the specified standards.

According to Taylor, with the help of proper division of all activities into planning and implementation; management can definitely achieve the required performance from the employees.

### 6) **Differential Piece-Rate Wage Plan:**

Remuneration should be fixed in such a way that average worker is motivated to attain a standard output. Taylor suggested the differential piece-wage system. Higher rates are offered to employees who complete the work more than the standard quantity under this system. On the other hand, if an employee is performing below the standard; he shall be given lower rate of wages. This technique motivate the employees to attain higher standard performance and earn wages i.e. remuneration at higher rate.

#### **Just to know**

Theories of management are the bases of organizational development and of achieving success for every type of business. In this modern era of liberalization, privatization and globalization the scope of management has been widened in a greater extent. Various types of business environmental changes are responsible for increasing significance of management. These traditional theories are proving very effective in handling businesses with some modifications according to change in situations.

These changes resulted into various trends in management. Disaster Management, Supply and Logistics Management, Event Management, Stress Management, Corporate Social Responsibility, Total Quality Management etc. are some of the recent trends in management.

## Summary

### Definition:

"Principle is defined as a fundamental truth or proposition that serves as the foundation for a system of belief or behaviour or for a chain of reasoning."

### Nature of Principles of Management:

1. Universal application
2. General guidelines
3. Principles are formed by practice and experiments
4. Flexibility
5. Behavioral in nature
6. Cause and effect relationship
7. All principles are of equal importance

### Significance of Management Principles:

1. Provides useful insight to managers
2. Helpful in efficient utilization of resources
3. Scientific decisions
4. Understanding social responsibility
5. Encourages Research and development (R and D)
6. Helps to coordinate and control
7. Develops objective approach

### Theories of Management:

Management theories are the set of general rules that guide the managers to manage an organization.

#### 1) Henry Fayol's Administrative Theory of Management (1841-1925)

Henry Fayol is called as a "Father of Modern Management."

#### Henry Fayol's 14 Principles of Management:

- |                       |  |
|-----------------------|--|
| 1. Division of Work   | 2. Authority and Responsibility                                      |
| 3. Discipline         | 4. Unity of Command  |
| 5. Unity of Direction | 6. Subordination of individual interest into organizational interest |
| 7. Centralization     | 8. Remuneration  |
| 9. Scalar Chain       | 10. Order  |
| 11. Equity            | 12. Stability of Tenure  |
| 13. Initiative        | 14. Esprit de corps  |

## 2) Fredrick Taylor's Scientific Management Theory (1856-1915)

Fredrick Taylor is known as "Father of Scientific Management."

### Principles of Scientific Management:

1. Science, Not Rule of Thumb
2. Harmony, Not Discord
3. Mental Revolution
4. Cooperation, Not Individualism
5. Division of responsibility
6. Development of employer and employees for greater efficiency and maximum prosperity

### Techniques of Scientific Management:

1. Work Study: A) Time Study B) Method Study C) Motion Study D) Fatigue Study
2. Standardization of Tools and Equipments
3. Scientific Task Setting
4. Scientific Selection and Training
5. Functional Organization
6. Differential Piece Rate Wage Plan

### Just to know

#### Contribution to Management

##### C. K. Pralhad (1942-2010):

- The first recipient of the Lal Bahadur Shastri Award for contributions to Management and Public Administration in 1999.
- In 2018, he was named the world's most influential business thinker on the Thinkers50.com list.
- He was a proactive thinker who regularly produced startling insights that managers would never have considered.
- C. K. Pralhad is famous for his contribution to the development of the Core Competence Model and Co-creation. (A Core Competency is a concept in management theory introduced by C.K.Pralhad and Gary Hamel.)

##### Famous Quotes by C. K. Pralhad

- "The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors can mimic the ones you possess today."
- "Executives are constrained not by resources, but by their imagination."
- "Never accept silence as agreement because you'll regret it later."
- "There's a heightened awareness of the need to be, and to be seen as, a good corporate citizen."
- "If you are honest about helping others rather than showing how smart you are, things are very easy."

For detailed study, search Scholarly Articles on internet.



**EXERCISE**

**Q.1.A) Select the correct option and rewrite the sentences.**

- 1) ..... is regarded as Father of Scientific Management.  
a) Henry Fayol          b) F W Taylor          c) Philip Kotler
- 2) Principle of ..... is based on 'A place for everything and everything in its place'.  
a) discipline          b) order          c) equity
- 3) Member of organization should receive orders from .....  
a) many superior          b) one superior          c) all superiors
- 4) Scalar chain means the hierarchy of ..... from the top level to the lower level for the purpose of communication.  
a) discipline          b) unity          c) authority
- 5) Taylor recommended total ..... foremen to control the various aspects of production.  
a) eight          b) three          c) two

**B) Match the pairs.**

| Group A |                                 | Group B |  |
|---------|---------------------------------|---------|--|
| A)      | Henry Fayol                     | 1)      | Eight Foremen                                      |
| B)      | Principle of Unity of Direction | 2)      | F.W. Taylor  |
| C)      | Principles of Management        | 3)      | Proper division of all activities                  |
| D)      | Scientific Management Theory    | 4)      | general guidelines                                 |
| E)      | Functional Organization         | 5)      | A place for everything and everything in its place |
|         |                                 | 6)      | One head-one plan                                  |
|         |                                 | 7)      | Low wage rate                                      |
|         |                                 | 8)      | Harmony between the employees and management       |
|         |                                 | 9)      | German engineer                                    |
|         |                                 | 10)     | Modern Management                                  |

**C) Give one word/phrase/term for the following statements.**

- 1) The study of movement of an employee as well as machine while completing particular task.
- 2) The technique of observing and recording the time required by an employee to complete a given task.
- 3) Study consists of an organized, systematic and critical assessment of various activities.
- 4) The principle which deals with 'to do work in an innovative way'.
- 5) The principle which is based on 'a place for everything and everything in its place'.

**D) State whether following statements are true or false.**

- 1) The principles of management are universal in nature.
- 2) Management principles are applied differently under different situations.
- 3) Only some principles of management are important.

- 4) Henry Fayol has given different techniques of management.
- 5) F W Taylor has proposed 14 principles of management.
- 6) Each member of organization should receive orders only from one superior.

**E) Find the odd one.**

- 1) Principle of Authority and Responsibility, Motion Study, Principle of Division of Work, Principle of Discipline.
- 2) Fatigue Study, Principle of Unity of Command, Work Study, Motion Study.

**F) Answer in one sentence.**

- 1) What is principle of unity of command?
- 2) What is standardization of tools and equipments?
- 3) What is differential wage rate?
- 4) What is Subordination of individual interest to organizational interest?
- 5) What is the meaning of principle?

**G) Correct the underlined word and rewrite the following sentences.**

- 1) Security in job always affects adversely on the efficiency of employees.
- 2) Esprit de corps means 'division is strength'.
- 3) Each member of organization should receive orders from only one subordinate.
- 4) Decentralization means concentration of powers and authorities at a specific position.
- 5) Management techniques are applied differently under different conditions.

**Q.2. Explain the following terms/concepts.**

- 1) Motion Study 2) Differential Piece Rate System 3) Fatigue Study 4) Time Study

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

- 1) Mr. Harshad is an entrepreneur and engaged in production of eco-friendly utensils. Both male and female workers are working in his factory. All male employees are directly working on machines whereas female employees are working in Packaging Department. Mr. Sharath is working as Finance Manager while Mrs. Naina is working as HR Manager who is responsible for recruiting employees in the factory. On this basis:
  - i) Identify any one principle of management in above case.
  - ii) What is the designation of Mrs. Naina in this organization.
  - iii) Who is responsible for overall planning of the organisation?
- 2) In 'Fine Diamonds Ltd.' 200 employees are working in three shifts. In first shift 60 employees, in second shift 60 employees and in third shift 80 employees are working without sufficient breaks except lunch break and shift change break. No employee is able to complete the work in designated time due to inappropriate time management which results into delay for next shift employees.
  - i) Identify which scientific principle needs to be followed by the company.
  - ii) Suggest any one scientific techniques which can be used for smooth flow of work in 'Fine Diamonds Ltd. '
  - iii) Why the work is not being completed in time?

**Q.4. Answer in brief.**

- 1) Explain any four principles of management of Henry Fayol.
- 2) Describe any four techniques of scientific management.

**Q.5. Justify the following statements.**

- 1) Principles of management are flexible in nature.
- 2) Management principles are helpful in optimum utilization of resources.
- 3) Principle of equity is important.
- 4) Taylor emphasized on standardization of tools and equipment.
- 5) Differential piece wage rate plan is necessary.

**Q.6. Attempt the following.**

- 1) Explain in detail any five principles of management given by Henry Fayol.
- 2) Describe different techniques of scientific management.
- 3) Elaborate principles of scientific management.
- 4) Explain nature of principles of management.

**Q.7. Answer the following.**

- 1) What are the techniques of scientific management? Explain in detail.
- 2) Explain 14 principles of Henry Fayol in detail.

**Answer Key**

- Q.1.(A) 1. F W Taylor 2. order 3. one superior 4. authority 5. eight.  
(B) A-10 , B-6 , C-4, D-2 , E-1.  
(C) 1. Motion Study 2. Time Study 3. Work Study 4. Principle of Initiative  
5. Principle of Order  
(D) True-1,2,6 False-3,4,5  
(E) 1. motion study 2. Principle of Unity of Command  
(G) 1. Insecurity 2. Unity 3. Superior 4. Centralization 5. principles

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# Functions of Management

2

## 2.1 Introduction

## 2.2 Functions of Management

2.2.1 Planning

2.2.2 Organising

2.2.3 Staffing

2.2.4 Directing

2.2.5 Co-ordinating

2.2.6 Controlling

### Comparative Study

### Summary

### Exercise

## 2.1 INTRODUCTION

We have discussed various management principles in the first chapter in detail. These principles are very important in managing the organization. While achieving any objective, we need to go through various functions. For example, in joint hindu family business, the KARTA is doing proper planning for every work and for every member. The KARTA organizes various things which are required to fulfill the objective. He also takes help of other members for support. For smooth functioning of family as well as family business the KARTA directs, guides, coordinates and keeps strict control on every task. Whatever, the KARTA is doing with the help of others is called as a management. Similarly, the success of every business organization is an outcome of effective and efficient management.

The tasks which are taken to achieve organizational goal is called management. Management is a set of principles which relate to the various functions such as planning, organizing, staffing, directing, coordinating, controlling etc. which are helpful in achieving organizational goals.

## 2.2 FUNCTIONS OF MANAGEMENT

According to L.A.Allen, "Management is what manager does". This definition focuses on the role of manager in the form of different functions. The functions of manager start with planning and end with controlling. But every function is interrelated with other function. They are inseparable in nature. Management functions concern with all levels of management. Different management thinkers have classified functions of management differently.

According to Henry Fayol, "To manage is to forecast and to plan, to organize, to command and to control."

Luther Gullick has given a keyword 'POSDCORB' for management functions where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting. **Reporting and Budgeting functions are summarized in the function called as Controlling.**

### 2.2.1 Planning:

#### Meaning:

Planning is the basic function of management. Every function of management is based on planning. It includes deciding the things to be done in advance. Planning is an intellectual process of logical thinking and rational decision making. It focuses on organization's objectives and develops various courses of action. Designing a proper planning and implementing accordingly is the key of achieving the objectives of an organization.

In short, planning is a detailed programme of future courses of action

#### Definition:

Following are some of the important definitions of planning:

- 1) **Koontz and O'Donnell:** *"Planning is deciding in advance what to do, how to do it, when to do it, and who is to do it. Planning bridges the gap from where we are and where we want to go it makes possible things to occur which would not otherwise occur."*
- 2) **James Stoner:** *"Planning is the process of establishing goals and a suitable course of action for achieving these goals."*

#### Importance of Planning:

It is the fundamental function which gives an outline about where to go, how to go and reduces the risk of uncertain future with the help of forecasting. The importance of planning is as follows:

##### 1) **Helps to set clear objectives:**

Planning is concerned with setting objectives, targets, and formulating plans to achieve them. It helps managers to analyze the present condition of the organization and on that basis to identify the ways of attaining the desired position in future.

##### 2) **Provides path of action:**

Planning ensures that the goals or objectives are clearly stated. They act as a guide and they provide direction for doing the right things at the right time with right way. It helps employees to know what organization has to do and what they must do for achieving the goals.

##### 3) **Planning improves performance:**

It helps managers to improve future performances of employees by establishing objectives and selecting a course of action. It is beneficial for the organization. Planning leads to efficient working of the employees. Due to proper planning, the employees can work according to timely guidelines. This improvement in performances results into higher profitability of the organization.

##### 4) **Minimizes the risk:**

Planning is based on forecasting technique. It is the process of looking into the future and anticipating the future changes. By deciding in advance the tasks to be performed, planning



shows the way to deal with changes and uncertain events. Changes or risks cannot be eliminated totally but they can be anticipated and can be tackled with preventive measures. It minimizes the risk of future or uncertainties of future.

**5) Planning leads to optimum utilization of resources:**

Organizational plans are prepared by taking into consideration the availability of resources and proper allocation of resources for various activities. It also facilitates optimum utilization of resources which brings higher efficiency and better results. One can avoid wastage of resources by proper planning.

**6) Helps in decision making:**

There are various alternatives in front of the management. For achieving goals planning helps the management to select the best alternative by considering all positive and negative outcomes of all the alternatives. Decisions are taken after selecting alternative courses of action to achieve a predefined goal. It helps the manager to take rational decisions.

**7) Useful in setting the standards for controlling:**

Planning set out standards for controlling. So, the actual performance can be compared with the standards and managers can find out the deviation, if any between the actual and the standard performance. Such deviation can be bridged by taking controlling steps. Therefore, planning provides basis for control. It is also important for maintaining discipline at working place of organization.

**8) Facilitates Coordination of all activities:**

Planning facilitates the coordination of activities. It reduces overlapping among activities. All activities of business organization are closely linked with each other which is considered in the process of planning. Sound planning inter-relates all the activities and resources of an organization. Thus, various departments work as per the overall plan and coordination is achieved.

**9) Facilitates other management functions:**

Every organisation functions towards achieving goal and goal is set at the planning stage. Unless the plan is ready, other management functions such as organizing, staffing etc. cannot be undertaken thus, planning facilitates all other functions of management.

**10) Promotes innovative ideas:**

Planning is the basic function of management. It is a process of decision making which involves promotion of innovative ideas after critical thinking. Ultimately, these innovative plans result into attainment of the goals of the organization. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the organization.

In short, planning plays vital role in every walk of life of an organization as well as of an individual. Future is highly uncertain and the business environment is changing. With the help of proper planning , the risks and uncertainties can be minimized definitely. Hence, planning is the basic requirement of any organization for the survival, growth and success.

**Prepare a plan for one day picnic of your class or field trip.**

## 2.2.2 Organising:

### Meaning:

Organizing is the process of identifying, bringing the required resources together such as men, money, material, machine and method, grouping and arranging them properly for achieving the objectives. In planning, the management decides what is to be done in future whereas organizing function decides the ways and means to achieve what has been planned. This function is important for execution of the plans which have been prepared by top level management people.

The synchronization and combination of workforce, physical, financial and information resources are established in the process of organizing.

### Definitions:

The term 'organization' is used to denote the structure. It is a unit or a group of people who come together to achieve a common goal whereas 'organizing' is a process and a function. Some of the definitions are as follows:

- 1) **Mooney and Railey:** *"Organization is the form of every human association for the attainment of a common purpose."*
- 2) **Koontz and O'Donnell:** *"Organization involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the provision of authority, delegation and co-ordination."*
- 3) **Theo Haimann:** *"Organizing is the process of defining and grouping the activities of the enterprise and establishing the authority relationships among them. In performing the organizing function, the manager defines, departmentalizes and assigns activities so that they can be most effectively executed."*

### Importance of Organizing:

Organizing is concerned with grouping and assigning the organizational activities among different departments and workforce. The importance of organizing can be stated as follows:

- 1) **Facilitates Administration as well as Operation:**  
Organizing process leads to identify and to group the activities. Grouping and assigning the activities is the task of administration whereas processing according to it is operational activity. Thus, organizing facilitates administration as well as operation of the organization. Due to proper grouping of the tasks and the employees, there is increase in production and reduction in wastage. Duplication of work is restricted and effective delegation becomes possible.
- 2) **Brings Specialization:**  
Organizational structure is a network of relationships in which the work is divided into units and departments. This division of work helps in bringing specialization in various activities of organization. Specialization in activities leads to increase in organizational efficiency.
- 3) **Defines the Jobs Properly:**  
Organizational structure helps in putting right men on right job which can be done by selecting people for various departments according to their qualification, skill and experience. This is helping in defining the jobs properly which clarifies the role of every person.

**4) Clarifies Authority and Responsibility:**

Organizational structure defines the role to every manager. This can be done by delegating the authority to every manager and clarifying the way he has to exercise those powers. So that misuse of powers does not take place. Well defined jobs and responsibilities helps in bringing efficiency into managers working. This helps in increasing productivity.

**5) Establishes Coordination:**

This function helps in establishing co-ordination among different departments of organization. It creates clear cut relationships among positions and ensures mutual co-operation among individuals. Coordination or synchronization between all departments and different level of managers is important for smooth functioning of organizational activities.

**6) Helps for Effective Administration:**

This function determines different positions, departments, activities and the roles are clearly structured. The utmost care is taken while placing right person in right job with right authorities and responsibilities. It is achieved through division of work and delegation of authorities. This all leads to efficient and effective administration.

**7) Helpful for Growth and Diversification:**

The growth of every organization depends on its smooth and efficient functioning. Clearly defined roles and responsibilities, coordination among all levels of management personnel and use of appropriate control techniques bring efficiency at work place and organization grows well. This is possible only when the organization structure is well- defined.

**8) Creates Sense of Security:**

Organizational structure clarifies the job positions. It clearly states the duties and responsibilities of everyone. Everyone can work accordingly. Clarity in jobs and powers helps in increasing mental satisfaction and it creates sense of security among the employees.

**9) Scope for Innovation:**

Organizing function clears the roles and activities to be performed. Employees can work by using their new ideas. This provides enough space to the manager to develop talent and flourish the knowledge. This scope for innovation into adopting new changes in methods of work is possible only through a set of organizational structure.

**10) Helps in Optimum Utilization of Resources:**

This function provides different jobs to different employee according to the job specification. Due to this, specialization of work becomes possible. This right workforce utilizes other resources at its optimum level so that desired results are achieved within defined period.

Organize Teacher's Day in your college

**2.2.3 Staffing:**

**Meaning:**

Staffing is the process of attracting, recruiting, selecting, placing, appraising, remunerating, developing and retaining the best workforce. Overall growth and success of every venture is based on appropriateness of staffing function. It is very challenging for organization to focus on best utilization of workforce by using their talents and skills, retaining them and arranging

training and development programmes. The function emphasizes managing human and not material or financial resources.

The need of staffing arises since the initial period of organization. Due to promotion, transfer, business expansion, retirement, resignation, accidents, death of employee etc. vacancies are created in organization. In this context, staffing function plays very important role in organization. Right person at right job with right pay is the basic principle of staffing.

### **Definitions:**

Following are some of the important definitions of staffing:

- 1) **Theo Haimann:** *"The staffing function pertains to the recruitment, selection, development, training and compensation of subordinate managers."*
- 2) **Luther Gullick:** *"Staffing is the whole personnel function of bringing in and training the staff and maintaining favorable conditions of work".*
- 3) **S. Benjamin:** *"Staffing is the process involved in identifying, assessing, placing, evaluating and directing individuals at work."*

### **Importance of Staffing:**

#### **1) Effective Managerial Function:**

Staffing is the key to effective performance of other functions of management such as planning, organizing, directing and controlling. Competent workforce can work effectively in different functional areas like production, sales, finance etc. The outcome of other functions is based on the effectiveness of staffing.

#### **2) Leads to Effective Utilization of Human Resources:**

Staffing function leads to effective utilization of human resources i.e. workforce. Proper care is taken at every stage such as recruitment, selection, placement, remuneration, training, development etc. Excessive burden of work is avoided. Optimum utilization of human resources results in improvement in performances and progress of organization.

#### **3) Builds Cordial Relationship:**

This function is helpful in building healthy relationships among all levels of employees in the organization. A smooth human relation is the key to better communication and coordination of managerial efforts in an organization.

#### **4) Helps Human Resource Development:**

Skilled and experienced employee is an asset of a business organization. Staffing helps to inculcate the organizational culture into employees. It trains and develops the existing workforce. It also ensures smooth functioning of all the managerial aspects of the business organization.

#### **5) Helps in Effective use of Technology and Other Resources:**

Trained employees can use the latest technology, capital, material and methods of work effectively. It helps in building competitive strength of the organization. It is also helpful in improving standard of work and productivity in terms of quality and quantity.

**6) Improves Efficiency:**

Training and development programmes are offered to the employees for self-development and organizational development. Through proper selection, the organization gets quality employees and through proper training the performance level of the employees can be improved.

**7) Long Term Effect:**

Qualified, efficient and skillful workforce is always an asset of the organization. Proper selection of employees leads the organization towards the path of success. Naturally, long term positive effects can be observed on the efficiency of an organization.

**8) Essential Contribution:**

Staffing ensures the continuity and growth of the organization through development of employees. Selection is based on the ability of the prospective employees. So that organization can meet the future challenges wisely. Therefore, the contribution of the staff in their future roles is taken into account in staffing function.

**9) Provides Job Satisfaction:**

Employees can be motivated through financial and non-financial incentives. Adequate remuneration increases job satisfaction and morale of the employees. Training and development programmes, fair remuneration and job security are the factors which are important in providing job satisfaction.

**10) Maintains Harmony:**

In staffing process, individuals are recruited, selected and placed as well as their performance is regularly appraised and promotions are given on the basis of merit. For this, criteria is made and duly communicated to concerned employees. It brings peace and harmony in organization.

**Activity :**

What is the meaning of "Right Person at the Right Job" ? Discuss with your Teacher.

**2.2.4 Directing**

**Meaning:**

Directing is the soul of management function. It is the process of instructing, guiding, communicating, inspiring, motivating and supervising the employees to achieve predetermined goals of an organization. Direction is a continuous function initiated at top level and flows to the lower level through organizational hierarchy. It is a continuous managerial process that goes on throughout the tenure of the organization. Director is the person who shows the correct path as well as guides the employees in solving the problems wherever necessary. A few philosophers called direction as "Life Spark of an Enterprise".

**Definitions:**

Following are some of the important definitions of directing:

**1) Theo Haimann:** *"Direction consists of the process and techniques utilized in issuing instructions and making certain that operations are carried out as planned."*

**2) Earnest Dale:** *"Directing is what has to be done and in what manner through dictating the procedures and policies for accomplishing performance standards".*

**3) Urwick and Brech:** *"Directing is the guidance, the inspiration, the leadership of those men and women that constitute the real case of responsibilities of management."*

### **Importance of Directing:**

Directing refers to a process or technique of instructing, guiding, inspiring, counselling, overseeing and leading people towards the accomplishment of organizational goals.

Supervision is an integral part of direction function. The director supervises employees by observations, examining the reports and behaviour of employees.

On the basis of the above definitions, the importance of directing can be stated as follows:

#### **1) Initiates Action:**

Direction is the function which supports to activate the plans with the help of employees. Every action is initiated through timely direction. Proper instructions are given to subordinates while completing their assigned task. The managers direct the subordinates about what to do, how to do, when to do and also to see that their instructions are properly followed.

#### **2) Integrates Efforts:**

Communication is one of the elements of direction. It helps in integrating the efforts of all the employees and departments which results in achievement of organizational goal. Integration of efforts is possible through persuasive leadership and effective communication towards the accomplishment of organizational goals.

#### **3) Means of Motivation:**

While directing the subordinates, their opinions are also considered. A manager identifies the potential and abilities of its subordinates and helps them to give their best. He also motivates them by offering them financial and non-financial incentives to improve their performance. It boosts the morale of subordinates.

#### **4) Provides Stability:**

Stability plays significant role in the growth and survival of the organization. Effective leadership, communication, supervision and motivation develop co-operation and commitment among the employees. It provides stability and creates balance among various departments and groups.

#### **5) Coping up with the Changes:**

Factors of business environment are always changing. Adapting to the environmental changes is necessary for the growth of the organization. With the help of motivation, proper communication and leadership, the employees can clearly understand the nature of change and also the positive outcome of adopting to the change. For example, e-filing, use of Robots at workplace etc.

#### **6) Effective Utilization of Resources:**

Direction involves assigning duties and responsibilities to everyone. Proper instructions and systems are developed to avoid wastages, duplication of efforts etc. Subordinates are guided to utilize the resources i.e. men, machine, materials, and money in the optimum possible way. It helps in reducing costs and increasing profits.

#### **7) Creates Team Spirit:**

Direction focuses on motivating the subordinates for group efforts. Group efforts or team spirit plays vital role in success of an organization than individual efforts. Therefore, the role of



manager as a director plays very important role in guiding and motivating the employees to achieve the predetermined goals.

**8) Explores Capabilities of Individuals:**

Every individual has various capabilities or potentials in addition to their formal qualifications. Direction helps to identify and utilize their abilities for best performance by encouraging and motivating them just like a leader.

**9) Increases Efficiency Level:**

Guidance and motivation is given to subordinates to perform at their best level. Being a leader, team spirit is created by the manager as well as proper techniques of supervision are used. It works positively and results into enhancing the efficiency level of the whole organization.

**10) Co-operation:**

Co-operation is necessary for smooth flow of organizational activities. It should be created by manager i.e. director from top level to the bottom level of management. Healthy cooperation, team work and higher efficiency level lead to attainment of goals.

Thus, Directing to subordinates is a basic management function that includes building an effective work climate through motivation.

**2.2.5 Co-ordinating:**

**Meaning:**

Co-ordination between different functions and all levels of employee is the essence of organization success. It is an integration of different activities which is essential for their smooth flow. It establishes harmony among all the activities of an organization in achieving desired goal. In an organization, a number of persons are working together to achieve a common goal. Their work is closely linked with each other. Therefore, it becomes necessary to bring together the group efforts and harmonise them carefully. Co-ordination will not exist unless efforts are taken to achieve it.

Co-ordination is the integration and synchronization of the efforts of a group so as to provide unity of action for organizational goals. It is a hidden force which binds all other functions of management.

**Definitions:**

Following are some of the important definitions of co-ordination:

- 1) **McFarland:** *"Co-ordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of actions in the pursuit of a common purpose."*
- 2) **Henry Fayol:** *"To co-ordinate is to harmonise all the activities of a concern to facilitate its working and its success."*
- 3) **Mooney and Reeley:** *"Co-ordination is orderly arrangement of group efforts to provide unity of action in the pursuit of common goals."*

**Importance of Co-ordinating:**

Need for co-ordination arises out of the fact that different elements and efforts of an organization are to be harmonized and unified to achieve the common objectives. Importance of coordination can be discussed as follows:

**1) Encourages Team Spirit:**

In organizations, group of individuals work together. There may be existence of conflicts, disputes between individuals, departments and employer and employees regarding organizational policies, roles and responsibilities etc. Coordination arranges the work in such a way that minimum conflicts are raised. It increases the team spirit at work place.

**2) Gives Proper Direction:**

Coordination integrates departmental activities for achieving common goal of the organization. The work is arranged in a very systematic way. The interdependence of departments gives proper direction to the employees.

**3) Facilitates Motivation:**

Coordination motivates the employees to take initiative while completing their assigned task. An effective co-ordination increases efficiency and results into growth and prosperity of the organisation. A prosperous organisation ensures job security, higher income, promotion and incentives. Such monetary and non- monetary incentives provide job security and motivate the employees for hard work.

**4) Optimum Utilization of Resources:**

Managers try to integrate all the resources systematically. It helps in utilizing all available resources at its optimum level. Co-ordination also helps to minimize the wastage of resources and control the cost of work.

**5) Achieve Organizational Objectives:**

Co-ordination leads to minimize the wastages of materials, idle time of employees, delay in completion of targets, departmental disputes etc.to a great extent. It ensures smooth working of the organization in the process of achieving the objectives of the organization.

**6) Improves Relation:**

Co-ordination develops cordial relations between all the levels of management of an organization. Every department depends on functioning of other department. For example, sales department works according to production department, Production department depends on Purchase department and so on. Coordination helps the employees to build strong relations among them and achieve the given targets.

**7) Leads to Higher Efficiency:**

With the help of optimum utilization of resources and effective integration of resources, the organization can achieve high returns in terms of high productivity, high profitability as well as can reduce the cost. Thus, co-ordination leads to higher efficiency.

**8) Improves Goodwill:**

Higher sales and higher profitability can be achieved due to synchronized efforts of organizational people, strong human relations and lower costs. It directly results into creating goodwill for organization in the market. It reflects on market value of shares as well as it helps in building good image in society.

**9) Unity of Direction:**

Different activities are performed by different departments. Coordination harmonizes these activities for achieving common goal of organization. Thus, coordination gives proper direction to all departments of the organization.

## 10) Specialization:

All departments of the organization are headed by experts in their respective fields. The specialized knowledge of these departmental heads helps in managerial decisions. It leads organization to march towards growth and success in the competitive world of business.

Management cannot bring together the different elements into one harmonious whole without proper coordination among all the members of the group.

According to Mary Parker Follett, Co-ordination is the '~Plus-value of the group'.

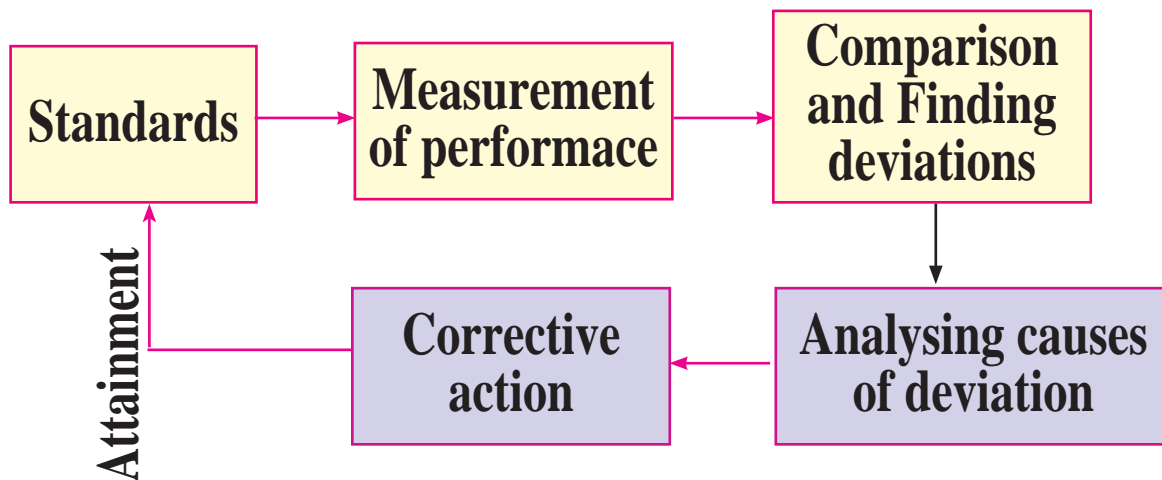
## 2.2.6 Controlling:

### Meaning:

Controlling function is required in all types of organizations whether profit making or non-profit making. Similarly, it is performed at all levels i.e. top, middle and lower levels of management. Controlling is indispensable function of management. The effectiveness of planning function can be determined with the function of controlling. Planning and controlling are major parts of the management cycle.

Controlling is a function of comparing the actual performance with the predetermined standard performance. It measures deviation, if any, identifies the causes of deviation and suggests corrective measures. The process of controlling helps in formulation of future plans also.

### Process of controlling :



### Definitions:

Following are some of the important definitions of controlling:

- 1) **Koontz and O'Donnell:** "Managerial control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans".
- 2) **Dale Henning:** "Control is the process of bringing about conformity of performance with planned action."
- 3) **Philip Kotler:** "Control is the process of taking steps to bring actual results and desired results closer together."

## **Importance of Controlling:**

Controlling is important in maintaining standards and to achieve desired goals effectively and efficiently. It is a function of checking the performances of employees at every stage of their work in process. The importance of controlling function in an organization is as follows:

### **1) Fulfilling Goals of Organization:**

Controlling is the function of measuring the performances at every possible stage, finding out the deviations, if any; and taking corrective actions according to planned activities for the organization. Thus, it helps in fulfilling the organizational goals.

### **2) Making Efficient Utilization of Resources:**

Various techniques are used by managers to reduce wastage of material and spoilage of other resources. Standards are set for every performance. Employees have to follow these standards.

As the effect of this, the resources are used by employees in the most efficient and effective manner so as to achieve organizational objectives.

### **3) Accuracy of Standards:**

An efficient control system helps management in judging the accuracy of standards whether they are accurate or not. Controlling measures are flexible to some extent. So after reviewing them according to changing circumstances, they are revised from time to time which is beneficial for checking performances accurately.

### **4) Motivates Employee:**

After setting standards of checking performance, they are communicated to employees in advance. Due to this, employees get an idea about what to do and how to do. Performances are evaluated and on that basis employees are rewarded in the form of increment, bonus, promotion etc. It motivates the employees to perform at their best level.

### **5) Ensures Order and Discipline:**

Controlling is the function of order and maintaining discipline. It works for reducing unprofessional behavior of the employees. Discipline is maintained by continuous checking of performances by the superiors and preventive actions are taken to minimize the gap between actual and standards.

### **6) Facilitates Co-ordination:**

Control is a function in which the roles and responsibilities of all departmental managers and the subordinates are designed clearly. Coordination between them helps to find out the deviations in their respective departments and to use remedial measure for desired results of the organization.

### **7) Psychological Pressure:**

The performances are evaluated with the standard targets. The employees are very well aware that their performance will be evaluated and they will be rewarded accordingly. This psychological pressure works as a motivational factor for employees to give their best performance.

### **8) Ensures Organizational Efficiency and Effectiveness:**

Factors of control include making managers responsible, motivating them for higher performance and achieving departmental coordination. It ensures about organizational efficiency and effectiveness.

**9) Builds Good Corporate Image:**

Controlling function helps to improve the overall performance of the organization. Minimum deviation in predetermined standards and actual performance results into the progress of business. It can be achieved with the help of proper control. This builds good corporate image and brings goodwill for the business.

**10) Acts as a Guide:**

Controlling function provides set of standard performance. Managers as well as subordinates work according to it. Wherever necessary, they can take the help of these standards and can achieve desired results. Thus, controlling function acts as a guide for everyone. The steps taken for controlling an activity guide the management while planning the future activities.

**Comparative Study / Distinguish between.**

| Planning  | Organizing   | Staffing  | Directing   | Coordinating   | Controlling   |
|---|--|---|---|--|---|
| <b>1 Meaning</b>  |  |   |   |  |   |
| Planning is deciding in advance what to do how to do it, when to do it and who is to do it. | Organising is the process of defining and grouping the activities of the enterprise and establishing the authority relationships among them. | The staffing function pertains to the recruitment, selection, development, training and compensation of subordinate managers. | Directing is the guidance inspiration, the leadership of those men and women constitute the real case responsibilities of management. | Coordination is orderly arrangement of group efforts to provide unity of action in the pursuit of common goal. | Controlling is the process of taking steps to bring actual results and desired results closer together. |
| <b>2 Objective</b>  |  |   |   |  |   |
| To set goals and choosing the means to achieve these goals.                                 | To identify and bring together all required resources.   | To appoint right type of people at the right positions and the right time.  | To direct the subordinates to get the things done in the right manner.  | To ensure harmony of efforts of the employees for smooth functioning of organization.                          | To ensure that the objectives are achieved according to the plan.                                       |

| <b>Planning</b>   | <b>Organizing</b>  | <b>Staffing</b>  | <b>Directing</b>   | <b>Coordinating</b>   | <b>Controlling</b>   |
|---|--|--|--|---|--|
| <b>3. Area of function</b>  |  |  |  |   |  |
| It includes setting objectives by identifying the ways of attaining the goal and selecting the best plan. | It includes identification and grouping of activities, assigning the work and establishing the authority relationship. | It includes recruitment, selection, training, development and compensation of human resources. | It includes instructing, guiding, inspiring, communicating and motivating the human resources. | It includes integration of efforts of top level, middle level and lower level.    | It includes setting up of standards, measurement, and comparison with actual performance and taking corrective steps whenever necessary. |
| <b>4. Factors</b>   |  |  |  |   |  |
| Internal and external factors are considered in planning process.   | Internal and external factors are considered in arrangement of resources.  | Staffing is mostly concerned with internal factors.  | Directing is concerned directly with internal factors i.e. human resources.                    | It is harmonization of human resources, so it is concerned with internal factors. | Internal and external factors are taken into account for taking corrective action.   |
| <b>5. Order</b>   |  |  |  |   |  |
| It is the basic first function of management process.   | It is based on planning.   | It follows organizing function.  | It follows organising and staffing for execution of planning.                                  | It is an important element of organizing which follows planning.                  | It is an end function of management process.   |
| <b>6. Resources</b>   |  |  |  |   |  |
| Planning is done as per the requirement and availability of resources.                                    | All available resources i.e. men, money, material, machine and method are arranged in a systematic manner.             | It is the process relating to organization of human resources.                                 | It gives direction to the employees regarding use of other resources.                          | It is related to human resources.   | It is related to all organizational resources which help to achieve goal of organization.  |



| 7. Nature  |   |  |  |  |   |
|--|---|--|--|--|---|
| It is continuous in nature. It exists in the whole life of organization. | It takes place till the time all the resources are collected and arranged.        | It is a continuous process as it deals with employees i.e. human resources.  | This continuous process is necessary in the process of achievement of the goals. | This is a continuous process related to all managerial levels.                     | It is the process which starts once the actual plan is executed.                |
| 8. Level of Management   |   |  |  |  |   |
| Top management is concerned with planning the activities.                | Top and middle level management s related with organizing the required resources. | Middle level management is related with recruitment, training and selection<br>Top level is concerned with promotion and compensation. | Middle level management is involved in directing the employees.                  | It is related to all the levels of management to achieve the goal of organization. | Top and middle level management are responsible for controlling the activities. |

### Summary

Every type of organization needs to focus on effectiveness of managerial functions. These are pervasive in nature. Managing all business activities with the help of employees is a decision making process. The starting point of cycle of management functions is planning and last point is controlling which is again the basis of next plan of organization. The goal of organization can be achieved within predefined period with the help of proper applications, reviews and revisions of application of plans and policies.

#### Management functions are listed in short as follows:

1. **Planning:** It is the fundamental function which gives an outline about where to go, how to go and reduces the risk of uncertain future with the help of forecasting.
2. **Organizing:** The synchronization and combination of workforce, physical, financial and information resources are established in the process of organizing.
3. **Staffing:** It is the process of attracting, recruiting, selecting, placing, appraising, remunerating, developing and retaining the best workforce.
4. **Directing:** It refers to a process or technique of instructing, guiding, inspiring, counselling, overseeing and leading people towards the accomplishment of organizational goals.
5. **Coordinating:** It is the integration and synchronization of the efforts of group so as to provide unity of action for organizational goals.

6. **Controlling:** It is a process of comparing the actual performance with the predetermined standard performance. It measures deviation if any, identifies the cause of deviation and suggests corrective measures.

#### Just to know

### "Functions of Managers in a Modern Organization"

Critically assess and evaluate what functions managers perform in a Modern organization and what skills they require? There are different views on what functions manager should perform within a modern organization and which skills they require.

There is great competition for job in the modern world as new applicants from all over the globe can offer new and exciting differences to a business. These individual and unique skills are those which separate a good manager from the rest. Companies look for a mix of skills and experience depending on the business itself, including personal qualities, habits and social grace. These certain skills include personal qualities such as a positive attitude, which can be reflected into other employees as a manager is usually seen as a role model. As well as they also require good communication skills not only to talk to an individual but also to listen and become aware of current issues. 'Active listening helps managers gather relevant information'. However, it must be taken into account that due to the globalization, individuals come from different cultures and backgrounds for taking management jobs. This may create problems. Different managers learn different techniques and work within different conditions across the globe. This may be a problem as management as a whole may be done differently.

#### EXERCISE

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

- 1) The functions of management start with ..... function.  
a) organising    b) planning    c) coordinating
- 2) The functions of management end with .....  
a) directing    b) staffing    c) controlling
- 3) ..... sets out standards for controlling.  
a) Staffing    b) Planning    c) Coordinating
- 4) Organization function is important for execution of the plans which have been prepared by ..... management.  
a) top level    b) middle level    c) lower level
- 5) ..... is the function which supports to activate the plans with the help of employees.  
a) Staffing    b) Directing    c) Co-ordinating
- 6) ..... is the function of execution according to the plan and the organizational structure.  
a) Controlling    b) Directing    c) Staffing
- 7) \_\_\_\_\_ arranges the work in such a way that minimum conflicts are raised.  
a) Co-ordinating    b) Organizing    c) Controlling

**(B) Match the pairs.**

| Group 'A' |              | Group 'B' |   |
|-----------|--------------|-----------|---|
| A)        | Planning     | 1)        | It is the process of instructing, guiding, communicating and motivating.                            |
| B)        | Organizing   | 2)        | It is an integration and synchronization of the efforts of group.                                   |
| C)        | Staffing     | 3)        | Deciding in advance what to do, how to do, when to do and who is to do it.                          |
| D)        | Directing    | 4)        | Management is what manager does.  |
| E)        | Coordinating | 5)        | To focus on the role of manager.  |
|           |              | 6)        | Decides the ways and means to achieve what has been planned.  |
|           |              | 7)        | It is the process of comparing the actual performance with the pre-determined standard performance. |
|           |              | 8)        | It is a set of principles.  |
|           |              | 9)        | It is the process of recruiting, selecting, placing and remunerating.                               |
|           |              | 10)       | To manage is to forecast and plan.  |

**(C) Give one Word / Phrase / Term for the following statements.**

- 1) The right person at the job with right pay.
- 2) A person who shows the correct path as well as guides employees in solving the problems.
- 3) First function of management.
- 4) Last function of management.
- 5) It is an intellectual process of logical thinking and rational decision making.
- 6) The term that is used to denote the structure.
- 7) It is the process of attracting, recruiting, selecting, placing, appraising and remunerating the people.
- 8) The process that leads the employees towards the accomplishment of organizational goals.
- 9) It increases the team spirit of work place.
- 10) It is the process of comparing the actual performance with the predetermined standard performance.

**(D) State whether following statements are true or false.**

- 1) Every function of management is not based on planning.
- 2) Specialization in activities leads to increase in organizational efficiency.
- 3) Qualified, efficient and skilled work force is always an asset of the organization.
- 4) Cooperation is not necessary for smooth flow of organizational activities.
- 5) Coordination motivates the employees to take initiative while completing their assigned task.
- 6) Standards are not set for every performance in controlling function.

**(E) Find the odd one.**

- 1) Planning, Organizing, Staffing, Writing.
- 2) Selecting, Training, Co-ordinating, Placing

**(F) Complete the sentences.**

- 1) The tasks of getting the things done by others is known as .....
- 2) The functions of manager start with .....
- 3) The ..... function of management initiates action
- 4) Recruitments are done under ..... function.
- 5) ..... is the fundamental function of management.
- 6) ..... integrates departmental activities for achieving common goal of the organization.
- 7) ..... is the last function of management.

**(G) Select the correct option from the bracket.**

- 1) Planning is a detailed programme of (present/future/past) course of action.
- 2) Directing is a responsibility of (manager/workers/people) at all levels.
- 3) Qualified, efficient and skilled workforce is always an (liabilities/assets/expenses) of the organization.

**(H) Answer in one sentence.**

- 1) What is management?
- 2) What is planning?
- 3) What is staffing?
- 4) What is directing?
- 5) What is controlling?

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

- 1) Factors of business environment are always fixed.
- 2) Staffing is concerned with machines.
- 3) Directing is a function of comparing the actual performance with the predetermined performance.
- 4) Co-ordination helps to maximize the wastage of resources and controls the cost of work.
- 5) Controlling measures are rigid to some extent.

**(J) Arrange in proper order.**

- 1) Controlling, Organizing, Planning.    2. Directing, Co-ordinating, Staffing.

**Q.2 Explain the following terms/concept.**

1. Management    2. Planning    3. Organizing    4. Staffing    5. Directing

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

- 1) Mr. Ram, an emerging entrepreneur has designed a structure of his business organization by taking into consideration the required resources such as land, money, machinery, workforce etc, for his new business. He appointed Mr. Shyam as a manager. Mr. Ram has assigned the

responsibilities such as recruitment, selection, training and development and to determine the remuneration of the employees' to Mr. Shyam. Mr. Ram has also appointed Mr. Shubham to supervise the work done by the employees according to the standards given to the employees. Mr. Shubham has to also suggest the remedies to the employees wherever necessary.

On this context, find out the management functions performed by

i. Mr. Ram ii. Mr. Shyam iii. Mr. Shubham

- 2) In XYZ Company, Mr. Lele gives instructions to the employees working under him, provide guidance and motivates them for their best performance. On the other hand Mr. Sayyad takes effort to harmonize the work done by the employees of different departments while achieving organizational goal. Mr. Desai is looking after the arrangement of required resources to the business organization.

Mention the name of employee engaged in following functions:

i. Organization            ii. Direction            iii. Coordination

**Q.4 Distinguish between.**

- 1) Planning and organizing 2. Organizing and staffing 3. Staffing and directing 4. Directing and controlling 5. Co-ordinating and controlling 6. Planning and Controlling 7. Organising and Directing 8. Organising and Co-ordinating

**Q.5 Answer in brief.**

- 1) Explain any four points of importance of planning.
- 2) Explain any four points of importance of organizing.
- 3) Describe any four points of importance of staffing.
- 4) Explain any four points of importance of directing.
- 5) Describe any four points of importance of coordinating.

**Q.6 Justify the following statements.**

- 1) Planning is the first function of management.
- 2) Controlling is the last function of management.
- 3) Organizing facilitates administration as well as operation of the organization.
- 4) Right person at right job with right pay is the basic principle of staffing.
- 5) Co-ordination between different functions and all levels of management is the essence of organizational success.

**Q.7 Attempt the following.**

- 1) Explain the importance of planning.
- 2) Describe the importance of organizing.
- 3) Explain the importance of staffing.
- 4) Explain the importance of directing.
- 5) Describe the importance of coordinating.
- 6) Explain the importance of controlling.

**Q.8 Answer the following.**

- 1) Define the term planning and explain the importance of planning.
- 2) What is organizing? Explain the importance of organizing.
- 3) What do you mean by staffing? Describe the importance of staffing.
- 4) Give the definition of directing and explain the importance of directing.
- 5) What is coordinating? Describe the importance of coordinating.
- 6) Define the term controlling and explain the importance of controlling.

**Answer Key**

- A.1 (A) 1) Planning 2) controlling 3) Planning 4) top level 5) Directing  
6) Directing 7) Coordination
- (B) A-3, B-6, C-9, D-I,E-2
- (C) 1) Staffing 2) Director 3) Planning 4) Controlling 5) Planning 6) Organization  
7) Staffing 8) Directing 9) Co-ordinating 10) Controlling
- (D) True - 2, 3, 5 False - 1, 4, 6
- (E) 1) Writing 2) Co-ordinating
- (F) 1) Management 2) Planning 3) directing 4) staffing 5) Planning 6) o-ordinating  
7) controlling
- (G) 1) future 2) manager 3) asset
- (I) 1) changing 2) humans 3) controlling 4) Minimizes 5) flexible
- (J) 1) planning, organizing, controlling 2) Staffing, Directing, Co-ordinating

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# Entrepreneurship Development.

3

- 3.1 Introduction**
- 3.2 History**
- 3.3 Concept**
- 3.4 Definition**
- 3.5 Characteristics of an Entrepreneur**
- 3.6 Qualities of a Successful Entrepreneur**
- 3.7 Functions of an Entrepreneur**
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  - 3.8.2 Characteristics of Entrepreneurship
  - 3.8.3 Process of Entrepreneurship Development
- 3.9 Recent initiatives in Entrepreneurship Development**
  - 3.9.1 Start Up India
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- Summary**
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## 3.1 INTRODUCTION

*Entrepreneurship* is a full time job which requires dedication and hard work. Entrepreneurs are innovators. They are owners, producers, market creators, decision takers and risk takers. Entrepreneurs are referred to as fourth 'Factor of Production' along with the other factors such as land, labour and capital. They generate employment opportunities so they are the backbone of nation's economic progress. They play a very important role in the development of any country.

## 3.2 HISTORY

- In the early 16th century the term 'Entrepreneur' was used by Frenchman to denote men leading in military expeditions.
- Around 1700 A.D. the term was used in France for contractors or architects.
- By the early 18th century the term was applied to Business and economic activities by the French Economist Richard Cautillon.( Cantilon)

- In 1848, the famous economist John Sturt Mill described 'Entrepreneurship' as the founding of a Private enterprise.

As far as India is concerned, several factors are responsible for the slow growth of entrepreneurship in pre independent India. At the time of independence, the industrial base of our economy was very poor. The industries were facing many difficulties, like shortage of raw material, shortage of capital, marketing problems etc. However, the Indian Government is considerably enhancing the ease of doing business.

### 3.3 CONCEPT

The concept of entrepreneur varies from industry to industry, country to country as well as from time to time.

Economists never had a consistent definition of "entrepreneur" or "entrepreneurship". The word "entrepreneur" comes from the French verb 'entreprendre', it means "to undertake" .

An entrepreneur is "a person who starts a business and is willing to risk loss in order to make money".

The common keywords 'businesses' and 'risk' are interrelated. If there is no real business or risk, a person cannot be called as an entrepreneur.

- The small businessman who has founded your neighborhood grocery shop is an entrepreneur.
- The founder of the startup laundry service across the street is an entrepreneur.
- The founder of the multi-billion Reliance Co. Ltd. with his hi-tech world-leading application is an entrepreneur.
- The freelancing plumber who works for himself and unclogs your drains is an entrepreneur.

Entrepreneurship means the willingness of an individual to start a new business venture by taking risk and managing it in this technology enabled competitive global environment.

The entrepreneurs are passionate to innovate, lead, invent or pioneer with a disruptive product or technology.

The size of the business, the type of work involved, the age or the formal education of the entrepreneur etc. do not restrict the entry of the entrepreneur. Similarly, the label of success or failure also does not matter.

Entrepreneurs are the people who have the courage to offer and to share an idea or a product or a service with the world. They try to make market a better place where the needs of consumers can be satisfied.

### 3.4 DEFINITIONS

- Howard Stevenson, a longtime professor at Harvard Business School, defines, "Entrepreneurship is the pursuit of opportunity beyond resources controlled."
- Webster dictionary gives a definition, "An entrepreneur is a person who starts a business and is willing to risk loss in order to make money."

- The Oxford English Dictionary defines "an entrepreneur is a person who organizes and operates a business or businesses, taking on greater than normal financial risks in order to do so."

### 3.5 CHARACTERISTICS OF AN ENTREPRENEUR

Entrepreneurs have some special characteristics like creative thinking, imagination, enthusiasm, sincerity etc. The characteristics of an entrepreneur may be briefly stated as follows:

**1) Intellectual Capabilities:**

An entrepreneur is a creative thinker. He has reasonably good intelligence. He has ability to analyze business situations. This ability will help him to take proper decisions.

**2) Future Vision:**

The entrepreneur has a good foresight about future market situation. He should also have knowledge about external business environment. This will help him to take proper decisions according to the situations and changes in the market. So, he can take timely actions for the same.

**3) Hard Work:**

An entrepreneur is ready to work hard. It is more necessary when a new venture is started. He has to work for long hours. Many a times he has to handle the main areas of business independently. This will make him successful.

**4) Technical Knowledge:**

An entrepreneur has good technical knowledge about his business. The entrepreneur has the ability to update himself with the latest knowledge about the product, process and technology.

**5) Communication Skills:**

An entrepreneur needs to communicate with different people like customers, suppliers, creditors, employees, etc. He must be able to express his ideas and strategies effectively. It is necessary that there is a proper understanding between the sender and the receiver of the message.

**6) Highly Optimistic:**

An entrepreneur has to always think positively. He is always hopeful and confident about the market situations even in failure times. Such positive attitude helps him to run his business successfully.

**7) Risk bearing capacity :**

Successful entrepreneur takes calculated risks. He is ready to face challenges and always seeks new and more opportunities.

**8) Self Confidence:**

An entrepreneur has self-confidence. He has positive desires to achieve his goals. Such self-motivation keeps him strong and confident to face various obstacles.

### 3.6 QUALITIES OF A SUCCESSFUL ENTREPRENEUR

Successful business people have many Qualities in common with one another.

**1. Disciplined :**

These individuals are focused on making their businesses work, and eliminate any hindrances

or distractions to their goals. An entrepreneur has comprehensive strategies and outline the tactics to accomplish them. Successful entrepreneur is disciplined enough to take steps every day towards the achievement of his objectives.

**2) Confidence :**

The entrepreneur does not ask questions about whether he can succeed or whether he is worthy of success. He is confident with the knowledge that he will make his businesses succeed. He shows that confidence in everything he does.

**3) Open Minded :**

Entrepreneur realizes that every event and situation is a 'business opportunity. Ideas are constantly being generated about workflows and efficiency, people skills and potential new businesses. He has the ability to look at everything around him and focuses it towards his goals.

**4) Self Starter :**

Entrepreneur knows that if something needs to be done he should start it himself. He sets the parameters and makes sure that projects follow that path. He is proactive, not waiting for someone to give him permission.

**5) Competitive :**

Many companies are formed because an entrepreneur knows that he can do a job better than others. He needs to win the game of business. An entrepreneur will highlight his own company's track record of success.

**6) Creativity :**

One aspect of creativity is being able to make connections between seemingly unrelated events or situations. Entrepreneur often comes up with solutions which are the synthesis of other items. He will repurpose products to market them to new industries.

**7) Determination :**

Entrepreneur is not thwarted by his defeats. He looks at defeat as an opportunity for success. He is determined to make all of their endeavors succeed, so will try and try again until it does. Successful entrepreneur does not believe that something cannot be done.

**8) Strong communication skills :**

The entrepreneur has strong communication skills to sell the product and to motivate employees. Most successful entrepreneur knows how to motivate his employees so the business grows overall. He is very good at highlighting the benefits of any situation and coaching others to their success.

**9) Strong work ethic :**

The successful entrepreneur will often be the first person to arrive at the office and the last one to leave. He will come on his days off to make sure that an outcome meets his expectations. His mind is constantly on his work, whether he is in or out of the workplace.

**10) Passion :**

Passion is the most important trait of the successful entrepreneur. He genuinely loves his work. He is willing to put in those extra hours to make the business succeed because there is a joy his business gives which goes beyond the money. The successful entrepreneur will always be reading and researching ways to make the business better.

### 3.7 FUNCTIONS OF AN ENTREPRENEUR

**1) Innovation:**

An entrepreneur is basically an innovator. He introduces new combinations of means of production. He must introduce new products or bring changes in the existing products. Customers are satisfied with new products or new features in the existing products. Innovation is also necessary to solve problems that arise in the business.

**2) Determination of Objectives:**

An entrepreneur has to determine the aims and objectives of the business. There may be difference between primary and secondary objectives of the enterprise. He can change these objectives as per the market situations.

**3) Development of Market:**

The entrepreneur has to find out different ways for marketing the products and services of his enterprise. He can conduct surveys or research to understand the customer's demand. When the markets are developed constantly, the demands of the consumers will increase.

**4) New Technology:**

In global world, everyday there is an invention of new technology. Introduction of new technology will always result in growth of business e.g. new machinery, advanced technology, new and scientific methods of production, etc.

**5) Good Relations:**

It is necessary to maintain healthy working atmosphere in an organization. It depends upon the efficient relations between subordinates and superiors. Co-ordination among the employees is the key of success.

**6) Organizing Funds:**

Entrepreneur needs to find out different financial resources because adequate and continuous finance is always necessary for business. Good and honest relations with the investors is necessary for every business.

**7) Taking Decisions:**

An entrepreneur has to take wise decisions for his enterprise. Timely and correct decisions are also important and necessary for a proper business plan. He should always consider the pros and cons before taking any business decision.

### 3.8 ENTREPRENEURSHIP DEVELOPMENT

#### 3.8.1. Meaning

Entrepreneurship is a purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain and aggrandize profit by production and distribution of economic goods and services.

#### 3.8.2 Characteristics of Entrepreneurship

Entrepreneurship is a process of setting up a new business organization. It is the process where one decides to build a business career by finding the market options and mobilizing the available resources. The following are the characteristics of entrepreneurship.

- 1) **Innovation-** Entrepreneurship is an innovation. The introduction of new combination of various factors of productions is innovation. A new product arrives in the market, uses new production technology, discovers new source of supply of raw materials and opens a new market for the specific product. In view of changing taste of consumers from time to time, entrepreneurship focuses on the research and development to produce goods to satisfy the customers.
- 2) **Economic activity-** An entrepreneur produces a new product for the customers as per their needs. He feels the need of this to satisfy human wants and as well in exchange earn a better livelihood. It is a systematically planned activity as per the skills and knowledge of entrepreneur. Hence entrepreneurship is an economic activity.
- 3) **Organization Building-** It is an activity where various factors of production have to be organized. Place utility, time utility, form utility etc. has to be considered to collect them under one roof for new production.
- 4) **Creative activity-** Innovation should have a strong support of creativity. Introducing creativity in producing something new is a big challenge for the entrepreneur. Thus creativity is an essential part of entrepreneurship.
- 5) **Managerial skill and leadership-** A person who wants to be a successful entrepreneur should have more passion of doing something new than just earning profit. Leadership and managerial skills are the most important facets of entrepreneurship. Other skills can be considered secondary. An entrepreneur must have the ability to lead and manage.
- 6) **Skillful management-** The success of any entrepreneurship depends on the management of the organization. With professional management and skilled managers, entrepreneurship becomes successful activity.
- 7) **Risk Bearing-** Uncertainty is defined as a risk which can not be insured against and is incalculable. Entrepreneur is an agent who buys factors of production at certain prices, in order to combine them into a product, to sell them at uncertain prices in future. Thus they too are risk-bearing agents in production.
- 8) **Gap filling function-** The most significant feature of entrepreneurship is gap filling. It is the entrepreneur's job to fill the gap or make up the deficiencies which always exist in the knowledge about the production function.

### 3.8.3 Process of Entrepreneurship Development

- 1) Training
- 2) Entrepreneurship Development Programme (EDP)

#### 1) TRAINING

The traditional school of thought had been thinking that 'entrepreneurs are born and not made' where as the modern observation mentions that some entrepreneurs may be born but a large number of them can be made by education and training. Hence, today there is a need of training to produce eligible future entrepreneurs.

Training is a scheme of instructions which is planned, systematic, consistent, pervasive and monitored to measure its effectiveness. It is an integral input of managerial development.

Training broadens the vision of entrepreneurs by providing them suitable opportunities for an interchange of experience within and outside an industry. It builds necessary skills of new entrepreneurs. It imparts knowledge of marketing of goods, production methods, consumer's



education etc. Training exposes an entrepreneur to the latest development which can directly or indirectly affects him.

With the help of training there can be minimization of excessive scraps, defective outputs and wastages in the production process. Training helps in improving overall efficiency of an entrepreneur. The process of training helps an entrepreneur to accept new technology, team spirit, standardization, reduces fatigue, minimizes industrial accidents etc. Some methods of training are lecture method, demonstration method, individual instructions, group instructions, meetings, conferences, seminars, etc.

## **2) ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES (EDP)**

An entrepreneurship development programme has been defined as 'a programme designed to help a person in strengthening his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role efficiently'.

EDP is a device through which people with latent entrepreneurial traits are identified, motivated to take up new industrial venture, trained in managing the unit and guided in all aspects of starting a venture/an enterprise.

EDP was first introduced in Gujarat in 1970 and was sponsored by the Gujarat Industrial Investment Corporation. The EDP's are based on McClellands experiments in Kakinanda District of Andhra Pradesh where businessmen were provided with motivation and training.

### **The EDP includes following steps:**

- 1) Arrangement of Infrastructure.
- 2) Selection of potential entrepreneur.
- 3) Identification of enterprise. .
- 4) Actual training program
- 5) Selection of training personnel.
- 6) Selection of method of training.
- 7) Actual training.
- 8) Monitoring and follow-up.

### **Objectives of EDP:**

The following objectives of EDP are identified.

- 1) To foster entrepreneurial growth in the country.
- 2) Optimum use of available resources.
- 3) Development of backward regions and improving economic status of socially disadvantaged groups.
- 4) Generation of employment opportunities.
- 5) Widening base for small and medium scale industries.

## 3.9 RECENT INITIATIVES IN ENTREPRENEURSHIP DEVELOPMENT

Entrepreneurship is picking up in India. Following are a few initiatives in entrepreneurship development:

### 3.9.1. Start up India

#### Meaning

A start-up is defined as an entity having its headquarter in India, which was opened less than 10 years ago and has an annual turnover of less than Rs.100 crores. Under this initiative, the government has already launched the I:MADE program, to help Indian entrepreneurs to build 10 lakh mobile app start-ups. The MUDRA Bank's scheme (Pradhan Mantri Mudra Yojana) is an initiative by Indian Government which aims to provide micro-finance, low-interest rate loans to entrepreneurs from low socio-economic backgrounds.

One of the objectives of the Indian Government is to make India a nation of Job creators instead of job seekers. Thus, the Government wants to encourage entrepreneurship and to promote innovations. It aims at creating such an ecosystem which will be conducive for the growth of start-ups in India.

Start-up India is an initiative of the Government of India. It was launched in 2016. It aims at building an ecosystem which will nurture start-ups in the country. So that, sustainable economic growth and large scale employment opportunities can be generated. Thus, the Government of India has announced Start up India Action Plan that focuses on the following areas:

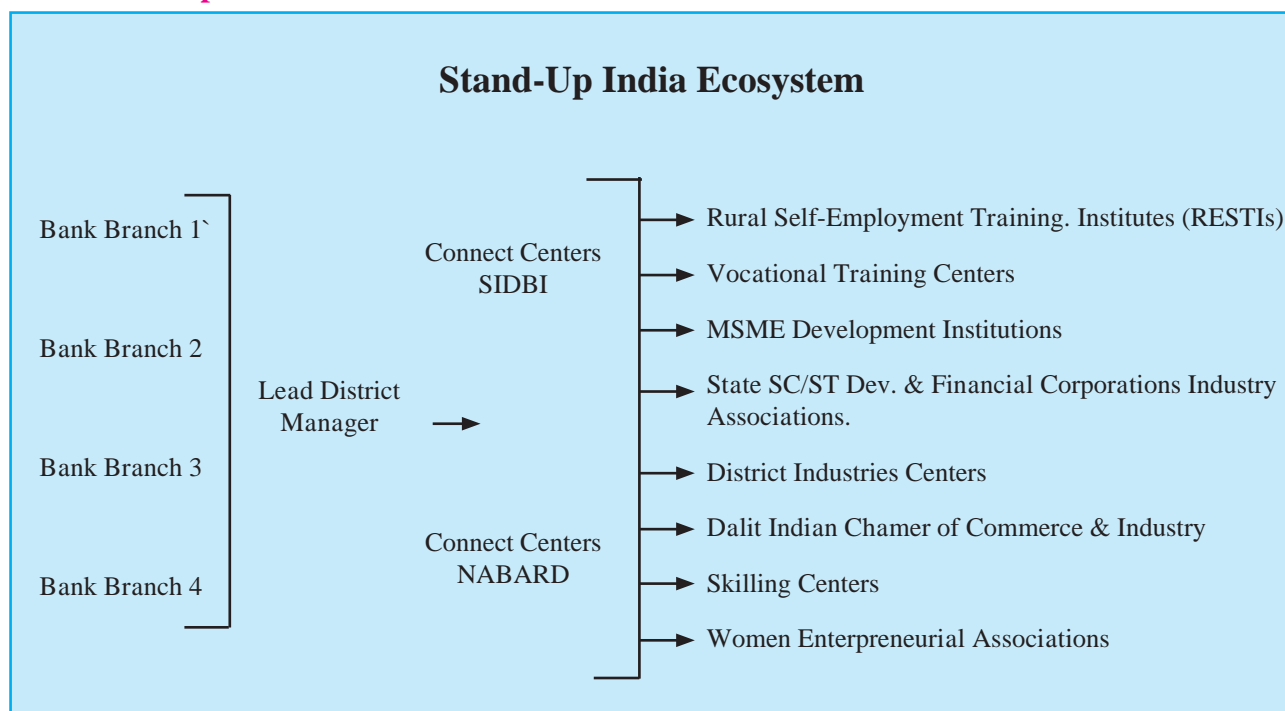
- 1) **Simplification & Handholding:** Here, compliance procedures for start-ups will be made easy. Similarly, if necessary, winding up will also be allowed on fast track basis.
- 2) **Funding support & Incentives:** Government will participate in funding process indirectly as well as tax exemptions will be allowed in capital gain, income tax etc.
- 3) **Industry - Academia Partnership & Incubation:** Under this initiative, Government is proposing to introduce Start up Fests, to provide Pre - incubation training, to set up incubators with the help of private sector, to launch innovation focused programs for students and so on.

#### Objectives of Start ups :

Following are the objectives of Entrepreneurship Development Programme under Start-ups & Stand ups in India:

- Rs.10,000 crore startup funding pool.
- Reduction in patent registration fees.
- Improved Bankruptcy Code, to ensure a 90 days exit window.
- Freedom from mystifying inspections for first 3 years of operation.
- Freedom from Capital Gain Tax for first 3 years of operation.
- Freedom from tax for first 3 years of operation.
- Self-certification compliance.
- To target 5 lakh schools, and involve 10 lakh children in. innovation-related programs.
- Encourage entrepreneurship within the country.
- Promote India across the world as a start-up hub.
- Built Startup Oasis as Rajasthan Incubation Center

### 3.9.2 Stand-up India:



Stand-Up India Scheme for financing SC/ST and/or Women Entrepreneurs.

#### Objectives of the Stand-Up India scheme:

The objective of the Stand-Up India scheme is to facilitate bank loans between Rs.10 lakh and Rs.1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of nonindividual enterprises at least 51 % of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

#### Eligibility:

- 1) SC/ST and/or woman entrepreneurs, above 18 years of age.
- 2) Loans under the scheme are available for only green field project. Green field signifies, the first time venture of the beneficiary in the manufacturing or services or trading sector.
- 3) In case of non-individual enterprises, 51% of the shareholding and controlling stake should be held by either SC/ST and/or Women Entrepreneur.

#### Nature of Loan:

Composite loan (inclusive of term loan and working capital) between Rs.10 lakh and upto Rs. 1 crore.

#### Purpose of Loan:

For setting up a new enterprise in manufacturing, trading or services sector by SC/ST/Women entrepreneur.

#### Size of Loan:

Composite loan of 75% of the project cost inclusive of term loan and working capital. However, it will not be applicable if the borrower's contribution along with convergence support from any other scheme exceeds 25% of the project cost.

### **Interest Rate:**

The rate of interest would be lowest applicable rate of the bank for that category (rating category) not to exceed (base rate (MCLR) + 3%+ tenor premium).

### **Security:**

Besides primary security, the loan may be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India Loans (CGFSIL) as decided by the banks.

### **Repayment:**

The loan is repayable in 7 years with a maximum moratorium period of 18 months.

### **Working Capital:**

For withdrawal of Working capital upto 10 lakh, the same may be sanctioned by way of overdraft. Rupay debit card to be issued for convenience of the borrower. Working capital limit above 10 lakh to be sanctioned by way of Cash Credit limit.

### **Margin Money:**

The Scheme envisages 25% margin money which can be provided in convergence with eligible Central/State schemes.

## **3.9.3 Agro Tourism (Rural Tourism): New approach towards Entrepreneurship**

### **Meaning:**

In an increasingly mechanized world, many people have lost touch with how their food is produced or the region where it originated. Agro tourism offers tourists a chance to reconnect with the land and provides a "hands on experience" with local foods. Agritourism activities include picking fruits, tending bees, milking cows and other educational pursuits.

Agritourism focuses on travel that is empowering to local communities, both socially and economically. Recognizing the need to diversify their farm products and supplement their agricultural incomes, many farmers consider agritourism as a one income option for the long-term sustainability of their farms. Agritourism can support agricultural economy when local producers can no longer compete economically.

*"The small landholders are the most precious part of a state"*

**Thomas Jefferson**

### **Definition:**

*"Agritourism is the idea of bringing urban residents to rural areas for leisure travel and spending."*

**Agritourism** is "a commercial enterprise at a working farm, ranch, or agricultural plant conducted for the enjoyment of visitors that generates supplement income for the owner."

### **Agro Tourism in Maharashtra**

The State of Maharashtra is the pioneer state to develop & promote agro tourism in the country. 'Agritourism' or 'agro tourism', as it is defined most broadly, involves any agriculturally based operation or activity that brings visitors to a farm. Agritourism is a form of niche tourism that is considered a growth industry in many parts of the world including India, Australia, Canada, the United States and the Philippines.

Besides growing and selling products, there are many other important aspects to managing a farm business. Business planning, finding land, managing employees, recordkeeping, adhering to regulations, insuring crops and preparing for a rainy day and retirement all fall under the heading of "Farm Management."

### Activities in Agro Tourism:

Agritourism and nature-tourism enterprises might include:

- Outdoor recreation (Trekking, fishing, hunting, wildlife study, horseback riding).
- Educational experiences (farming experiences like Rice plantation, cooking experience on chulha).
- Entertainment (harvest festivals like 'Hurda Party' in Maharashtra).
- Hospitality services (farm stays, guided tours or outfitter services).
- On-farm direct sales (u-pick operations or roadside stands).

Happy customers will definitely return. They'll also tell their friends and family about farm. Farmers can add value to your guests' experiences by offering them refreshments. They can Select products that compliment what they produce on farm, such as milk or butter samples, fresh food, Fresh fruit juice etc.

With time and creativity, farmers can expand their recreation enterprise, through fun, entertaining activities such as contests, adult and children's classes, or games. Children love straw mazes, pumpkin painting and scarecrow making. Adults may enjoy historic displays or classes on painting.

#### Just to know

- The women Entrepreneurship platform (WEP) is unified access portal, which brings together women from different regions of India, across economies to realize their entrepreneurial aspirations. The idea of the platform was first mooted by Shri Amitabh Kant CEO, NITI Aayog who announced the setting up of a woman entrepreneurship platform in Niti Aayog at the conclusion of the 8th Global Entrepreneurship Summit (GES) held in Hyderabad in 2017.
- WEP aims at building an entrepreneurial ecosystem only for women. It will provide information about existing government schemes and initiatives in private sector to promote women entrepreneurship.
- WEP has tied up with many organisations such as NASSCOM, SIDBI, FICCI etc. Such organisations will work as mentor for women entrepreneurs.
- This platform will substantially increase the number of women entrepreneurs.

### 3.10 INTRAPRENEURS :

An intrapreneur is an employee who has the authority and support of his company/employer to implement his own innovative and creative ideas. His idea or product may or may not earn immediate revenue for the company. Still, the employee keeps receiving his salary. So, the main

difference between an intrapreneur and an entrepreneur is that, the later takes financial risk while the intrapreneur does not have to invest any capital from his pocket. The company provides the infrastructure. Many large organisations have dedicated Research and Development Departments where employees are encouraged to use their creative abilities. Such an idea or innovative product may fetch great profits for the organisation. Kinetic India, Tata Motors, Infosys Technologies etc. are some of such companies who encourage intrapreneurship.

### Definitions :

- 1) **By Gifford Pinchot III**, *"Intrapreneurs are the dreamers who take hands-on responsibility for creating innovation of any kind, within a business."*
- 2) **By Hisrich and Peters**, *"Intrapreneurship is the entrepreneurship within an existing organisation"*.

#### Just to know

- The idea of having mobile charger in the bike came from one of the employee of 'Kinetic India'.
- 'Tata Sumo' one of the passenger vehicles of Tata Motors was named after Padma Bhushan Mr. Sumant Moolgaokar, Architect of Tata Motors, as a tribute to his contribution to the company.
- The 'Like' button on Facebook was a brain-child of an employee of 'Facebook'. The company provides a platform to its engineers and coders to create and develop innovative ideas.
- Sony playstation was created by a junior member of one of the staff of sony corporation.

#### Summary

Entrepreneurship is a full time job which requires dedication and hard work. Entrepreneurs are innovators. They are owners, producers, market creators, decision takers and risk takers. Entrepreneurs are referred to as fourth 'Factor of Production' along with the other factors such as land, labor and capital. They generate employment opportunities so they are the backbone of nation's economic progress. They play a very important role in the development of any country.

#### Characteristics of an entrepreneur

|                           |                     |
|---------------------------|---------------------|
| Intellectual Capabilities | Future Foresight    |
| Hard Work                 | Technical Knowledge |
| Communication Skills      | Highly Optimistic   |
| Risk taking capacity      | Self Confidence     |

#### Qualities of a Successful Entrepreneur:

|                   |                             |
|-------------------|-----------------------------|
| Disciplined       | Confidence                  |
| Open Minded       | Self Starter                |
| Competitive       | Creativity                  |
| Determination     | Strong communication skills |
| Strong work ethic | Passion                     |



## Functions of an Entrepreneur

|                       |                             |
|-----------------------|-----------------------------|
| Innovation            | Determination of Objectives |
| Development of Market | New Technology              |
| Good relations        | Organising funds            |
| Taking decisions      |                             |

## Entrepreneurship Development

### Characteristics of Entrepreneurship

- |                                    |                         |
|------------------------------------|-------------------------|
| 1) Innovation                      | 2) Economic activity    |
| 3) Organisation building           | 4) Creative activity    |
| 5) Managerial skill and leadership | 6) Skillful management  |
| 7) Risk bearing                    | 8) Gap filling function |

### Process of Entrepreneurship Development

Training

EDP

### Recent initiatives in Entrepreneurship Development

Start Up India

Stand Up India

Agro Tourism

### Intrapreneurs

## EXERCISE

### Q.1 A) Select the correct option and rewrite the completed sentences:

- The word 'entrepreneur' is derived from the ..... word 'entreprendre'.  
a) Japanese      b) English      c) French
- 'Entreprendre' means to .....  
a) Undertake      b) Enterprise      c) Businessman
- Start Up India is an initiative of the .....  
a) RBI      b) Government of India      c) World Bank
- ..... is the idea of bringing urban residents to rural areas, by empowering to local communities, both socially and economically.  
a) Agro tourism      b) Medical tourism      c) Entertainment

**B) Match the correct pairs:**

| Group 'A' |                      | Group 'B' |                           |
|-----------|----------------------|-----------|---------------------------|
| A)        | Gap filling function | 1)        | 2016                      |
| B)        | Entrepreneur         | 2)        | Employment                |
| C)        | Agro tourism         | 3)        | Old methods of production |
| D)        | Technology           | 4)        | 2019                      |
| E)        | Start up India       | 5)        | Self motivated            |
|           |                      | 6)        | Rural tourism             |
|           |                      | 7)        | Entrepreneurship          |
|           |                      | 8)        | Latest knowledge          |
|           |                      | 9)        | Necessity Based           |
|           |                      | 10)       | Medical tourism           |

**C) Write a word or phrase or a term which can substitute each one of the following:**

- 1) An undertaking or adventure involving uncertainty and risk and requiring innovation.
- 2) A function of creating something new for an economic activity.
- 3) A person who is an innovator who introduces new combinations of means of production.
- 4) The process of enhancing entrepreneurial skills and knowledge through structured training and institution building programmes.
- 5) The process that motivates a person into action and induces him to continue the course of action for the achievement of goals.
- 6) An employee who has an authority and support of the organisation to implement his creative ideas.

**D) State whether the following statements are True or False.**

- 1) An entrepreneur should not be ready to work hard.
- 2) Agritourism can support agricultural economy.
- 3) Successful businessman takes calculated risk.
- 4) Entrepreneurship is a full time job which requires dedication and hard work.
- 5) Startup India is an initiative of the Government of France.

**E) Find the Odd one out:**

- 1) Communicator, Innovator, Self-starter, Inactive.
- 2) Trekking, Wildlife study, Horseback riding, Indoor games.
- 3) Innovation, Lack of communication, Development of market, Determining the objectives.

**F) Complete the sentences:**

- 1) An entrepreneur is a person who starts a .....
- 2) 'Start-up' India initiative was launched in .....

**G) Select the correct option.**

(Innovation, Niche tourism, Agro tourism, Entrepreneurship)

| Group A |  | Group B   |
|---------|--|---|
| 1)      | The idea of bringing Urban resident to agricultural farm | .....   |
| 2)      | Agro- tourism is a form of                               | .....   |
| 3)      | .....  | To introduce new combination of products & features     |
| 4)      | .....  | A full time job which requires, dedication & Hard-work. |

**H) Answer in one sentence.**

- 1) What is Agro tourism?
- 2) Who is 'Entrepreneur'?
- 3) Who described 'Entrepreneurship' as the founding of a private enterprise?

**I) Correct the underlined word & rewrite the sentence.**

1. The word 'Entrepreneur' comes from the German verb entreprenre, it means 'to undertake' .
2. Entrepreneurs try to make home a better place where the needs of consumers can be satisfied.
3. The loan taken under stand-up India scheme is repayable in ten years.

**Q.2. Explain the following terms/concepts:-**

- 1) Entrepreneur
2. Agro- tourism
- 3) Start-ups
4. Stand-ups
- 5) Intrapreneur

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

Mr. Soham is young MBA degree holder, Mr. Navin is B.Com graduate. Mr. Soham is willing to start dairy farm at his village. Mr. Navin is willing to work as cashier in Private Company.

- i) Find out dream of Soham.
- ii) State anyone characteristic of Entrepreneur.
- iii) To become successful entrepreneur, which one quality Mr. Soham should have?

**Q.4 Answer in brief.**

- 1) Define entrepreneur. Explain functions of entrepreneur.
- 2) Define entrepreneur. Explain qualities of successful entrepreneur.

**Q.5 Justify the following statements.**

- 1) Entrepreneurship is the best source for self- employment.
- 2) Successful businessman takes calculated risk.
- 3) Entrepreneur must be a good communicator.
- 4) An entrepreneur must be an innovator.
- 5) With creativity, farmers can expand their Agro-tourism Business.

**Q.6 Attempt the following**

- 1) Explain the characteristics of Entrepreneurship Development.
- 2) What is Entrepreneurship Development Program ?

**Q.7 Answer the following**

- 1) Define entrepreneur. Explain characteristics of entrepreneur,
- 2) Define entrepreneur. Explain its functions.

**Answer Key**

**Q.1 A)** 1) French 2) Undertake 3) Government of India 4) Agro tourism

**B)** A) - 7, B)- 5, C) - 6, D) - 8, E) - 1

**C)** 1) Entrepreneurship  
2) Innovation  
3) Entrepreneur  
4) Entrepreneurship Development programme.  
5) Entrepreneurship  
6) Intrapreneur

**D)** True - 2,3,4  
False - 1, 5.

**E)** 1) Inactive. 2) Indoor games. 3) Lack of communication

**F)** 1) Business/ Enterprise 2) 2016

**G)** Agro tourism, Niche tourism, Innovation, Entrepreneurship

**I)** 1) French.  
2) Market  
3) Seven

**Career Opportunities**

- Start technology based venture. Technologies considered here, are -- Artificial intelligence, ERP, Machine learning, Analytics, Big data and Robotics.
- Start financial consulting firm.
- Going for a Partnership with new small businesses.
- Service oriented start-ups: service oriented startups, such as Swiggy, Zomato, housejoy etc. are getting a strong hold and recognition in market, so thinking of starting a business that caters to service industry is a very brilliant idea.

- Innovate new product by studying the market and start a new business.
- Participate in business plan competition and network with angel investors and start your own business.
- Start an e-commerce company.

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### QRcode

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### 4.1 Introduction

### 4.2 Meaning

### 4.3 Definition

### 4.4 Business Services

### 4.5 Banking

#### 4.5.1 Meaning

#### 4.5.2 Types of Banks

#### 4.5.3 Functions of commercial banks

#### 4.5.4 E-Banking Service

### 4.6 Insurance

#### 4.6.1 Meaning

#### 4.6.2 Principles of Insurance

#### 4.6.3 Types of Insurance

##### I. Life Insurance

##### II. Marine Insurance

##### III. Fire Insurance

### 4.7 Transport

#### 4.7.1 Meaning

#### 4.7.2 Modes of Transport

### 4.8 Warehousing

#### 4.8.1 Meaning

#### 4.8.2 Functions of Warehouses

#### 4.8.3 Types

### 4.9 Communication

#### 4.9.1 Meaning

#### 4.9.2 Types of Communication

### Comparative Study /Distinguish Between

### Summary

### Exercise

## 4.1 INTRODUCTION

Services are intangible in nature; they are neither manufactured, transported nor stocked. Services cannot be stored for a future use hence they are produced and consumed simultaneously.

Business services are those services which help in successful running of business. They are intangible in nature, heterogeneous, inseparable, inconsistent, perishable in nature and require consumer participation.

## 4.2 MEANING:

Sometimes services are difficult to identify because they are closely associated with goods. No transfer of possession or ownership takes place when services are sold, and they cannot be stored or transported, services are instantly perishable, and they come into existence at the time they are bought and consumed.



## 4.3 DEFINITIONS:

Following are some of the important definitions.

"A service is an act of performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product."- **Philip Kotler**

"Activities, benefits, or satisfactions which are offered for sale, or provided in connection with the sale of goods"-. **American Marketing Association**

### Features of services:

#### 1) **Intangibility:**

A service is not a physical product that can be touched or seen. A service can be experienced by the buyer or the receiver. Services lack material form, and therefore they are intangible. Due to intangibility, services cannot be demonstrated like goods, and therefore service providers must create good impact on the customers by delivering quality services on time.



## 2) Inseparability:

Unique characteristic of services is that the service and the service provider cannot be separated. The presence of service provider is there at the time of delivering services to customers. In case of services production and consumption take place at the same time.

## 3) Inconsistency:

Services are heterogeneous. There can be no perfect standardization of services. Even if the service provider remains the same, the quality of the service may differ from time to time. For example, same restaurant can give different experience to two different customers.

## 4) Perishability:

The production and consumption of services are inseparable because storage of services is not possible. Being an intangible transaction there can never be an inventory of services. Unlike goods, they cannot be stored for future sale. For example, the vacant seats of morning flight of an airline cannot be utilized in afternoon flight of the same airline.

## 5) Non-transferability:

Unlike goods, all services are non-transferable in nature. The ownership of services cannot be transferred from service provider to customer. For example, a customer can book hotel room but the ownership of room remains with the hotelier.

## 6) Consumer participation:

For services, participation of consumer is equally important. Without the participation of consumer, services cannot be offered. The seller cannot offer service without the presence of customer vice-versa customer cannot accept service, unless the seller is present to offer a service.

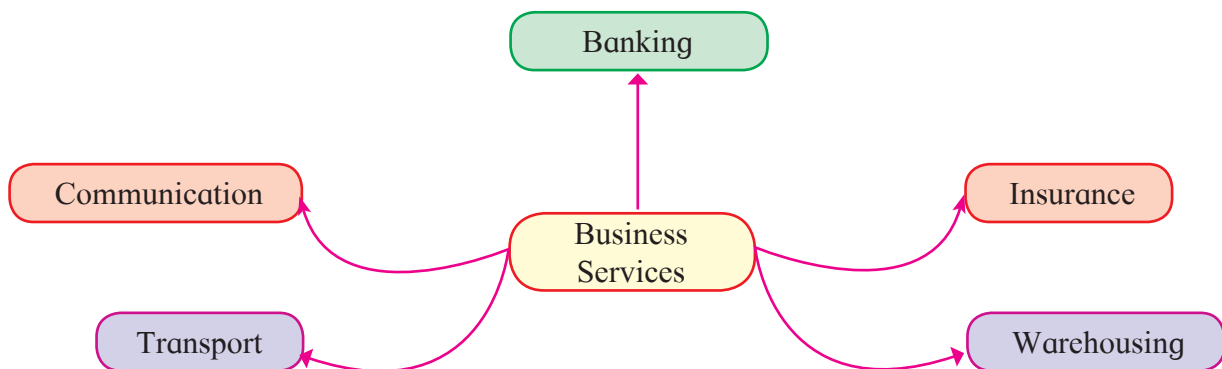
### 4.4 BUSINESS SERVICES:

#### Business Services:

Business cannot be operated in an isolated manner. It requires some activities which facilitate business to grow rapidly. Business services are those services which help business to grow and help business to function seamlessly.

#### Types of Business Services:

There are various types of services depending upon their nature and purpose. Some of the important services are as follows.



*Find and visit different business service centers in your area.*

Let us study the business services in detail.

## 4.5 BANKING



The term Bank comes from the French word 'Banco' which means a 'bench'. In earlier days, money-lenders used to display coins of different currencies in big heaps or benches or tables for the purpose of lending or exchanging.

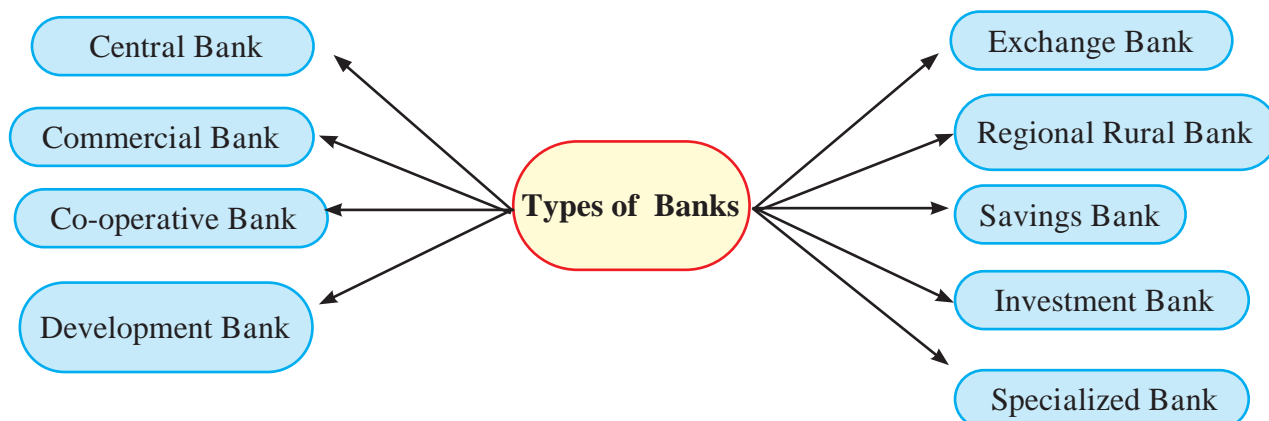
### 4.5.1 Meaning:

A bank is a financial institution which deals with deposits and advances and other related services. Bank provides various services related to money or financial requirements of consumers.

As per **The Indian Banking Regulation Act, 1949** banking company means "any company which transacts the business of banking in India" and the word banking has been defined as "accepting for the purpose of lending or investment of deposits of money from public, repayable on demand or otherwise, and withdrawable by cheque, draft and order or otherwise. "

## 4.5.2 Types of Banks:

There are several types of banks as follows:



### 1) Central Bank :

The central bank is the apex financial institution in banking industry in the country. Every country has their own central bank. In India, The Reserve Bank of India (RBI) is the central bank. The RBI was established in 1935 under the Reserve Bank of India Act, 1934. Some functions of RBI are as follows:

- i) Frames monetary policy
- ii) Issues currency notes
- iii) Acts as a banker to the Government
- iv) Acts as a banker's bank to commercial and other banks in India.

### 2) Commercial Bank:

The commercial banks play an important role in economic and social development of a country. Commercial banks perform important functions such as:

Primary Functions i.e. accepting of deposits and lending of money and Secondary Functions i.e. agency functions and utility functions. In India, commercial banks are divided into three groups:

- a) Public sector banks where majority of capital is held by government such as Bank of India, State Bank of India etc.
- b) Private sector banks are owned by group of individuals such as AXIS bank, HDFC bank etc.
- c) Foreign banks are those banks which are established outside India but these banks have branches in India such as Citi bank, HSBC, Standard Chartered etc.

List down public, private and foreign banks in your area.

### 3) Co-operative Bank:

In India, co-operative banks are registered under Indian Co-operatives Societies Act and regulated under Banking regulation Act. Co-operative banks are popular in semi-urban and rural areas. The main aim of co-operative bank is to provide credit to economically backward people, farmers and small scale units. Generally, the co-operative bank works at three different levels:

**a) Primary Credit Societies:**

Primary Credit Co-operative society's work at village level. They collect deposits from members and common public. They also get funds from the State Co-operative Bank and District Co-operative Banks for the purpose of lending.

**b) District Central Co-operative Bank:**

These banks operate at district level. They obtain deposits from the public at the district level and also get funds from the State Co-operative Bank for the purpose of lending.

**c) State Co-operative Bank:**

This bank operates at state level. They provide funds to central co-operative bank and primary credit societies as required. State co-operative bank also performs function of monitoring over district bank and credit cooperative societies.

List down primary credit societies, district banks and state co-operative bank in Maharashtra.

**4) Industrial Development Banks:**

These are financial institutions that provide medium and long term funds to the business firms. Examples of development bank are Industrial Finance Corporation of India (IFCI), State Finance Corporation (SFC), Maharashtra State Finance Corporation (MSFC) etc. Some functions of development bank are as follows:

- i) Provision of medium and long term funds to business units for the purpose of expansion and modernisation.
- ii) Underwriting of shares issued by public limited companies.
- iii) Purchase of debentures and bonds.

**5) Exchange Banks:**

The exchange banks as well as large commercial banks facilitate foreign exchange transactions. Examples of exchange banks are Barclays Bank, Bank of Tokyo etc. Some functions of exchange bank are as follows:

- i) Financing foreign trade transactions.
- ii) Issue of letter of credit (LC)
- iii) Discounting of bills of exchange.
- iv) Remittances of dividend, interests and profits etc.

**6) Regional Rural Bank:**

Regional Rural Banks (RRBs) were established in 1975. These banks are sponsored by large public sector banks. The capital of RRB is contributed by Central Government 50%, State Government 15% and Sponsored Banks 35%.

RRBs mobilise deposits primarily from rural and semi-urban areas and provide loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans.

**7) Savings Bank:**

The main objective of savings bank is to encourage savings of the people, especially in rural areas. Examples of such banks include postal saving bank, commercial banks and cooperative banks.

**8) Investment Bank:**

These banks provide financial and advisory assistance to their customers. Their clients generally include business firms and government organisations. Investment banks facilitate mergers and acquisitions by undertaking research and providing advice on investment decisions. Generally, investment banks do not directly deal with general public.

**9) Specialised Banks:**

These banks cater to the requirements and provide overall support for setting up business in specific areas.

**i) Export and Import Bank (EXIM):**

This bank provides financial assistance to exporters and importers and functions as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade.

**ii) Small Industries Development Bank of India (SIDBI):**



Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the principal financial institution for promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities.

**iii) National Bank for Agriculture and Rural Development (NABARD):**



It is an apex institution for financing agricultural and rural sector. NABARD provides both short term and long term credit through regional rural banks. It is concerned with policy planning and operations relating to agricultural credit and credit for other activities in rural India. It provides finance to financial institutions and not to the individuals.

**New models of banking:**

**1) Small Finance Banks -**

Small finance banks are a type of niche banks in India. These are banks with a small finance bank license and provide basic banking service of acceptance of deposits and lending. The aim behind these banks is to provide financial inclusion to sections of the economy not being served by other banks such as small business units, small and marginal farmers, micro and small industries and un-organised sector entities. Existing non-banking financial companies (NBFC), microfinance institutions (MFI) and local area banks (LAB) can apply to become small finance banks. These banks can be promoted either by individuals, corporate, trusts or societies.

They are established as public limited companies in the private sector under the Companies Act, 2013. They are governed by the provisions of Reserve Bank of India Act, 1934, Banking Regulation Act, 1949. There is no territorial restrictions for these bank.

They were set up with the twin objectives of providing an institutional mechanism for promoting rural and semi urban savings and for providing credit for viable economic activities in the local areas.

**Objectives of small finance banks:**

- (i) provision of savings for unserved and underserved sections of the population, and
- (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector.

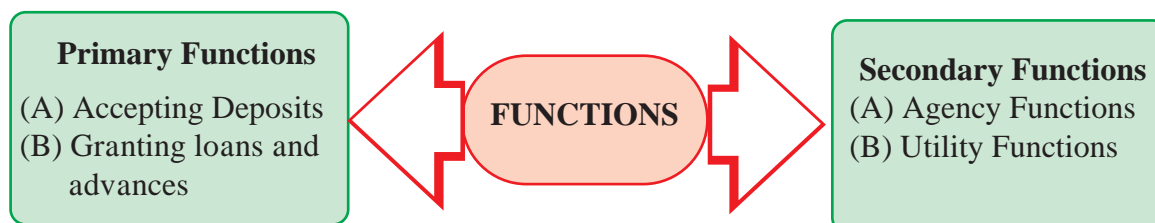
Examples are Jana Small Finance Bank, AU Small Finance Bank, Equitas Small Finance Bank etc.

**2) Payment bank**

It is a new model of banking. It is conceptualised by the Reserve Bank of India. The main aim is to offer financial services to small businesses and low income people. It is like any other bank as it can carry out most of the banking functions such as remittance services, mobile banking, ATM cards, net banking etc. But, it is not allowed to issue loans and credit cards. Similarly, it can accept the demand deposits only up to Rs. 1 lakh. Indian Post Payment Bank, Airtel Payment Bank, Paytm Payment Bank etc are some of the examples of active payment banks to the date.

**4.5.3 Functions of commercial banks:**

The functions of commercial banks can be broadly divided into two groups as follows:



## 1) Primary Functions:

The primary functions of commercial banks are known as core banking functions. The primary functions are as follows:

### A) Accepting Deposits:

Commercial banks collect deposits from individuals and organizations. The deposits can be classified into two types i.e. Time Deposits and Demand deposits.

#### a) Time Deposits:

Time deposits are called as time deposits because they are repaid to the customers after the expiry of decided time.

#### 1) Fixed Deposit:

Fixed deposit account is an account where fixed amount is kept for fixed period of time bearing fixed interest rate. Rate of interest is more as compared to saving bank account and varies with the deposit period.

Normally, withdrawal of amount is not permitted before maturity date. However, depositor can withdraw amount before maturity date for which bank will reduce the interest rate. For amount deposited in this account, a fixed deposit receipt (FDR) is issued by the bank. Against this receipt loan can be taken from the bank

## 2) Recurring Deposit:

It is operated by salaried persons and businessmen having regular income. A certain fixed sum of money is deposited into the account every month. Withdrawal of accumulated amount along with interest is paid after the maturity date. Rate of interest is higher which is similar to fixed deposit account. Separate passbook is provided to know the position of RD account.

### b) Demand Deposits:

Demand deposits are those which are repaid to customers whenever they demand. That means, money can be withdrawn as per the wish of the customer through withdrawal slips, Cheques, ATM cards, online transfer etc.

#### 1) Saving Account:

It is generally operated by those who earn regular or fixed income such as salary or wages. The main aim of this deposit account is to encourage habit of savings among people. These deposit accounts are meant for the purpose of maximum savings. There are restrictions on withdrawal limits from these accounts. These accounts carry low interest rates. Interest is credited monthly, quarterly, half-yearly and yearly basis on this account. Passbook facility, balance on SMS, account statement etc. facilities are provided to account holders to ascertain financial position.

For saving account holders some banks provide separate facility of flexi deposit. This facility combines the advantages of saving account and fixed deposit account. This is not separate deposit account. It is a type of saving bank account or current deposit account with special features and benefits.

In case of multiple option deposit account, the excess amount after a particular limit gets automatically transferred to fixed deposit. When adequate funds are not available to honor payments



or cheques in savings account, funds get transferred from fixed deposit to saving banks account.

## 2) **Current Account:**

This account is operated by business firms and other commercial organizations such as hospitals, educational institutions etc. who have regular banking transactions. In this account there is no restriction on deposits and withdrawals of amounts. No interest is paid by the bank on this account. Overdraft facility is available for this account. For current account, banks provide statement of account every month.

## B) **Granting loans and advances:**

Banks grant loans and advances to business firms and others who are in need of bank funds. The loans are provided for longer period of time from 1 year and more. Advances are provided for shorter period from 4 months to 1 year. The advances are in the form of cash credit, overdraft and discounting of bills etc.

### 1) **Loans:**

Commercial banks provide loan to businessman and others. The borrowers can use entire amount sanctioned or can withdraw in installments. Interest is charged on the amount sanctioned. The loans are as follows:

- a) **Short Term Loans** are for a period upto 1 year to meet working capital requirements of the borrower.
- b) **Medium Term Loans** are for a period of 1 year to 5 years to meet working capital as well as fixed capital requirements of the borrower.
- c) **Long Term loans** are for a period of 5 years or more to meet long term capital requirements of the borrower.

### 2) **Advances:**

Advances are small term fund provided to businessman to satisfy different financial requirements of the business. Advances are as follows:

#### a) **Cash Credit:**

The cash credit advances are provided to current account and savings account holders. It provides working capital for longer period of time. Interest rate is higher on CC. Separate CC account has to be maintained by the borrower.

#### b) **Overdraft:**

This facility is offered to current account holders to meet their working capital requirements. The period can vary from 15 to 60 days. Interest is charged on actual amount withdrawn. No separate account is maintained, and entries are shown in current account. It is a temporary arrangement for a short period.

#### c) **Discounting of bills of exchange:**

The drawer of bills of exchange or beneficiary can discount the bill with bank and obtain an advance. On the due date of the bill, the bank will recover the amount from the drawee.

Visit nearest bank in your area and list down primary functions performed by such bank.

## II. **Secondary Functions:**

Secondary functions of commercial banks are classified into two groups:

(A) Agency Functions (B) Utility Functions

## **A) Agency Functions:**

A commercial bank acts as an agent or representative of its client and performs certain functions as follows:

### **1) Periodic Collections and Payments:**

Commercial bank collects salary, dividends, interests and any other income periodically as well as makes periodical payments such as taxes, bills, premiums, rent etc. on the standing instructions provided by customer. Commercial bank charges certain fixed amount quarterly or annually in the form of service charges from customer for providing such services.

### **2) Portfolio Management:**

Large commercial banks undertake to purchase and to sell securities such as shares, bonds, debentures etc. on behalf of the clients. This handling of securities is known as portfolio management. Due to this facility more clients are opting for such services of commercial banks.

### **3) Fund Transfer:**

Commercial banks provide facility of fund transfer from one branch to another branch or branch of another bank. Commercial banks come with various initiatives to make these transfer hassle free.

### **4) Dematerialisation:**

Banks provides dematerialisation facilities to their clients to hold their securities in an electronic format. On behalf of clients, it undertakes the electronic transfer of shares in case of purchase or sale.

### **5) Forex Transactions:**

Forex is an abbreviation for foreign exchange. A bank may purchase or sell foreign exchange on behalf of its clients. A bank purchases forex from its clients which the clients receive from foreign transactions and sell the forex when the clients need it for overseas transactions.

## **B) Utility Functions:**

A commercial bank performs utility functions for the benefits of its clients. It provides certain facilities or products to its clients as follow:

### **1) Issue of Drafts and Cheques:**

A draft /cheque is an order to pay money from one branch of bank to another branch of the same bank or other bank. A bank issues drafts to its account holders as well as non account holders whereas cheques are issued only to the account holders. Bank charges commission for issuing a bank draft.

### **2) Locker Facility:**

This is common utility function of any commercial bank. The bank provides locker facility for the safe custody of valuables, documents, gold ornaments etc.

### **3) Project Reports:**

A bank may prepare project reports and feasibility studies on behalf of the clients. Project reports enable the business firm to obtain funds from the market and to obtain clearance from government authorities.

### **4) Gift Cheques:**

Banks issue gift cheques and gold coins to account holders as well as to non account holders.

The gift cheques/ coins can be used by the clients for the purpose of gifting on occasions like weddings, birthdays etc.

**5) Underwriting Services:**

A commercial bank may underwrite the issue of securities issued by companies. If the shares are not fully subscribed, the underwriting bank agrees to take up the unsubscribed portion of the securities.

**6) Gold related Services:**

Now a days many banks are providing gold services to its customers. Some banks also provide advisory services to its customers in terms of gold funds, gold ETF etc.

Visit nearest bank in your area and list down secondary functions performed by such bank

**4.5.4 E-banking Service:**

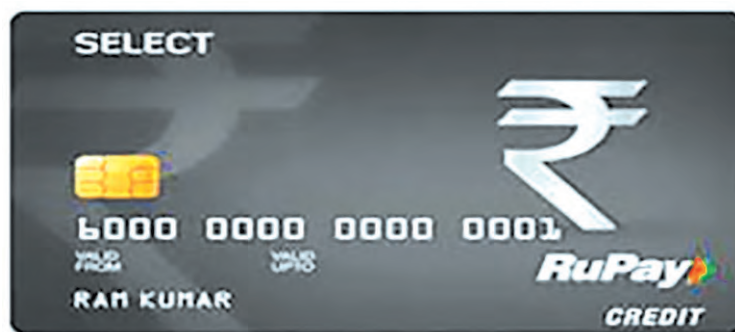
E-banking stands for electronic banking it is also called 'Virtual Banking'. E-banking is the result of the development in the field of electronics and computers. Under E-banking, the banking operations are computerised. Some of the elements of E-banking are as follows:

**1) Automated Teller Machine:**

The ATMs are electronic machines which are operated by the customer on his own to withdraw or deposit money. It can be used for other banking transactions also such as balance enquiry, transferring money, request for cheque book or bank statements etc. Nowadays, ATM also provides facility of cash deposits through CDM (cash deposit machines.)

**2) Credit Cards:**

A credit card is a payment card. It allows the cardholder to pay for different transactions he performs. The issuing bank creates a revolving account and grants a line of credit to the customer or user. Credit card offers convenience to customers as customer need not carry cash.



### (3) Debit Cards:



Most of the banks nowadays offer debit card as soon as account is opened by account holder. Through debit card payments, the amount gets deducted from account holder's account. Some banks offer personalised debit and credit cards as per the requirement of customer.

### 4) RTGS:

RTGS stands for Real Time Gross Settlement. RTGS is a fund transfer system where transfer of funds or money takes place from one bank to another bank on "real time" and on "gross basis". It is the fastest money transfer system through the banking channel.

- **Real Time Settlement** means payment transaction is not subject to any waiting period. The transactions are settled as soon as they are processed. The receiving bank has to credit the account of the client within 2 hours of receiving the funds transfer message.
- **Gross Settlement** means the transactions are settled on one to one basis without bunching with any other transactions. The minimum amount to be remitted through RTGS is Rs. Two lacs while there is no upper limit for transactions. However, amount changes from bank to bank.

### 5) NEFT:

NEFT stands for National Electronic Fund Transfer. Under this system, funds are transferred electronically from one branch to another branch or one bank to another bank in the country. The client has to give details of NEFT code of branch and account number of beneficiary to whom the money is to be transferred.

The NEFT settlements take place at particular time during working hours. For instance, settlements of fund transfer requests in NEFT system is done on half-hourly basis. There are 24 half-hourly settlement batches run from 8 am to 7 pm on all working days of week. The main difference between NEFT and RTGS is that in the case of RTGS, transfer is done on gross settlement basis while NEFT is on deferred net basis, where transactions are bundled together.

#### Just to know

- From Dec.2019, this facility will be available round the clock for customers

## 6) Net Banking and Mobile Banking:

With the introduction of net banking, the client is able to transact banking operations with the help of computers, laptop and other gadgets. The internet banking services enable a client to check various transactions, facilitates payments of various things, transferring funds etc.

Mobile banking refers to the use of banking services with the help of mobile phones. The client registers with the bank for this facility and gets a unique code for transactions. The client can perform various transactions such as request for balances, transfer of funds, stop payment, issue of cheque book etc.

## 7) IMPS Facility:

IMPS stands for immediate payment services. This facility allows customers to instantly transfer funds to any other bank account.

## 4.6 INSURANCE



दि न्यू इन्डिया एश्योरन्स  
कंपनी लिमिटेड  
The New India Assurance  
Company Limited



### 4.6.1 Meaning:

Insurance is a means of protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss. Insurance is a contract between the insurer and the insured, whereby the insurer agrees to compensate the insured against loss. The insured has to pay a certain fixed sum of money on timely basis to the insurer.

Some basic terms in insurance are as follows:

- Insured : The person who is protected against certain losses. Insured is known as assured in case of life insurance contracts. He is the policy holder.
- Insurer : The firm or person who agrees to compensate the insured against losses for a consideration. Insurer is known as assurer in case of life insurance contracts, because he is bound to get the sum assured on the maturity of the policy or the nominee will get the sum assured on the death of the policy holder.
- Premium : The consideration for which the insurer agrees to insure the insured. It is paid by the insured to the insurer.
- Policy : The statement of contract between the insured and insurer. It contains the terms and conditions of the insurance contract.
- Claim : It is demand made by the insured to the insurer to compensate for loss occurred due to mishap.
- Proposal : It is a written request by the insured to the insurance company to issue an insurance policy.
- Subject Matter : It refers to the subject or entity i.e life, property, cargo or ship etc. which is insured against which the policy is taken.

## 4.6.2 Principles of Insurance:

### 1) Principle of Utmost good faith:

In all types of insurance contracts both the parties must have utmost good faith towards each other. The insurer and insured must disclose all material facts clearly, completely and correctly. The insured must provide complete, clear and correct information of the subject matter of insurance to the insurer. Similarly, the insurer must provide relevant information regarding terms and conditions of the contract. Failure to provide complete, correct and clear information may lead to non-settlement of claim.

For example, Mr. Shantanu has not provided information regarding his heart surgery at the time of taking policy. After his death, insurance company comes to know about this fact. As Mr. Shatanu has not provided correct and complete information at the time of taking policy, insurance company can refuse to give compensation to his family members.

### 2) Principle of Insurable interest:

Insurable interest means some financial interest in the subject matter. The insured must have insurable interest in the subject matter of insurance. Insurable interest is applicable to all insurance contracts. It is said to have insurable interest in subject matter, when the existence of that subject matter puts the insured in financial benefit. Whereas nonexistence of subject matter put him into financial loss.

#### For example,

- i) a person has insurable interest in his own life and property.
- ii) a businessman has insurable interest in the goods he deals and in the property of business.

In life insurance, the insurable interest refers to the life insured. Insurable interest must exist at the time of taking a life insurance policy;

### 3) Principle of Indemnity:

Indemnity means a guarantee or assurance to put the insured in same financial position in which he was immediately prior to the happening of the uncertain event.

This principle is applicable to fire, marine and general insurance. It is not applicable to life insurance as loss of life can never be measured in monetary terms. In case of death of the insured, the actual sum assured is paid to the nominee of the insured.

Under this principle, the insurer agrees to compensate the insured for the actual loss suffered. The amount of actual compensation is limited to the amount assured or the loss, whichever is less.

For example, *If property is insured for Rs. two lacs and if the loss by fire is Rs.one lac, then the insured can claim compensation of Rs.one lac only.*

### 4) Principle of Subrogation:

This principle is applicable to all contracts of indemnity. As per this principle, after the insured is compensated for the loss due to damage of the property insured, then the right of ownership of such property passes on to the insurer. This principle is applicable only when the damaged property has any value after the event causing the damage.



For example, Mr. A owns a two-wheeler. The vehicle was stolen and subsequently Mr. A filed a complaint in local police station. Upon receiving report from police, the insurance company compensated fully Mr. A for the loss of the vehicle. Later on the stolen vehicle was recovered by police. In this situation, the owner of the vehicle does not have any claim over the vehicle as he has already subrogated i.e. transferred the ownership rights of the vehicle to the insurer. The insurer gets every right to sell or to scrap the said vehicle.

#### 5) Principle of Contribution:

This principle is applicable to all contracts of indemnity where the insured has taken out more than one policy for the same risk or subject matter. Under this principle, the insured can claim the compensation only to the extent of actual loss either from one insurer or all the insurers. If the one insurer pays full compensation then that insurer can claim proportionate amount from other insurers from whom insured has taken policy.

For example, Ms. Sayali insures her property of Rs. Two Lac Fifty Thousand with two insurers, with T Insurance Co. for Rs. One Lac ( $2/5^{\text{th}}$  of the property value) and R Insurance Co. for Rs. One Lac Fifty Thousand ( $3/5^{\text{th}}$  of the property value). If Ms. Sayali's property is destroyed and the loss is worth Rs. One Lac Twenty Thousand, then both insurance companies will contribute towards actual loss i.e. Rs. One Lac Twenty Thousand. Thus company T will pay RS. 48000/- ( $2/5^{\text{th}}$  of the loss) and company R will pay Rs. 72000/- ( $3/5^{\text{th}}$  of the loss).

#### 6) Principle of Mitigation of loss:

Insured must always try to minimise the loss of the property, in case of uncertain events. The insured must take all possible measures and necessary steps to control and reduce losses. Hence, it is the responsibility of the insured to protect the property and avoid loss. For example, A house of Mr. Jayant is on fire due to electric short circuit. In this case, Mr. Jayant cannot remain passive and must try his best to save his house from fire. Mr. Jayant must be active and cannot watch his house burn, just because house is insured.

#### 7) Principle of Causa-Proxima:

Principle of *casusa proxima* means, when a loss is caused by more than one causes, then proximate cause of loss should be taken into consideration to decide the liability of the insurer. The property is insured against some causes and not against all causes, in such a case, the proximate cause of loss is to be found. If the proximate cause is the one which is insured against, the insurance company is bound to pay compensation and vice versa.

For example, a house was insured against the risk of theft. *There was a theft in the house and before leaving, the house was set on fire by thieves. Now, there are two causes of loss, theft and fire, and the nearest cause of loss was fire. As the house was insured against theft and not by fire, the insured will not get any compensation from insurance company for loss by fire. But, he will get the compensation for the property lost by theft.*

### 4.6.3 Types of Insurance

#### I) Life Insurance

##### Meaning:

It is a contract between insurer and insured whereby, the insurer agrees to compensate the insured a certain sum on the expiry of certain period or on death whichever is earlier for a consideration.



## **Types of life insurance policies:**

### **1) Whole Life Policy:**

Under this policy whole life of a person is insured. The insured cannot receive money from insurance company till he is alive. The rate of premium is normally low. The money becomes payable on the death of insured person to the nominee or the legal heir of the deceased policy holder.

### **2) Endowment Insurance Policy:**

Insurance is taken for specific period under this policy. The sum assured along with bonus is given on the death of the insured to dependents or on the expiry of the specific period, to the insured.

### **3) Term Insurance Policy:**

Term insurance policy is taken for a specific period. Term insurance policy has lowest premium among all insurance policies. Premium is fixed and does not change during the term of the policy. In case of untimely death, the dependents will receive the benefit amount specified in the term life insurance agreement.

### **4) Annuity Policy:**

The insured has to pay the premium in lump sum or in instalments over a certain period of time. The insured will receive back a specific sum periodically from specified date onwards, either for life or for a fixed number of years. It is like pension payment scheme.

### **5) Money-back Policy:**

Money-back policy provides a regular percentage of the sum assured during the life time of the policy and also guarantees the benefit of full sum assured in the event of the death of the insured to the dependents of the insured. Generally, the money back policy is available for four terms-12 years, 15 years, 20 years, 25 years etc.

### **6) Child Insurance:**

A child insurance policy is a saving cum investment plan that is designed to meet child's future financial needs. A child insurance policy allows kids to live their dreams. Child insurance policy gives you the advantage to start investing in the children's plan right from the time the child is born and provisions to withdraw the savings once the child reaches adulthood. Some child insurance policies allow intermediate withdrawals at certain intervals.

### **7) Retirement Plans:**

A savings and investment plan that provides insured an income during retirement is called Retirement Plan. On maturity, this corpus is invested for generating a regular income stream which is referred to as pension or annuity.

### **8) ULIP Policy:**

ULIP stands for unit linked insurance policies. ULIP policies are very popular as they combine the benefits of life insurance policies with mutual funds.

### Just to know

#### Claim Settlement Process

On the happening of the event, the beneficiary is required to send claim intimation form to the insurance company as soon as possible. Claim intimation should contain details such as Date, Place, and Cause of Death. On successful submission of claim intimation form, an insurance company can ask for additional information about

1. Certificate of Death
2. Copy of Insurance Policy
3. Legal Evidence of title in case insured has not appointed a beneficiary
4. Deeds of assignment

On successful submission of all the document, the insurance company shall verify the claim and settle the same.

Collect and compare different life insurance policies taken by 10 persons.

## II) Marine Insurance:

### Meaning :

It gives protection against the losses caused due to the dangers of the sea. It is a form of insurance contract covering loss or damage to vessels or to cargo or passengers during marine transportation. All the principles of insurance are applicable to marine insurance contracts.

### Types of marine insurance Policies :

#### 1) Voyage Policy:

It is a policy in which the subject matter is insured for a specific voyage irrespective of time involved in it. In this case, risk begins only when the ship starts on voyage.

#### 2) Time Policy:

In this policy the subject matter is insured for a definite period of time. A time policy cannot be for a period exceeding one year, but it may contain continuation clause. The continuation clause means that if the voyage is not completed within the specified time, the risk shall be covered until the voyage is completed.

#### 3) Mixed Policy:

This policy is the combination of voyage and time policy. It therefore, cover the risk of both, particular voyage and for specified period of time.

#### 4) Valued Policy:

Under this policy, goods are insured for an agreed value between the insurer and insured at the time of taking policy. This facilitates easy settlements of claims in case of such items where it is difficult to assess the real market value.

#### 5) Blanket Policy:

This policy is taken for maximum limit of the required amount of protection and full amount

of premium is paid in the beginning of the policy. This policy describe the nature of goods insured, specific route, ports and places of voyage. It covers multiple risks on one property or it covers many properties under the policy.

**6) Port Risk Policy:**

Port risk policy covers all types of risks of a vessel while it is anchored at the port for a particular period of time. This policy is applicable till the departure of the vessel from the port.

**7) Composite Policy:**

This type of policy is purchased from more than one insurers. The liability of each insurer is separate and distinct. This policy is taken when the amount of insurance is very high.

**8) Single Vessel Policy:**

This policy is suitable for small ship owner having only one ship or having one ship in different fleets. It covers the risk of one vessel of the insured.

**9) Fleet Policy and Block Policy:**

In fleet policy, several ships belonging to one owner are insured under the same policy. In block Policy, the cargo owner is protected against damage or loss of cargo in all modes of transport through which his/her cargo is carried i.e. covering all the risks of rail, road, and sea transport etc.

Find out different marine policies taken by a businessman or trader in your area.

**III) Fire Insurance:**

**Meaning:**

A fire insurance contract is an agreement whereby the insurer in return for consideration undertakes to indemnify the insured against the loss to property due to fire. Any property which is subject to damage by fire can be insured against fire. The loss due to fire, lightening and explosion is also covered by fire insurance.

**Types of fire insurance Policies :**

**1) Valued Policy:**

Under this policy, value of the subject matter of insurance is agreed upon at the time of making a contract. The insurer has to pay specific amount or value irrespective of amount of loss caused due to fire. Valued policy is taken for those goods whose value becomes difficult to calculate in case of loss by fire. For example, policy can be taken for art work, sculptures, paintings etc.

**2) Average Policy:**

It is policy which contains an average clause. If the subject matter is not insured as per the exact market value or it is undervalued, then the insurer is liable to pay that percentage of the loss for which it is insured.

For example, *If a policy is taken for Rs. One lac against the market value of Rs. Two lacs and loss incurred due to fire is Rs. Fifty thousand then the insurance company will pay Rs. Twenty Five Thousand.*

### 3) **Specific Policy:**

In case of specific policy, the property is insured for a definite sum irrespective of the market value. If there is a loss, stated amount will have to be paid to the policy holder.

In this policy, the actual value of the subject matter is not considered.

For example, *a property of Rs. one lacs is insured for Rs. Seventy Five Thousands and the loss due to fire is Rs. Forty Thousand then the insurance company will pay Rs. Forty Thousands in full as compensation.*

### 4) **Floating Policy:**

This policy can be taken for the goods which are lying at different locations or godowns or warehouses. Since the quantity of goods lying at different locations fluctuate from time to time, it becomes difficult for the owner to take specific policy. So businessmen or traders take fluctuating policy. Such policy is taken for one sum and one premium for goods lying at different places.

### 5) **Excess Policy:**

When the value of goods or stocks fluctuates, then excess policy may be taken by insured apart from normal policy. The insured will take two policies:

- (a) one policy for the amount below which the value of the stock does not fall and
- (b) another policy to cover the excess value by which the stock of the goods fluctuate.

For example, *If the value of stock ranges between Rs. One Lac Fifty Thousands and Rs. Two Lacs then One policy is taken for Rs. One lacs fifty thousand and another policy for excess amount i.e. Rs. Fifty thousand.*

### 6) **Reinstatement Policy:**

This is a type of policy where the insurer undertakes to replace the property or goods lost by fire. In this policy instead of paying compensation for the property lost by fire, the property is replaced. While paying the compensation, the depreciation amount of the policy is not taken into consideration. The rate of premium is higher in reinstatement policy.

### 7) **Comprehensive Policy:**

Normally, a fire insurance policy does not cover losses due to riots, war etc. However, this policy covers a lot of risks under single policy. The risks may be loss of goods due to fire, explosion, earthquakes, floods etc.

### 8) **Consequential Loss Policy:**

The fire insurance is originally purchased to indemnify the material loss only. The intangible interest was not indemnified. Thus, the consequential loss policy includes the loss of tangible and intangible properties. This policy provides an indemnity to the insured for loss of net profits, payment of standing charges and expenditure in respect of the increased cost of working.

### 9) **Sprinkler Leakage Policy:**

Sprinkler leakage policy covers damage to property caused by an automatic sprinkler system that has leaked or discharged water accidentally rather than in response to fire and smoke. However, the discharge or leakage of water due to heat caused by fire, repair or alteration of building, earthquake, war, explosion are not covered by this policy.

### Just to know

Some insurance companies also provide other insurance such as:

#### Car Insurance

- Third party liability car insurance
- Comprehensive car insurance

#### Health Insurance

- Individual health insurance
- Family health insurance
- Critical illness health insurance

#### Crop Insurance

#### Travel Insurance

- International travel insurance
- Domestic travel insurance
- Student travel insurance.

#### Home Insurance

- Theft cover
- Earthquake cover

#### Cattle Insurance

## 4.7 TRANSPORT



In India, transport plays an important role in nation's economy. After 1991, development of infrastructure within the country has progressed at a rapid pace and today there are different modes of transport used such as land, water, air etc.

### 4.7.1 Meaning:

Transportation is the movement of people, animals and goods from one location to another location or it can be defined as a means of carrying goods and people from one place to another place.

### 4.7.2 Modes of transport:

Generally, transportation is carried through various modes such as railways, roads, waterways and airway. Modes of transport are as follows:

1. Road Transport
2. Rail Transport
3. Air Transport

4. Water Transport
5. Mono rail and Metro
6. Ropeways
7. Pipeline

### 1) Road Transport:

Roads are means that connect people and places on the surface of the land. It provides all over connectivity in any terrain as compared to other modes of transport.

Various means of transport are used under road transport such as bullock cart, cycles, rickshaws, buses, cars etc.

Bus Rapid Transit (BRT) systems have been introduced in many states to improve public transport system in India. India has a network of village roads, district roads, state highways and national highways which form the economic backbone of the country.

In India, Ministry of Road Transport and Highways (MoRTH) looks after development of surface transport throughout the country.

#### Advantages:

- 1) It is cheap mode of transport as compared to other modes of transport.
- 2) Perishable goods can be transported at a faster speed by road carriers over a short distance.
- 3) It is flexible mode of transport as loading and unloading is possible at any destination.
- 4) It provides door to door service. Also it functions as feeder transport to other modes of transport.
- 5) It helps people to travel and carry goods from one place to another place where any other mode of transport is not available.

#### Disadvantages:

- 1) Due to limited carrying capacity road transport is not economical for long distance transportation.
- 2) Transportation of heavy and bulky goods through road transport involves high cost.
- 3) Road transport is affected by adverse weather conditions such as floods, rain, landslides etc.
- 4) There is a possibility of road accidents which are common.
- 5) It causes pollution due to emission of gases which affects the health of people.

### 2) Rail Transport:

Transportation of goods and passengers on rail lines through trains is called as rail transport. It occupies an important place in land transport system of our country and is most dependable mode of transport to carry goods and passengers over long distance.

In India, *Ministry of Railways* looks after the development of rail transport throughout the country. Indian railway runs various type of trains like passenger trains, mails, express and cargo or goods trains. Some popular trains are Rajdhani express, Duronto express, Shatabdi express, Intercity express, Vande Bharat Express and holiday special trains etc.

Indian railways also runs some luxury trains such as Palace on Wheels, Deccan Odyssey, Ramayana Express, Maharaja Express to promote domestic tourism.

### Advantages:

- 1) It is convenient mode of transport for travelling long distances.
- 2) It is suitable mode of transport for carrying heavy and bulky goods in large quantities over a long distance.
- 3) It is faster mode of transport as compared to road transport.
- 4) Its operation is less affected by adverse weather condition.
- 5) It ensures safety and security of goods.

### Disadvantages:

- 1) It is relatively costly for carrying goods and passengers over short distances.
- 2) It is not available in remote parts of the country ..
- 3) It involves heavy losses of life as well as goods in case of accidents.
- 4) Time flexibility is not there as trains are running as per their fixed time.
- 5) It does not provide door to door service.

#### Just to know

From financial year 19-20, there will be no separate budget for Railways, it has clubbed with union budget.

### 3. Air Transport:

Air transport carries the goods and passengers through airways by using different aircrafts like passenger aircrafts, cargo aircraft, helicopters etc. This is the fastest mode of transport but it does not provide door to door service. In hilly or mountainous areas where other modes of transport is not accessible, air transport is important and convenient mode. Air transport is also suitable mode in case of emergency like war, medical, natural calamities, rescue operations etc. Air transport is classified into domestic transport and international transport. Air transport is carried out in fixed air routes. Various national and international public sector and private sector air ways companies are giving services on domestic and international routes. For example:

*Domestic Air India (Public sector) Spicejet (private sector).*

*International Quantas Airways Limited (Australia-public sector) etc.*

### Advantages:

- 1) It is fastest means of transport among all means of transport.
- 2) Air transport plays vital role during war or emergency situations as it can be useful for rescue purpose or providing quick services in affected areas.
- 3) As air transport uses natural ways, no separate construction of routes required like road or rail transport.
- 4) It is less polluting as compared to road transport.
- 5) It is useful in such areas where others means of transport are not accessible.

### Disadvantages:

- 1) It is relatively expensive mode of transport.
- 2) It is affected by adverse weather conditions.



- 3) It is not suitable for short distances.
- 4) It requires huge investment costs such as construction of airports, runways, air traffic control tower etc.
- 5) Air transport is subject to international restrictions as aeroplanes of some nations are not allowed to fly over other countries.

#### Just to know

In India, Ministry of Civil Aviation looks after development of air transport throughout the country and The Directorate General of Civil Aviation (DGCA) is the Indian governmental regulatory body to investigate aviation accidents and incidents and also promotes safe and efficient air transportation through regulation and proactive safety systems.

#### 4) Water Transport:

Water transport refers to movement of goods and passengers on waterways by using various means like boats, steamers, launches, ships etc. With the help of these means goods and passengers are carried to different places, both within as well as outside the country. When the goods and passengers move inside the country, it is known as inland water transport. When the different means of transport are used to carry goods and passengers on the ocean or sea route, it is known as ocean or sea transport. In India, Ministry of Shipping looks after development of ocean transport throughout the country.

#### Advantages:

- 1) It is relatively economical mode of transport for bulky and heavy goods.
- 2) It is safe mode of transport with respect to occurrence of accidents
- 3) It helps to promote international trade.
- 4) There is no cost for constructing and maintaining of routes as most of them are naturally made.
- 5) It offers more flexibility as compared to rail transport.

#### Disadvantages:

- 1) It does not provide door to door service.
- 2) It gets heavily affected by adverse weather conditions.
- 3) It is comparatively slow moving transport.
- 4) More investment cost is involved in terms of ports, ships, maintenance etc.
- 5) It is subject to perils of sea.

#### Just to know

India currently ranks 6th among the maritime countries with a coastline of 7,517 km with 14 major ports (12 government and 1 corporate) and about 200 non-major ports currently operating in the western and eastern regions of the country. According to the ministry 95% of India's trade by volume and 70% by value occurs through maritime transport.

#### 5) **Monorail and Metro:**

These are the types of rapid transit systems found in urban areas. These types of transport are energy efficient and less polluting too. A monorail is a railway in which the track consists of a single rail or a beam. The term is also used to describe the beam of the system, or the trains traveling on such a beam or track. From the passenger's perspective, monorails can have some advantages over other modes such as less intersection turns, no traffic jams, absence of problem of collision. Examples of monorail in India is Mumbai Monorail.

#### 6) **Ropeway:**

Ropeway refers to mode of transport which connects two places on the hills or across a valley or river. In ropeway transport, trolleys move on wheels connected to a rope and are used for carrying passengers or goods. Examples are Raigad ropeway at Raigad fort, ropeway at Sonmarg in Srinagar etc.

#### 7) **Pipeline Transport:**

Pipeline transport sends goods through a pipe, most commonly liquid and gases. Short distance systems exist for sewage, slurry or water while long distance networks are used for petroleum and natural gas.

### 4.8 WAREHOUSING



#### 4.8.1 Meaning:

Warehousing refers to storage of goods and consists of all those activities which are connected with storage and preserving of goods. It is a means of storing the goods. Warehousing can be defined as a group of activities connected with the storing and preserving of stored goods from the time of production till the time of consumption.

#### **Definition:**

A warehouse is defined as "an establishment for the storage or accumulation of goods."

#### 4.8.2 Functions of Warehouses:

##### 1) **Storage:**

This is the basic function of warehousing. Surplus commodities which are not needed immediately can be stored in warehouses. They can be supplied as and when needed by the customers.

##### 2) **Price Stabilization:**

Warehouses play an important role in the process of price stabilization. It is achieved by the

creation of time utility by warehousing. In warehouses, usually large stock of goods is kept. Whenever, there is shortage in the market, goods can be immediately supplied through warehouses, which helps in price stabilization to avoid rise in price due to demand and supply difference.

**3) Risk bearing:**

When the goods are stored in warehouses they are exposed to many risks in the form of theft, deterioration, fire etc. Warehouses are constructed in such a way that they minimise these risks. A warehouse keeper has to take the reasonable care of the goods and safeguard them against various risks. For any loss or damage sustained by goods, warehouse keeper shall be liable to the owner of the goods.

**4) Financing:**

Loans can be raised from the warehouse keeper or from financial institutions against the goods stored by the owner. Goods act as security for the warehouse keeper or for financial institutions. In this manner, warehousing acts as a source of finance for the businessmen for meeting business operations.

**5) Grading and Packing:**

Warehouses now-a-days provide the facilities of packing, processing and grading of goods. Goods can be packed in convenient sizes as per the instructions of the owner.

**6) Transportation:**

Warehouses can provide transportation facility to bulk depositors. It collects goods from the place of production and also sends goods to the place of delivery on the request of the owner.

**7) Time and Place Utility:**

Warehouses create time utility by preserving the goods till they are demanded. It also creates place utility by providing the goods at the place, where they are required.

**8) Processing:**

Certain commodities are not consumed in the form they are produced. Processing is required to make them consumable. e.g. Paddy is polished, fruits are ripened etc. Sometimes warehouses undertake such activities on behalf of the owners.

**4.8.3 Types:**

**1) Private Warehouses:**

The private warehouses are owned and operated by big manufacturers and merchants to fulfill their own storage needs. Big business firms which need large storage capacity on a regular basis and who can afford money, construct and maintain their private warehouses. A big manufacturer or wholesaler may have a network of his own warehouses in different parts of the country.

**2) Public Warehouses:**

A public warehouse is a specialised business establishment that provides storage facilities to the general public for a certain charge. It may be owned and operated by an individual or a cooperative society. It works under a license from the government in accordance with the prescribed rules and regulations. Public warehouses provide storage facilities to small manufacturers and traders at low cost. These warehouses are well constructed and guarded round the clock to ensure safe custody of goods. Public warehouses are generally located near the junctions of railways, highways and waterways.

### 3) **Bonded Warehouses:**

Bonded warehouses are licensed by the government to accept imported goods for storage until the payment of custom duty. These warehouses work under the control of custom authorities. The warehouse keeper is required to give an undertaking or 'Bond' that it will not allow the goods to be removed without the consent of the custom authorities. The goods are held in bond and cannot be withdrawn without paying the custom duty. If an importer is unable or unwilling to pay customs duty immediately after the arrival of goods he can store the goods in a bonded warehouse. He can withdraw the goods in installments by paying the customs duty proportionately.

### 4) **Duty paid Warehouses:**

If an importer faces any problem in transportation of goods, after making payment of duty, then goods can be stored at a duty paid warehouse. All duty paid warehouses are public warehouses which are available to all importers. Duty paid warehouses help the importer as proper care of goods is taken, processing of goods can be done like sorting, re-packing etc. Such warehouses are more useful for re-export of the goods. These are located near port & dock area.

### 5) **Government Warehouses:**

These warehouses are owned, managed and controlled by central and state governments or public authorities. It is difficult for small farmers, businessmen, traders to own a warehouse, so these government warehouses assist them in storing their goods at nominal charge. Central Warehousing Corporation of India (CWC), State Warehousing Corporation (SWC) and Food Corporation of India (FCI) are having warehouses across different states and country.

### 6) **Co-operative Warehouses:**

These warehouses are owned, managed and controlled by co-operative societies. They mainly provide warehousing facilities at most economical rates. These type of warehouses are very useful for farmers and traders and general public.

### 7) **Cold storage Warehouses:**

Cold storage warehouses provide facilities for perishable commodities like fruits, flowers, vegetables, dairy products etc. In cold storage warehouses, goods are stored and refrigerated at very low temperatures so as to preserve them and use them in future. International trade has become possible due to these warehouses.

## 4.9 COMMUNICATION



### 4.9.1 Meaning:

Communication is an art of exchanging ideas, facts, information etc. from one person or entity to another. The process of passing any information from one person to another with the help of some medium is termed as communication. Communication is very simple process where message is being transferred from a sender to the receiver. The receiver after receiving the message understand it in the desired form and then act accordingly.

### 4.9.2 Types of Communication:

Following are various types of communication:

- I) Postal Services
- II) Modern means of communication

#### I) Postal Services:

The postal services in India come under the Department of Post and Telegraph which is the part of Ministry of Communication and Information Technology. The Department of Posts, with its network of 1,54,965 Post Offices, is the largest postal network in the world.

#### Just to know

*Currently approx. 5.88 lakhs employees are working with Indian postal services. India has the largest Postal Network in the world with 154,965 Post Offices (as on 31.03.2017) of which 149,067 are in the rural areas.*

On an average, a Post Office serves an area of 21.56 Sq. Km and population of 7753 people.

#### Types of postal services:

1. Mail Services
2. Specialised Postal Services
3. Money Remittance Services
4. Retail Services

#### 1. Mail Services:

##### a. Inland Letter:

Communication is contained on a sheet of paper with prescribed size & folding. Inland letter card is used for transmission within India only. The written portion of the inland letter is folded and sealed. Only the name and address of the receiver is visible from outside. Therefore, inland letter ensures confidentiality of the message.

##### b. Envelope:

It enables to send confidential messages as well as enclosures like cheques, photos, resumes etc. Envelope ensures safety of documents and confidentiality of messages.

##### c. Parcel:

Under parcel post services, parcels of specified size and weight can be sent across the country as well as outside the country. Anything can be sent in a parcel except those items which are prohibited. Parcels can be insured. An extra charge is to be paid for insurance. If the insured parcel is lost in transit, the post office pays the insured amount.

**d. Book-Post:**

Printed books, magazines, journals etc. can be sent through book post. Packets containing books and other printed matter can be inserted in the packets. For each book post parcel / packet, it is necessary to mention "Book Post" on the face of the packet or parcel.

**2. Specialised Postal Services:**

**a. Business Post:**

Business Post provides complete mailing solutions right from mail preparation to mail delivery, ideal for small businesses as well as large companies. Customers can choose from a range of cost-effective and professional mailing services, including printing, collating, inserting, sealing, and addressing to meet their specific business needs. India Post has set up Business Post Centers in major cities specially to handle Business Post consignments.

**b. Logistics Post:**

Logistics Post provides business customers a cost-effective and efficient solution, which manages the entire value chain from collection to storage to transmission to distribution across the country.

**c. Bill Mail Service:**

Communications in the nature of financial statements, bills, monthly account bills or any such other items of similar nature may be posted by a service provider to customers at least once in 90 days under this service. The minimum quantity of articles to be posted at a time is 5000. The mails will be received at identified location provided. Bill Mail shall be fully sorted pin code wise and bundled delivery post office wise. There is no credit facility.

**3. Money Remittance Services:**

**a. Electronic Money Transfer (eMO):**

A money order is an order issued by the Post Office for the payment of a sum of money to the person whose name is mentioned in the money order. It is sent through the agency of the Post Office. A 'Payee' is the person named in money order as the person to whom the money is to be paid. The advantage of sending money to someone through money order is that the money is delivered at the house or his place of stay.

**b. Instant Money Order (iMO):**

India Post presents Instant Money Order (iMO), the instant on-line money transfer service that is instant, convenient, reliable and affordable. iMO is an instant web based money transfer service through Post Offices (iMO Centre) in India between two resident individuals in Indian territory. One can transfer money from INR 1,000/- to INR 50,000/from designated iMO Post Offices. It is simple to send and receive money.

**c. International Money Transfer:**

Money Transfer Service Scheme is a quick and easy way of transferring personal remittances from abroad to beneficiaries in India. Only inward personal remittances are permissible. Department of Posts, Government of India with the Western Union Financial Services, a state of the art International Money transfer Service is now available through the Post Offices in India, which enables instantaneous remittance of money from around 195 countries and territories to India.



#### 4. Retail Services:

##### a. Retail Post:

Through 'Retail Post' the department offers convenience to the general public by making third party products and services available in their vicinity through selected Post Offices. Under Retail Post, a range of services are offered including the collection of electricity bills, collection of taxes, collection of other bills and fee for the Government etc. Further, under Retail Post, the Post Office sells application forms.

##### b. e-Post:



Department of Posts has introduced ePOST service. Through ePOST, customers can send their messages to any address in India with a combination of electronic transmission and physical delivery through a network of more than 1,55,000 Post Offices. ePOST sends messages as a soft copy through internet and at the destination it will be delivered to the addressee in the form of hard copy. ePOST can also be availed by the corporate customers, by having a business agreement with India Post. Corporate customers will get special ePOST rates and other value additions.

#### II) Modern means of communication:



Courier Service



Internet



e-mail

##### a. Courier Service:

An individual or a company responsible for the exchange of items between two or more parties is known as courier service. Courier services are usually employed by a company and they charge a flat rate to the party using the courier service. Courier services are different from ordinary mail services by features such as speed, security, tracking, signature and swift delivery times. As a premium service, courier service is usually more expensive than usual mail services. Some examples of courier services are DHL, DTDC, UPS etc. '

##### b. Internet:

The Internet (interconnected network) is the global system of interconnected computer networks that use the Internet protocol suite (TCP/IP) to link devices worldwide. It is a network of



networks that consists of private, public, academic, business, and government networks of local to global scope, linked by a broad array of electronic, wireless, and services, such as the inter-linked hypertext documents and applications of the World Wide Web (WWW), electronic mail and file sharing.

**c. Email:**

Electronic mail (email or e-mail) is a method of exchanging mail between people using electronic devices. Today's email systems are based on a store-and-forward model. Email servers accept, forward, deliver, and store messages. Neither the users nor their computers are required to be online simultaneously; they need to connect only briefly, typically to a mail server or a webmail interface for as long as it takes to send or receive messages.

**Comparative Study/Distinguish Between**

(1) Life Insurance, Fire Insurance and Marine Insurance

| <b>Life Insurance</b>   | <b>Fire Insurance</b>   | <b>Marine Insurance</b>  |
|---|---|--|
| <b>1. Meaning</b>   |   |  |
| A contract where by the insurance company undertakes to pay a certain sum of money either on death or maturity (whichever is earlier) for a consideration (premium) | A contract in which insurer promises to pay compensation to insured if something happens to the subject matter due to fire or related events. | A contract where by the insurance company undertakes to pay compensation to insured in case of loss to him due to dangers (perils) of the sea. |
| <b>2. Policy taken by</b>   |   |  |
| It can be taken by an individual for his own life or for his family members.  | It can be taken by individual for their properties or by businessman. For their goods, properties business liabilities.                       | It can be taken by exporters, importers and shipping companies etc.  |
| <b>3. Subject matter</b>  |   |  |
| In life insurance, the life of the insured is a subject matter  | In Fire insurance, the goods and assets or property of the insured is the subject matter.   | In Marine insurance, goods in ship, cargo and freight is the subject matter.   |
| <b>4. Tenure</b>  |   |  |
| The policy can be issued for any number of years, even until the death of the assured.  | It is generally for a short period like one year.   | It is generally for a short period and may range from one month to a year. Normally it does not exceed one year.                               |
| <b>5. Compensation</b>  |   |  |
| It is paid either on death or maturity whichever is earlier.  | It is paid only if there is loss due to fire during the term of policy  | It is paid only if there is loss causing event during the term of the policy.  |

| <b>6. Principle of Indemnity</b>   |  |  |
|--|--|--|
| It is not applicable as a human life cannot be valued in terms of money for calculating the actual loss.                             | It is applicable as insurance company compensates for the financial loss and the insured is brought back to the same financial condition that he was before the event. | It is applicable as insurance company compensates for the financial loss and the insured is brought back to the same financial condition that he was before the event. |
| <b>7. Number of policies</b>   |  |  |
| Insured can take any number of policies on the same life. Compensation is paid on all the policies.                                  | Generally only one policy can be taken but double insurance is possible. However, compensation does not exceed the actual loss.  | Generally, only one policy can be taken. However, double insurance is possible. However, compensation does not exceed the actual loss.                                 |
| <b>8. Beneficiary</b>  |  |  |
| The beneficiary can be insured (if he survives the selected term) or else the nominee or the legal heir on the death of the assured. | The beneficiary is the insured who has insured the property or goods.  | The beneficiary is the insured person or company.  |
| <b>9. Surrender of policy</b>  |  |  |
| The policy can be surrendered before the expiry of the term subject to certain conditions.   | It cannot be surrendered.  | It cannot be surrendered.  |

**(2) Current Account, Saving Account and Fixed Deposit Account.**

| <b>Current Account</b>  | <b>Saving Account</b>  | <b>Fixed Deposit Account</b>   |
|---|--|--|
| <b>1. Meaning</b>   |  |  |
| It is that account which is maintained by business man and others who have regular bank transactions. | It is that account which is opened by individuals in order to save a part of their income. | It is that account where a fixed sum of money is deposited for a fixed period. |
| <b>2. Withdrawals</b>   |  |  |
| Customers can withdraw money by cheques.  | Customers can withdraw either by cheques or by withdrawal slips.                           | Customers cannot withdraw during the specified period.                         |
| <b>3. Documents</b>   |  |  |
| The bank gives a passbook, cheque book, statement of account and pay-in-slip book to the customers.   | The bank gives a passbook, cheque book and pay-in-slip book to the customers.              | The bank gives a fixed deposits receipt to the customers.                      |
| <b>4. Who takes it</b>  |  |  |
| It is suitable for traders, businessman, firms or institutions.                                       | It is suitable for fixed income group, wages or salary earners.                            | It is suitable for any person with temporary idle cash.                        |

| <b>5. Restrictions</b>  |  |   |
|---|--|---|
| There are no restrictions on the operation of a current account as long as there is balance in the account. | The customer have certain restrictions on withdrawals. | Amount becomes due on the expiry of the fixed period. If withdrawn earlier, then the rate of interest will be less than applicable. |
| <b>6. Interest Rate</b>   |  |   |
| Normally interest is not given  | Interest rate is low                                   | Interst rate is higher, longer the period, higher will be the rate of interest.   |
| <b>7. Nature of account</b>   |  |   |
| It is of continuous Nature  | It is of continuous Nature                             | It is for fixed period of time except when the fixed deposit receipt is renewed.  |
| <b>8. Facilities</b>  |  |   |
| Temporary overdraft facility is given   | No overdraft facility is given.                        | 90% of the amount of fixed deposit can be given as loan.  |

### 3) Commercial Bank and Central Bank.

| <b>Commercial Bank</b>  | <b>Central Bank</b>   |
|---|---|
| <b>1. Function</b>  |   |
| The main function is to accept deposits from public for lending to industry and others. | The main function of the central bank (RBI) is to regulate the money supply in the country. |
| <b>2. Printing of currency</b>  |   |
| The commercial banks cannot print currency  | The central bank can print currency notes.  |
| <b>3. Acceptance of deposits</b>  |   |
| The commercial bank accept deposits from public   | The Central Bank does not accept deposits from public.                                      |
| <b>4. Loans</b>   |   |
| The commercial banks provide loan to industry and commerce.                             | The Central bank provide loans to bankers and financial institutions                        |
| <b>5. Ownership</b>   |   |
| It can be owned by private and /or by the government agencies.                          | It is owned and controlled by the government of India                                       |
| <b>6. Number of banks</b>   |   |
| There are many commercial banks in India.   | There is only one Central Bank (RBI) in India.  |
| <b>7. Monetary policy</b>   |   |
| The commercial banks do not frame any monetary policy                                   | The Central Bank frames the monetary and credit policy.                                     |

|   |   |
|---|---|
| The commercial bank does not keep check on the central bank | The central bank keeps a check on the commercial banks. |
|---|---|

#### 4) Road Transport, rail Transport, Water Transport and Air Transport.

| Road Transport  | Rail Transport   | Water Transport   | Air Transport  |
|---|--|---|--|
| <b>1. Speed</b>   |  |   |  |
| Road transport has limited speed due to bad road condition, accidents, etc.                               | It has considerable speed since it runs on tracks which rarely gets disturbed  | It is the slowest mode of transport   | It is the fastest mode of transport.   |
| <b>2. Carrying capacity</b>   |  |   |  |
| It has limited carrying capacity  | It has huge carrying capacity  | It has very huge carrying capacity  | It has limited carrying capacity   |
| <b>3. Cost</b>  |  |   |  |
| It requires limited capital investment in terms of construction of roads, vehicles and their maintenance. | The cost of construction of trains, railway tracks is high. Also the maintenance of trains, tracks and stations is high. | It uses waterways which are natural highway and hence there is no cost involved. However there is high cost involved for construction of ships and parts and also maintenance of ships and parts. | It uses airways which are natural and hence, there is no cost involved. However huge cost of constructions of aircrafts involved. These costs are way high compared to other modes of transport. |
| <b>4. Distance</b>  |  |   |  |
| Recommended for short distance.   | Recommended for both short and long distance.  | Suitable for long distance specially across countries and continents.   | Suitable for long distance.  |
| <b>5. Charges</b>   |  |   |  |
| Transport charges are not fixed due to increased fuel prices  | Transport charges are relatively low and are fixed according to the distance.  | Transport charges are low.  | Transport charges are very high.   |
| <b>6. Door to door service</b>  |  |   |  |
| It provides door to door services.  | It does not provide door to door services  | It does not provide door to door services.  | It does not provide door to door services.   |
| <b>7. Means of Transport</b>  |  |   |  |
| It uses animals, animal carts, motor-cycles, three and four wheelers.                                     | It uses passenger trains and goods train.  | It uses boats, big ships, liners, tankers etc.  | It uses aircraft, helicopters, jets, etc.  |

| 8. Suitability   |  |  |  |
|--|--|--|--|
| It is suitable for transporting the goods in relatively smaller quantities for short distance. | It is suitable for transporting heavy goods in large quantity over long distance.      | It is suitable for transporting way heavy goods, machineries in large quantities to any part of the world. | It is suitable for transporting light weight perishable and valuable goods to any part of the world. |
| 9. Safety  |  |  |  |
| It provides limited safety to goods from the sun, rain, wind, etc.                             | Goods are kept in locked wagons which provide protection against sun, wind, rain, etc. | Goods are safe as they are specially packed.   | Goods are safe as they are specially packed.   |
| 10 Accidents   |  |  |  |
| Chances of accidents are more due to poor road conditions and negligent drivers                | Chances of accidents are less because of one way track and good signal system.         | Chances of accidents are less in waterways.  | Chances of accidents are less because of maintenance and expert pilots.                              |
| 11. Ownership  |  |  |  |
| Ownership is in the hands of private parties as well as the government.                        | Ownership is in the hands of the Government.   | It is owned by both private sector as well as public sector.   | It is owned by both private sector as well as public sector.   |

### Summary

#### Business Services:

1. Banking
2. Insurance
3. Transport
4. Warehousing
5. Communication

#### 1. Banking:

##### Types of Banks:

1. Central Bank
2. Commercial Bank
3. Co-operative Bank
4. Development Bank
5. Exchange Banks
6. Regional Rural Bank
7. Savings Bank
8. Investment Bank

##### Functions of commercial banks:

- I. Primary Functions
- II. Secondary Functions

#### 2. Insurance:

##### Principles of Insurance:

1. Principle of Utmost good faith
2. Principle of Insurable interest

3. Principle of Indemnity
4. Principle of Subrogation
5. Principle of Contribution
6. Principle of Mitigation of loss
7. Principle of Causa-Proxima

**Types of Insurance:**

1. Life Insurance
2. Marine Insurance
3. Fire Insurance

**3. Transport:**

**Modes of Transport:**

1. Road Transport
2. Rail Transport
3. Water Transport
4. Air Transport
5. Monorail and Metro
6. Ropeways
7. Pipeline

**4. Warehousing:**

**Functions:**

1. Storage
2. Price Stabilization
3. Risk bearing
4. Financing
5. Grading and Packing
6. Transportation
7. Time and Place Utility
8. Processing

**Types:**

1. Private Warehouses
2. Public Warehouses
3. Bonded Warehouses
4. Duty paid Warehouses
5. Government Warehouses
6. Co-operative Warehouses
7. Cold storage Warehouses

**5. Communication:**

**Types of communication:**

**I) Postal Services**

1. Mail Services
2. Specialised Mail Services
3. Money Remittance Services
4. Retail Services

**II) Modern means of communication**

- a. Courier Service
- b. Internet
- c. Email

**EXERCISE**

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

- 1) Door to door service is provided by ..... transport.  
 a) railway      b) road      c) air
- 2) ..... creates time utility.  
 a) Warehouse      b) Transport      c) Communication
- 3) ..... warehouses provide facilities for perishable commodities.  
 a) Bonded      b) Cold storage      c) Government

- 4) ..... policy covers all types of risks of a vessel while it is anchored at the port for a particular period of time.  
 a) Port risk      b) Voyage      c) Floating
- 5) Principle of ..... is not applicable to life insurance.  
 a) insurable interest   b) utmost good faith   c) indemnity

**(B) Match the pairs.**

| Group A |                    | Group B |                              |
|---------|--------------------|---------|------------------------------|
| A)      | Air Transport      | 1)      | Time utility                 |
| B)      | Warehousing        | 2)      | Intangible in nature         |
| C)      | Money remittance   | 3)      | Fastest mode of transport    |
| D)      | Pipeline Transport | 4)      | April, 2019                  |
| E)      | Business Service   | 5)      | Western Union Money Transfer |
|         |                    | 6)      | Fixed deposit account        |
|         |                    | 7)      | Petroleum and gas            |
|         |                    | 8)      | Tangible                     |
|         |                    | 9)      | Place utility                |
|         |                    | 10)     | Savings account              |

**(C) Give one word/phrase/term for the following sentence.**

- 1) These warehouses are owned, managed and controlled by central and state governments or public authorities.
- 2) An art of exchanging ideas, facts, information etc. from one person or entity to another.
- 3) A rail system in which the track consists of a single rail or a beam.
- 4) A transport system used to carry petroleum and gases.
- 5) A ministry who looks after development of surface transport throughout country.

**(D) State whether following statements are true or false.**

- 1) Business services are important for the growth of business .
- 2) Current Account is opened by salaried persons.
- 3) NEFT stands for National Electric Fund Transfer.
- 4) Air transport is cheapest mode of transport.
- 5) The Internet is the global system of interconnected computer networks that use the internet protocol suite to link devices worldwide.

**(E) Find the odd one.**

- 1) Primary credit co-operative society, state co-operative bank, district co-operative bank, exchange bank .
- 2) NABARD, RBI, SIDBI, EXIM.
- 3) Direct mail, Logistics post, Business post, Parcel



4) Endowment policy, Whole life policy, Money back policy, Blanket policy.

**(F) Complete the sentence.**

- 1) The term bank comes from the French word .....
- 2) ..... warehouses provide facilities for perishable commodities
- 3) In ..... policy, several ships belonging to one owner are insured under the same policy.
- 4) ..... banking refers to the use of banking services with the help of mobile phones.

**(G) Select the correct option and complete the following table.**

(RTGS, SIDBI, apex financial institution in banking industry of country, recurring deposit, long term loans)

| Group A   | Group B  |
|---|--|
| 1 .....<br>.....                                | fund transfer on real time and gross basis         |
| 2. loans to meet long term capital requirements | .....  |
| 3 .....<br>.....                                | Account operated by salaried and businessmen both. |
| 4. Central bank                                 | .....  |
| 5 .....<br>.....                                | Principal financial institution for MSMEs          |

**(H) Answer in one sentence.**

- 1) What is debit card?
- 2) What is 'subject matter' in insurance?
- 3) What is government warehouse?
- 4) What is air transport?
- 5) What is communication?

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

- 1) Overdraft facility is available for savings bank account holder.
- 2) Services are tangible in nature.
- 3) Insurance helps to maximize the risks in the business.
- 4) The foreign bank is the apex financial institution in banking industry in the country
- 5) RTGS stands for Reasonable Time Gross Settlement.

**(J) Arrange in proper order.**

- 1) Claim, Accident, Taking the policy, Compensation
- 2) Email, Inland letter, Courier

**Q.2. Explain the following terms/concepts.**

- 1) Transport
- 2) Communication
- 3) Banking
- 4) Insurance
- 5) Warehousing

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

- 1) Ms. Harshali has started new business two years ago. Her customers are located in different parts of the country and hence they are directly depositing bill amount in her business account. At the same time she used to pay various payments from this account only.
  - i) Identify Type of account maintained by Ms. Harshali.
  - ii) Suggest any one modern way of money transfer to Ms.Harshali.
  - iii) State any one facility she gets on her bank account?
- 2) Mr. Jagan is a salaried person. He wants to take policy for his two children which assures them protection as well as completes their financial needs once they become major by age.
  - i) Suggest him a policy which can satisfy requirements of his children.
  - ii) Who are beneficiaries of policy?
  - iii) In above case which principle is involved?
- 3) Mr. Sharan is successful manufacturer. He is having production units at various locations. He is having multiple production units, he has large stock of raw material and finished goods. He is worried about safeguarding goods from any unwanted financial loss. He also requires to transfer raw material and finished goods from one unit to other but does not have any facility for that. He also requires funds for expansion.
  - i) Name the service which will help him to safeguard goods from any damage?.
  - ii) Which service will help him to remove difficulty of place?
  - iii) From which service sector will he get financial support?
- 4) Mr. Amit is a businessman. He has his own factories in Pune and Nashik. He lives in Pune with his wife and 2 daughters aged 5 and 8 years.
  - i) Can Mr. Amit take a life insurance policy for his wife and 2 children?
  - ii) Can Mr. Amit take a marine insurance policy for his factories?
  - iii) Which type of insurance should Mr. Amit take for protecting his factories from loss due to fire?

**Q.4. Distinguish between.**

- 1) Duty Paid Warehouse and Bonded Warehouse
- 2) Central Bank and Commercial Bank
- 3) Road Transport and Air Transport
- 4) Life Insurance and Marine Insurance
- 5) Savings Account and Current Account
- 6) Life Insurance and Fire Insurance
- 7) Road Transport and Rail Transport
- 8) Rail Transport and Air Transport
- 9) Current Account and Fixed Deposit Account

**Q.5. Answer in brief.**

- 1) State four types of deposits.

- 2) State four modes of transport.
- 3) State four life insurance policies.
- 4) State any four features of business services.
- 5) State money remittance services of postal department.

**Q.6. Justify the following statements.**

- 1) Air transport is fastest mode of transport.
- 2) Communication is essential for growth of business.
- 3) Principle of subrogation is applicable to all contracts of indemnity.
- 4) Warehousing is important.
- 5) Cash can be withdrawn from ATM at any time.

**Q.7. Attempt the following.**

- 1) Explain money remittance services of post department.
- 2) Explain marine insurance policies.
- 3) Explain types of warehouses.
- 4) Explain utility function of banks.
- 5) Explain modes of traditional communication.
- 6) Explain disadvantages of air transport.
- 7) Describe the role of transport.
- 8) What are the functions of warehouses?

**Q.8. Answer the following.**

- 1) What is insurance ? Explain principles of insurance.
- 2) Define bank. Explain. Different types of banks.
- 3) What is warehouse? Explain its different functions.
- 4) What is Services? Explain in detail different business services.
- 5) What is communication? Explain in detail various types of communication.
- 6) What is road transport. Explain its advantages and disadvantages.

## Answer Key

- Q.1. (A) 1) road 2) warehouse 3) cold storage 4) port risk 5) indemnity  
(B) A-3 B-1 C-5 D-7 E-2  
(C) 1) government warehouse 2) Communication 3) monorail 4) pipeline transport 5) Ministry of Road Transport and Highways  
(D) True: 1, 5 False: 2,3,4  
(E) 1) exchange bank 2) RBI 3) Parcel 4) Blanket policy.  
(F) 1) Banco 2) Cold storage 3) fleet 4) Mobile  
(G) 1) RTGS 2) long term loans 3) Recurring Deposit 4) apex financial institution in banking industry of country 5) SIDBI  
(I) 1. Current 2. Intangible 3. Minimise 4. Centrals. 5. real  
(J) 1. Taking the policy, Accident, Claim, Compensation  
2. Inland letter, Courier, E-mail

### Career Opportunities:

1. Bank- Banker, Manager, e-Seva Kendra
2. Insurance- Insurance Agent., Insurance advisor
3. Warehousing- Warehouse keeper, Warehouse manager.
4. Transportation- Transportation facilities, courier services, Travel Agent.

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### 5.1 E- Business

- 5.1.1 Meaning
- 5.1.2 Scope of E-business
- 5.1.3 Benefits of E-business
- 5.1.4 Limitations of E-business

### 5.2 On Line Transaction

- 5.2.1 Meaning
- 5.2.2 Procedure of Online Transaction

### 5.3 Outsourcing

- 5.3.1 Meaning/ concept
- 5.3.2 Need of Outsourcing
- 5.3.3 Advantages of outsourcing
- 5.3.4 Disadvantages of Outsourcing
- 5.3.5 Business Process Outsourcing
- 5.3.6 Knowledge Process Outsourcing
- 5.3.7 Legal process outsourcing

### Comparative Study/Distinguish Between

### Summary

### Exercise

#### 5.1 E- Business

"The new mantra of the day is growth, globalization cycle times, speed and competitiveness," E- business is an abbreviation for electronic business. In 1997, IBM started using the term e-business for the first time. Till that time the word e-commerce was used. E-business means using the internet to connect people and process. It opens new door to customers around the world. E-business establishes more closer and responsive relationship with partners, employees and suppliers. It connects, adapts and integrates IT system, so companies are able to manage their business efficiently. Through the internet it is possible to invent new and innovative ways to add value to existing products and services without necessarily, spending a lot of money.

Electronic business refers to the use of the Web, Internet, intranets, extranets or some combination there of to conduct business. E- Business is not a technical change. It is a fundamental change in the way of business be done, aided, supported and enabled by technology.

The internet and the web support together provide opportunities in selling, customer relationship,

product/service design, user support, geographic expansion, logistic and supply chain integration. This is nothing but business on internet. Technology is moving fast to make things possible tomorrow, which seem impossible today.

### 5.1.1 Meaning

The term 'E-business' i.e electronic business is derived form the terms e-mail and e-commerce.

E- business or electronic business, is the administration of conducting business via the internet. This would include the buying and selling of goods or services, along with providing technical or customer support through the internet.

The concept of E-business emerged when IBM coined the term in late 90's. The purpose was to provide buyers a platform on the internet to buy and sell goods.

#### Activity :

Visit websites which are selling goods through online mode i.e. in category of E-business

Some people use the term 'e-business' and 'e-commerce' interchangeably but they are not synonymous. E-commerce refers to buying and selling online, while e-business encompasses all business conducted online. E-commerce is a branch of e-business.

### 5.1.2 Scope of E-business

The scope of e-business is not restricted to only online shopping, it also includes on line stock, transactions and the use of software. In India, till now business is managed through traditional methods. Now many businesses are becoming aware of the advantage of e-business and are incorporating this into their strategies. It also helps in better communication between business house and makes purchasing easier for large organizations.

We have mentioned above that the scope of E-business is quite vast. Almost all types of business functions such as production, finance, marketing and personnel administration as well as managerial activities like planning, organizing and controlling can be carried out over computer networks. The other way of looking at the scope of e-business is to examine it in terms of people or parties involved in electronic transactions. Various business and payment apps popularly used in E-business transactions are phone pay, google pay, swiggy, ola etc.

Viewed from this perspective, a firm, electronic transitions and networks can be visualized as extending into six directions as follows:

- 1) Business to Business (B2B)
- 2) Business to Consumer (B2C)
- 3) Consumer to Business (C2B)
- 4) Consumer to Consumer (C2C)
- 5) Business to Administration (B2A)
- 6) Consumer to Administration (C2A)

#### 1) Business to Business (B2B)

In this form the buyer and seller are both business entities and do not involve individual consumers. Here, both the parties involved in e-commerce transactions are business firms and hence the name B2B i.e. business to business.

Transactions between business firms come under this category. Business firms interact with each other for a variety of services. These include supplying ancillary parts/components to manufacturers providing value added services like catering and also providing man power.

## 2) **Business to Consumer (B2C)**

Customer identifies a need, and searches for the product or services to satisfy the need. Customers select a vendor and negotiates a price. Customers receives the product or services, makes payment, gets service and warranty claims. As the name implies, B2 C transactions have business firms at one end and its customers on the other end.

The transactions under B2C are between business firms and consumer. Firms use their sites for a range of marketing activities. These include promotion, product information, reviews about the product/ service and delivery of the product at the doorstep. The cost of products and services is kept low through this method and the speed of transaction is also faster. Examples of web sites: [www.flipkart.com](http://www.flipkart.com) etc.

## 3) **Consumer to Business (C2B)**

In this electronic transaction the consumer requests a specific service from the business. Consumer to Business is a growing arena where the consumer requests a specific service from the business. It enables buyers to quote their own price for specific goods or services. A consumer posts his request with a set budget online and, companies review the customers requirements and bids out the project. For example, pest control services, taxi services, door step food delivery etc.

## 4) **Consumer to consumer (C2C)**

It facilitates the online transaction of goods or services between two people. Consumer to consumer (C2 C) involves the electronically facilitated transactions between consumers through some third party. A common consumer posts an item for sale and other consumers bid to purchase it. The sites are only intermediaries, just to match the consumers. The internet allows a lot of space for consumer groups to be formed. These forums are very interactive. Redressal of complaints is also possible through such groups. For example, eBay.

## 5) **Business to Administration (B2A)**

This part of e-commerce encompasses all transactions conducted online between business and public administration. For example, registration of companies, payment of taxes, getting permits etc.

## 6) **Consumer to Administration (C2A)**

The consumer to Administration model encompasses all electronic transactions conducted between individuals and public administration. For example, getting passport, aadhaar card, licenses etc.



### Just to know

- 1997- Introduction of a brand new phrase e-business. IBM was one of the first companies to use the term in October 1997, it launched a thematic campaign built around e-business
- 1999 - The emphasis of e-business shifted from B2 C to B2 B
- 2001-The emphasis of e-business shifted from B2 C to B2 B, e- commerce, egovernance, e- learning and m-commerce. (Mobile commerce)
- 2004-Total online shopping and transactions in the United states between 3 to 7 trillion.
- E- business will undoubtedly continue to shift and change

#### 5.1.3 Benefits of E- Business

The main advantage of e-business is people get product information online and order the product online through cash on delivery or pre payment. In this way seller and buyer both get advantage of internet platform.

Traditionally trading by the buyers and sellers is done through three channels like face to face, mail and phone. The internet has become the fourth channel for trade. Internet trade is booming and allowing business to sell more and at a lower cost. Thus, internet offers a great opportunity over traditional channels as it has some advantages or strengths.

##### 1) **Ease of formation:**

The formation of traditional business is difficult, whereas to form e-business is relatively easy to start.

##### 2) **Lower Investment requirements:**

Investment requirement is low as compared to traditional business as the store does not have physical existence and can be managed with less manpower so if trader does not have much of the investment but has contacts (network), he can do fabulous business.

##### 3) **Convenience:**

Internet offers the convenience of 24 X 7 X 365 days a year. Business is going on any time and flexibility is available. Yes, e-business is truly a business that has enabled and enhanced by electronics and offers the advantage of accessing anything, any where, any time.

##### 4) **Speed:**

This benefit becomes all the more attractive when it comes to information. Much of the buying or selling involves exchange of information that internet allows at the click of mouse.

##### 5) **Global access:**

Internet is truly without boundaries. On one hand, it allows the seller an access to the global market. On the other hand, it offers a freedom to the buyer to choose products from almost any part of the world. No need of face to face interaction between buyer and seller.

##### 6) **Movement towards a paperless society:**

Use of internet has considerably reduced the dependence on paperwork. Thus, recording and referencing of information has become easy.

## 7) **Government support:**

The government provides favourable environment for setting up of e-business. This support ensures maximum transparency.

## 8) **Easy payment:**

The payment in e-business is done by credit card, fund transfer etc. and it is available round the clock..

### 5.1.4 **Limitations of E- business :**

E-business does have certain disadvantages when compared to the traditional way of doing business. Some of the limitations of e-business are as follows.

- (1) **Lack of personal Touch :** E-business lacks the personal touch. One cannot touch or feel the products. So it is difficult for the consumers to check the quality of products.
- (2) **Delivery Time :** The delivery of the products takes time. In traditional business you get the product as soon as you buy it. But that doesn't happen in online business. This time lag often discourages customers e.g. Amazon now assures one day delivery. This is an improvement but does not resolve the issue completely.
- (3) **Security issues :** There are a lot of people who scam through online business. Also, it is easier for hackers to get your financial details. It has a few security and integrity issues.  
This also causes disturbance among potential customers.
- (4) **Government interference :** Sometimes the Government monitoring can lead to interference in the business.
- (5) **High Risk :** High Risk is involved as there is no-direct contact between the parties. In case of frauds, it becomes difficult to take legal action.

#### **Activity :**

Study any business unit which is using E-business and E-commerce as a way of doing business.

## 5.2 **ONLINE TRANSACTION**

### 5.2.1 **Meaning:**

Online transaction is done with the help of the internet. It can't take place without a proper internet connection. Online transactions occur when a process of buying and selling takes place through the internet. When a consumer purchases a product or a service online, he/she pays for it through online transaction.

### 5.2.2 **Procedure of online Transaction:**

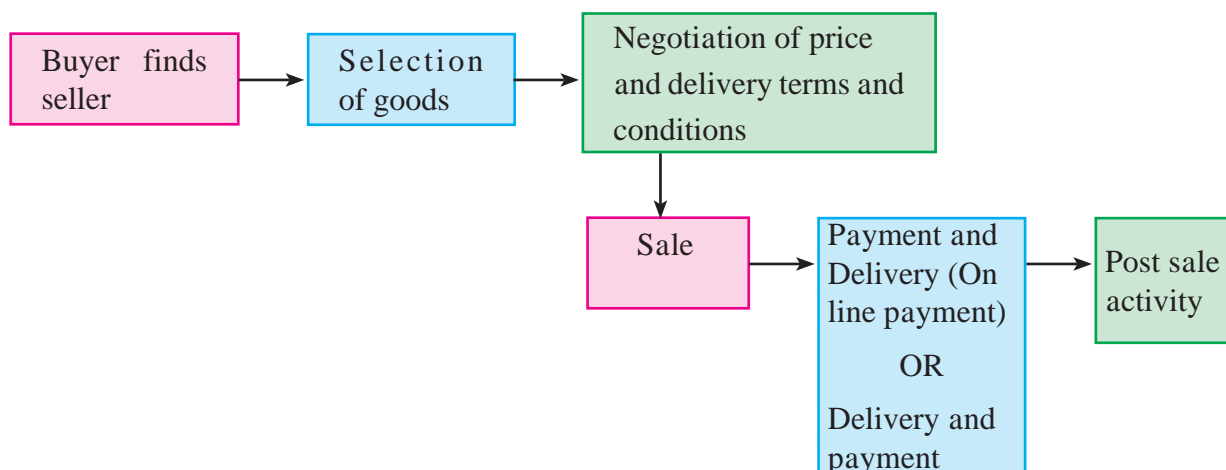
The online transaction moves through pre-purchase/sale, actual purchase/sale and delivery stage. It involves following steps.

- 1) **Registration -** Before online shopping one has to register with the online vendor by filling up a registration form. Registration is the first step in online transaction. For online transaction registration is required. The consumer needs to login a particular website to buy a particular article or service. The customer's email ID, name, address, other details are saved and are safe with the website. For security reasons, the buyer's 'Account' and his 'Shopping Cart' is an online record of what you have picked up while browsing the online store.

- 2) **Placing an Order-** It is second step in online transaction. When a customer likes a product or service he/she puts the product in the shopping cart. The shopping cart gives a record of all the items selected by the buyer to be purchased ,the number of units or quantity desired to be bought per item selected and the price for each item. The buyer then proceeds to the payment option after selecting all the products.
- 3) **Payment -** It is the last step in online transaction. The buyer has to select the payment option. These payment systems are secured with very high level encryption. The personal financial information is completely secure. The following are some ways in which we can make this payment.
  - a) **Cash on Delivery-** In this type of payment the buyer pays when he/she receives the product. The payment is made at the doorstep. The customer can pay in cash or by debit or credit card.
  - b) **Cheque-** In this type of payment, the buyer sends a cheque to the seller and the seller sends the product after the realization of the cheque.
  - c) **Net Banking transfer-** In this type of payment, the payment is transferred from the buyer's account to the seller's account electronically. After the payment is received by the seller, the seller dispatches the goods to the buyer. It is an electronic facility of transferring funds through the internet.
  - d) **Credit or Debit card -** The buyer makes payment through debit or credit card and amount get deducted from customers account. Debit card or credit card popularly known as "Plastic Money". They are mostly used for online payments.
  - e) **Digital Cash -** Digital Cash is a form of electronic currency that exists only in cyberspace and has no real physical properties, but offers the ability to use real currency in an electronic format.

### Buying Selling Process

Information plays a very important role in all the transactions. Information is exchanged in both traditional as well as online business. But as compared to traditional business internet transactions are easy. In traditional business, time is required to travel, to negotiate, to convince, and presence of both the parties for face to face interaction is necessary. In this process lot of time is wasted. Where as in online transaction, required information is provided with terms and conditions and it is free from most of the problems referred above. So online transactions are easier and result oriented than traditional business.



### Activity :

Compare the products and their prices available on the internet and in retail shop.

## 5.3 OUTSOURCING

### Introduction :

Outsourcing is the process of contracting a business function or any specific business activity to specialized agencies mostly the non-core areas such as sanitation, security, household pantry etc. are outsourced by the company. The company makes a formal agreement with the agency.

The agency can send the required manpower to the company. The agency charges the company for their services. With the help of outsourcing, company can focus on their core areas.

### 5.3.1 Meaning / Concept :

Outsourcing is the process of contracting some business functions to specialised agencies. The company benefits in two ways.

1. It reduces its own cost
2. It uses the expertise of the firm which specialises in a particular kind of service.

**Examples of outsourcing** - The establishments such as shops, malls, housing societies, offices etc. outsource facilities like canteen, sanitation, security etc. In the same way arrangements for wedding, anniversary, birthday celebration can also be outsourced.

### 5.3.2 Need for Outsourcing :

Today services all over the world are becoming highly specialized. Most services require finely tuned skills. With increasing global competition, most companies are focusing on showcasing their product or improving the quality of their goods. This has forced the companies to concentrate on their hard core activities, therefore companies are taking a fresh look at their business processes. Due to this, many non-core areas are being outsourced to firms who have an especially skilled work force. The concept of outsourcing has emerged as a result of this thinking.

### 5.3.3 Advantages of Outsourcing :

- 1) **Overall cost advantages-** It reduces the cost and also saves time and efforts on training cost.
- 2) **Stimulates entrepreneurship, employment and exports-** Outsourcing stimulates entrepreneurship, employment and exports in the country.
- 3) **Low manpower Cost-** The manpower cost is much lower than that of the host company.
- 4) **Access to professional, expert and high Quality services-** Mostly the tasks are given to people who are skilled in that particular field. This provides us with a better level of service and fewer chances of errors.
- 5) **Emphasis on core process rather than the supporting ones-** With its help companies can focus on their core areas which lead to better profits and increase the quality of their products.
- 6) **Investment requirements are reduced** - The organization can save on investing in the latest technology, software and infrastructure and let the outsourcing partner handle the entire infrastructure.

7) **Increased efficiency and productivity** - There is an increased efficiency and productivity in the non core areas of an organization.

8) **Knowledge sharing** - Outsourcing enables the organization to share knowledge and best practices with each other, it helps develop both the companies and also boosts goodwill in the industry.

#### 5.3.4 Disadvantages of Outsourcing / Limitations of Outsourcing

1) **Lack of customer focus**- An outsourced vendor may be catering to the needs of multiple organizations at a time. In such a situation, he may lack complete focus on an individual organization. As a result, the organisation may suffer.

2) **A threat to security and confidentiality** - The confidential information of the organization may be leaked to the third party, so there are security issues.

3) **Dissatisfactory services** - Some of the common problem areas with outsourcing include stretched delivery time and sub standard quality.

4) **Ethical issues** - The major ethical issue is taking away employment opportunities from one's own country, when the function is outsourced to a company from another country.

5) **Other disadvantages** -

- i) misunderstanding of the contracts.
- ii) lack of communication.
- iii) poor quality and delayed services.

**Following are a few forms of outsourcing.**

#### 5.3.5 Business Process Outsourcing (BPO)

##### Introduction :

BPO is basically the outsourcing of work to some third party service provider in order to save money while KPO is a subset of BPO only. KPO includes more knowledge based and specialised work. In addition to this there are many reasons that a company may choose KPO services over BPO.

Business process outsourcing or BPO, is a business practice in which one organization hires another company to perform a task ( process) that the hiring organization requires to operate its own business successfully.

**Meaning** - BPO is a subset of outsourcing that involves the contracting of the operations and responsibilities of specific business process to a third party service provider. BPO refers to the outsourcing of peripheral activities of the organisation to an external organization to minimize cost and increase efficiency.

##### Key Terms of BPO :

- (i) Off shore- BPO that is contracted outside a company's own country.
- (ii) On shore- BPO that is contracted with the company's own country.
- (iii) Near shore- BPO that is contracted to a company's neighbouring country.

BPO refers to the outsourcing of peripheral activities of the organisation to an external organisation to minimize cost and to increase efficiency. For example, customer care centres for various banks, service providers etc.

### **Advantages and Disadvantages of BPO:**

#### **Advantages of BPO :**

- 1) Productivity improvement :  
Educated or skilled people perform the task efficiently and thus improve productivity.
- 2) Optimum utilization :  
BPO enables optimum utilization of scarce resources.
- 3) Reduction in cost :  
Cost saving can be significant to any business. BPO not only helps to reducing cost but also increase productivity and increase revenues.
- 4) Improved human resources :  
Improved human resources is another great advantage of BPO. Outsourcing gives a company the ability to get access to skilled and trained man power at low rates.

#### **Disadvantages of BPO :**

- 1) Communication problem :  
There can be communication gap between the client and vendor companies due to misunderstanding and miscommunication.
- 2) Different time zones :  
The client and the vendor operate in two different time zones. The difference in time can create many problems during online meeting, communication etc.
- 3) Loss of control :  
Due to communication errors, time differences, client company can at times lose control of the project.

### **5.3.6 Knowledge Process Outsourcing (KPO)**

#### **Introduction:**

KPO is described as the functions related to knowledge and information outsourced to third party service providers.

KPO is the sub segment of BPO, in which the outsource service provider is hired not only for its capacity to perform particular business process or function but also to provide expertise around it.

KPO is the allocation of relatively high level tasks, to an outside Organization or a different group usually in a different geographic location. KPO is a subset of BPO. KPO involves outsource of core functions which may or may not give cost benefit to the parent company but surely helps in value addition. The processes which are outsourced to KPO are usually more specialized and knowledge based as compared to BPO's.

KPO is the outsourcing of core information related to business activities which are competitively important or form an integral part of a company's value chain.

#### **Definition :**

- (i) *"Margaret Rouse of what is.com defines KPO. "KPO is the allocation of relatively high-level tasks to an outside organisation or a different group within the same organisation."*

**Meaning :** KPO is a form of outsourcing, in which knowledge related and information related work is carried out by workers in a different company or by a subsidiary of the same organisation. Which may be in the same country or in an offshore location to save cost.

KPO requires advanced analytical and technical skills as well as a high degree of specialist expertise. KPO allows both core and non core activities.

**Advantages:**

- (1) Cost reduction is possible as Clients get professional services at a cost effective price.
- (2) Business organisations can hire skilled employees from KPO service providers.
- (3) High end services are provided at a lower cost to decrease unemployment and benefit their economy.
- (4) Provides flexibility in terms of HRM (human resource management) and time management.

**Disadvantages:**

- (1) Security of organisation is questioned.
- (2) The character of the employee and the quality of the work cannot be assured .
- (3) KPO is time consuming and cannot provide a quick fix to the company seeking immediate results.
- (4) Lack of communication between partners due to legal, language and cultural barriers can lead to complications.
- (5) Reduction in communication due to language barrier.

**5.3.7 Legal Process Outsourcing (LPO)**

**Introduction:**

LPO is a type of KPO that is specific to legal services, ranging from drafting legal documents, performing legal research to offering advice.

LPO refers to the practice of law firm or corporation obtaining legal support services from an outside law firm or legal support services company. LPO is the industry in which in house legal departments or organisations outsourced legal work to such areas where it can be done at less cost. For example, areas like US or Europe outsourced legal work to India, where it can be performed at significantly decreased cost. LPO is high-end industry that has been growing rapidly in the recent years.

LPO is apparently a media invention. It derives from BPO, but to the extent that the word 'process' suggests standardized , commoditized , easy to replicate tasks that can be performed without a lot of education.

**Meaning:**

Legal outsourcing has gained tremendous ground in the past few years in India. It achieved success by producing service such as document review, legal research and writing, drafting of briefings etc.

**Advantages:**

- 1) One of the most significant advantage of outsourcing legal functions is cost savings.
- 2) Outsourcing legal work to external vendors allows organisations to access high level talent and niche expertise that does not exist within the firm.



3) Employing a combination of in-house and external talent allows law firm and organisations to tailor their liabilities in response to workload and client demands. Flexible staffing also reduces firm overhead.

#### 4) Disadvantages :

- 1) There will be problem of authenticity as some important documents need to be shared with the outsourcing firm.
- 2) There may be problem of in-depth knowledge of all relevant laws.
- 3) There will be problem of cultural and language barriers that could hinder communication between domestic and international team.
- 4) L.P.O. also gets affected by geographical hurdles between firm and clients.

### Comparative Study/ Distinguish Between

#### (1) E-Business and Traditional Business

|     | Point of distinction | E-Business   | Traditional Business   |
|-----|----------------------|--|--|
| 1)  | Formation            | E- Business is easy to form  | Traditional business takes lengthy and complicated procedure to form         |
| 2)  | Setting up cost      | It takes a very nominal cost   | It takes huge capital in order to setup                                      |
| 3)  | Risk involved        | High risk involved as there is no direct contact between the parties | Less Risk involved as parties have personal interaction.                     |
| 4)  | Area covered         | E- business covers entire world and so scope is vast                 | Traditional business is limited to particular area so scope is limited.      |
| 5)  | Customer interaction | In E-business there is absence of face to face interaction.          | Face to face interaction is possible.  |
| 6)  | Physical inspection  | Goods cannot be inspected physically before purchase                 | Goods can be inspected physically before purchase                            |
| 7)  | Resource focus       | E-business resources focus on demand side                            | Traditional business resources focus on supply side                          |
| 8)  | Delivery of goods    | In E-business delivery of goods takes time                           | In traditional business delivery of goods is instant.                        |
| 9)  | Usage                | It is used to save valuable time and money                           | It is ancient and still in usage where the digital network is not reachable. |
| 10) | Accessibility        | It is available round the clock                                      | It is available during the limited time                                      |
| 11) | Scope                | More business can be done easily without any hassles                 | It is difficult to perform more business in this model.                      |

**(2) E-Commerce and E-business**

|    | <b>Point of Distinction</b> | <b>E-commerce</b>  | <b>E-Business</b>   |
|----|-----------------------------|--|---|
| 1) | Meaning                     | E-commerce involves commercial transactions done over internet       | E-business is conduct of business processes on the internet   |
| 2) | What is it?                 | E-commerce is subset of E-business                                   | E-business is superset of E-commerce  |
| 3) | Features                    | E-commerce just involves buying and selling of products and services | E-business includes all kinds of pre-sale and post-sale efforts.  |
| 4) | Concept                     | E-commerce is narrower concept and restricted to buying and selling  | It is broader concept that involves market surveying, supply chain and logistic management and using datamining |
| 5) | Transaction                 | It is more appropriate in B2C context                                | It is used in the context of B2B transactions   |
| 6) | Which network is used ?     | E-commerce involves the mandatory use of internet                    | E-business can involve the use of internet intranet or extranet   |

**(3) BPO and KPO**

|    | <b>Basis for Distinction</b> | <b>BPO</b>   | <b>KPO</b>   |
|----|------------------------------|--|--|
| 1) | Meaning                      | BPO refers to the outsourcing of non primary activities of the organisation to an external organisation to minimize cost and increase efficiency | KPO is another kind of outsourcing whereby, functions related to knowledge and information are outsourced to third party service providers |
| 2) | Degree of complexity         | BPO is less complex  | KPO is complex   |
| 3) | Requirement                  | BPO requires process expertise   | KPO requires knowledge expertise   |
| 4) | Talent required in employees | BPO requires good communication skills   | KPO requires professional qualified workers  |
| 5) | Focus on                     | BPO focus on low level process   | KPO focus on high level process  |

## Summary

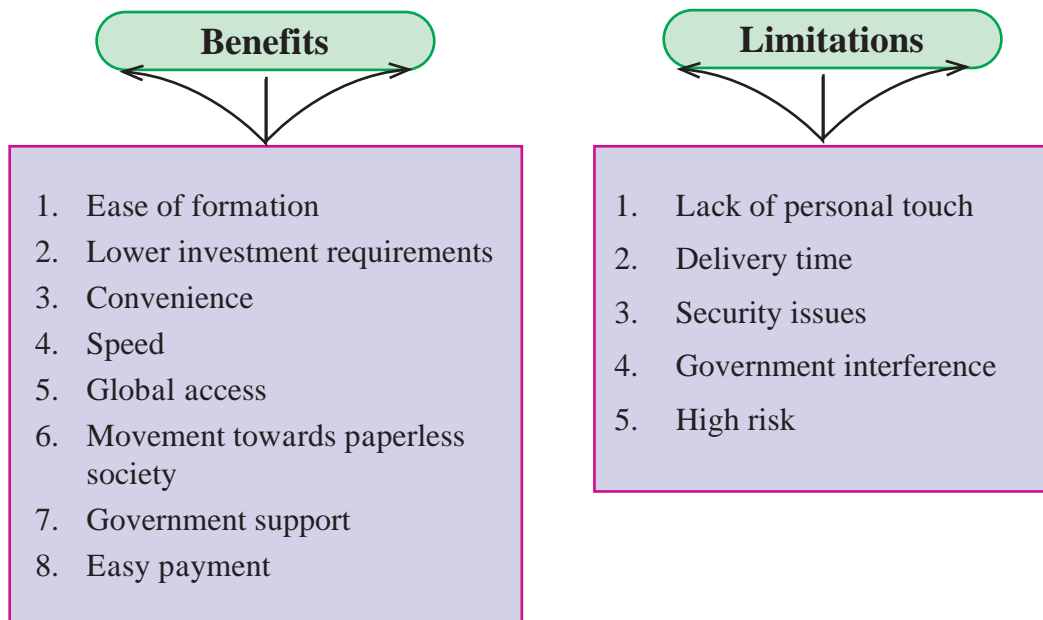
### E-business :

E-business or electronic business is the administrative of conducting business via internet

### Various Types of E-business Transactions are -

1. B2B- Business to Business
2. B2C- Business to Consumer
3. C2B- Consumer to Business
4. C2C- Consumer to Consumer
5. B2A- Business to Administration
6. C2A- Consumer to administration

### Benefits and Limitations of E-Business



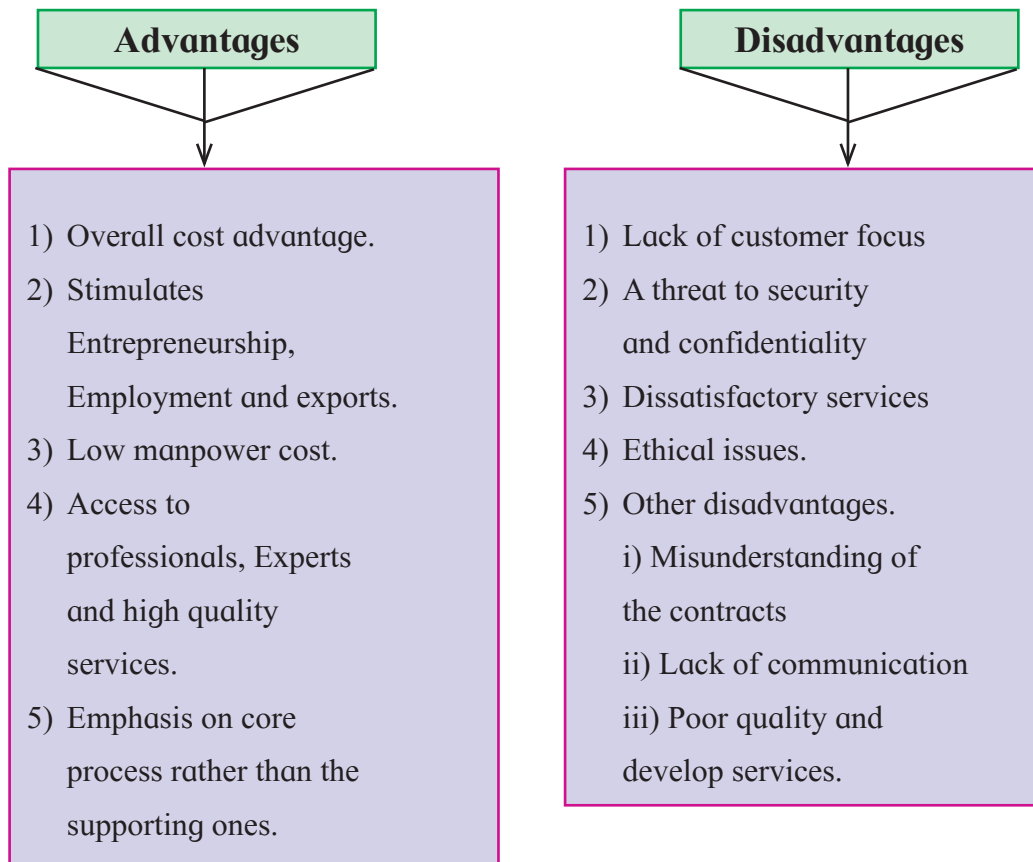
### Procedure of on line transaction.

#### Steps involved in online transaction.

1. Registration
2. Placing on order
3. Payment mechanism
  - a. Cash on delivery.
  - b. Cheque.
  - c. Net banking Transfer.
  - d. Credit or Debit card.
  - e. Digital Cash.

## Outsourcing

outsourcing is the process of contracting a business function to specialised agencies.



### Forms of outsourcing :

1. B.P.O.
- 2) K.P.O.
3. L.P.O.

### EXERCISE

#### Q1. (A) Select the correct option and rewrite the sentence.

1. For online transactions ..... is required.  
a. registration    b. trading    c. business
2. The term 'e-business' is derived from the term ..... and e-commerce.  
a. Cash    b. e-pay    c. e-mail
3. The transactions under ..... are between consumers and consumers.  
a. B2B    b. C2C    c. B2C
4. The process of contracting a business function to someone else is called as ..... .  
a. outsourcing    b. trading    c. e-business
5. In online shopping customers put the product in the ..... .  
a. shopping mall    b. shopping cart    c. shopping bag

**(B) Match the pairs.**

| Group 'A' |              | Group 'B' |                          |
|-----------|--------------|-----------|--------------------------|
| A)        | E-business   | 1)        | Consumer to consumer     |
| B)        | B2C          | 2)        | Exist everywhere         |
| C)        | Outsourcing  | 3)        | First step               |
| D)        | Digital cash | 4)        | Business to consumer     |
| E)        | Registration | 5)        | Electronic business      |
|           |              | 6)        | BPO                      |
|           |              | 7)        | RTO                      |
|           |              | 8)        | Efficient business       |
|           |              | 9)        | exist only in cyberspace |
|           |              | 10)       | Last step                |

**(C) Give one word / term / phrase for the following sentence.**

- 1) The stage where the goods bought are delivered to the customer.
- 2) The term derived from the terms e-mail and e-commerce.
- 3) The transaction which is done with the help of the internet.
- 4) The first step in online transaction.
- 5) The process of contracting a business function to specialized agencies.
- 6) Subset of outsourcing.
- 7) Sub segment of BPO
- 8) One of the value added BPO service which involves legal work.

**(D) State whether following statements are true or false.**

- 1) It is easy to set up e-business as compared to traditional business.
- 2) The term e-business is derived from the term e-mail and e-commerce.
- 3) e-business allows you to work across the globe in any field.
- 4) LPO stands for legal product outsourcing.
- 5) KPO requires advanced analytical and technical skills.
- 6) With the help of outsourcing, company cannot focus on the core areas.

**(E) Find the odd one.**

- 1) BPO,RTO,LPO,KPO 2)B2B,B2C,A2Z,C2C
- 3) Debit card, Credit card, Aadhar card, ATM card.

**(F) Complete the sentences.**

- 1) E-business is an abbreviation for .....
- 2) The term e-business came into existence in the year .....
- 3) E-business means using the ..... to connect people and process.
- 4) E-business is ..... of e-commerce.

- 5) E-commerce is ..... of e-business.
- 6) The process of contracting a business function to specialized agencies is known as .....

**(G) Select the correct option and complete the table.**

(Business to Business, First step, e-commerce, payment mechanism, e-business)

|    | Group A                | Group B   |
|----|------------------------|-----------|
| A) | Registration           | .....     |
| B) | Superset of e-commerce | .....     |
| C) | .....                  | Last step |
| D) | Subset of E-business   | .....     |
| E) | .....                  | B2B       |

**(H) Answer in one sentence.**

- 1) What is E-business?
- 2) What is outsourcing ?
- 3) What is Online Transaction?
- 4) What is shopping cart ?
- 5) What is digital cash ?
- 6) What is BPO ?
- 7) What is KPO ?
- 8) What is LPO ?

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

- 1) E-business is hard to start.
- 2) There are five stages of online transactions.
- 3) Registration is the Last step in online transaction.
- 4) Digital cash is form of plastic currency.
- 5) KPO includes less knowledge based and specialized work.

**(J) Arrange in proper order.**

- 1) Purchase or sale / Delivery stage / Pre purchase or sale.
- 2) Placing an orders, Cash on delivery, Registration

**Q.2. Explain the following terms / concepts.**

- 1) E-business 2) B2B 3) B2C 4) C2C 5) Outsourcing 6) BPO 7) LPO 8) KPO

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

1. Abhay purchases some gift articles online from www.flipkart.com. At the same time Sheetal purchased gift from e-bay.com.

- i. Which website is related to C2C?
- ii. Which website is related to B2C?
- iii. What first step does Abhay need to follow?

2. Satvik purchases watch from Titan shop and his friend Shambhavi purchases watch from online shopping site.

- i. Which shopping is from traditional business?
- ii. Which shopping is from e-business?
- iii. Which business involved high risk ?

3. Mr. Ved made his payment by cheque at the same time Mr. Shlok made his payment by fund transfer.

- i. Whose payment is faster ?
- ii. Whose payment is related to traditional business ?
- iii. Whose payment is related to e-business ?

**Q.4. Distinguish between.**

- 1) Traditional business and E-business.
- 2) E-business and E-commerce
- 3) BPO and KPO

**Q.5. Answer in brief.**

- 1) What is outsourcing ? Illustrate with suitable example.
- 2) What is BPO? Explain in detail.
- 3) What is KPO ? Explain in detail.
- 4) What is LPO ? Explain in detail.

**Q.6. Justify the following statements**

- 1) It is easy to set up e-business as compared to traditional business.
- 2) E-business allows user to work across the globe in any field.
- 3) Online transaction is done with the help of the internet.

**Q.7. Attempt the following.**

- 1) What are the advantages and disadvantages of e-business ?
- 2) What are the types of e-business? Explain.
- 3) What are the advantages of outsourcing?
- 4) What are the disadvantages of outsourcing?

**Q.8. Answer the following.**

- 1) Explain the steps involved in online transaction.
- 2) What is outsourcing? Explain advantages and disadvantages of outsourcing.



## Answer Key

- (A) (1) Registration (2) e-mail (3) C2C (4) Outsourcing (5) shopping cart  
(B) A-5 B-4 C-6 D- 9, E- 3  
(C) 1) Delivery stage 2) e-business 3) online transactions 4) Registration 5) outsourcing  
6) BPO 7) KPO 8) LPO  
(D) True- 1, 2, 3, 5 False- 4, 6  
(E) 1) RTO 2) A2Z 3) Aadhaar card  
(F) (1) Electronic business 2) 1997 3) Internet 4) Superset 5) Subset 6) Outsourcing  
(G) 1) First step 2) E-business 3) Payment mechanism  
4) E-commerce 5) Business to Business  
(I) 1) easy 2) Three 3) First 4) electronic currency 5) more  
(J) 1. Pre purchase / sale , Purchase / sale, Delivery stage  
2. Registration, Placing an order, Cash on delivery

### Carrier Opportunities :

- (1) Businessman
- (2) Vendor
- (3) IT experts
- (4) LPO
- (5) BPO
- (6) KPO

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# Social Responsibilities of Business

6

## 6.1 Introduction

6.1.1 Concept of Social Responsibility

6.1.2 Need for Social Responsibility

## 6.2 Responsibility towards different interest Groups

6.2.1 Owners

6.2.2 Investors

6.2.3 Employees

6.2.4 Consumers

6.2.5 Government

6.2.6 Community/Society/Public in general

## 6.3 Social Responsibility towards protection of environment

## 6.4 Business Ethics

6.4.1 Concept

6.4.2 Definition

6.4.3 Features of Business Ethics

6.4.4 Moral and Social Values

## 6.5 Corporate Social Responsibility (CSR)

**Summary**

**Exercise**

## 6.1 INTRODUCTION

Social responsibility of business implies the obligation of the management of a business enterprise to protect the interest of the society. No business exists in isolation. Every organ of the society contributes towards the success of a business. Thus, it becomes important that business should do something for the society in return. This responsibility of business towards the society is called social responsibility.

A socially responsible firm should not work solely for profit maximisation but should also seek the welfare of different sections of the society.

Every business organisation operates in an environment with which it interacts. No organisation can survive in the absence of environment. It has to draw its inputs like manpower, money, machines, materials etc. from its environment. After converting the inputs into output, the organisation sets it

to the various segments of the society that are also important components of the environment. Thus, existence of a business organisation depends on the society both for the procurement of required input and disposal of its output.

### 6.1.1 Concept of Social Responsibility

Social responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of the objectives and values of our society. So, all the activities of business should be performed in such a manner that they will not harm any part of society rather they will protect and contribute to the interest of society.

#### Definitions:

**Howard D. Bowen** - 'Social Responsibility is to pursue those policies to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.'

**Keith Davis** - 'Social responsibility of business refers to the obligations of business man's decisions and actions beyond the firm's direct economic and technical interest.'

The concept of social responsibility has been followed in India since ancient times. Philosophers like Chanakya from India and pre-Christians era philosophers in west, preached and promoted ethical principles while doing business.

Social responsibility is broader than legal responsibility of business. Legal responsibility may be fulfilled by mere compliance with the law. Social responsibility is more than that. It is the firm's recognition of social obligations even though not covered by law along with the obligations laid down by law. In other words, social responsibility involves an element of voluntary action on the part of business people for the benefit of society.

### 6.1.2 Need for Social responsibility

Business organisation is run by profit motive but profit maximisation should not be the sole aim. Commitment to society is also important. The following points bring out the need for social responsibility of business

#### 1) Concept of Trusteeship:

Trusteeship is a socioeconomic philosophy that was propounded by Mahatma Gandhi. It provides a means by which the wealthy people would be the trustees of trusts that looked after the welfare of the people in general. Businessmen are considered to be trustees of society.

#### 2) Changing expectations of society:

Society's expectations from business firms have undergone a drastic change over the years. In the early days, business were viewed only as a provider of goods and services.

But today society expects business to be a responsible citizen and contribute towards social welfare.

#### 3) Reputation:

Businesses spend huge amount of resources in brand building and strengthening their image. A socially responsible company enjoys a good reputation in the society. It results in increased sales, profitability, attraction of talent and sustained growth.

**4) Protection of Environment:**

Business organisation should make proper use of country's natural resources. They should avoid environmental degradation such as contamination of water resources, depletion of the ozone layer etc. which have been caused by businesses. These have resulted in poor health of the community and placed a question mark on the survival of human species.

**5) Optimum Utilisation of Resources:**

Modern businesses have huge amount of resources at their disposal. With such large resources businesses are in a better position to protect society's interests. Wastage of resources should be avoided.

**6) Pressure of trade Union:**

Nowadays, workers have become conscious of their rights. Trade unions are growing fast and play important role in business environment. Workers expect management to provide fair wages, bonus etc. to avoid conflicts between trade unions and management. To avoid conflicts, business should understand responsibility and act accordingly.

**7) Growth of Consumer Movement:**

Development of education and mass media and increasing competition in the market have made the consumers conscious of their rights and powers in determining market forces. So, business enterprises have to follow consumer oriented policies.

**8) Government Control:**

From the point of view of a business, government regulations are undesirable because they limit freedom. Government have enacted various laws. This has put moral as well as legal pressure on business.

**9) Long term self interest:**

A firm and its image stands to gain maximum profits in the long run when it has its highest goal as 'service to society' when increasing number of members, of society- including workers, consumers, shareholders and government officials, feel that business enterprise is not serving their interest, they will tend to withdraw their cooperation to the enterprise concerned so in their own self interest, a firm fulfils its social responsibility.

**10) Complexities of Social Problems:**

Some of the social problems have been created by business firms themselves such as pollution, unsafe work places, discrimination etc. It is the moral obligation of business to solve such social problems.

**11) Globalisation :**

The entire globe is the market place nowadays. It provides more opportunities and challenges to business. International trade barriers have reduced and resulted in global distribution of goods and services. Countries who have adopted good practices are influencing the world.

**12) Role of Media:**

Media plays important role in public life. Due to internet, it is easier to reach a common man. Media is very vibrant and active. It can influence masses in society. Media can raise voice against business malpractices and exploitation of consumers. Business should not ignore social values.

## 6.2 RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

Business cannot function in isolation. It depends upon the society for its input and output. It is conducted with the help of various interest groups such as investors, owners, employees etc. Interest of all these should be balanced and properly protected.

### 6.2.1 Responsibilities Towards Owners:

Owners are the persons who own the business and they are responsible for the profits or losses and they contribute the capital and bear the risks. Following are the responsibilities towards owners.

#### 1) Reasonable Profit:

Business should earn reasonable profit. Profit facilitates growth and expansion. It will bring financial stability.

#### 2) Exploring Business Opportunities:

Opportunity is the scope available for business unit to expand, grow and diversify the business. Businessmen should be alert to find such opportunities. For success of the business it is very crucial and so whenever they arise it should be explored.

#### 3) Optimum Use of Capital:

Available capital should be used carefully and efficiently. Business risks should be considered. Management should give attention to the safety of the capital.

#### 4) Minimise Wastages:

Business organisations can maximise profitability by minimising wastages. Wastage of time, money, manpower should be minimised.

#### 5) Efficient Business:

Scarce resources should be utilised at optimum level. Efficient use of resources will increase profitability and productivity so that business can be conducted more efficiently.

#### 6) Fair Practices on Stock Exchange:

All sorts of unfair practices related to stock exchange like insider trading, providing wrong and secret information etc. should be avoided. Share prices are artificially increased or decreased which will lead to loss to common investors.

#### 7) Expansion and Diversification:

For expansion and diversification, business should be growing & developing. Business should undertake R and D (Research and Development) of various projects so that they can face market competition.

#### 8) Periodic information:

Owners should get complete and accurate information about the financial position. Business should disclose information through reports, circulars etc.

#### 9) Effective Use of owners' Funds:

Owners' funds must be utilized in the best possible manner. It should give short term and long term returns in time.

## 10) **Creating Goodwill:**

Management should develop and maintain good public image. A well reputed company commands a lot of respect and trust in the market.

### 6.2.2 **Responsibilities Towards Investors:**

Investors provide finance to the company. They are creditors of business. Business should fulfill following responsibilities towards the investors.

#### 1) **Proper Conduct of Meetings:**

Company should call meetings of investors and provide information about the business. Proper notices of meeting should be sent to them. In period of crisis, investors should be taken into confidence. Factors responsible for failure should be known to the investor.

#### 2) **Return on Investment:**

Investors invest their money in business and accept risk factor. They should get fair returns on investment regularly in the form of interest. Following points should be considered

a. Fair returns on investment b. Safety of investment. c. Steady appreciation of business.

#### 3) **Handling Grievances:**

A company should handle investor's grievances, if any. There should be effective methodology for this. All queries regarding any other issue must be answered in a satisfactory way.

#### 4) **Maintain Transparency:**

Investors provide long term capital as well as working capital to run business efficiently. So it should maintain high degree of transparency in its operation.

#### 5) **Proper Disclosure of Information:**

Management should present full and factual information to investors. They should get regular reports, circulars and statement of profit. The financial performance of the company must be provided correctly so that prospective investors can take right decisions to invest in future. All this will ensure them that their investment is safe.

#### 6) **Maintain Solvency and Prestige:**

Business should maintain sound financial position, solvency, prestige and goodwill to satisfy investors. Business should take continuous efforts for research, innovation and expansion programme.

### 6.2.3 **Responsibilities Towards Employees:**

Employees are human resource to the organisation. They must be treated with dignity and respect. The management and employees should develop mutual understanding and trust. Government has passed various labour laws to safeguard the interest of employees.

Business has following responsibility towards employees

#### 1) **Job security:**

Security of job provides mental peace and employees can work with full dedication and concentration. Commitment with the work will raise their morale and loyalty towards the organisation.

## 2) **Fair Remuneration:**

The business should pay attractive salaries to all their employees. Other incentives like bonus, overtime allowance etc. should be given to them. Remuneration should be fixed according to the nature of work. Suitable wage plans providing increments and revision of wages is also essential.

## 3) **Health and safety Measures:**

Business should protect health and hygiene of employees. Canteen facilities, medical facilities and proper sanitation must be provided to the workers. Proper maintenance of machines and premises must be done to prevent accidents and to control pollution. Safety equipment like hand gloves, safety shoes, helmets, goggles, masks etc. should be provided to concerned employees.

## 4) **Good Working Condition:**

The employees should be provided with good working conditions such as adequate lighting, ventilation, drinking water etc. Necessary steps should be taken to avoid air, water and sound pollution. There should be proper working hours with lunch breaks and rest pauses etc.

## 5) **Recognition of Trade Unions:**

It is the responsibility of business organisation to maintain industrial peace. Employer must recognize the workers' right to join trade union. Employer should not restrict employees from forming trade union. 'Divide and Rule' policy should not be followed. Management should sort out various problems of workers by holding talks or negotiations with such unions. Management and union should agree to ban strikes and lockouts to protect interest of both the parties.

## 6) **Education and Training:**

Organisation should make every possible attempt to educate employees. Guidance and methods of training depend on the nature of job. 'Introduction Training', 'Refresher Training' is conducted to keep employees updated on the latest development. Training makes employees confident and also it increases their efficiency.

## 7) **Workers Participation in Management:**

The workers must be encouraged to take part in management by forming workers committee. Suggestion schemes, profit sharing can be encouraged by management. It will raise their morale and give them a sense of belonging.

## 8) **Promotion and Career Opportunities.**

Business should offer adequate opportunities of promotion to their talented employees. They should give proper information about qualifications, skills and experience required to obtain promotion. It will increase awareness among employees and they will also be motivated to take efforts.

## 9) **Proper Grievance Procedure:**

There should be proper grievance procedure to handle employees' complaints. All queries should be sorted quickly. The employees must feel satisfied. Investigations and necessary actions should be taken to settle their grievances.

## 10) **Miscellaneous**

a. Fair treatment to all employees.



- b. To recognize, appreciate and encourage special skills of employees.
- c. To introduce code of conduct.
- d. To provide opportunity for meaningful work and to recognize goals.
- e. To protect religious, social, political rights of employees.
- f. Allowing formation of informal groups.

#### **6.2.4 Responsibilities towards Consumers:**

The consumer is the king of the market but in reality experience is different. Business cannot work without consumer. The survival and growth of business depends on consumer satisfaction, service and support. The commercial organization should win the confidence of the customers. This is possible by following positive attitude towards customers and fulfilling following social responsibilities towards them -

##### **1) Good Quality Products:**

The organization should produce quality goods. Every organization should have its quality control department so inferior and substandard products can be rejected. International Standard Organization (ISO), is the latest trend towards quality control. This ensures customers about quality product.

##### **2) Fair Prices:**

The consumers should not be cheated by charging high prices. It is not possible to fool the customer at all the time. Fair prices convert a one time consumer into permanent consumer. Maximum Retail Price (M.R.P.) inclusive of all taxes should be printed on every packet. Retailer should not charge any extra amount.

##### **3) Customer's Safety:**

The business must ensure that the product supplied will not adversely affect the life and health of the customers. Unsafe products should not be marketed. Consumer should be warned of any unsafe goods.

##### **4) Honest Advertising:**

The consumers want to know the facts, features, advantages, side-effects etc. of the products. The advertisement conveys this information. So the organization must be sure that the advertisement is not being misleading. False, misleading and vulgar advertisement should be avoided. Consumers will appreciate only honest advertisements in the long run.

##### **5) After Sales Service:**

The organization is expected to provide after sales service for maintenance of goods during the period of warranty. Efficient and effective after sale service helps to establish good relation between the consumers and the organisation.

##### **6) Research and Development:**

Organization should conduct research and development to improve the quality of goods and to reduce the cost of production. This will minimize final prices charged to consumers. It must provide quality standards such as BIS or AGMARK on respective products.

**7) Regular Supply:**

Consumers should be supplied with the goods regularly as and when required by them. The commercial organization should not create artificial shortage of goods by hoarding and black marketing.

**8) Attend Complaints:**

The consumer complaints must be attended immediately. Quick and effective grievances redressal system should be implemented. Suggestions of customers should be welcomed.

**9) Training:**

The business organisation should arrange training for their consumers either free or by charging reasonable fees.

**10) Avoid Customer Exploitation:**

Business should avoid unfair trade practices which lead to exploitation of consumers. Also they should avoid monopolistic competition in the interest of consumers.

**6.2.5 Responsibilities Towards Government:**

The government regulates and controls the business with the objectives of systematic economic development of the country and safeguarding the interests of the common man. Government provides incentives and subsidies to business. Following are the responsibilities of organization towards government.

**1) Timely Payment of Taxes:**

The government imposes various types of taxes like sales tax, income tax, wealth tax etc. Business units should pay these taxes from time to time. It would be difficult for the government to undertake development projects without availability of funds.

**2) Observing rules and regulations:**

The rules framed by the government for business should be fully complied with. The business should follow the laws regarding obtaining license for a specified business, the operation of the business, price determination and production etc. They should conduct business in lawful manner.

**3) Earning Foreign Exchange:**

The government also expects from business organization that it will earn foreign exchange by exporting goods. The government requires this foreign exchange for importing various goods, valuable and important products.

**4) Economic Development:**

The government sets the targets for balanced and rapid economic development of the country. The business organization should provide necessary cooperation to the government.

**5) Implementing Socio Economic Policies:**

The government expects cooperation and help from the business sector in implementing socio-economic programmes and policies.

**6) Suggestions to the Government:**

The business organisation can provide suggestions to the government before framing impor-

tant policies such as Industrial Policy, Import Export Policy, Licensing Policy etc. Such suggestions are helpful for framing organisation-friendly policies.

**7) No favours:**

The commercial organization should not take any favour from the government officials by bribing or influencing them.

**8) Contributing to Government Treasury:**

The Commercial organization must contribute the funds to government during the emergencies and natural calamities like floods, earthquakes etc.

### **6.2.6 Responsibilities towards Community /Society/ Public in General**

Business organization has certain responsibilities towards the society at a large they are as under-

**1) Protection of environment:**

Pollution is the major problem of present times. Air pollution and water pollution are due to industries, chemical plants, cement plants etc. The business organization should take all possible measures to minimize pollution.

**2) Better and Maximum Use of Resources:**

The business organization should make proper and optimum use of scarce resources. The resources like fuel, water, land etc. must be used efficiently.

**3) Reservation for Weaker Section:**

The organisation is expected to reserve certain positions in their establishment for economically weaker sections of the society to lift up the economically weaker section of the society. These people expect financial and other help from business unit; which will be provided from time to time.

**4) Development of Backward Regions:**

The society requires that the business organization should be started in backward areas. This will create employment opportunities and increases purchasing power among the rural people. Thereby, helping backward regions to develop.

**5) Protest against Anti-Social Activities:**

Business organization should not participate in anti-social activities. It will adversely affect the society. No financial help should be provided for that. Smuggling, association with underworld people, bribing government people should be avoided.

**6) Financial Assistance:**

The society expects donations and financial assistance for various social causes such as eradication of poverty, illiteracy etc. They expect business organization to provide financial assistance to various awareness programs such as in anti-drug campaigns, antinoise pollution campaigns etc.

**7) Prevent Congestions:**

The business should avoid congestion of industries in cities by spreading industries in different

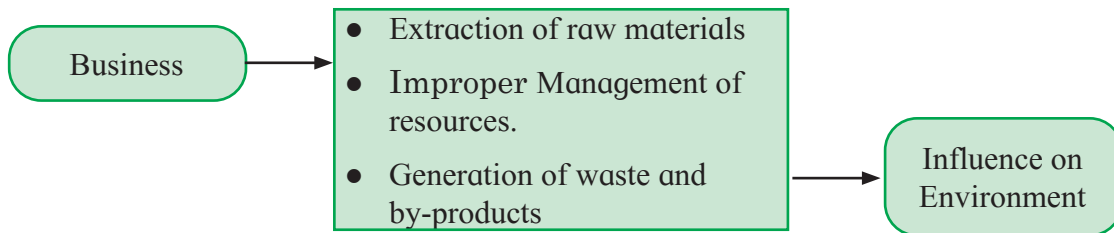
places or locations. Industries should be preferably located in industrial zones only. It will avoid adverse effect on residential areas.

### 8) **Employment Generation:**

Business should provide large employment opportunities for all sections of the society. It can be done through expansion and diversification programmes. Such effort will help to solve the problem of unemployment, poverty in the society.

## 6.3 SOCIAL RESPONSIBILITY TOWARDS PROTECTION OF ENVIRONMENT

Business should be committed to protect and promote environment. Business uses all types of resources from nature, so it is an obligation to protect the environment. It should not create imbalance in nature.



Industrialisation results in environmental pollution by generating hazardous waste and has increased the risks to environment. Environmental issues like loss of bio-diversity, release of genetically modified organisms etc. are the main issues.

### **Effect of Business on Environment**

- 1) Air Pollution
- 2) Water Pollution
- 3) Sound Pollution
- 4) Electronic Garbage

Protection of environment benefits business from many angles such as creating awareness among customers, employees, saving costs, loss govt. control etc.

A number of waste prevention techniques are available and they are commonly summarized as the so called 4 'R's. reduction, reuse, recycling and recovery.

- 1) Wherever possible waste reduction is the preferable option.
- 2) If waste is produced then every effort should be made to reuse it if practicable.
- 3) Recycling is the third option. Recycling should only be considered for waste which can not be reduced or reused.
- 4) Finally, it may be possible to recover materials or energy from waste which cannot be reduced, reused or recycled.

## 6.4 Business Ethics

**6.4.1 Concept:** The word 'Ethics' is derived from the Greek word 'Ethos' which means character. Ethics means the set of rules and principles that the organization should follow while the business

ethics refer to a code of conduct that businesses are expected to follow while doing a business. Through ethics, a standard is set for the organization to regulate their behavior. This helps them in distinguishing between the wrong and the right path of the business. Ethics deals with concepts such as right and wrong, good and bad, fair and unfair just and unjust, legal and illegal, proper and improper in respect of human actions. Ethics is a branch of social science.

**6.4.2 Definitions :** **Andrew Crane:** Business ethics is the study of business situations activity and decisions where issues of right and wrong are addressed. **Wheeler:** "Business ethics is an art or science of maintaining harmonious relationship with society, its various groups and institutions as well as recognizing the moral responsibility for right or wrong conduct of business.

### 6.4.3 Features of Business Ethics

#### 1) **Code of conduct:**

Business ethics is a code of conduct. It tells what to do and what not to for the welfare of the society. All businessmen must follow this code of conduct.

#### 2) **Based on moral and social values:**

It contains moral and social principles (rules) for doing business. This includes self control, consumer protection and welfare, service to society, fair treatment to social group, not to exploit others etc.

#### 3) **Gives protection to social groups:**

Business ethics give protection to different social groups such as consumers, employee, small businessmen, government, shareholders, creditors etc.

#### 4) **Provides basic framework:**

It gives the social, cultural, economic, legal and other limits of business. Business must be conducted within these limits.

#### 5) **Voluntary:**

The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

#### 6) **Requires education and guidance:**

Businessmen must be given proper education and guidance before introducing business ethics. The businessman must be motivated to implement business ethics.

#### 7) **Relative term:**

Business ethics change from business to business. It also changes from one country to another. What is considered as good in one country may be banned in another country.

#### 8) **New concept:**

Business ethics is a newer concept. It is strictly followed only in developed countries and not in poor and developing countries.

### 6.4.4 Moral and social values:

Our values are important because they help us to grow and develop. The decisions we make are reflection of our values and beliefs and they are always directed towards a specific purpose.

Social values form an important part of the culture of the society. They provide general guidelines for social conduct. Values such as fundamental rights, patriotism, respect for human

dignity, rationality, sacrifice, equality, democracy etc. influence our behavior in many ways.

Moral values are based on perceptions of right and wrong whereas social values may also include ideas about things being socially acceptable. Social values are often based on tradition, ego, honesty, integrity, fairness, hard work, cooperation, forgiveness, never hurt anyone etc.

There should be ethics behind all business activities. The rules are created by the society regarding what type of activities business should do and what it should not do. They are known as business ethics. Honesty, transparency, fairness, integrity etc. create goodwill. It gives economical gain in the long run.

The code of business ethics

**Do's:**

- 1) Pay taxes and other charges regularly.
- 2) Pay fair wages, allowances and other monetary incentives to workers.
- 3) Ensure safety and security of product.
- 4) Supply quality goods as per expectations of consumers at reasonable prices.
- 5) Give due respect and honour basic rights of consumers.
- 6) Use a part of profit for the society.

**Don'ts:**

- 1) Do not destroy healthy competition.
- 2) Do not cheat or exploit customers.
- 3) Do not create monopoly.
- 4) Do not resort to hoardings or black marketing.
- 5) Do not create secret or unreasonable profit.

**Avoid:**

- 1) Unfair competition.
- 2) Concentration of economic power.
- 3) Agreement with fellow businessmen for controlling production, distribution, pricing etc.

**Accept:**

- 1) Principle of "service first and profit next".
- 2) Truth in business that "customer is the king".
- 3) Make your business just, fair, human, efficient and dynamic.

## 6.5 CORPORATE SOCIAL RESPONSIBILITY

**Introduction:**

Corporate Social Responsibility is not a new concept in India, however, the Ministry of Corporate Affairs, Government of India has recently notified the Section 135 of the Companies Act, 2013 along with Companies (Corporate Social Responsibility Policy) Rules, 2014 and other notifications related thereto which makes it mandatory from 15 April, 2014 for certain companies

who fulfill the criteria as mentioned under Section 135 to comply with the provisions relevant to CSR.

### **Meaning:**

Corporate Social Responsibility (CSR) is self-regulating business model, aims to contribute to societal goals or support volunteering or ethically-oriented practices. It makes a company socially responsible and accountable. This accountability is towards itself, its stakeholders, public in general etc. By practicing social responsibility, companies can be conscious about economic, social and environmental aspects of the society.

### **Definitions:**

- 1) According to UNIDO (United Nations Industrial Development Organization), "Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders". {Source:unido.org.}
- 2) According to ISO (International Organization for Standardization), " The responsibility of an organization for the impacts of its decisions and activities on society and the environment, resulting in ethical behavior and transparency which contributes to sustainable development, including the health and well-being of society, takes into account the expectations of stakeholders, complies with current laws and is consistent with international standards of behavior, and is integrated throughout the organization and implemented in its relations."

### **Scope of CSR:**

#### **A) Applicability of CSR:**

- 1) The companies having Net worth of 500 Cr. or more or Turnover of 1000 Cr. or more; or Net Profit of 5 Cr. or more during any financial year shall be required to constitute a Corporate Social Responsibility Committee of the Board with effect from 1st April, 2014.
- 2) The Board's report shall disclose the compositions of the CSR Committee.
- 3) All companies shall spend, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.
- 4) The companies shall be required to incorporate in its Board's report, an annual report on CSR containing the following particulars:
  - I. A brief outline of the company's CSR Policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs;
  - II. The composition of the CSR Committee;
  - III. Average net profit of the company for last three financial years;
  - IV. Prescribed CSR Expenditure;
  - V. Details of money spent on CSR during the financial year;
  - VI. In case the company has failed to spend the 2% of the average net profit of the last three financial year, reasons thereof;



## **B) CSR Committee:**

The CSR Committee will consist of four Directors, who shall meet at least twice in a year to discuss and review the CSR activities and policy. The CSR committee will recommend a formal CSR Policy and will recommend particular CSR activities, prepares a budget, describe how the company will implement the project, and establish a transparent means to monitor progress.

## **C) CSR Activities:**

The Policy recognizes that corporate social responsibility is a commitment to support initiatives that measurably improve the lives of underprivileged by one or more of the following focus areas as notified under Section 135 of the Companies Act 2013 and Companies (Corporate Social Responsibility Policy) Rules 2014:

- i) Eradicating hunger, poverty & malnutrition, promoting preventive health care & sanitation & making available safe drinking water.
- ii) Promoting education, including special education & employment enhancing vocation skills especially among children, women, elderly & the differently abled & livelihood enhancement projects.
- iii) Reducing child mortality and improving maternal health by providing good hospital facilities and low cost medicines.
- iv) Ensuring environmental sustainability, ecological balance, protection of flora & fauna, animal welfare, agro forestry, conservation of natural resources & maintaining quality of soil, air & water.
- v) Employment enhancing vocational skills.
- vi) Measures for the benefit of armed forces veterans, war widows & their dependents.
- vii) Training to promote rural sports, nationally recognized sports.
- viii) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development & relief & welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities & women.
- ix) Rural development projects, etc
- x) Slum area development.

## **D) Allocation of Funds:**

- 1) The Company would spend not less than 2% of the average Net Profits of the Company made during the three immediately preceding financial years. The surplus arising out of the CSR activity will not be a part of business profits of the Company.
- 2) The Company may build CSR capacities of its personnel and/or those of its implementing agencies through Institutions with established track records of at least three financial years.

## **E) Non-compliance of CSR activities:**

There is no specific penal provision for non-compliance under section 135 of the Act. However, non-disclosure or absence of the details about the CSR policy and its implementation in the Boards' report would attract penalties. Penalties for non-complying the duty of CSR would attract a fine of not less than R50,000 which may extend to R 25,00,000 and every officer of

the company in default shall be punishable with imprisonment for a term which may extend to 3 years; or with fine which shall not be less than R 50,000 which may extend to R 5,00,000 or with both.

## Summary

Business organisation is run by profit motive but profit maximisation should not be the sole aim. The responsibility of business towards the society is called social responsibility .

### Need for social responsibility

1. Concept of trusteeship
2. Changing expectation of society
3. Reputation
4. Protection of environment
5. Optimum utilisation of resources
6. Pressure of trade union
7. Growth of consumer movement
8. Government control
9. Long term self interest
10. Complexities of social problems
11. Globalisation
12. Role of media

### Social Responsibility towards Different Interest Groups

|                   |                    |                   |
|-------------------|--------------------|-------------------|
| Towards Owners    | Towards Investors  | Towards Employees |
| Towards consumers | Towards Government | Towards Society   |

### Business Ethics:

Ethics is a branch of social science. Business ethics refers to a code of conduct that businesses are expected to follow while doing a business.

### Social and Moral values:

Social values such as fundamental rights patriotism, respect for human dignity, rationality sacrifice, equality democracy etc. guide our behaviour in many ways.

Moral values such as honesty, integrity, fairness, hard work, cooperation, etc. are equally important.

### Corporate social responsibility.

Meaning, Definition, Scope of CSR activities.

## EXERCISE

### Q1. (A) Select the correct option and rewrite the sentence.

1. Business is a ..... activity  
a) Socio-economic    b) Service    c) Charitable
2. Business organisation should try to make ..... utilisation of natural resources.  
a) Minimum    b) Maximum    c) Optimum
3. For economic growth and national security ..... stability is required.  
a) Political    b) Social    c) Economic
4. Making timely payment of proper taxes is the responsibility of organisation towards .....  
a) Shareholders    b) Customers    c) Government
5. Businessmen are ..... of the society.  
a) Representatives    b) leaders    c) Trustees
6. Business should provide periodic information to .....  
a) Customers    b) Owners    c) Employees
7. Business should offer adequate opportunities of promotion to their .....  
a) Employees    b) Customers    c) Investors
8. The term 'Ethics' is derived from the ..... word 'Ethos' which means character.  
a) Latin    b) French    c) Greek
9. Business ethics refers to the ..... system of principles.  
a) Economic    b) Social    c) Moral
10. Business organisation should protect health and provide safety measures to .....  
a) employees    b) owners    c) investors
11. At least ..... % of the average net profit should be spent on C.S.R.  
a) 5%    b) 2%    c) 3%.

### (B) Match the pairs.

|    | Group 'A'                         |    | Group 'B'                         |
|----|-----------------------------------|----|-----------------------------------|
| A) | Employees                         | 1) | Good quality product              |
| B) | Responsibility to investors       | 2) | To maintain solvency and prestige |
| C) | Responsibility towards government | 3) | To serve society                  |
| D) | Economic objective                | 4) | Voluntary                         |
| E) | Business ethics                   | 5) | Job security                      |
|    |                                   | 6) | Compulsory                        |
|    |                                   | 7) | Respecting rules and regulations  |

|  |  |     |                            |
|--|--|-----|----------------------------|
|  |  | 8)  | To earn profit             |
|  |  | 9)  | Branch of social Science   |
|  |  | 10) | Protection and environment |

**(C) Give one word / phrase/ term for the following sentence.**

- 1) Name the philosophy related to social responsibility propounded by Mahatma Gandhi.
- 2) Duties, obligations of business directed towards welfare of society.
- 3) Getting good quality products is the basic right of this group of society.
- 4) Providing fair returns on investment is the responsibility of organisation towards this group.
- 5) Rules of standard dealing with morality in business environment.
- 6) An activity motivated by profit.
- 7) Earning foreign exchange is the responsibility of the organisation towards this group.
- 8) Employment generation is the responsibility of the organisation towards this group.

**(D) State whether following statements are true or false.**

- 1) Businessmen are trustees of the society.
- 2) Business ethics is a code of conduct.
- 3) The commercial organisation are expected to uplift the weaker section of the society.
- 4) It is the responsibility of commercial organisation to maintain industrial peace.
- 5) Owners should not get complete and accurate information about the financial position.
- 6) Media does not play important role in public life.
- 7) Social responsibility is broader than legal responsibility of business.

**(E) Find the odd one.**

- 1) Job security, health and safety measures, good working condition, reasonable profit.
- 2) Good quality products, fair prices, honest advertising, prevent congestion in cities.
- 3) Timely payment of taxes, earning foreign exchange, creating goodwill, political stability.
- 4) Protection of environment, maintain transparency, employment generation, development of backward region.
- 5) Proper conduct of meeting, careful use of capital, fair prices of products. maintain solvency and prestige.

**F) Complete the sentences.**

- 1) Business organisation can maximise profitability by ..... wastage.
- 2) Social responsibility is broader than ..... responsibility.
- 3) The concept of trusteeship was propounded by ..... .
- 4) Business should earn ..... profit.
- 5) ..... should be fixed according to the nature and importance of work.
- 6) The word 'Ethics' is derived from the Greek word ' ..... .

**(G) Select the correct option.**

(Responsibilities towards shareholders, responsibilities towards consumers, Responsibilities towards government, Responsibilities towards society)

|     | Group A                        | Group B                          |
|-----|--------------------------------|----------------------------------|
| 1)  | After sales service            | .....                            |
| 2)  | Timely payment of proper taxes | .....                            |
| 3)  | .....                          | Protest Anti Social activities   |
| 4). | .....                          | Fair practices on stock Exchange |

**(H) Answer in one sentence.**

- 1) Who can raise voice against business malpractices ?
- 2) What should be done by management to keep workers updated?
- 3) What type of advertising should be avoided?
- 4) What organisation should do to improve quality of goods and to reduce cost of production ?

**(I) Correct the underlined word and rewrite the sentence.**

- 1) Social responsibility is narrower term than legal responsibility of business.
- 2) All sorts of fair practices related to stock exchange should be avoided.
- 3) Management and union should agree strikes and lockouts to protect the interest of both the parties.
- 4) MRP (Maximum Retail Price) should not be printed on every packet.
- 5) Dishonest advertising can be appreciated by customers in the longrun.
- 6) Financial help should be provided by business organisation for anti social activities.
- 7) Business ethics is a compulsary term.
- 8) Business ethics is not a relative term.
- 9) Social values are based on perceptions of right or wrong.
- 10) Moral values provide general guidelines for social conduct.

**Q.2 Explain the following terms/ concepts.**

- 1) Social responsibility
- 2) Concept of Trusteeship
- 3) Business ethics
- 4) Moral Values
- 5) Social values

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

- 1) Yashwant Co. Ltd. is providing facilities for their female staff like day care centre for kids and work from home facility. Even management takes their suggestions while taking the decisions though they are members of trade union
  - i) By doing this they are following social responsibilities towards which interest groups?
  - ii) What values are they presenting?
  - iii) What kind of responsibilities employer follows in above case?

- 2) An organisation manufacturing paints has been enjoying a prominent market position since many years. It has been dumping its untreated poisonous waste on the river bank, which has created many health problems for the nearby villages.
  - i) Which responsibility is neglected by manufacturing organisation?
  - ii) What kind of pollution they are doing?
  - iii) State any one precautionary measure they need to take?
- 3) A vehicle manufacturing company has adopted the following practices.
  - A) Only those components will be used by the company which are environment friendly.
  - B) There will be discharge of harmful wastes only after their proper treatment.
  - C) Pollution level of every vehicle will be maintained as per international standards.
    - i) by doing this, business organisation follows social responsibility towards which interest group?
    - ii) What kind of pollution do they want to avoid?
    - iii) What kind of message do they want to convey?

**Q.4. Answer in brief.**

- 1) Give any four types of social responsibilities towards consumers.
- 2) What is business ethics? What are features of business ethics?
- 3) State responsibilities of business towards government.
- 4) State any four CSR activities.

**Q.5. Justify the following statements.**

- 1) Role of media has major influence on business organisation.
- 2) Business should allow workers participation in management.
- 3) Expectations of society towards business are changing.
- 4) Business organisations should avoid environmental pollution and ecological imbalance.
- 5) All sorts of unfair practices related to stock exchange should be avoided.
- 6) Business ethics contains moral and social values for doing business.
- 7) Business ethics can be considered as a tool for social development.

**Q.6. Attempt the following.**

- 1) What is social responsibility of commercial organisation towards consumers?
- 2) State different types of responsibilities towards society.
- 3) Describe the responsibilities of commercial organisation towards investors.
- 4) Describe the features of business ethics.
- 5) What is corporate social responsibility ?

**Q.7. Answer the following.**

- 1) Explain the responsibilities of business towards employees.
- 2) Define concept of social responsibility and what is the need for social responsibility.
- 3) Explain the responsibilities of a business unit towards society at a large.
- 4) What are the responsibilities of business towards investors and government.?

**Answer Key**

- Q.1.(A) 1) Socio-economic 2) Optimum 3) Political 4) Government 5) Trustees 6) Owners  
7) employees 8) Greek 9) Moral 10) Employees 11) 2%
- (B) A-5, B-2, C-7, D-8, E-9
- (C) 1. Trusteeship 2. Social responsibility 3. Consumers 4. Investors 5. Business ethics  
6. Business 7. Government 8. Society
- (D) True-1,2,3,4,7 False- 5,6
- (E) 1. Reasonable profit 2. Prevent congestion in cities 3. Creating goodwill 4. Maintain  
transparency 5. Fair prices of products
- (F) 1.Minimising 2. Legal 3. Mahatma Gandhi 4. Reasonable 5. Remuneration 6. Ethos
- (G) 1. consumers 2. Government 3. Society 4. shareholders
- (I) 1. Broader 2. Unfair 3. Ban 4. Should 5. Honest 6. Should not be 7. Voluntary  
8. Relative 9. Moral values 10. Social values

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# Consumer Protection

7

- 7.1 Introduction
  - 7.2 Meaning
  - 7.3 Need and importance of Consumer Protection
  - 7.4 Rights of Consumer
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"A consumer is the most important visitor in our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work; he is the purpose of it. He is not an outsider to our business, he is part of it. We are not doing him a favour by serving him, he is doing a favour by giving us an opportunity to do so".

- Mahatma Gandhi.

## 7.1 INTRODUCTION

Consumer is the origin of the modern marketing world, consumer is the originator of an organization, the success and failure of any business depends on consumers. Consumers are the pillars of economic development in any country as the entire economy revolves around them. All the production and manufacturing activities are undertaken by business organisations only to give maximum satisfaction to the consumer.

In today's seller's market consumers have been cheated and exploited through price rise, artificial scarcity, black marketing, adulteration, and misleading advertising.

Every consumer should have adequate knowledge of product and services regarding quality, quantity, price, standards etc. to select right product.

## 7.2 MEANING

The word 'Consumer' is derived from the Latin word 'Consumere' which means, to eat or to drink. The consumer is the one who consumes or uses any commodity or service available from natural resources or through a market.

A Consumer means any person who buys any goods, hires any service or services for a consideration which has been paid or promised or partly paid or partly promised or under any system of deferred payments.

We are all consumers when we use any commodity like foodgrains, milk etc. or service like bank, railway, post office, hospital etc.

## 7.3 NEED AND IMPORTANCE OF CONSUMER PROTECTION

Generally, safeguarding the rights and interests of consumers is known as consumer protection. It includes all the measures aimed at protecting the rights and interests of consumers. In modern competitive market, consumer is regarded as the 'King of Market' hence consumer protection is required due to the following reasons:

- 1) **Need of participation of consumers:** It is noted that business organizations take decisions which affect the consumers' interest without consulting the consumer or their organizations. Only a strong consumer organisation can pressurise business organisations to allow consumer participation in the decision making process.
- 2) **Lack of information:** It is very difficult to establish direct contact between consumer and manufacturer because consumers live in a dynamic and complex world and they are widely scattered. Today's markets are full of domestic as well as imported products therefore it is very difficult to get correct and reliable information about product before they purchase.
- 3) **Ignorance:** Ignorance of consumers is the main cause of exploitation by business. Consumers in India are mostly ignorant about their rights, market conditions, price levels and product details. A system is required to protect them from business malpractices.
- 4) **Unorganized Consumers:** Consumers are widely scattered and are not organized, On the other hand sellers are in better position than consumers and they are powerful. Consumers are under the influence of businessman. An individual consumer cannot fight against these powerful sellers.
- 5) **Spurious Goods:** There is increasing supply of duplicate products. It is not possible for an ordinary consumer to distinguish between a genuine product and its imitation. It is necessary to protect consumers from such exploitation by ensuring compliance with prescribed norms of quality and safety standards.
- 6) **Misleading Advertising:** Some businessmen give misleading information about quality, safety and utility of products. Consumers are misled by misleading advertisement and do not know the real quality of advertised goods. A mechanism is needed to prevent misleading advertisements.
- 7) **Malpractices of Businessmen:** Fraudulent, unethical and monopolistic trade practices by businessmen lead to exploitation of consumers. Many times consumers get defective, inferior

and substandard goods and services. Certain measures are required to protect the consumers against such malpractices.

- 8) **Trusteeship:** According to Gandhian philosophy businessmen are trustees of the society's wealth. Therefore, they should use this wealth for the benefit of people.

#### Activity :

Discuss with your friends about various beauty products appeared attractive in advertisement but not in reality.

### 7.4 RIGHTS OF CONSUMERS

On 15<sup>th</sup> March, 1962 the then President of United States, J. F. Kennedy (U.S.A) declared certain rights of consumer, therefore it is observed as 'World Consumer Rights Day'. Rights of consumers are an integral part of our day to-day life. Consumer rights protect consumers from being cheated by salesman, manufacturer and shopkeeper.

#### Rights of Consumers:

The success of any campaign depends on the consciousness and awareness of the people for whose cause the movement is organized. Consumer's rights play an important role in their protection and safety. The business aim should be to meet the needs of the consumers and to provide full satisfaction. Every consumer should be aware of his rights and use of them in his daily life for protection. Consumers have to fight for their rights and put pressure on business, manufacturer and traders for safeguarding their rights.

#### Consumers have the following rights:



- Right to Safety
- Right to Information
- Right to Choose
- Right to be heard
- Right to Consumer Education
- Right to Represent
- Right to Redress
- Right to Healthy Environment
- Right to protect from unfair business practices
- Right against spurious goods

- 1) **Right to Safety:** This right protects consumers against products, production processes and services which are hazardous to health or life. It includes concern for consumer's long-term interests as well as their immediate requirements. According to this right, consumer must get full safety and protection to his life and health. This safety should be in relation to medicines, electrical appliances, food etc. The GOI has given safety standards in the form of AGMARK, ISI, BIS, Hallmark etc.
- 2) **Right to Information:** According to this right, consumer should be provided with adequate information about all aspects of goods and services like price, name of manufacturer, contents used, batch number if any, date of manufacture and expiry date, user manual and safety instruction etc. This right also enables consumer to select right product or service. It is applicable to food products, medicines, spare parts or any other consumer products or services.
- 3) **Right to Choose:** The choices available to Indian consumers across the basket of goods and services have multiplied like telecommunications, travel and tourism, banking, electronics, fast moving consumer goods(FMCG) etc. According to this right, consumer should be given full freedom to select an article as per his requirement, liking and purchasing capacity. The right to choose is related to the concept of free market economy. As per this right, the seller cannot compel consumer to buy particular product and hence monopoly is prevented.
- 4) **Right to be heard:** Every business organization should listen and solve the complaints of consumers. According to this right, consumers have opportunity to voice their complaint to the consumer forum. Consumers also give suggestions to manufacturer or trader on certain matters such as quality, quantity, price, packaging etc. Now a days, consumers can file online complaints through portal or mobile applications.
- 5) **Right to Consumer Education:** Every consumer has the right to know about consumer rights and solutions to their problems. This right creates consumer awareness. An aware consumer can make rational choice of goods and services and protect his rights and interests from the exploitation of unscrupulous businessmen. Thus, consumer education becomes a priority concern. It is necessary to give education and training regarding prevailing acts and legal processes. The government, media and NGOs play vital roles in this regard. E.g. 'Jago Grahak Jago' campaign.
- 6) **Right to Represent:** The act provides an opportunity to individuals and consumer groups to represent consumer's interest before consumer forum. The act allows the consumer to be represented by a person who is not a professional advocate. This provision is in recognition of consumer's right to represent.
- 7) **Right to Redress:** Along with the right to represent, right of redressal is also given. Only filing of complaint is not enough to give justice to consumers, so this right implies fair settlement of claims. This right enables the consumer to demand repair or replacement or compensation for defective products and for poor services. According to consumer protection Act, three tier quasi judicial consumer dispute redressal machinery is established for settlement of claims such as District Commission at District level, State Commission at state level and National Commission at national level. Consumers are protected from business malpractices.
- 8) **Right to Healthy Environment:** All consumers have a right to healthy and clean environment. According to this right, consumer can demand actions against the pollution causing business organisations. All consumers have the right to healthy and clean environment in present and future.

- 9) **Right to Protect from unfair business practices:** As per this right all consumers are protected against unfair business practices such as black marketing, profiteering, faulty weights and measures, exorbitant prices, adulteration etc.
- 10) **Right against spurious goods:** This right is against the marketing of goods which are hazardous to health, spurious and pose a danger to life itself.

#### Activity :

Visit to ten consumers in your area to find out whether they are aware of their rights and responsibilities as consumer.

### 7.5 RESPONSIBILITIES OF CONSUMERS :

The Act, has given certain rights to the consumers. At the same time consumers have some responsibilities too. Consumers should exercise their rights and responsibilities while purchasing products or services. These are as follows:

- 1) **Consumer should use his rights:** Consumers have many rights with regard to the goods and services. They must be aware of their rights while buying.
- 2) **Cautious consumer:** The consumers should understand their responsibilities while buying goods and services. While buying, the consumer should enquire about the quality, quantity, price, utility of goods and services etc.
- 3) **Filing of complaint:** It is the responsibility of a consumer to approach the officer concerned, if consumers have some complaint about the goods and services. A delay in complaint may result in expiry of guarantee or warrantee. Sometimes, consumers ignore the dishonest acts of businessmen which encourages unethical business practices.
- 4) **Quality conscious:** The consumers should never compromise on the quality of goods. They should not buy inferior stuff out of greed for less prices. If the consumers behave like this, there cannot be any protection for them from any sector. It is also the responsibility of the consumers to buy quality goods. The symbols such as ISI, AGMARK, Hallmark, FPO, FASSAI etc. are indicative of the good quality of the goods.
- 5) **Beware from exaggerate advertisement:** The seller informs the consumer about their goods and services through advertisement. Usually the sellers exaggerate the quality of their goods in advertisements. Therefore, it is the responsibility of the consumers to identify the truth of advertisement.
- 6) **Demand of Invoice and Guarantee, Warrantee Card:** Consumer should always ask for invoice for the goods purchased. It is the responsibility of consumer to check details mentioned on the guarantee or warrantee card. If the goods purchased are of inferior quality, these documents are useful to settle all kinds of disputes with the seller.
- 7) **Pre-planned buying:** The important responsibility of consumers is that they should not buy in hurry. It means that the consumers should make an estimate of the goods they want to buy along with their quantity required. They should also take in consideration the place from where to buy the things.

- 8) **Organised Efforts:** Consumer should undertake responsibility for the protection of their rights and safeguarding their interests. Consumers can work for and support the consumer protection associations for consumer welfare.

**Activity :**

Visit local market and find out ways of adulteration in groceries.

## 7.6 WAYS AND MEANS OF CONSUMER PROTECTION

We have enumerated several instances of exploitation and malpractices on the part of manufacturers, traders, dealers and services provider. Now the question arises as to how can these be eliminated? The prevailing judiciary system is not sufficient enough to protect consumers, therefore, there are various ways and means of consumer protection. They are as follows.

### 1) **Lok Adalat:**

Lok adalat is the effective and economical system for quick redressal of the public grievances. It can also be referred to as '**People's Court**'. It is established by the government to settle disputes by compromise.

The aggrieved party can directly approach the adalat with grievance, and issues are discussed on the spot and decisions are taken immediately. Resolution of disputes by Lok Adalat gets statutory recognition. e.g. MSEDCL, MSRTC, Railway authority, Insurance Companies, Banks etc. organize regular Lok Adalat.

### 2) **Public Interest Litigation (Janahit Yachika)**

Public Interest Litigation means a legal action initiated in a court of law regarding a matter of general public interest. It is a legal facility under which any person can approach to the court of law in the interest of the society. Its aim is to provide legal remedy to unrepresented groups of society. The party which is not related to grievance can also file public interest litigation. It is filed in the High Court as well as Supreme Court directly in some cases.

### 3) **Redressal Forums:**

Under the Consumer Protection Act, 2019, a system has been set up to deal with the consumer grievances and disputes at district, state and national level. Any individual consumer or association of consumers can file a complaint with respective commission depending on the value of goods and claim for compensation. The main aim of these commissions is to provide for simple, speedy and inexpensive redressal of consumer's grievances.

As per the Act, Consumer Protection Councils at district, state and national level can be set up for promotion and protection of rights of consumers.

### 4) **Awareness Programme:**

To increase the level of awareness among the consumers the Government of India has initiated various publicity measures. State and Central Government regularly publishes journals, brochures, booklets and various posters depicting the rights and responsibilities of consumers, redressal machineries etc. Several audio-video programmes on consumer awareness are broadcasted on various channels and through social media. 15th March is observed as 'International Consumer Rights Day' and 24th December is observed as 'National Consumer Day'.



### 5) Consumer Organizations:

Consumer Organizations have been active in India to promote and protect consumer interests. Consumer movement is well settled in India and helping individuals to seek quick and adequate redressal of their grievances. It is necessary to strengthen consumer movement throughout the country.

### 6) Consumer Welfare Fund (CWF):

Department of Consumer Affairs has created consumer Welfare Fund for providing financial assistance to strengthen the voluntary consumer movement particularly in rural area. This fund is used for training and research in consumer education, complaint handling, counselling and guidance mechanisms, product testing labs and so on.

### 7) Legislative Measures:

A number of laws have been enacted in India to safeguard the interest of consumers and protect them from unethical practices of businessman. Some of these laws are as follows:

- Sale of Goods Act, 1930
- Essential Commodities Act, 1955
- Standard of Weights and Measures Act, 1956
- Bureau of Indian Standards Act, 1969
- Food Safety and Standards Act, 2006
- National Food Security Act, 2013

There are a number of laws to safeguard the interests of consumers, but these acts could not provide complete and fair justice to consumers. Therefore, an exclusive Act has been advocated in the form of Consumer Protection Act, 2019.

#### Activity :

Visit the Non Government Organization and discuss about malpractices by business in your area.

## 7.7 CONSUMER PROTECTION ACT, 2019

Consumer Protection Act, 2019 received the assent of the President on the 9th August 2019. It shall come into force on such date as the Central Government may, by notification, appoint and different dates may be appointed for different states and for different provisions of this Act and any reference in any such provision to the commencement of this Act shall be construed as reference to the coming into force of that provision.

The Central Government initially passed the consumer protection Act on 24th December, 1986. In 2019, Ministry of Law and Justice has proposed new act as 'Consumer Protection Act, 2019' which has received the assent on 9th August, 2019. This Act, made provision for the establishment of consumer dispute redressal agencies, known as District Commission at the district level, State Commissions at the state level and National Commission as an apex body at the central level. The Act covers all complaints with relevant merchandise or services, and unfair trade practices.



**Following are consumer dispute redressal forums established under the Act.**

**1) District Commission:**

**Meaning** - A consumer dispute redressal commission at each district established by the State Government is known as District Commission.

**Composition** - Each District commission shall consist of the following.

- a) **President:** A person who is sitting or retired or qualified to be a District Judge.
- b) **Member:** not less than two and not more than such number of members as may be prescribed, in consultation with the Central Government.
- c) **Tenure:** Any person appointed as President or a member of the District Commission shall hold office as such as President or as a member till the completion of his term for which he has been appointed. The members will hold office for a term of five years or upto the age of sixty five years, whichever is earlier.

**Qualification** - The members of District Commission shall have the following qualifications

- a) **Age** - Members should not be less than 35 years of age.
- b) **Education** - They should possess a Bachelors Degree from a recognised University.
- c) **Experience** - They should have adequate knowledge and at least ten years experience in dealing with problems related to economics, law, commerce, accountancy, industries and public affairs or administration.

**Territorial Jurisdiction** - Territorial Jurisdiction of district commission is entire district in which it is established.

**Monetary Jurisdiction** - District Commission shall have jurisdiction to entertain complaints where the value of the goods or services paid as consideration does not exceed Rs. one crore.

**Appeal** - Any person aggrieved by an order made by the District Commission may prefer an appeal against such order to the State Commission within a period of forty-five days from the date of the order, in such form and manner, as may be prescribed.

The State Government, by notification may make rules about qualifications, method of recruitment, term of office, resignation and removal of president and members of district commission.

However, any person already appointed as a President or member of district commission immediately before the commencement of this Act, will remain on the same post till the completion of his term for which he has been appointed.

**2) State Commission:**

**Meaning** - A consumer dispute redressal commission at the state level established by the State Government is known as State Commission. It is also called as State Consumer Disputes Redressal Commission.

**Composition** - Each State Commission shall consist of

- a) **President:** A person who is sitting or retired Judge of High Court, shall be appointed by the State Government as the president of State Commission in consultation with Chief Justice of High Court.

- b) **Member:** Not less than four or not more than such number of members as may be prescribed in consultation with the Central Government.
- c) **Tenure:** The members will hold office for a term of five years or up to the age of sixty seven years, whichever is earlier.

**Qualification** - The members of state commission shall have the following qualifications

- a) **Age** - Members should not be less than 35 years of age.
- b) **Education** - They should possess a Bachelors Degree from a recognised University.
- c) **Experience** - They should have adequate knowledge and at least ten years experience in dealing with problems related to economics, law, commerce, accountancy, industries and public affairs or administration.

**Territorial Jurisdiction** - It can entertain original cases as well as appeals against the order of District Commission which are within the geographical limits of the state.

**Monetary Jurisdiction** - to entertain complaints where the value of the goods or services paid as consideration, exceeds Rs. one crore, but does not exceed Rs. ten crore.

**Appeal** - Any person aggrieved by an order made by the State Commission may prefer an appeal against such order to the National Commission within a period of thirty days from the date of the order in such form and manner as may be prescribed.

The Central Government, by notification may make rules about qualifications, method of recruitment, term of office, resignation and removal of President and Members of State Commission.

However, any person already appointed as a President or member of State Commission immediately before the commencement of this Act, will remain on the same post till the completion of his term for which he has been appointed.

### 3) National Commission

**Meaning** - A consumer dispute redressal forum at the National level established by the Central Government by notification is known as National Commission. It is also called as the National Consumer Disputes Redressal Commission.

**Composition - National Commission shall consist of -**

- a) **President:** A person, who is or has been a Judge of the Supreme Court, shall be appointed by the Central Government as the president of National Commission in consultation with Chief Justice of India.
- b) **Member:** Not less than four and not more than such number of members as may be prescribed.
- c) **Tenure:** The members will hold office for a term of five years or up to the age prescribed, whichever is earlier.

**Qualification** - The members of national commission shall have the following qualifications

- a) **Age** - Members should not be less than 35 years of age.
- b) **Education** - They should possess a Bachelors Degree from a recognised University.
- c) **Experience** - They should have adequate knowledge and at least ten years experience in dealing with problems related to economics, law, commerce, accountancy, industries and public affairs or administration.

**Territorial Jurisdiction-** It can entertain original cases as well as appeals against the order of State Commission which are within the geographical limits of the state.

**Monetary Jurisdiction -** to entertain complaints where the value of the goods or services paid as consideration exceeds Rs. ten crore.

**Appeal-** Any person, aggrieved by an order made by the National Commission may prefer an appeal against such order to the Supreme Court within a period of thirty days from the date of the order.

The Central Government, may by notification make rules about the qualification, appointment, term of office, salaries, resignation and removal of the President and Members of the National Commission. However, the President and the members shall hold the office for maximum five years, but are eligible for reappointment. The Act further provides that the President can work upto the age of seventy years and members can work upto the age of sixty seven years.

### **Penalty for non-compliance of Order:**

If any party failed to comply with any order made by the District Commission, State Commission or National Commission, it shall be punishable with an imprisonment for term not less than one month but may extend to three years or with a fine, which shall not be less than Rs. twenty- five thousand, but may extend to Rs. one lac or with both.

#### **Activity :**

Collect Newspaper cuttings related to consumer protection.

## **7.8 ROLE OF CONSUMER ORGANISATIONS AND NGOs**

"Non-government organisation (NGO) are non- profit and non political organisation which aim at promoting the welfare of the people." The main aim of these NGOs is to study the trend of prices in the market and publish them for the information of consumers and to agitate against the malpractices of traders.

### **Role of Consumer organizations & NGOs in Consumer protection and Education:**

- i) To organize campaigns and various programmes on consumer issues to create social awareness.
- ii) To organize training programmes for the consumers and make them conscious of their rights and modes of redressal of their grievances.
- iii) To publish periodicals to enlighten the consumers about various consumer related developments.
- iv) To provide free legal advice to members on matters of consumer interest and help them to take up grievances.
- iv) To interact with businessmen and Chambers of Commerce and Industry for ensuring a better deal for consumers.
- v) To file Public Interest Litigation on important consumer issues, such as ban on a product injurious to public health.

The following are examples of NGOs

- 1) Consumer Guidance Society of India. (CGSI)
- 2) Voluntary Organisation in Interest of Consumer Education. (VOICE)
- 3) Consumer Education and Research Centre. (CERC)

- 4) Consumer Association of India. (CAI)
- 5) Mumbai Grahak Panchayat. (MGP)
- 6) Grahak Shakti. (GS)

**Comparative Study / Distinguish between :**

| Sr.No. | Points of Distinction | District Commission   | State Commission   | National Commission   |
|--------|-----------------------|---|--|---|
| 1)     | Meaning               | A consumer dispute redressal forum at the district level established by the State Government is known as District Commission. | A consumer dispute redressal forum at the State level established by the State Government is known as State Commission.                      | A consumer dispute redressal forum at the National level established by the Central Government by notification is known as National Commission.         |
| 2)     | President             | A person who is sitting or retired or qualified to be District Judge.   | A person who is sitting or retired or Judge of High Court, shall, be appointed by the State Government as the President of State Commission. | A person who is or has been a judge of the Supreme Court, shall be appointed by the Central Government by notification is known as National Commission. |
| 3)     | Member                | Not less than two and not more than such number of members as may be prescribed, in consultation with the Central Government  | Not less than four or not more than such number of members as may be prescribed in consultation with the Central Government.                 | Not less than four and not more than such number of members as may be prescribed.   |
| 4)     | Membership Tenure     | The members can have the membership for a term of five years or upto the age sixty five years, whichever is earlier.          | The members can have the membership for a term of five years or up to the age sixty seven, whichever is earlier.                             | The members can have the membership for a term of five years or up to the age sixty seven years and president upto seventy years, whichever is earlier. |
| 5)     | Area covered          | It covers particular district   | It covers particular state   | It covers the entire country  |

|    |                       |   |   |   |
|----|-----------------------|---|---|---|
| 6) | Monetary Jurisdiction | To entertain complaints where the value of the goods or services paid as consideration does not exceed Rs. one crore. | To entertain complaints where the value of the goods or services paid as consideration, exceeds Rs. one crore, but does not exceed Rs. ten crore. | To entertain complaints where the value of the goods or services paid as consideration exceeds Rs. ten crore. |
| 7) | Appeal                | Appeal against the District Commission can be made to the State Commission.   | Appeal against the State Commission can be made to the National Commission.   | Appeal against the National Commission can be made to the Supreme Court.                                      |

### Just to know

**Quick tests for establishing tentative authentication of food products by sensory evaluation.**

| Food Product                            | Adulteration                          | Method of sensory evaluation  |
|---|---------------------------------------|---|
| Milk                                    | Synthetic Milk                        | 1. Synthetic milk gives bitter after taste.<br>2. If adulterated, it gives a soapy feeling on rubbing between the fingers.  |
| Chilli Powder                           | Brick powder/salt powder/ talc powder | 1. Take teaspoon of chilli powder in a glass of water and examine the residue.<br>2. When the residue is rubbed and if any grittiness is felt it indicates the presence of brick powder/sand.<br>3. When the white residue is rubbed, soapy and smooth feel indicates the presence of soap stone. |
| Sugar                                   | Urea                                  | 1. Rub a little sugar on palm and smell. If adulterated with Urea, it will smell of ammonia.<br>2. Dissolve a small amount of sugar in water.<br>3. If adulterated, urea in sugar gives a smell of ammonia.   |
| Wheat, Rice, Maize, Jowar, Bajra Channa | Kernel Bunt                           | 1. Separate out the non characteristics grains and examine.<br>2. Kernel bunt has a dull appearance, blackish in colour and a rotten fish smell.  |
| Atta                                    | Resultant atta/Maida                  | 1. When dough is prepared from resultant atta, less water is needed.<br>2. The normal taste of chapatti prepared out of atta is somewhat sweetish whereas those prepared out of adultery will taste insipid.  |

|                 |                |   |
|-----------------|----------------|---|
| Sago            | Sand or talcum | 1. Put a little quantity of sago in mount<br>2. If adulterated, it will have gritty feel. |
| Powdered spices | Common salt    | 1. Taste of addition of common salt.<br>2. If present, it will have a gritty feel.        |

## Summary

### Meaning of consumer:

The consumer is one who consumes or uses any commodity or service available from natural resources or through a market.

The one who buys any goods, hires any service or services for a consideration which has been paid or promised or partly paid or partly promised or under any system of deferred payment is a consumer.

### Need of Consumer Protection:

In modern competitive market, consumer is regarded as the **King of Market**. Consumers need protection due to the following reasons:

- 1) Need of participation of consumers
- 2) Lack of information
- 3) Ignorance
- 4) Unorganised consumers
- 5) Spurious goods
- 6) Misleading advertising
- 7) Malpractices of businessman
- 8) Trusteeship

### Consumer Rights:

- 1) Right to Safety
- 2) Right to Information
- 3) Right to Choice
- 4) Right to be Heard
- 5) Right to Consumer Education
- 6) Right to Redress
- 7) Right to Represent
- 8) Right to Healthy Environment
- 9) Right to protect from unfair business practices.
- 10) Right against spurious goods.

## Consumer Responsibilities :

### Responsibilities of consumer are as follows:

- 1) Consumer should use his right
- 2) Cautious consumer
- 3) Filing complaint for the redressal of actual grievances
- 4) Consumer must be quality conscious
- 5) Beware from exaggerate advertisement
- 6) Demand of Receipt and Guarantee/ warrantee card
- 7) Pre-Plan for buying
- 8) Organised efforts

### Ways and Means of Consumer Protection

Following are the various ways and means of consumer protection in India.

- 1) Lok Adalat
- 2) Public Interest Litigation (Janahit Yachika)
- 3) Redressal Forums
- 4) Awareness Programme
- 5) Consumer Organizations
- 6) Consumer Welfare Fund
- 7) Legislative Measures

### Consumer Protection Act,2019:

- 1) District Commission 2. State Commission 3. National Commission

|  |                             |
|--|-----------------------------|
| Consumer court Lawyer.<br>Consumer Counsellor.<br>Analyst in Food testing laboratories | <b>Career Opportunities</b> |
|--|-----------------------------|

### EXERCISE

#### Q1 A) Select the correct answer and rewrite the sentence.

1. In India, the consumer protection act was initiated in the year ..... .  
a) 1947                      b) 1989                      c) 1986
2. The President of District Commission is a ..... .  
a) District Judge    b) High Court Judge    c) Supreme Court Judge
3. The main objective of the consumer organization is to protect the interest of the ..... .  
a) Consumer            b) trader                      c) producer
4. .... is the highest authority to settle the consumer dispute under Act.  
a) State Commission    b) National Commission    c) District Commission
5. The Government has established ..... to settle the consumer disputes by compromise.



- a) District Commission b) Lok Adalat c) Consumer organisation
6. National Commission has ..... members.  
a) 2 b) 3 c) 4
7. District Commission entertains complaints of consumer for compensation which is less than .....  
a) one crore b) ten lacs c) ten crore
8. .... is celebrated as World Consumer Day.  
a) 24th December b) 26th January c) 15th March
9. In modern competitive market, consumer is regarded as the .....  
a) king, b) Agency c) Owner

**B) Match the pairs.**

| Group A |                         | Group B |   |
|---------|-------------------------|---------|---|
| A)      | King of the market      | 1)      | 1930  |
| B)      | National Commission     | 2)      | Socialist   |
| C)      | Mumbai Grahak Panchayat | 3)      | Exceeds Rs. ten crore                                     |
| D)      | Sale of Goods Act       | 4)      | Non Government Organisation                               |
| E)      | Consumer Right          | 5)      | Consumer  |
|         |                         | 6)      | Legislative Measures                                      |
|         |                         | 7)      | Exceeds Rs. one crore but does not exceeds Rs. ten crore. |
|         |                         | 8)      | 1956  |
|         |                         | 9)      | Consumer Protection Act                                   |
|         |                         | 10.     | Right to information                                      |

**C) Give one word / phrase / term for the following sentence.**

- The commission which entertains case where the value of the goods or services paid as consideration does not exceed Rs. one crore.
- A legal action initiated in a court of law regarding a matter of general public interest.
- Organizations which aim at promoting the welfare of the people.
- The right of consumer which is about safety and protection to his life and health.
- One who consumes or uses any commodity or service.

**D) State whether following statements are true or false.**

- The seller has to recognize the rights of Consumer.
- Consumer Protection Act provides protection to the producer.
- Consumer Protection Act is not required in India.
- Lok Adalat can rightly be described as "People's Court".
- Consumer, being the king of market, does not have any responsibility.

**E) Find the odd one.**

1. District Commission, State Commission, NGO, National Commission
2. District Judge, High Court Judge, Commissioner, Supreme Court Judge

**F) Complete the sentences.**

1. National Commission is to be established by ..... Government.
2. Any person who does not agree with the decision of District Commission can appeal to the .....
3. State commission has ..... members.
4. The President of National Commission is ..... judge.
5. National Commission entertains complaints of consumer for compensation that exceeds Rs .....
6. The consumer protection Act established ..... tier quasi judicial system for consumer protection.

**G) Select the correct option and complete the following table.**

(High court Judge, Four, Consumer Organisations, does not exceeds Rs. one crore, 2019)

|    | Group A                                       | Group B                                      |
|----|---|--|
| 1) | Amount of compensation in District Commission | A. ....                                      |
| 2) | .....   | B. State Commission                          |
| 3) | Consumer Protection Act                       | C. ....                                      |
| 4) | .....   | D. non-profit and non Political organisation |
| 5) | Members of National Commission                | E. ....                                      |

**H) Answer in one sentence.**

- 1) When do we observe a National Consumer's Day?
- 2) Who is consumer?
- 3) What information one should check before buying a product?
- 4) Which forum is set up at the national level for redressal for consumer complaints?
- 5) Who shall be appointed as president of National Commission?
- 6) When do we observe World Consumer's Rights Day?

**I) Arrange in proper order.**

- 1) National Commission, District Commission, State Commission.
- 2) District Judge, Supreme Court Judge, High Court Judge.

**J) Correct the underlined word and rewrite the following sentence**

- 1) An appeal can be filed against the order of the National Commission to the State forum.
- 2) National Commission is established by the State Government.
- 3) District Commission is also referred as People's Court.
- 4) In India, sellers are widely dispersed and are not united.
- 5) National Commission entertains complaints where the value of the goods or services\_ paid as consideration does not exceed Rs. one crore .

**Q.2. Explain the following terms/ concepts.**

- 1) District Commission.
- 2) National Commission.
- 3) State Commission.
- 4) Lok Adalat.
- 5) Janhit Yachika

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

1) Mr. Ashok visited a shop to buy a pair of shoes of RS. 700. The salesman forced him to buy a pair of bigger size shoes of ordinary company by claiming this size would be suitable to him. After reaching home, he discovered that shoes are still too big for him. He complained about the shoes to the shopkeeper. It was denied by the shopkeeper to replace the shoes despite of availability of stock.

**In above case**

- i) Which right has been violated?
  - ii) Is Ashok a buyer or end user?
  - iii) Where can Mr. Ashok file his complaint?
- 2) Mrs. Meera a resident of Nagpur District bought a washing machine worth Rs. 50,000 without cash memo with a warrantee period of 2 years. After 1.5 years she noticed some defect and asked the company to repair or replace it. The company did not accept her complaint despite of the defective product.

**In the above case,**

- i) Suggest suitable redressal machinery to protect her right.
- ii) If she is not satisfied with the decision given by redressal machinery, where should she appeal?
- iii) What was the negligence of Mrs. Meera while buying the washing machine?

**Q.4. Distinguish between.**

- 1) District Commission and State Commission.
- 2) State Commission and National Commission.
- 3) District Commission and National Commission

**Q.5. Answer in brief.**

- 1) Explain any four needs of consumer protection.
- 2) State any four rights of the consumer.
- 3) Explain any four responsibilities of the consumer .
- 4) State the role of NGO in consumer protection.

**Q.6. Justify the following statements.**

- 1) The Consumer Protection Act was passed in the interest of consumers.
- 2) Consumers have many responsibilities.
- 3) Aim of consumer organization is to protect the rights of the consumer.

**Q.7. Attempt the following.**

- 1) State rights of the consumer.
- 2) State responsibilities of the consumer.
- 3) State the need of consumer protection.
- 4) State the role of NGOs and consumer protection.
- 5) State the composition and monetary jurisdiction of district Forum.
- 6) State the composition and monetary jurisdiction of state commission.
- 7) State the composition and monetary jurisdiction of national commission.

**Q.8. Answer the following.**

- 1) Who is consumer? Explain the rights of the consumers.
- 2) Explain the ways and means of Consumer Protection.
- 3) Explain the three tier quasi judicial machinery under the Act.

**Answer Key**

- Q.1 (A) 1- 1986, 2 - District Judge, 3 - Consumer, 4- National Commission, 5 - Lok Adalat, 6 - 4, 7- one crore, 8 - 15th March, 9 - King
- (B) A-5, B-3, C-4, D-1, E-10
- (C) 1 - District Commission 2 - Public Interest Litigation, 3. Non Government Organizations, 4 Right to safety, 5. Consumer
- (D) True-1,4, False-2,3,5
- (E) 1. NGO, 2. Commissioner
- (F) 1. Central, 2. State Commission, 3. four, 4. Supreme Court, 5 Rs ten crore 6.three
- (G) 1. Does not exceed Rs. one crore 2. High court Judge, 3.2019 4.Consumer Organisations, 5.4
- (I) 1. District Commission, State Commission, National Commission.  
2. District Judge, High Court Judge, Supreme Court Judge.
- (J) 1. Supreme Court, 2. Central Government, 3. Lok Adalat, 4. Consumer, 5. District Commission

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### 8.1 Introduction

### 8.2 Meaning and Definition

### 8.3 Concept of Market

### 8.4 Types of Market

### 8.5 Importance of Marketing

### 8.6 Functions of Marketing

### 8.7 Marketing Mix

### Summary

### Exercise

## 8.1 INTRODUCTION

There is a cut throat competition in almost all walks of life and business is not an exception. It is difficult to survive on the basis of past performance in the product market. Innovative and variety of products are introduced in the market which gives lot of choices to the customers. It is difficult for the companies to retain consumers' loyalty. There are many sources like internet, television, newspapers etc. which are available for collecting necessary information about products and services. It makes very difficult for the businesses to retain and expand the brand in the minds of the customers.

Marketing is a part and parcel of modern day's life. Marketing is pervasive in nature and it affects our day-to-day life in every possible manner. Marketing is both an art as well as a science. Competitive environment motivates organizations to understand marketing as a discipline of management. In fact today marketing is regarded as most important of all management functions of business.

Need of marketing arises because of the increasing production and lower demand of goods and services over the years. Every organization wants to increase market share by presenting themselves different than their competitors. Marketing is important where the competition is very high. Marketing provides a competitive edge to business. It helps to gain loyal customers through implementing good marketing plan. Convincing somebody to do something or not to do something is a part of marketing.

## 8.2 MEANING AND DEFINITION

Marketing is a key function of modern management. We are exposed to marketing of products and services and ideas almost every day. Study of marketing plays an important role as everyone of us performs marketing activities in one or the other form. Marketing has different meanings based

on audience, media platform and business in changing market.

**Definition :**

Therefore, marketing is defined in many ways as stated below :

- 1) **American Marketing Association**, "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
- 2) **" Philip Kotler**, "Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others".
- 3) **World Marketing Association**, "Marketing is the core business philosophy which directs the processes of identifying and fulfilling the needs of individuals and organizations through exchanges which create superior value for all parties."

### 8.3 CONCEPT OF MARKET

To understand 'marketing' it is necessary to understand the concept of 'market'.

The term market is derived from the Latin word 'mercatus', which means 'to trade', 'to trade merchandise' or 'a place where business is transacted'. In simple words market is the place where two or more parties are involved in buying and selling. These two parties involved in the transactions are called buyers and sellers. The transaction of buying and selling takes place with exchange of money.

There are many concepts associated with the word 'market' and according to the concept, different definitions of the term market are given below:

1) **Place concept of Market:**

The term market is commonly understood as the place where transaction of buying and selling of goods and services takes place in exchange of money or money's worth. It is the place where buyers, sellers and other intermediaries come together and exchange goods or services. In olden days, place played an important role in defining market. But in the age of information technology the term 'market' has wider meaning than just a place.

2) **Commodity Concept of Market**

In the commodity concept of market, emphasis is given on 'buying and selling of goods or services'. In this concept the process of buying and selling of goods or services is important and not the place of exchange. In this process buyer and seller as well as the commodity exchanged among them plays an important role.

3) **Exchange concept of Market**

Exchange concept of market has given emphasis on exchange of goods or services between buyer and seller with free consent as well as mutual trust. There should not be any Fraud or Misrepresentation or Coercion or undue influence during the exchange. The exchange should be voluntary between buyer and seller.

4) **Area concept of Market**

The area concept of the market is related to exchange concept. This concept gives emphasis on free association between buyers and sellers to fix the price of goods for buying and selling.

The price fixed between buyer and seller implies in the certain area only. In this concept it is not necessary for buyer and seller to meet in person. For fixing the price buyers and sellers can regularly take the help of different modern communication media and exchange goods or services.

### 5) Demand or Customer concept of Market

Customer is the king of the market. One of the important perspectives of the market is to assess the need or demand of the customer. Market can be studied from the perspective of demand or customer. According to this concept, the aggregate demand by potential buyers for any product is market.

### 6) Space or Digital concept of Market

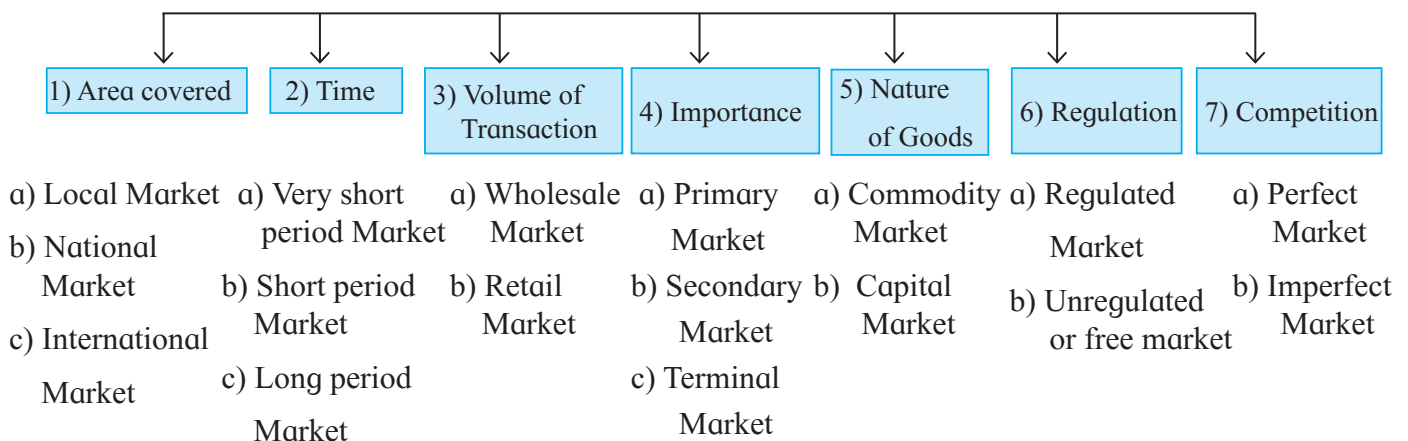
Emergence of Information Technology gave birth to the new concept of the market called as Space or Digital Concept. New and sophisticated E-Commerce Portals and Mobile Applications make the buying and selling easy and convenient for buyers as well as sellers. The communication media like telephone, mobile, computer, Internet etc. have made direct contact between customer and seller. It is easy for the customers to know about quality, features, price, terms and conditions etc. of any products of any company.

Digital Market can be defined as "Market which uses Information Technology for buying and selling of the products or services and facilitate communication of quality, features, price and terms of exchange among them"

## 8.4 TYPES OF MARKET

Markets can be broadly classified into following categories.

### Types of Market (On the basis of .....



### 1) On the Basis of Area Covered

- a) **Local Market :** The market for the commodities which are sold within local geographical limits of a region is known as a local market.
- b) **National Market:** The market for the commodities which are sold within the country is known as national market.



- c) **International Market :** The market for the commodities which are produced in one country and sold in other countries is known as international market.

## 2) On the Basis of Time

- a) **Very Short Period Market:** This type of market has very short time existence viz., for few hours or for a day at a particular time and place. In this type of market perishable goods such as vegetables, fruits, milk products etc. are sold.
- b) **Short Period Market :** This type of market has existence for a short period viz. weekly markets, festival market, market during fairs etc. Perishable or semi-durable goods are sold in this market.
- c) **Long Period Market:** This type of market has existence for long period. In this type of market durable commodities which are generally non-perishable in nature are sold.

## 3) On the Basis of Volume of Transaction

- a) **Wholesale Market :** In wholesale market the activity of buying and selling goods is undertaken in large quantities at cheaper prices. Goods are sold to retailers who then sell them to the consumers. It refers to the market for bulk purchase and sale of goods. In such a market sellers are known as wholesalers and buyers are known as retailers.
- b) **Retail Market :** Retail market is the market where retailer sells goods directly to the consumer in small quantities.

## 4) On the Basis of Importance

- a) **Primary Market:** Primary Market refers to the market for primary products such as agricultural and forest products, for example, fruits, vegetables, food grains etc.
- b) **Secondary Market:** Secondary Market refers to the market for semi-processed and semi-manufactured goods. For example yarn market, iron ore market etc.
- c) **Terminal Market:** Terminal Market refers to the market where goods are sold to the ultimate consumers or the users of the product.

## 5) On the Basis of Nature of Goods

- a) **Commodity Market:** Commodity market refers to the market for goods, material or produce viz., consumer goods and industrial goods.
- b) **Capital Markets :** It is a market for borrowing and lending long term capital required by business enterprises. The financial asset dealt within capital market have long or indefinite maturity period.

## 6) On the Basis of Regulation

- a) **Regulated Market:** Regulated market refers to the markets regulated by statutory provisions of the country. For example, Commodity Exchanges, Stock Exchanges, Foreign Exchanges
- b) **Unregulated or Free Market:** It refers to the markets which are not controlled by any specific regulations. It generally operates according to forces of demand and supply.

## 7) On the Basis of Competition

- a) **Perfect Market:** Perfect market is a market where large number of buyers and sellers buy and sell their homogeneous products. These buyers and sellers have perfect knowledge about market conditions and therefore, one single price prevails in the market.
- b) **Imperfect Market:** Imperfect Market refers to a market situation which is characterised by market imperfection such as single seller, maladjustment in demand and supply, imperfect knowledge on the part of buyers or sellers, etc.

### Imperfect markets are further divided in the following markets :

- 1) **Monopoly:** In monopoly, there is a single producer or seller who controls the market. There are no close substitutes for the product. Monopoly controls the supply and can fix the price.
- 2) **Duopoly:** In duopoly, there are two sellers, selling either a homogeneous product or a differentiated product. These two sellers enjoy a monopoly in the sale of the product produced by them.
- 3) **Oligopoly :** In oligopoly there are only a few sellers. They may be producing and selling either a homogeneous or a differentiated product.
- 4) **Monopsony:** Monopsony refers to a market situation when there is a single buyer of a commodity or service.

## 8.5 IMPORTANCE OF MARKETING

In the absence of marketing, many businesses would fail to exist. The prime object of production is to distribute goods and services by using effective marketing. Business could have the most amazing products or services, but if no one knows it exists then business will not be able to sell it. There is a need to use marketing to promote business. Without marketing, it is difficult to reach the potential customers. In the olden days the role of marketing was only to communicate the product to the consumers, but this is not the case today. The role of marketing is too diverse in the modern world. Effective marketing helps organizations to survive in the competitive environments.

### Importance of marketing:

#### A) Importance of Marketing to the Society

##### 1) Increase in Standard of Living:

The prime objective of marketing is to provide goods and services to the customers to satisfy their needs. Paul Mazur defined marketing as, "The delivery of standard of living to the society". Marketing helps to identify the needs of the customers and take an initiative to provide the quality goods at the cheaper prices. This will help to increase and maintain the standard of living of the customers. In the modern times, large scale production of goods and services reduced its prices due to which even the poorer sections of society can attain a reasonable level of living.

##### 2) Provides Employment:

Modern marketing is a total system which covers almost all functions of organization such as buying, selling, financing, transport, warehousing, risk bearing, research and development etc. To run this system there is a need of people. Thus, marketing gives job opportunities to the people. In the modern era of automation, lesser employments are available in production function and the role of marketing has widened. It gives more opportunities of employment

in marketing. Converse, Huegy and Mitchell have rightly pointed out that "In order to have continuous production, there must be continuous marketing, only then employment can be sustained and high level of business activity can be continued".

**3) Decreases Distribution Costs:**

Marketing activities help to provide cheap goods and services to the society. Effective utilization of channel of distribution can help in reducing the cost prices of the products and services. Reduction of cost will help to increase the potential consumers for the products or services. It also assures timely availability of the product.

**4) Consumer Awareness:**

Marketing helps the society by informing and educating consumers. The function of marketing is to fulfil the needs of the consumers. Marketing helps consumers to know about new product and service available in the market and its usefulness to the customer.

Marketing provides satisfaction to the society by supplying relevant information, goods, and services to the people of society according to their demand and taste. Marketing can also include more practical information to assist in making a purchase, such as addresses, phone numbers, product release dates, store hours and Web addresses.

**5) Increase in National Income:**

Every economy revolves around marketing, production and finance to the industry. The scientifically organized marketing activities help in the economic development of the country. Effective marketing of products and services result into industrialization, more job and makes the economy stronger and stable. Marketing can bring about rapid development of the country by integration of agriculture and industry.

**6) Managing Consumer Expectations:**

Marketing research helps the organizations to understand the needs of the consumers. It helps in developing the products which fulfills customer's expectations. Customers' review collected through different sources can help the organizations to make necessary changes in the products. Businesses use marketing to make consumers aware of major changes, such as mergers and transfers in ownership that affect product offerings or seek to improve quality. Government regulations prevent marketers from making false or misleading claims.

**B) Importance of Marketing to the Firm**

**1) Increases Awareness:**

Marketing helps in creating awareness about the existing products, new arrivals as well as the company which sells a particular product in the market. This raises awareness among the potential consumers. It creates brand image among the consumers.

**2) Increases Sales:**

Once marketing creates awareness about the products or services among the consumers, it attracts them to purchase the same. Successful marketing campaign helps to increase the sales of the organization. Increase in sale generates profit for the organization. This income and profit are reinvested in the business to earn more profits in future. In modern business, survival of the organization depends on the effectiveness of the marketing function.

**3) Creates Trust:**

People want to buy from a business that has a trustworthy reputation. Creating trust among the

customers is a time consuming process. Creating trust among the consumers helps the business to earn loyal customers. Once your business can establish this trust with your clients, it creates customer loyalty. Happy customers enhance the brand image in the market. Effective marketing plays an important role in building a relationship between the customers and the organization. Effective pricing policy and timely after sales services improve image of the organization. A majority of the activities of the marketers are directed towards building the brand equity of the business.

#### **4) Basis for Making Decisions:**

From inception of idea to delivering the final product to the customer, businessman has to take several decisions. Businessman has to look after many problems such as what, how, when, how much and for whom to produce? As the scale of operation increases, these decisions become more complex. Marketing helps to take right decision at right time.

#### **5) Source of New Ideas:**

Marketing helps business to understand the needs of the consumers. Feedbacks from the consumers help in the improvement of the existing products. There is rapid change in tastes and preference of people. Marketing helps in understanding these changes. It helps to understand new demand pattern emerged in the market. Research and Development department develop products accordingly. The 4p's of marketing mix i.e. product, price, place and promotion play a huge role in the product development. Inventions and innovations are taken place as per the need by the Research and Development team of the business.

#### **6) Tackling the Competition**

There is increasing competition in almost all sectors of the economy. It is difficult for any business to create monopoly for their products and services. The role of marketing is important to create brand image in the minds of potential customers. Marketing not only helps to communicate the products and services to the consumers but also motivates them to buy the same. Sound marketing strategies can portray better image of the business than the competitors. Businesses can take use of modern technology for effective marketing.

### **C) Importance of Marketing to the Consumers**

#### **1) Promotes Product Awareness:**

Through different marketing activities companies promote their products and services. This helps consumers to know about different products and services available in the market. It helps the consumer in making buying decision. It also creates awareness among the consumers about different brands and features of the product available in the market. Consumer can compare product features, price, availability and other essentials because of marketing. Marketing helps to improve the quality of life of the consumer.

#### **2) Provides Quality Products**

There is increasing competition in the market. Consumers are getting easy access to the information about the products and services available in the market. It creates moral pressure on the businesses to provide quality goods to the consumers. Supplying defective products may create negative image of the business which affects the consumer's loyalty.

#### **3) Provides Variety of Products**

Marketing creates awareness among the consumers about the product. At the same time, it attracts the consumers to buy the same. With the customer population and preferences

becoming wider, and the competitive options becoming more available, market segmentation has become critical in any business or marketing plan. In fact, business launch products keeping the market segmentation in mind. Businessman needs to provide variety of goods to cater to the needs of the different market segments of the consumers. Variety may change according to the price, size and quality of the product.

#### 4) **Helps in Selection**

Variety of products with different brands are available in the competitive markets. Marketing helps the consumer to choose the best products and services from the different options available.

#### 5) **Consumer Satisfaction**

The first and foremost objective of any sound marketing policy is to satisfy the consumers by assurance of good quality product. When an offering meets the customer's expectations, the customer is satisfied. Marketing leads to consumer satisfaction through honest advertising, assurance of quality products and availability of innovative products. Thus, marketing takes every effort to satisfy the consumer.

#### 6) **Regular supply of goods:**

Through efficient distribution channel of marketing regular supply of goods is possible. It helps to maintain the balance between demand and supply. It results into stable prices.

Importance or marketing at a glance :

#### **Importance of marketing at a glance :**

##### **Society**

1. Increases Standard of Living
2. Provides Employment
3. Decreases Distribution Costs
4. Consumer Awareness
5. Increase in National Income
6. Managing Consumer Expectations

##### **Firm**

1. Increases Awareness
2. Increases Sales
3. Creates Trust
4. Basis for Making Decisions:
5. Source of New Ideas:
6. Tackling the Competition

##### **Consumer**

1. Promotes Product Awareness:
2. Provides Quality Products
3. Provides Variety of Products
4. Helps in Selection
5. Consumer Satisfaction

## 8.6 FUNCTIONS OF MARKETING

Success of business is difficult without effective marketing. Marketing deals with exchange of goods and services to satisfy needs of consumers. Marketing functions help to study the needs of the consumers and facilitate to satisfy it. Following are some of the important functions of marketing :

### 1) **Marketing Research**

Effective marketing is possible when business takes initiative to identify the needs and wants of the consumers in the market. To identify the needs of the consumers, there is a need to collect information from the consumers and analyse the same is known as Market Research. Analysis of the information helps in the assessment of the need in the market. It helps to find out what do consumers want to buy, when do consumers buy, in what quantity they want to buy and at what price. Marketing Research helps to take various decisions regarding successful marketing of products.

#### **Activity :**

Visit ten nearby houses and find out their needs for different products

### 2) **Buying and Assembling:**

It involves collecting raw material from different sources at one place for production. This function is important as quality and price of raw material determine cost and quality of the final product.

### 3) **Market Planning:**

After assessing the need of the marketing, business needs to chalk out the marketing plan and strategies to achieve the desired objective. Market planning is the process of organizing and defining the marketing objectives of the business and creating strategies to achieve them. It is the comprehensive blueprint that will help to draw outline of business's overall marketing efforts.

### 4) **Product Development**

Product development and design play an important role in the selling of the product. There is a need to develop the product that suits the needs of the consumer. Product design includes decision related to quality, standards, shape, design, packing, colour etc. of the product. Consumer always prefer better and attractively designed product. Good design of the product gives competitive advantage to the business. Product development is continuous process as the requirements of the customer change from time to time.

### 5) **Standardisation and Grading:**

Standardisation means to determine standards related to process, size, quality, design, weight, colour etc. of the product. It helps in ensuring uniformity in the quality of the product. It helps in achieving customers' loyalty towards the product.

Grading is the process of classification of products according to similar characteristics and/or quality. Grading is done on the basis of their features like size, shape quality etc. Generally grading is done in case of agricultural products like wheat, rice, potatoes etc.



### Activity :

Visit five nearby grocery shops and find out different types/grades of wheat, rice and cereal etc. and its prices. Find out the reasons of price changes in different grades of grains.

### 6) Packaging and Labelling:

Package and Label creates the first impression on the consumer about the product. Attractive package and label can help to make product successful. Packaging means designing the package for the product. It helps to avoiding breakage, damage and destruction of the product. Packing material includes bottles, container, plastic bags, tin, wooden boxes, jute bags, bubble bags, packing foam etc.

Label is a slip which is found on the product and provides all the information regarding the product and its producer. The slip on which all this information is provided is called as label and its process is called as labeling. Packaging and labelling not only provide protection to the product but also act as an effective tool of marketing.

### Activity :

Collect 5 types of packaging material and read carefully the information given on the label of the package.

### 7) Branding :

Every businessman wants to have special identity in the market for his product. Branding is a process of giving special identity to a product through unique brand name to differentiate it from competitor's products. In simple words giving of distinct name to one's product is called as branding. Registered brands are known as Trademarks.

Trademarks can not be copied. Branding helps to get recognition among the consumers. It can help to get new business and increase brand awareness in the market.

### 8) Customer Support Service:

Customer is the king of the market hence business needs to take necessary steps for the satisfaction of the customer. Business needs to take every possible effort to provide support services to the customer. Timely support services help to gain customer's loyalty.

The business can provide the support services like Pre-sales service, consumer helpline, after sales service, technical assistance, product demo etc. to the customers. These services help in getting, retaining and growing the customers.

### 9) Pricing of Product:

Pricing is one of the most important as well as challenging function of the marketing. Many times price of the product decides the success or failure of the product. Pricing plays an important role in the market where there is cut throat competition. While determining the price of the product businessman needs to consider factors like cost, desired profit, price of the competitor's product, demand for the product, market condition etc. Business needs to change prices as per the need of the market. If prices are too high, it might lose customers but if prices are too low, it might suffer losses. So deciding the right price needs extensive market research.



## 10) Promotional Channels

Promotion is the process of informing the consumers about the products, their features, uses, prices etc and encouraging them to buy these products. Advertising, Personal selling, Publicity and Sales Promotion are some of the important tools of promotion. Business uses combination of all or some of these four methods for promotion as per the need of the business. Promotional activities help to increase brand awareness in the market.

## 11) Distribution:

Distribution is the set of activities which is concerned with efficient movement of finished goods from the place of production to the consumer. It includes transportation, warehousing, material handling, inventory control, order processing, market forecasting, packaging, plant and warehouse location and customer service. Distribution accounts for a major part of marketing budget of the business. Importance of physical distribution for a firm depends on the type of product and level of customer satisfaction desired.

## 12) Transportation:

Transportation means physical movement of goods from the place of production to the place of consumption. Transportation includes transportation of finished goods as well as of raw material. Production, sale and consumption-all the three activities need not be at one place hence there is a need of transportation. Place utility is created by transportation activity. Analysis of geographical boundaries, nature of product, cost, target market, speed, reliability, frequency, safety etc. help in deciding modes of transportation. Road, air, water, railways, pipelines are some of the important modes of transportation used by business.

## 13) Warehousing:

There is a time-lag between the purchase or production of goods and their sale. It is important to store the goods at a safe place during this time-lag. Any negligence during this period may damage the stock. Warehouse helps to maintain a smooth flow of goods. It also helps in stabilizing prices in the market. Function of warehousing is performed by retailers, wholesalers and manufacturers. Warehousing creates time utility.

## 8.7 MARKETING MIX

Marketing Mix is the combination of different marketing variables that the firm blends and controls to achieve the desired result from the target market. In simple words the marketing mix is putting the right product, at the right time, at the right price in the right place. It is one of the important tools of the marketing. The 4P's of marketing mix were introduced by E. Jerome McCarthy in 1960. It was further extended by Booms & Bitner in 1981 by adding 3 new elements to the 4 Ps Principle.

There are two types of marketing mix-Product Marketing Mix (4Ps) and Service Marketing mix (7Ps). The four Ps are the key factors that are involved in the marketing of goods or services. They are the product, price, place, and promotion.

### 1) Product:

Product refers to the goods or services that are offered to the customers for sale and are capable of satisfying the need of the customer. The product can be intangible or tangible, as it can be in the form of services or goods. The business need to decide the right type of product through extensive market research. Success of the business depends on the impact of the product in the minds of the customer.

## 2) **Price:**

The price of the product is basically the amount that a customer pays for the product. Price plays an important role in creating demand for the product. The business needs to take utmost care to decide the price of the product. Cost of the product and willingness of the customer to pay for the product play an important role in pricing the product. Too high price may affect the demand for the product and pricing too low may affect the profitability of the business. While deciding the prices, the value and utility of the product to its customers are to be considered.

## 3) **Place:**

Place is also known as distribution channel. Placement or distribution is a very important part of the marketing. Making a right product at the right price is not enough. Businessman needs to make the product available to potential customer at the right place too. Business needs to distribute the product in a place that is accessible to potential buyers. It covers location, distribution and ways of delivering the product to the customer. Better the chain of distribution higher the coverage of the product in the market.

## 4) **Promotion:**

Promotion is an important element of marketing as it creates brand recognition and sales. Promotion is a tool of marketing communication which helps to publicise the product to the customer. It helps to convey product features to the potential buyer and inducing them to buy it. Promotion mix includes tools such as advertising, direct marketing, sales promotion, personal selling, etc. Combination of promotional strategies depend on budget, the message business wants to communicate and the target market.

**The above four P's of marketing are associated with the product marketing mix. In addition to the 4Ps, when there is consumer-oriented or service marketing, there are 3 more P's are taken into consideration namely - People, Physical Evidence and Process.**

## 5) **People:**

People inside and outside the business directly or indirectly influence the business. People comprise of all the human beings that play an active role in offering the product or service to the customer. The people include employees who help to deliver services to the customer. Right people at right place add value to the business. For the success of the business, it is necessary to recruit right people, train them, develop their skill and retain them.

## 6) **Process:**

Process refers to the steps involved in delivering products and services to the customer. Processes are important to deliver a quality service. Good process helps to ensure same standard of service to the customer as well as save time and money by increasing efficiency. The advancement of technology helps businesses in effective monitoring of the process of the business and take corrective action wherever necessary.

## 7) **Physical Environment:**

Physical Environment refers to the marketing environment wherein the interaction between customer and firm takes place. Since services are intangible in nature service providers try to incorporate certain tangible elements into their offering to enhance customer experience. In the service market, the physical evidence is important to ensure that the service is successfully delivered. Through physical evidence customers know the brand leaders in the market. Physical evidence affects the customer's satisfaction. It includes location, layout, interior design, packaging, branding, dress of the staff and how they act, waiting area etc.

**Just to know**

- 1) A product is analysed from marketing viewpoint as core product features, Tangible product features and Intangible product features. e.g. core product features of a car include its capacity to transport passengers and goods from one place to another. Tangible features include colour, shape, seats, music system etc. of the car. Intangible features include comfort, ease in driving, servicing frequency etc.
- 2) Marketing and selling, though seem to be similar concepts, 'Marketing' involves a process of satisfying consumer needs whereas 'Selling' involves actual action by which ownership and possession of goods is transferred to buyers.

Let us see the difference in detail.

| <b>Marketing</b>  | <b>Selling</b>  |
|---|---|
| Marketing is a social process by which a need is created, offered and exchanged via products.                                       | Selling means providing the customer with the good he/she needs in exchange of a price.                       |
| Marketing is a wider concept. It includes Selling and other functions.  | Selling is a narrower concept. It is a part of the marketing concept.   |
| Satisfaction of consumers is the essence of the marketing concept.  | The selling concept relies on the transfer of title and possession of the product from one person to another. |
| Marketing is consumer oriented. It emphasizes on consumers and the maximization of their satisfaction.                              | Selling is production oriented. It emphasizes on production and its efficiency.                               |
| Marketing views the customer as the very purpose of the business.   | Selling views customer as a last link in business.  |
| Planning in marketing is long-term-oriented in today's products and in terms of few products, tomorrow's markets and future growth. | Planning in selling is short-term-oriented in terms of today's products and markets.                          |
| Marketing follows customer oriented approach.   | Selling uses production oriented approach.  |
| Marketing is an indirect activity.  | Selling is a direct activity.   |

**Summary**

"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

**Concept of Market**

1. Place Concept of Market:
2. Commodity Concept of Market
3. Exchange Concept of Market
4. Area Concept of Market
5. Demand or Customer Concept of Market
6. Space or Digital Concept of Market

## Types of Market

Markets can be broadly classified into the following categories

1. On the Basis of Area Covered
  - a) Local Market b) National Market c) International Market
2. On the Basis of Time
  - a) Very Short Period Market b) Short Period Market c) Long Period Market
3. On the Basis of Volume of Transaction
  - a) Wholesale Market b) Retail Market
4. On the Basis of Importance
  - a) Primary Market b) Secondary Market c) Terminal Market
5. On the Basis of Nature of Goods
  - a) Commodity Market b) Capital Markets
6. On the Basis of Regulation
  - a) Regulated Market b) Unregulated or Free Market
7. On the Basis of Competition
  - a) Perfect Market b) Imperfect Market

Imperfect markets are further divided in the following markets:

- a) Monopoly b) Duopoly c) Oligopoly d) Monopoly

## Importance of Marketing

- A. Importance of Marketing to the Society
  1. Increase in Standard of Living,
  2. Provides Employment
  3. Decreases Distribution Costs,
  4. Consumer Awareness
  5. Increase in National Income,
  6. Managing Consumer Expectations
- B. Importance of Marketing to the Firm
  1. Increases Awareness,
  2. Increases Sales
  3. Creates Trust,
  4. Basis for Making Decisions
  5. Source of New Ideas,
  6. Tackling the Competition
- C. Importance of Marketing to the Consumers
  1. Promotes Product Awareness,
  2. Provides Quality Products
  3. Provides Variety of Products,
  4. Helps in Selection
  5. Consumer Satisfaction,
  6. Regular supply of goods

## Functions of Marketing

- 1) Marketing Research,
- 2) Buying and Assembling
- 3) Market Planning,
- 4) Product Development
- 5) Standardisation and Grading,
- 6) Packaging and Labelling
- 7) Branding,
- 8) Customer Support Service
- 9) Pricing of Product,
- 10) Promotional Channels
- 11) Distribution,
- 12) Transportation
- 13) Warehousing

## Marketing Mix

- 1) Product,
- 2) Price
- 3) Place
- 4) Promotion
- 5) People,
- 6) Process
- 7) Physical Environment

### EXERCISE

#### Q.1. (A) Select the correct option and rewrite the statements

1. The term market is derived from the ..... word 'mercatus'  
a) French      b) Latin      c) Italian
2. In the ..... concept of market, emphasis is given on 'buying and selling of goods or services' .  
a) Place      b) Exchange      c) Customer
3. Perishable goods such as vegetables, fruits, milk products etc. are sold in ..... market  
a) Very Short Period    b) Short Period    c) Long Period
4. Retail market is the market where retailer sells goods directly to the ..... in small quantities.  
a) Producer      b) Wholesaler      c) Consumer

#### B) Match the pairs

|    | Group A           |     | Group B                  |
|----|-------------------|-----|--------------------------|
| A) | Market            | 1)  | Single Seller            |
| B) | Registered brands | 2)  | Stock Market             |
| C) | Monopoly          | 3)  | Distinct Name            |
| D) | Branding          | 4)  | Mercatus                 |
| E) | Digital Marketing | 5)  | Single Buyer             |
|    |                   | 6)  | ISI                      |
|    |                   | 7)  | Trademark                |
|    |                   | 8)  | Use of traditional media |
|    |                   | 9)  | Multiple seller          |
|    |                   | 10) | Use of digital media     |

#### C) Write a word/term /phrase for the following sentence.

- 1) The market for the commodities which are produced in one country and sold in another countries.
- 2) Type of market where durable commodities which are generally non-perishable in nature are sold.
- 3) The market where goods are sold to the ultimate consumers or the users of the product.

- 4) Two sellers, selling either a homogeneous product or a differentiated product.
- 5) Giving of distinct name to one's product.

**D) State whether the following statements are true or false.**

- 1) The term market is derived from the Latin word 'mercatus'.
- 2) Market may be defined as aggregate demand by potential buyers for a product or service.
- 3) The market for the commodities which are produced in one country and sold in another countries is known as national market.
- 4) In wholesale market sellers are known as retailers and buyers are known as wholesaler.
- 5) Regulated Market operates according to forces of demand and supply.

**E) Find the odd one.**

- 1) Primary Market, Secondary Market, Retail Market, Terminal Market
- 2) Stock Exchange, Foreign Exchange, Bullion Market, Manufactured Goods Market
- 3) Price, People, Promotion, Product
- 4) People, Promotion, Physical Evidence, Process

**F) Complete the sentence.**

- 1) ..... is the place where transaction of buying and selling of goods and services take place in exchange of money or money's worth.
- 2) ..... refers to a market situation when there is a single buyer of a commodity or service.
- 3) ..... is a slip which is found on the product and provides all the information regarding the product and its producer.

**G) Select the correct option and complete the table.**

(Mercatus, Industrial goods, Oligopoly, E. Jerome McCarthy, Booms & Bitner)

| Group A |                  | Group B |                      |
|---------|------------------|---------|----------------------|
| A)      | Commodity Market | 1)      | .....                |
| B)      | .....            | 2)      | A few sellers        |
| C)      | .....            | 3)      | To trade merchandise |
| D)      | 4 Ps             | 4)      | .....                |
| E)      | .....            | 5)      | 3 Ps                 |

**H) Answer in one sentence.**

- 1) What do you mean by 'Local Market'?
- 2) What do you mean by 'Regulated Market'?
- 3) Define Market.
- 4) What do you mean by standardization?
- 5) What do you mean by Branding?

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

- 1) Commodity Market refers to the market for borrowing and lending long term capital required by business.

- 2) In duopoly there is a single seller.
- 3) Pricing bridges the time gap between production and sale of goods.
- 4) Branding is the process of classification of products according to similar characteristics and/or quality.
- 5) Grading helps in avoiding breakage, damage and destruction of the product.

**J) Arrange in proper order**

- 1) Local market, international market, national market.
- 2) Grading, Market Planning, Distribution.

**Q.2. Explain the following terms/concepts**

- 1) Market 2) Place Concept of Market 3) Commodity Concept of Market 4) Digital Concept of Market ·5) Product 6) Price 7) Promotion 8) Marketing Mix 9) Packaging 10) Labeling

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

- 1) Mr X purchases goods from nearest shop. Mr Y purchases mobiles from Tokyo. Mr Z of Nandurbar purchases electronic goods from Delhi.
  - i) From which type of market does Mr.X purchase?
  - ii) Name the type of market from where Mr.Y deals?
  - iii) State the type of market from where Mr.Z purchases goods?
- 2) Mr. X deals in import and export business so he needs different foreign currencies. For the expansion of his business, he borrows money from bank. He invests his funds in the equity shares.
  - i) Name the market from where does Mr.X borrow money?
  - ii) Name the market where does Mr. X invest his funds?
  - iii) Which type of currency is required for international market?

**Q.4. Answer in Brief**

- 1) Explain in detail the significance of marketing to the society
- 2) Explain 4Ps of product marketing mix.
- 3) Explain 3Ps in marketing of services
- 4) Explain types of market on the basis of area covered
- 5) Explain types of market on the basis of time

**Q.5. Justify the following statements.**

- 1) Marketing is significant to the consumers.
- 2) Promotion plays an important role in marketing.
- 3) Market can be classified on the basis of competition.
- 4) Marketing helps in increasing consumer awareness.
- 5) There is a need of branding to get recognition among the consumers.



**Q.6. Attempt the following.**

- 1) Give classification of market in detail on the basis of 'Volume of Transaction'
- 2) Give classification of market on the basis of 'Time'
- 3) Explain packaging and labelling
- 4) Explain standardisation and grading
- 5) Explain importance of marketing to the firm.

**Q.7. Answer the following.**

- 1) Define Marketing and explain in detail the concepts of marketing.
- 2) Explain different types of market in detail.
- 3) Explain in detail 7Ps of Marketing.
- 4) Explain the functions of marketing in detail.
- 5) Explain importance of marketing to the society and consumers.

**Answer Key**

- A) 1. Latin 2. Exchange 3. Very Short Period 4. consumer
- B) A-4 , B-7 ,C -1 ,D -3 ,E -10
- C) 1. International market 2. Long period market 3. Retail market 4. Duopoly 5. branding
- D) True- 1,2 False-3,4,5
- E) 1. Retail Market 2. Manufacture goods market 3. People 4. Promotion,
- F) 1. Market 2. Monopsony 3. Label
- G) a. Industrial goods b. Oligopoly c. Mercatus d. E Jerome McCarthy e. Booms & Bitner
- D) 1. Capital market 2. Monopoly 3. Warehousing 4. Grading 5. Packaging
- J) 1. Local market, national market, international market / international market, national market, local market
- 2) Market Planning, grading, distribution

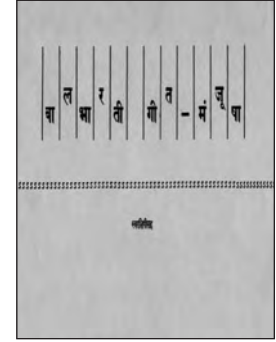
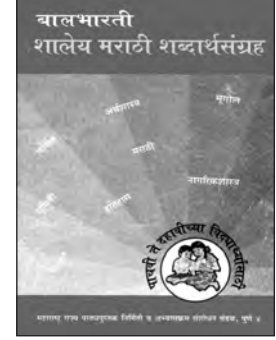
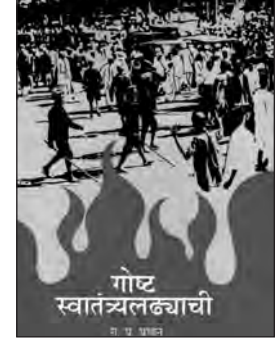
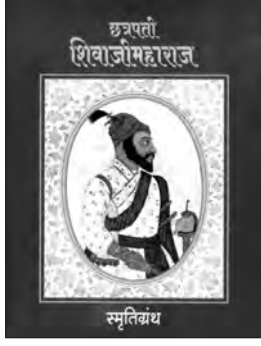
**Career oppotunities :**

Marketing manager, Warehouse keeper, Market Analyst, Asvertising Agency

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