December 2010

ECO-01 Business Organisation

Section A

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1. Attempt any four of the following: (5+5+5+5)

(a) Distinguish between business and profession.

Ans:

Business	Profession
Business is an economic activity concerned with the production or purchase and sale of merchandise and rendering of services with the purpose of earning profit.	Profession is a form of economic activities, wherein special skills, knowledge and expertise is required to be applied by the person, in his occupation.
The primary objective of a business is to earn profit.	Profession is aimed at providing services.
A business can be established by the decision of the entrepreneur and fulfilling certain legal formalities.	Profession requires membership of the respective professional body and certificate of practice, for the establishment.
Any person can start a business, there is no minimum qualification to run a venture.	Specialised knowledge of study, training and expertise is the major requirement for the profession.
It requires capital investment according to its size and nature.	Capital requirement is limited. Some amount of capital required for equipment and establishment of office.
Gets profit as a return for the work done by him/her.	Professional gets a fee for the services rendered by him/her.
Transfer of interest is common. By following required legal formalities, business can be transferred to others.	Transferability is not possible as it requires specialised skill and knowledge.
Risk factor is always present in business.There is risk of loss.	Risk factor may or may not be present in a profession. Possibility of not getting enough fee to meet the expenditure on establishment.
Every business advertises its products and services, for the purpose of increasing sales.	Advertisement is strictly prohibited as per professional code of conduct.

(b) Outline the main features of sole trader organisation.

Ans: The sole trader organisation (also called proprietorship) is the oldest form of organisation and the most common form of organisation for small business even today. It is the simplest and easiest to form.

The main features of sole trader organisation is as follows:

i) One man ownership: The ownership lies with one person only. There are no associates or partners. He invests his own money or borrows from friends and relatives.
ii) No separation of ownership and management: The owner himself manages the business. Therefore, the separation of ownership and management which is quite common in big business is not present in this form of organisation. Since the proprietor himself manages the business, he exercises a high degree of supervision and control in the working of his business.
iii) No separate entity: The business does not have an entity separate from the owner. The proprietor and the business enterprise are one and the same.
iv) All profits to proprietor: Since there are no partners, all the profits are enjoyed by the sole proprietor.
v) Individual risk: All losses in the business are borne by the proprietor himself.
vi) Unlimited liability: The proprietor has an unlimited liability. This means that in case of loss even the personal property of the owner can be utilised for clearing the business obligations and debts,
vii) Less legal formalities: To set up sole proprietorship, no legal formalities are required. There are some legal restrictions for the setting up of a particular type of business.

(c) Enumerate the various methods of raising short term capital.

Ans: The following methods may be used to raise short-term capital:

1) Trade credit

2) Factoring

3) Discounting bills of exchange

4) Bank overdraft and cash credit

5) Public deposits

1)Trade credit: Just as companies sell goods on credit, they also buy raw materials, components, stores and spare parts on credit from different suppliers. Hence, outstanding amounts payable to trade creditors as well as bills payable relating to credit purchases are regarded as sources of finance. Generally, suppliers grant credit for a period of 3 to 6 months, and thus provide short-term finance to the company. Availability of this type of finance is closely connected with the volume of business.

When the production and sale of goods increase, there is automatic increase in the volume of purchases, and more of trade credit is available. On the other hand, if sales decline there-is a corresponding decline in purchases of materials, and consequent decline in trade credit as a source of finance. Thus, creditors' balances (accounts payable) and bills payable help companies to finance current assets, i.e., stock of materials and finished goods as well as book debts. However, trade credit also involves loss of cash discount which could be earned if payments were made within 7 to 10 days from the date of purchase. This loss is regarded as the cost of trade credit.

2)Factoring: The amounts due to a company from customers on account of credit sale generally remain outstanding during the period of credit allowed i.e., till the dues are collected from the debtors. By this

arrangement the responsibility of collecting the debtors' balances is taken over by the bank on payment of specified charges by the company. This is a method of raising short-term capital and known as 'factoring'. It helps companies to secure finance against debtors' balances before the debts are due for realization, and incidentally also helps in saving the effort of collecting the book debts. The disadvantage of factoring is that customers who are in genuine difficulty do not get the facility of delaying payment which they might have otherwise got from the company.

3)Discounting bills of exchange: Discounting of a bill of exchange is a method of short-term financing provided by banks. When goods are sold on credit, bills of exchange are generally drawn for acceptance by the buyers of goods. The bills so drawn are payable after 3 or 6 months depending on the prevailing practice among traders. Discounting of the bill refers to the encashment of the bill before the date of its maturity. Instead of holding the bills till the date of maturity, companies generally prefer to discount them with commercial banks on payment of a charge known as bank discount. This process of encashing the bill with the bank is called discounting the bill. Bills are endorsed in favour of the bank so that the bank gets the amount from the drawee on the due date. The amount of discount is deducted from the value of bills at the time of discounting. The rate of discount to be charged by banks is prescribed by the Reserve Bank of India from time to time. It really amounts to the interest for the period from the date of discounting to the date of maturity of the bill. If any bill is dishonoured on maturity, the bank returns it to the company which then becomes liable to pay the amount to the bank. The cost of raising finance by this method is the discount charged by the bank.

4) Bank overdraft and cash credit: Cash credit refers to an arrangement on a continuing basis whereby the commercial bank allows money to be drawn as advance from time to time within a specified limit known as cash credit limit. This facility is granted against the security of goods in stock, or promissory notes bearing a second signature, or other marketable instruments like Government bonds. The company is allowed to draw whatever amount is required at different times within the limit agreed upon. The cash credit limit may be revised according to the value of securities. The money drawn can be repaid as and when possible. Interest is charged on the actual amount withdrawn. It is offered for maintaining the working capital of the business. The loan duration is generally 1 year. An overdraft is a temporary arrangement with the bank which permits the company to overdraw from its current deposit account with the bank up to a certain limit. The overdraft facility is also granted against securities as in the case of cash credit. Interest is charged only on the amount actually overdrawn. Overdraft facility is offered for meeting short-term obligations of individuals or businesses. The loan duration can vary and it can be monthly, quarterly, half yearly or yearly.

5) Public Deposits: Companies often find it convenient and necessary to raise funds by inviting their . shareholders, employees and the general The Companies Act permits such deposits to be received for a period up to 3 years at a time. Thus, public deposits can be raised by companies to meet their short-term and medium-term financial needs. It is a simple method of raising finance for which the company has only to advertise in the newspapers giving particulars about its financial position as prescribed by the Companies Act. The deposits are not required to be covered by mortgaging assets or by other securities. Moreover deposits can be invited by offering a higher rate of interest than the interest on bank deposits. C public to deposit their savings with the company. But companies are not permitted to raise unlimited amounts of fund through public deposits.

(d) What are the main sources of foreign funds?

Ans: Funds can be collected from foreign sources which usually consist of:

i) Foreign collaborator
ii) International financial institutions
iii) Non-resident Indians(NRIs)

i) Foreign Collaborators: If approved by the Government of India, large companies may be able to secure long term finance based on collaboration agreements with companies abroad. Foreign collaboration may, thus, enable Indian companies to secure equity capital from abroad through the subscription of foreign collaborator to their share capital, or by way of supply of technical knowledge, patents, drawings and designs of plants or supply of machinery.

ii) International Financial Institutions: There are several international financial institutions which provide long-term funds for industrial development all over the world. The most important among them are: a) The World Bank, and b) International Finance Corporation.

a) The World Bank grants loans for specific industrial projects of high priority included in the national development plan. The loans must be guaranteed by the Government of India, and may be given directly to an industrial concern, or through a Government agency, or may be given to the IOBI for refinancing to companies.

b) The International Finance Corporation (IFC) was established in 1956. It is an affiliate of the World Bank. As you know the World Bank grants loans only to governments of member-countries or private enterprises with guarantee of the concerned government and it does not provide risk capital to enterprises in member-countries. s. IFC was set up to assist the private undertakings without the guarantee of the member-countries. It also provides them risk capital. IFC grants loans to industrial firms for a period of 8 to 10 years. Such loans do not require Government guarantee.

iii) Non-resident Indians: Persons of Indian origin and nationality living abroad (Non-resident Indians) are also permitted to subscribe to the shares and debentures issued by companies in India. A non-resident or a company controlled by a non-resident can invest up to a maximum of 5% of the paid-up equity capital of an Indian company.

(e) How does advertising differ from publicity?

Ans: Ans: The activity of generating advertisements of products and services to commercialize them is known as Advertising. It is what the company says about its product. Whereas the activity of providing information about an entity, i.e., a product, an individual or a company to make it popular is known as Publicity. It is what others say about the product. There is a huge investment to be made in advertising a single product. On the other hand, Publicity does not require any kind of investment. The key people behind advertising are the company and its representatives. On the contrary, Publicity is done by a third party which is not related to any company. Advertising is under the control of the company. However, publicity is not under the control of the company. Advertising repeatedly occurs to grab the attention of the customers. Oppositely, Publicity is done only one-time act. Advertising is always customer focused, i.e., the more creative the advertisement, the more are the customers attracted to it. On the other hand, publicity is not done keeping customers in mind. Advertising always speaks the goodness about a

product, to persuade the target audience to buy it. Oppositely, Publicity, is unbiased, and so it will speak the reality, no matter whether it is goodness or illness. The company has to pay money to the media for the space or time used. There is an identifiable sponsor. Normally, a company sponsors it for its product or service. In contrast to this, the company does not make any payment to the media for the time or space used for publicity. There is no identifiable sponsor. Media presents the information voluntarily.

(f) What is the role of middlemen in the distribution of consumer goods?

Ans: The middlemen play a very useful role in the distribution of goods by providing a variety of functions at reasonable cost. They undertake all the channel functions such as assembling, grading, packaging, storing, financing, risk-bearing, etc. The role of middlemen in the distribution of consumer goods specifically are as follows:

i) Provide local convenience to consumers: Merchant middlemen like retailers are [located at convenient shopping centres. They provide ready delivery of goods to the consumers at-convenient points.
ii) Provide field stocks: me agents and wholesalers are spread all over the country. They buy in bulk and keep the goods in stock. The retailers can approach them any time and buy their requirement. The producers, therefore, need not provide stock of their goods in different cities which would be quite a cumbersome activity involving huge investment and management problems.
iii) Financing: The agents finance the distribution activity in many ways. They often pay cash for their bulk purchases from the producers and even advance money to them against their orders. The funding of field stocks is thus fully handled by the middlemen.
iv) Servicing : They arrange for the after sales services and handle all kinds of complaints by the consumers locally. The manufacturer does not have to open his own service centres at all places.
v) Acting as channels of communication : The middlemen are in constant touch with different producers and the market. They can provide feed back about the market to the producers on the one hand and pass on information about the products to the consumers on the other.
vi) Help in promotion ; They also help the sales promotional activity through displays and salesmanship. It is literally impossible for the producers to organise such activity through any other means. Even otherwise, the middlemen being local people are more effective.

Apart from the variety of services provided by the middlemen, what makes their role more important is the fact that they handle them more efficiently and usually at a reasonable cost. They are better equipped to perform these functions because they possess special knowledge and skills, experience and contacts.

(g) What are the obligations of the banker towards its customers?

Ans: The main obligations of the banker towards the customer are as follows:

i) Obligation to Honour Cheques: A bank is the debtor of his customer. The bank has a statutory obligation to honour the cheques of its customers up to the amount standing to the credit of the customer's account. If a bank wrongfully refuses to honour the cheque of its customer, the bank

shall be liable to compensate the customer. This obligation is subject to some conditions, namely:

a) There must be sufficient funds of the customer in the hands of the bank.

b) The funds must be properly applicable for the payment of the customer's cheque.

c) The cheque must be properly drawn up i.e., it should be complete in all respects.

d) The cheque must be presented for payment within a reasonable time.

e) There must be no legal bar preventing the payment of such cheques. If the bank has received any order from a court or any other competent authority prohibiting payment, it is the duty of the bank to obey such orders.

ii) Obligation to Maintain Secrecy: The relationship between the banker and customer is of a confidential nature. The bank must not disclose to any outsider the details concerning the customer's account, as such disclosures may adversely affect the credit and business of the customer. However, a disclosure can be made under the following two situations:

(a) when the law requires such disclosures to be made, and

(b) when the practices amongst the banks permit such disclosure.

iii) Obligation to Follow Customer's Instructions: The banker is under a legal obligation to follow the instructions of the customer. This is so because there is the contractual relationship between the bank and the customer.

iv) Obligation to Maintain Proper Records: The banker is under an obligation to maintain accurate record of all the transactions of the customers made with the bank.

v) Obligation to give Notice before Closing the Account: If a bank wishes to close the account of a customer, it must give a reasonable notice to this effect to the customer. Thus, a bank cannot close the account of a customer on its own, because it may have serious consequences to the customer.

(h) What are the requirements that are expected from a good transport system?

Ans: A good transport system is one which should serve the purpose of transportation and satisfy the following requirements:

i) It should be economical. The cost of transport service should be low enough to enable the users to carry their goods at the lowest possible charge so that the ultimate consumer get the products at a reasonable price. 2.
ii) It should be capable of carrying goods as speedily as possible. There should not be any delay in reaching the destination except for natural calamities or unavoidable causes.
iii) The transport service should be available regularly as and when required. It must ensure the safety of the goods. 4.
iv) It should be operated by properly skilled and efficient persons capable of handling problems in emergency.

v) It should provide for ensuring the risks of loss or damage to goods in transit, and assure payment of due compensation in case of delay causing loss to the owner of goods.
vi) There should be proper arrangements for loading and unloading of goods promptly and at minimum cost.
vii) As far as possible, delivery of goods should be made at locations convenient to the receiver of the goods.

Section B

Attempt any three of the following

2. Describe briefly the objectives of business. Do you agree with the statement, "Business is not mere money chasing but it should also aim at serving the community". Justify your answer. (7+3)

Ans: Objectives of business: The primary objective of business is to earn profit. Although profit plays an important role as a criterion of success, business may not exist for long with the sole objective of earning profit. Thus, serving the community is regarded as another important objective of business.

The objectives of business could be listed under three broad headings: (1) economic objectives, (2) social objectives, and (3) human objectives.

Economic Objectives: Basically, being an economic activity, primary objectives of business are economic. Some of the main economic objectives are:

i) Earning of satisfactory profits.

ii) Exploring new markets and creation of more customers.

iii)Growth and expansion of business operations of the firm.

iv)Making innovations and improvements in goods and services so that customers get improved and more economic goods and services.

Social Objectives: Business, being a part of the society, has obligations towards the society also. Some major social objectives are:

i)Providing more and more employment opportunities to the people in the country.

ii) Supply of quality goods to the community.

iii) Providing goods at reasonable prices.

iv) Ensure fair returns to investors.

v) Avoidance of profiteering and unfair practices.

vi) Production of goods in accordance with national interests and priorities.

Human Objectives: Business activity is, generally, carried out through employees who are human beings. In fact, the efficiency and the success of the business enterprise depends on the motivation and ability

of its employees. Therefore, business must also have some human objectives to safeguard the interests of its employees. Some of the major human objectives are:

i)Fair deal to employees in terms of wages and incentives.

ii)Providing better working conditions and environment to the employees.

iii)Provide job satisfaction.

iv) Provide the employees more and more' promotional/growth opportunities.

I agree with the statement, "Business is not mere money chasing but it should also aim at serving the community".

The only goal for a company is not profit maximisation because a firm cannot survive in the long term and competitive market by purely focusing on earning extra profit. The responsibility of the firm is to keep in focus the interest of the customers.

The sole aim of earning profit has the following effects on a business:

(a) Ignores the interest of workers: Labour is one of the most important factors of production. Profit maximisation bypasses the interest of workers in the way that they do not get fair remuneration and hence are not motivated. In the absence of motivation, they will not work up to their full potential. Resultantly, quality and standards of the products and services will deteriorate and will ultimately lead to losses.
(b) Ignores the interest of customers: Customers are very important for every business in the sense that without their existence, even thinking about business is merely a dream. Profit maximisation bypasses their interest because goods/services are overpriced which ultimately leads to a reduction in the number of customers, a reduction in the quality of sales and thereby a reduction in profits.
(c) Ignores the interest of society: Profit maximisation overlooks the interest of the society in which it works. It may propel a businessman to indulge in unfair trade practices like hoarding back marketing etc.
(d) Ignores long-term interest of the business itself: Profit maximisation may be the objective for the short term, but in the long term it may lead the business to a dangerous position where it could become very difficult for the business to even survive.

3. How do companies raise long term and medium-term capital? Explain the difference between equity shares and preference shares.
Ans: Long-term finance may be raised by companies from, one or more of the following sources:

i) Capital market which consists of individual investors, financial institutions and investment companies
ii) Special financial institutions consisting of development banks and institutional ' investors.'

iii)Leasing companies

iv)Foreign sources

v)Retained profits

i) Capital market: Transactions involving procurement of funds and supply of funds which take place among individuals and various organisations may be regarded as the capital market. Thus, the capital market is not located in a particular place. There are no fixed categories of investors and dealers in the market. Another type of market in connection with business finance, known as the money market. Money market refers to transactions involving borrowing and lending of money for short periods for which again there is no definite place set aside in a town.

ii) Special financial institutions: After independence many financial institutions have been established in India with the primary objective to provide medium and long-term financial assistance to industrial enterprises. Institutions like Industrial Finance Corporation of India (IFCIs), Industrial Reconstruction Bank of India, State Financial Corporation (SFCs), State Industrial Development Corporation (SIDCs), have been established to provide financial support to set up new enterprises as well expansion and modernisation of the existing enterprises. On the other hand, at the state level there are State Financial Corporations (SFCs) and Industrial Development Corporations (SIDCs). These state level institutions mainly provide long-term finance to relatively smaller companies. These institutions (both national level and state level) are known as 'Development Banks' because their main objective is to provide financial assistance to industrial enterprises for investment projects, expansion or modernisation of plants in accordance with the priorities laid down in the Five Year Plans.

Besides the development banks, there are several other institutions known as investment companies or investment trusts which subscribe to the shares and debentures offered to the public by companies. For example, the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), the Unit Trust of India (UTI), etc., come under this category.

iii) Manufacturing companies can secure long-term funds from leasing companies. For this purpose, a lease agreement is made whereby plant and machinery and fixed assets may be purchased by the leasing company and allowed to be used by the manufacturing concern for a specified period on payment of an annual rental. At the end of the period the manufacturing company (lessee) may have the option of purchasing the asset at a reduced price. The ownership of the asset remains with the leasing company (lessor) during the lease period. To meet its financial requirements, a manufacturing company may also sell its existing fixed assets to a leasing company at the current market price on the condition that the leasing company would lease the assets back to the seller for a specified period. Such an arrangement is known as 'sale and lease back'. The manufacturing company in this case gets the immediately without having to part with the physical possession of the assets. It continues to use the assets on payment of periodical rent for the lease.

iv)Foreign sources: Funds can also be collected from foreign sources which usually consist of:

a) foreign collaborator,

b) international financial institutions, and

c) non-resident Indians (NRIs)

a) Foreign Collaborators: If approved by the Government of India, large companies may be able to secure long term finance based on collaboration agreements with companies abroad. Foreign collaboration may, thus, enable Indian companies to secure equity capital from abroad through the subscription of foreign collaborator to their share capital, or by way of supply of technical knowledge,

patents, drawings and designs of plants or supply of machinery. International Financial Institutions: There are several international financial institutions which provide long-term funds for industrial development all over the world. The most important among them are:

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The World Bank grants loans for specific industrial projects of high priority included in the national development plan. The loans must be guaranteed by the Government of India, and may be give directly to an industrial concern, or through a Government agency, or may be given to the IOBI for refinancing to companies.

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c) Non-resident Indians: Persons of Indian origin and nationality living abroad (Non-resident Indians) are also permitted to subscribe to the shares and debentures issued by companies in India. A non-resident or a company controlled by a non-resident can invest up to a maximum of 5% of the paid-up equity capital of an Indian company.

v) Retained profits: An important source of long-term finance for ongoing profitable companies is the amount of profit which is accumulated as general reserve from year to year. To the extent profits are not distributed as dividend to the shareholders, the retained can be reinvested for expansion or diversification of business activities. It be used for renovation of assets or modernisation of plant and equipment. It may be interpreted that the existing shareholders provide the finance. Hence, the company must decide to reinvest profits only when the rate of return is comparable with that of other similar companies. A part of the profits must be distributed as dividend keeping in mind shareholders expectation and the effect of dividend rate on the market price of shares. Retained profit is an internal source of finance. Hence it does not involve any cost of floatation which has to be incurred to raise finance from external sources. Further, the company does not have to face the uncertainties of external financing. The only drawback of this source of long-term finance is that it depends on the availability of adequate profits for retention.

Difference between Equity shares and Preference shares:

Equity Shares	Preference Shares
Equity shares are ordinary shares of a company that represent ownership of the company.	Preference shares are ones that carry preferential rights in terms of dividend payment and repayment of capital.
Equity Shares are the shares that carry voting rights and the rate of dividend also fluctuate every year as it depends on the amount of profit available to the company.	**Preference Shares** are the shares that do not carry voting rights in the company as well as the amount of dividend is also fixed.

Equity shares cannot be converted into preference shares.	Preference shares could be converted into equity shares.
Equity shares are irredeemable	preference shares are redeemable.
Equity shareholders are at high risk in comparison to preference shares.	In comparison to equity shareholders, the risk is low in the case of preference shares.
In the case of equity shares, the dividend rate is not fixed. The rate of dividend on these shares depends on profits available and the discretion of directors.	Dividend is payable on preference shares at a fixed rate and is payable only if there are profits.
Equity shareholders are entitled to receive bonus stocks from the company.	Preference shareholders are not entitled to receive bonus shares.
Lower costs of equity shares make them easily accessible to any investor, specifically a small investor.	Higher costs of preference shares makes them accessible to medium and large investors.
It is mandatory for companies to issue equity share capital.	It is not mandatory for every company to issue preference share capital.
Equity shares serve as means for long-term financing.	Preference shares serve as means for mid-term and long-term financing.

4. What are the factors that influence the choice of channel for distributing the goods? What do you mean by middlemen? (7+3)

Ans: The channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.

We can classify the distribution channels into two broad categories:

(1) direct channels, and

(2) indirect channels (use of middlemen).

1) Direct Channels: When the producers sell their goods directly to the consumers it is called a direct channel. No middlemen are present between the producer and the consumer.

2)Indirect channels: In the case of all the products it is not possible for the manufacturer to supply goods directly to the consumers. So may be middlemen like wholesaler, retailer and mercantile agents may be engaged in the channel of distribution. When the middlemen are engaged, it is called an indirect channel.

The following factors generally influence the choice of the channel of distribution:

1) Distribution policy

2) Characteristics of the product

3) The target customers in view

4) Supply characteristics

5)Types of middlemen in the field

6) Channel competition

7) Potential volume of sales

8) Costs of distribution

9) Profits expected in the long-run

1)Distribution policy: Where the manufacturer is interested in distributing his products through all possible outlets, it is desirable to use more than one channel to reach the target customers. This is known as intensive distribution policy. The purpose in this case is to make the product available as near to the consumers as possible. Consumer goods of frequent use like pens, pencils, paper, soap, hair nil, etc., are distributed through a large number of wholesalers and retail traders. If goods are meant for customers who are very particular about their quality and usefulness, manufacturers adopt a selective distribution policy.

2)Characteristics of the product: The nature of the product influences the choice of channel. For example, perishable products like eggs, milk, etc., are supplied either directly or through the short channels. In the case of heavy and bulky products (e.g., cement, steel) where distribution and handling costs are higher, short channels are preferred. Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. On the other hand, long channels are found in the case of light-weight and small-size items like dress material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc. Similarly, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

3)Characteristics of target customers; If the number of customers is large and geographical area is extensive, long and multiple channels are necessary for intensive distribution of goods. This is also suitable where the consumers are in the habit of making frequent purchases of small quantities at irregular intervals. Short channels and direct selling are possible in the case of few customers who purchase large quantities at regular intervals and they are concentrated in a small area.

4)Supply characteristics: Goods produced by a small number of producers concentrated in one region are generally distributed through short channels. Long channels are suitable if a large number of producers in different regions produce and supply the goods.

5)Types of middlemen: Availability of suitable middlemen in the channel of distribution is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient that channel may be preferred by producers.

6)Channel competition: There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive

distribution through a particular wholesaler, other producers also do the same. Thus, selection of a channel may depend on the competition prevailing in the distribution system.

7)Potential volume of sales: The choice of the channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies between different channels. One outlet may not be adequate for achieving the target in which case more channels need to be used. Of course, the competitive situation must be taken into account while examining the potential volume of sale through different channels.

8)Cost of distribution: The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.

9)Long-run effect on profit: Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time if competing products appear in the market. It may not be economical then to use long channels. So, while choosing a channel one should keep in mind the future market implications as well.

Middleman : An intermediary between the producer and the consumer to help distribution of goods is called a middleman. Middlemen act as links between the producers or dealers of goods and the consumers. The middlemen play a very useful role in the distribution of goods by providing a variety of functions at reasonable cost. They undertake all the channel functions such as assembling, grading, packaging, storing, financing, risk-bearing, etc.

i) Provide local convenience to consumers: Merchant middlemen like retailers are located at convenient shopping centres. They provide ready delivery of goods to the consumers at-convenient points.
ii) Provide field stocks : The agents and wholesalers are spread all over the country. They buy in bulk and keep the goods in stock. The retailers can approach them any time and buy their requirement. The producers, therefore, need not provide stock of their goods in different cities, which would be quite a cumbersome activity involving huge investment and management problems.
iii) Financing: The agents finance the distribution activity in many ways. They often pay cash for their bulk purchases from the producers and even advance money to them against their orders. The funding of field stocks is thus fully handled by the middlemen.
iv) Servicing : They arrange for the after-sales services and handle all kinds of complaints by the consumers locally. The manufacturer does not have to open his own service centres at all places.
v) Acting as channels of communication: The middlemen are in constant touch with different producers and the market. They can provide feedback about the market to the producers on the one hand and pass on information about the products to the consumers on the other.

vi) Help in promotion: They also help the sales promotional activity through displays and salesmanship. It is literally impossible for the producers to organise such activity through any other means. Even otherwise, the middlemen being local people are more effective.

They may be divided into two categories:

i) Functional middlemen or mercantile agents: A functional Middleman who undertakes specific functions of sale or purchase of goods as agent of the owner without having ownership right.

ii) Merchant middlemen: A middleman such as wholesaler or retailer who buys and sell goods in his own name and performs necessary functions in that connection.

They handle the functions more efficiently and usually at a reasonable cost. They are better equipped to perform these functions because they possess special knowledge and skills, experience and contacts. By making use of middlemen the manufacturers are freed from the botheration of distribution. They can concentrate on production activity which may be more profitable.

5. Describe different types of life insurance policies. (10)

Ans: Different types of life insurance policies are:

i) Whole life policies: Under this policy, the sum assured is payable after the death of the assured. The premiums on whole life policies may be payable regularly through out the life of the assured, or alternatively they may be payable for a fixed period only (say 20 or 30 years). If the premiums are paid throughout the life, it is called 'ordinary life policy'. In the other case when premiums are paid for a limited period, it is called 'limited payment life policy'. Even in the case of the limited payment life policy also, insurer will pay the sum assured only after the death of the insured. Whole life assurance policy is ideal for a person who wishes to provide support for his/her dependents after the death.

ii) Endowment Life Assurance: Under this policy the insurer undertakes to pay the sum assured either at the end of a specified period or on the death of the assured, whichever is the earlier. 1n case the assured dies before the expiry of specified period (or before attaining the specified age), the sum assured is payable to the legal heirs or nominees. On the other hand, if the insured survives till the policy matures (i.e., expiry of the specified period), the sum assured is paid to the insured himself. The premium for endowment policy is a bit higher than the whole life policy.

iii) Term Assurance: This is also called temporary assurance. Under this policy, the sum assured is paid when the assured dies before the stipulated date. No payment is made if the assured survives to that date. For example, policies of this kind are taken out by persons who travel abroad, to cover short-period bank loans so that the sum assured will be available to repay the loan if the borrower die before the policy lapses, etc.

iv) Joint Life Policy: This type of assurance involves the insurance of two lives simultaneously in the same policy. The sum assured (policy money) is payable by the insurer upon the death of any one of the assured to the surviving person. If both the policy holders die at the same time, their legal heirs or nominees will be paid the assured sum. A good example of a joint life policy is that

of a policy on the lives of a husband and wife, payable to the survivor on the death of either of the two.

v) Group Insurance:: Under group insurance, a group of persons under the same employer are covered under a single policy. Premium is paid by the employer alone or by the employer and employee jointly. A group insurance policy may cover all the employees or a particular category/section of the employee of the same organisation. In group insurance, the insurance contract is between the employer and the insurance company (insurer). The policy is taken for a fixed period, usually 20 years. If the employee (assured) dies before the expiry of the term, the nominee (beneficiary) gets a fixed annual income for the remaining part of the period and the full assured sum at the end of the term. On the other hand, if the assured survives the term, the fill assured sum is paid at the end of the term.

vi) Childrens Endowment Policies: These policies are taken for the purpose of education of children and marriage expenses of daughters. Premium (annual or lump sum) is payable by tlie person (father or guardian or other person) entering into the contract. Policy matures when the child attains certain age. Then the sum assured is paid either in lump sum (when intended for the marriage of the female child) or paid by installments over a specified period (when policy is meant for education).

vii) Annuity Policies: This policy is suitable when people desire to have certain income after the attainment of certain age. Annuity policies are, for example, taken by employees who want some income after their retirement from service. Premium may be paid in instalments or in lump sum at the beginning. After the assured attains certain age, insurer pays the amount in instalments (monthly/Quarterly/half yearly/annual).

viii) With Profit or Without Profit Policies: In the case of with profit policy, the assured is paid, in addition to the sum assured, a share in the profits earned by the insurer. The profits are declared by the insurer after certain intervals and credited to the policy-holder as bonus. Without profit policy is one under which the policy holder does not get any share in the profits earned by the insurer. The premia on without profit policies are lower than those on with profit policies. With profit and without profit policies are also known as participating and non-participating policies respectively.

6. Why does the Government participate in business? Give main reasons. What is a public enterprise?(7+3)

Ans: The government controls the private enterprises on one hand and directly participate in the business on the other. Government today is engaged in various types of business undertakings. There are several types of services which are provided by Government organisations such as electricity, water, postal, telecommunications, transport services, etc.. Besides these organisations, there are many manufacturing industries owned and managed by government. They produce steel, locomotives, machine tools, watches, railway coaches. telephone equipment, and so on. Government undertakings are also involved in the supply of consumer goods like milk (through government milk schemes), bread (Modem Bakeries), cloth (National Textile Corporation), etc.

The reasons for the direct participation of government in business and industry may be divided into three categories:

i) basic reasons

ii) ideological reasons

iii) specific reasons.

i) Basic reasons: The government of India was rightly convinced that political independence without economic independence would not have much meaning. It was, therefore, decided to industrialise the country in a big way as early as possible.

The government felt that if the private sector was to take the initiative. It would take an unduly long time to achieve this objective of rapid industrialisation. It was so because the private enterprises lacked adequate entrepreneurship and resources to start large scale ventures.

The government encouraged private enterprises to set up new industries, but also, went into industry in a big way.

It was decided to establish steel plants. fertilizer factories and other units necessary for industrial and agricultural growth. The following is a list of some major enterprises and power projects set up by the government within a decade of Independence- Steel Plants at Rourkela, Bhilai and Durgapur, Indian Telephone Industries.

The intention of the government was to have economic self-reliance in as many areas and as early as possible.

ii) Ideological reasons: Apart from the economic and social consideration, the government had strong ideological commitment to the philosophy of public ownership of the means of production.

iii) Specific reasons: There are many other reasons for the government to participate in business. These are specific to a particular decision. Some of these are listed below.

* Air Transport Business: Till 1953, there were many private air companies in the country. Most of these were financially unsound and had no money to invest in modem and costly aeroplanes, The air transport is of strategic importance to the country. The government, therefore, nationalised nine air companies and created Indian Airlines Corporation and Air India International Corporation in 1953.

* Insurance Business: Today, the whole of insurance business is with the government. The life insurance business is operated through the Life Insurance Corporation of India and other types of insurance business through the General Insurance Corporation of India and its four subsidiary companies.

The government went into the life insurance business in 1956 nationalising scores of private companies which were not fulfilling the main objective of the life insurance business, namely, i) effective mobilisation of the people's savings, ii) spreading the message of insurance as far and as wide as possible, and iii) using the insurance funds for economic development.

* Commercial Banks: The government today is in the banking business in a big way. Over 90% of commercial banking is in the hands of the government. The government rightly wanted the banking system to serve the developmental needs of the economy in conformity with national policy and objectives. It also wanted the banks to have new criteria for advancing loans in order to benefit the weaker sections of the society.

* Coal Industry: The coking coal mines were nationalised in 1971. It was done because coking coal which is essential for production of iron and steel has very limited reserves in the country. The private sector was mining this fast depleting and scarce natural resources in a very wasteful manner. Other coal mines were also nationalised in 1973. The reasons for this were: i) the private sector owners did not have the necessary funds required for increasing the coal production, ii) the coal which is a scarce natural resource was being mined in a very unscientific way, and iii) the private coal miners were greatly exploiting the labour employed in the mines.

* Oil Industry: In the 1970's the foreign oil companies Burmah Shell, Caltex and Esso were nationalised. Here the objective was that the government should have control over a critical and strategically important resource like oil.

* Various Other Types of Business: There is yet another important reason for the government going into business of various types. Over one hundred cotton textile mills and dozens of engineering and other enterprises have been taken over by the government since Independence. This is done because the government cannot afford to lose production capacity which exists in the units which become sick and which the private sector wants to close down.

From the above, we can conclude the reasons for participation of Government as:

i) The government's role in business in India is greatly justified by economic and social reasons.

ii) Had the government not initiated a large number of industrial activities, the Indian economy would never have got the sound base and self-reliance which it has today.

iii) A large number of enterprises have been forced on the government when they became sick and they could not be allowed to be closed down due to social and economic reasons.

iv) There is an element of ideology in the role which the government has in business today. Had the ideology not been there, the government would have disengaged itself from at least some of its business activities after completing its role as path finder or initiator.

v) The government continues to be in business in a big way because of ideological as well as economic and social considerations.

Public Enterprises: Government owned enterprises are also called Public Enterprises (PEs). Public enterprise, as a business entity, refers to any industrial or commercial undertaking which is owned and managed by the central, state or local government and of which the output is marketed i.e., not supplied free. Public enterprises consist of nationalised private organisations as well as new enterprises promoted under government ownership and control. Life Insurance Corporation, Indian Airlines Corporation, Coal India Ltd., etc., are examples of public enterprises established by nationalising private organisations. Hindustan Machine Tools, Hindustan Antibiotics Ltd., Chittaranjan Locomotive Works, etc., are examples of public enterprises promoted by government.

Features of Public Enterprises are:

i) Public enterprises are owned and managed by the government or agencies set up by the government.

ii) The whole or major part of the capital required for the public enterprises is provided by government.
iii) These are governed by public policies laid down by the government in the public interest and are not entirely guided by profit motive.
iv) A public enterprise can be organised as a departmental undertaking or as a statutory corporation or as a government company.
v) 'Their objectives are laid down in conformity with the development plans. They are accountable to the Parliament or state legislature for their performance and fulfilment of objectives.

Objectives of Public Enterprises are:

i) To channelise resources in the best possible manners for economic growth.
ii) To secure public welfare and to reduce inequalities in the distribution of income and wealth.
iii) To ensure balanced regional development of industry and trade.
iv) To prevent the growth of monopoly and concentration of economic power in a few private hands.
v) To provide satisfactory employment conditions to the personnel as model employers.

7. What are the main features of public corporations. What are their main limitations?

Ans: Main features of public corporation are:

i) Created by a special Act of legislature: Public corporation is an autonomous corporate body created by a special Act of a legislature as the case may be. The Act defines the powers, duties, privileges, immunities, relationship to the government department, etc.
ii) It is a corporate body: A corporation, like a joint stock company, is a legal entity. It means that a corporation is an 'artificial person' which exists in the eyes of law. Like a living being, it can enter into contracts and can transact any business under its own name. Since it does not have physical existence, it operates through its agents, which is its Board of Directors.
iii) Owned by the State: It is Fully owned by the state and the capital is wholly subscribed by the state.
iv) Managed by a Board of Directors: It is managed by a Board of Directors constituted according to the provisions of the Act. The members of the Board represent various interests and are appointed by the concerned public authority.
v) Answerable to legislature: Public corporation is answerable to legislature (Parliament1 State Assembly) which creates it. The way the corporation would be held accountable is mentioned in the Act. Parliament is not expected to interfere in its day-to-day working. But it can discuss matters of policy and the overall performance of the corporation. Sometimes, however, questions are asked and answered on the floor of the house even though they relate to the day-to-day functioning of a corporation. You may ask why this happens. Parliament in a democracy is supreme and it is not possible to curtail its freedom. Further, when public enterprises are mismanaged. Parliament cannot be stopped from enquiring into their performance even though it may involve infringement of a principle agreed to by Parliament itself.
vi) Relation with the government: Even though a statutory corporation is owned by the government, it does not operate as a wing or part of' the government. The legal relationship and

channels of communication between the government and the corporation are laid down in the Act of its incorporation. For example, the Life Insurance Corporation which is a statutory corporation, would be guided on matters of policy involving public interest as per the directions issued in writing by the Central Government. Thus, the relationship with the government is formal and clear.

vii) Own staffing system: Although a corporation is owned and managed by the government, its employees are not government servants. The employees are recruited, remunerated and governed by the rules and regulations laid down by the corporation. Their pay and benefits are also different from those of the government servants. Thus, the corporation can have the necessary freedom in regard to its employees in running its business. However, the government closely regulates the terms and conditions of employment of corporations, but that is mainly to maintain uniformity in the pay and benefits received by the employees of the various corporations.

viii) Financial independence: A major source of autonomy of a statutory corporation is its independence in respect of its finances. Unlike departmental form of organisation, a public corporation is not subject to the budget, accounting and audit controls. The corporation shall have its own funds and all receipts of the corporation shall be credited thereto and payments shall be made therefrom. Once the funds are given to a corporation, it manages them on its own. It does not have to go to the Parliament to get its budget approved. A corporation can also borrow money within and outside the country after getting approval from the government.

Limitations of Public corporation:

i) Less autonomy: Compared to departmental form, public corporations enjoy more autonomy. But, in practice, the autonomy of public corporation is closely and systematically controlled by the government even in matters where they are supposed to have freedom.

ii) Inflexibility: A public corporation is set up by a special Act of legislature. Any change in the objects and powers of the corporation requires an amendment in the Act by the legislature. This tends to make a corporation inflexible and insensitive to changing situations.

iii) Clash amongst divergent interests: The corporations are owned by the government and are managed by a Board of Directors appointed by the government. When the Board of Directors represent different interests there may be clash of interests. This in turn, may hamper the smooth functioning of the corporation. Sometimes, the directors may abuse their autonomy and authority by indulging in undesirable practices. This would defeat the social objectives of public corporation.

iv) Ignores commercial principles: Public corporations do not have to face any competition. They are neither guided by profit motive nor haunted by the fear of loss. Therefore, there is a possibility of ignoring commercial principles in their working. This may ultimately lead to inefficiency and losses to the corporation. The losses, thus arising are met by the government through subsidies.

v) Excessive public accountability: The public corporations work with the service motive rather than profit motive. This public accountability of the corporation sometimes acts as a stumbling block in the operational efficiency of the enterprise.