GOVERNMENT OF TAMIL NADU

HIGHER SECONDARY SECOND YEAR

COMMERCE

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Department of School Education

Untouchability is Inhuman and a Crime

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HOW TO USE THE BOOK

Dear Students!

There is a wonderful treasure on your hands now in the form a text book, which is going to make you a really resourceful and an able person in future. You have to believe it first so that you can develop a multi-dimensional personality in your own self with a thorough knowledge in Commerce.

This is for you to know, how you could make use of the book for the best understanding of various useful and valuable knowledge sources hidden within the text. These tips would certainly make a difference in you while learning the units, lessons and relevant concepts thereof.

Actually the book is divided into 10 Units, 33 Chapters where in there are several sections are written in a student friendly way. An attempt is made here to explain how to use them for a better learning experience.

UNITS

The units are broad heading of the book which contains several Chapters in each of them so that you can understand the section specific knowledge in various parts of Commerce Education. This is the usual way of learning. There are three Chapters, for example, in Unit I, which gives you the basic and introductory aspects of Commerce Education. Similarly the remaining Units give you the specialized knowledge on the different Unit headings so required at the level of Eleventh Standard. Omission any unit may lead to loss of knowledge continuity.

CHAPTERS

All the 33 Chapters in the book are a real treasure for one who wants to learn the theory and practice of Commerce today. So you have to look into these chapters as useful, informative and capacity building capsules in any individual student who wants to learn the elements and fundamentals of Commerce. Omission of any Chapter would lead to loss of knowledge in real terms and other related benefits.

SUB-HEADINGS

These headings are given for you to remember the major divisions of a chapter with conceptual clarity and information sequence in an orderly manner so as to arrange your learning method made easy. So you have to learn the subject content of a chapter, mainly based on the 'sub-headings' of a chapter. This is the simple way of learning.

This section of the Chapters in general would give you various tips on the present or past events or bits of useful information in the field of Commerce so relevant to the subject matter discussed in a specific Chapter, of course in almost all Chapters.

SUCCESS STORY

This section is an attempt to explain you how some people or organisations have been able to grow from nothing to top today and those who set an example by their way of becoming the role models. You can understand the way of growing and also you can follow such role models for achieving your own future ambition.

Case study

This section is given to test your 'applied knowledge' on the subject matter of a Chapter or Chapters wherein you have to think and analyze about the case and give your best ability to understand the situation and explanation thereof / relevant answers so as to depict yourself as a student with practical knowledge or applied knowledge on the chosen case study.

PROJECT WORK

This is an exercise given to you to do either class work or home work on the chosen theme or subject matter in each Chapter or chapters. Commerce Education is required to have practical exposure to various forms of business organizations around the world. Project work will ensure your ability to bring about a solution to present crisis in an organization or give plans for future development of the same.

FOR OWN THINKING

There is an useful section in all chapters for ‘ your own thinking ‘ either with some meaning of concepts or practical situation for your understanding. Repeated thinking of these aspects would ensure your ability to understand developments in Commerce and capacity to do your own business in future.

FOR FUTURE LEARNING

This section is attempted to make the students to learn about necessary concepts or section of Commercial knowledge by doing home work or by doing further study through browsing or learning from reference books.

KEY TERMS

Students are expected to be thorough about certain concepts which are chapter specific and related to the knowledge dealt in that chapter. This would enable the students to be clear about various concepts which is essential for clarity of thought and able learning about the subject matter.

QUESTIONS

As you are aware of, this section is essential to evaluate your ability to answer specific questions, may be long answer or short answer or fill in the blanks or choosing the correct one from among the multiple-choice of answers. Scoring high marks is an indicator of your knowledge level for higher studies and hence you need to prepare for these questions well in advance to the schedule of examination time-table. You can try to find answers before your teachers direct you to answer them. Prevention is better than cure.

This is an interesting section of many a chapter in the book wherein you can have the learning experience through the online support, using an Android phone with applied QR Code app. You can listen to short lectures or demonstrations by experts or experienced teachers. Of course this is mostly home work or leisure time exercises, unless or otherwise the class teachers wanted to display them in class-rooms during working hours.

GLOSSARY

SCOPE OF “COMMERCE” EDUCATION

“Commerce” as a field of knowledge is all pervasive in nature. It offers enormous opportunities for higher education and employment both in India and abroad. The scope after higher secondary programme in Commerce is given below:

EDUCATIONAL OPPORTUNITIES

Any of the following Degree Programmes can be pursued by the students both on Regular mode and Distance Education mode.	Any of the following professional courses/ programmes.	Any of the following programmes in India or abroad after a Formal Degree Programme. Anywhere in colleges. Universities or Indian Institute of Management (IIM)	Any of the following professional courses/ programmes after a Formal Degree Programme	Any of the Research Programme after a Formal Post Graduation in Commerce/
• B.Com., Bachelor of Commerce (General) • B.Com., (Hons.) • B.Com., (Accounting & Finance) • B.Com., (Corporate Secretaryship) • B.Com., (Computer Application) • B.Com., (International Business) • B.Com., (Bank Management) • B.B.A., (Bachelor of Business Administration) • B.B.M., (Bachelor of Bank Management) • B.A., (Co-operation) • M.Com., (Master of Commerce – Five year Integrated programmed) • Any Diploma Programme offered by a Standard Institute	• C.A., Chartered Accountant as an Integrated Programme. • CMA(ICWA) • ACS • B.L., Bachelor of Law – Five year Integrated Programme. • B.Com., (LLB) Bachelor of Law – Five year Integrated Programme in India or Abroad • CIMA (Chartered Institute of Management Accountants (UK)) • ACCA (Association of Chartered Certified Accountants (UK)) • CPA (Certified Public Accountant (USA))	• M.Com., Master of Commerce. • M.Com., (Accounting and Finance) • M.Com., (International Business and Banking) • M.Com., (Computer Applications) • M.Com., (Co operative Management) • M.B.A., Master of Business Administration • M.B.A., (Finance) • M.B.A., (Marketing) • M.B.A., (Human Resource Management) • M.B.A., (Advertisement and Salesmanship) • M.B.A., (Hospital Management) • MHRM (Master of Human Resource Management) • MLM (Master Labour Management)	• Chartered Accountancy • Cost and Management Accounting (ICWA) • Associate Company Secretary • Bachelor of Loss (LLB) • Union Public Sercice Commission (UPSC) • Indian Administrative Service (IAS) • Indian Police Service (IPS) • Indian Foreign Service (IFS) • Indian Revenue Service (IRS) • Indian Audit and Account Service (IA&AS) etc.	• M.Phil., (Commerce) Master of Philosophy • Ph.D., (Commerce) Doctor of Philosophy • D.Litt., (Commerce) Doctor of Letters • UGC – National Eligibility Test (NET) • SET – State Eligibility Test • B.Ed., (Bachelor of Education) and followed by M.Ed., (Master of Education) Programmes • Any PG Diploma programme offered by a standard Institute

EMPLOYMENT OPPORTUNITIES

a) For self employment there are a number of Enterpreneurial Development and Training Programmes sponsored by District Industries Centres (DIC) throughout Tamil Nadu. Any Higher Secondary student can approach DIC in their own District Headquarters to train up themselves to start their own Agri-business, small trade, Self Help Group, Departmental stores or any General Mercantile Shop.

b) After gaining a Formal Degree Programme, the commerce graduate can gain access to Bank Finance or Institutional lending for business start-up

c) After Higher Secondary Course, the students can appear for Group IV and after formal degree programme, they can appear for Group I and Group II for Govt Postings through TNPSC/UPSC, including services in police to postal departments, besides bank employees in public sector.

d) Commerce graduates can become Income Tax practitioners and GST consultants with due qualifications.

SCOPE ABROAD

The commerce students have a wide range of scope abroad as listed below.

1. The Bachelor Degree holders in commerce can join MBA in any university in developed countries like England. The USA, Australia and so on.
2. The commerce graduates with 'Tally' Accounting package can get employed in any part of world as Accountants in business enterprises.
3. The Master Degree holders in commerce can join Ph.D. Programmes in any foreign University with fellowships abroad.
4. B.Ed/M.Ed/M.Phil/Ph.D holders in commerce can gain teaching jobs abroad both in schools and colleges (This is not only for younger but also those who are retired from service in India)
5. Commerce graduates are permitted by foreign governments to start-up export business ventures in their respective Nations, If their projects are valid.
6. Commerce graduates can become foreign exchange dealers through proper and authorised certification by the respective National Governments in various countries.
7. Commerce graduates can become bank employees abroad after a formal selection by them. Based on required qualification.
8. Commerce graduates have great scope for Management consultancy/Export and Import consultancy/ Clearing and Forwarding agencies/Economic Advisories/ Project consultancies/planning divisions/ share market speculators/security brokers/portfolio advisors/ Insurance advisors/ Advertisement agencies/ Secretariats of Business Tycoons/ Board personnel /Financial Advisors/Associates of Tax consultancies/Treasury Management/Scrap Dealers/ Bullion Trader/ Advisors to various purchase committees.

SCOPE OF AREA OF RESEARCH

- Marketing
- Management
- Finance
- Human Resource Management
- Entrepreneurship
- Retailing
- Supply Chain Mangement
- Logistic Mangement
- Financial Services
- Financial Markets
- Services Industries
- International Business
- Organisational Behaviour
- Digital Marketing
- Taxation

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UNIT I
MANAGEMENT PROCESS

CHAPTER 1
PRINCIPLES OF MANAGEMENT

எப்பொருள் யார்யார்வாய்க் கேட்பினும் அப்பொருள்
மெய்ப்பொருள் காண்ப தறிவு.

–குறள் 423

COUPLET

To discern the truth in every thing, by whomsoever spoken, is wisdom.

3VJIKZ

Learning Objectives

To enable the students to understand the

- Concept of Management
- Definitions of Management
- Management an Art or Science
- Management Vs. Administration
- Management Process or Functions
- Principles of Scientific Management
- Principles of Modern Management
- Span of Management

Chapter Synopsis

Management is part and parcel of our day to day life. The practice of management could be found in our entire endeavour whether we are in a play ground or library or class room or hostel and so on wherein we plan many of our actions and execute them in a systematic manner to arrive at the desired results. So management is goal oriented and it is an art of getting things done with and through others. The practice of management helps to achieve the organizational mission and determines the future of the business enterprises. In a way the success or otherwise of an organization or an individual is more decided by the way they manage their functions, duties and responsibilities. So it goes without saying that management is all the more important in organizational life in any part of the world. It is a global and universal concept.

1.01 Concept of Management

The management concept can be understood from its profound characteristic features as follows:

1. Body of Knowledge:

Management has now developed into a specialised body of management theory and philosophy. Management literature is growing in all countries. In fact, management knowledge is the best passport to enter the world of employment either in business world or government or private.

2. Management Tools:

Tools of management have been developed such as, accounting, business law, psychology, statistics, econometrics, data processing, etc. These branches of management profession have enhanced the practical utility of the science of management.

3. Separate Discipline:

Management studies in many universities and institutions of higher learning are recognised as a separate discipline. Since 1951, many specialised schools of management offering master's degree in business management and administration.

Seminars, special courses, training programmes are becoming fashionable and popular for orientation and retraining in management areas, e.g., export management, personnel management, general management, production management, marketing management, financial management, etc.

4. Specialisation:

There is a growing tendency to select and appoint highly qualified, trained and experienced persons to manage the business in each functional areas of management. Thus we have today an increasing tendency in favour of management by experts or professionals.

5. Code of Conduct:

Enlightened businessmen have recognised that business management is a social institution and it has social responsibilities to be fulfilled — towards customers, employees, and the public or community. Corporations have now social conscience and awareness.

Consumer-oriented marketing concept is the reflection of a corporate code of conduct. Pressure of consumerism, trade unionism, public opinion, and legislation are definitely inducing the management to evolve a code of ethics. No longer 'buyer beware' is ruling the exchange relations in the market. At present 'seller beware' in place of 'buyer beware' influencing market practices.

6. Professional Association:

The Business Management Associations in many countries to promote the spread of knowledge in all management areas and to build up the bright public image of managerial profession.

1.02 Definitions of Management

Management is a distinct ongoing process of allocating inputs of an organisation (human and economic resources) by typical managerial functions (planning, organising, directing and controlling) for the purpose of achieving stated objectives, viz., output of goods and services desired by its customers (environment).

In the process, work is performed with and through personnel of the organisation in an ever-changing business environment.

1. **"To manage is to forecast, to plan, to organise, to command, to co-ordinate and to control."** —Henry Fayol.
2. **"Management is a multipurpose organ that manages a business and manages manager, and manages worker and work."**— Peter F. Drucker:

Drucker stresses three jobs of management:

(i) Managing a business;

(ii) Managing manager; and

(iii) Managing workers and work.

Even if one is omitted, It would not have management anymore and it also would not have a business enterprise or an industrial society. According to P. Drucker, the manager has to balance and integrate three major jobs of a business enterprise as mentioned above.

Hence, a manager is a dynamic and life-giving element in every business. Without efficient management it cannot be secure the best allocation and utilisation of human, material and financial resources.

Management is an Art or Science

There is always a discussion about the nature of management whether it is an Art of doing things or it is a pure Science of getting things done. It would be useful to explain the nature of management in brief as under:

Management is an in-exact science, because in pure science, the principles are put into test in a laboratory and they are either proved or disproved exactly and precisely. For example, plant leaves have starch in them which can be proved or disproved in a Botany lab. Similarly the management principles can be put to test in an organization where men, machine, money and materials (4 Ms) are practically integrated towards achieving some chosen organizational goals. These principles cannot be exactly proved or disproved either as they tend to be flexible to changing environment, policies and practical difficulties while synchronizing them together. So, management can be described as an inexact science.

Everyone believes that management is an art. No, it is not an art in Toto. Because, the concept of art denotes the learning of skills and practicing them in the day to day life like a mason or carpenter or mechanic or a musician being able to perform their respective art they learnt by way of skill display before anybody under any circumstances.

But the concept of management involves a set of required skills for any one designated as a manager, but the level or span of their managerial skills would vary from person to person and individual to individual irrespective of the countries they belonged to. The nature of the administrative and managerial skills of our former Prime Minister Pt.Jawaharlal Nehru cannot be compared to his counterpart and his own daughter Mrs.Indira Gandhi. So management is not an exact art of doing things.

The art of management is fully reflected in the decision making capacity of a manager. Judgement and imagination are essential even in a computerised economy. A computer cannot replace a manager in decision making.

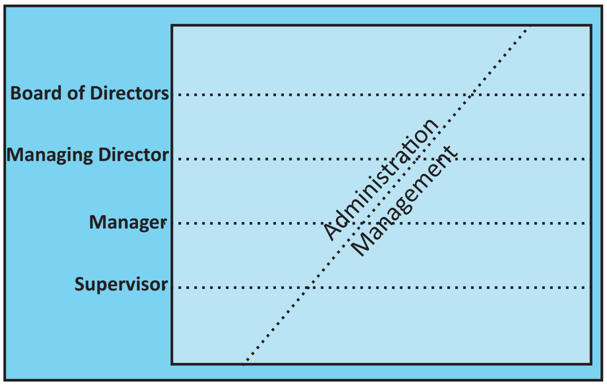
“A professional manager is one who specialises in the work of planning, organising, leading and controlling the efforts of others and does so through systematic use of classified knowledge, a common vocabulary and principles and who subscribes to the standards of practice and code of ethics established by recognised body.” — Louis A. Allen.

To conclude, Management is neither a science nor an art, but a combination of both requiring people holding managerial positions to apply the scientific management principles and displaying popular managerial skills to accomplish the organizational goals as efficiently and as quickly as possible so as to be competitive in the globalised environment of business.

1.03 Management is differ from Administration

One should be able to distinguish between management and administration as the concepts are interchangeably used in the world of business today. While management is more ‘executive’ in nature the concept of administration denotes the art of ‘decision making’ at the top and ‘evolving policies’ of the business undertakings either by the governments of various countries or the respective promoters of such business enterprises. **Management** is all about plans and actions, but the **administration** is concerned with framing policies and setting objectives.

The manager looks after the **management** of the organization, whereas **administrator** is responsible for the **administration** of the organization. **Management** focuses on **managing** people and their work.



So it is concluded that the administration is ought to take business decisions while the management need to execute them to get things done with and through other functional staff working under them who are called employees of the same organization(s). For example, the Board of Directors with the CEO/MD may be called Administration, while the Managers of various units like Production, Marketing, Finance, Accounting, Distribution and Research & Development may be called Management of the said organization.

Theoretically, it can be said that both are different terms, but practically, it is found that the terms are more or less same. A manager performs both administrative and functional activities. Although the managers who are working on the top most level are said to be the part of administration, the managers working on the middle or lower level represents management. So, it could be concluded that administration is above management.

1.04 Management Process

The substance of management should be identified as a process. A process is something that what a person does in the context of his individual duties and responsibilities assigned by his or her immediate higher authority.

A process also implies ongoing and unceasing cyclical operations. In management there is planning-action-control cycle. Defining the concept must incorporate this management cycle. A process indicates the dynamic nature of management.

It also implies that change is a constant reality of organisational life and management is the management of change. Lastly, management is regarded as a social process because it is directly concerned with management of human resources in order to secure cooperation and teamwork from the people in their performance.

There are twin purposes of the management process:

(1) Maximum productivity or profitability and

(2) Maximum human welfare and satisfaction.

There are five parts of management as a process: first, the co-ordination of resources; second, the performance of managerial functions as a means of achieving co-ordination; the third, establishing the objective or purpose of management process, i.e., it must be purposeful managerial activity; the fourth aspect is that management is a social process, and the fifth is its cyclical nature.

1. Management is Co-Ordination:

The manager of an enterprise must effectively coordinate all activities and resources of the organisation, namely, men, machines, materials and money the four M's of management.

2. Management is a Process:

The manager achieves proper co-ordination of resources by means of the managerial functions of planning, organising, staffing, directing (or leading and motivating) and controlling.

3. Management is a Purposive Process:

It is directed toward the achievement of predetermined goals or objectives. Without an objective, we have no destination to reach or a path to follow to arrive at our destination, i.e., a goal, both management and organisation must be purposive or goal-oriented.

4. Management is a Social Process:

It is the art of getting things done through other people.

5. Management is a Cyclical Process:

It represents planning-action-control-re-planning cycle, i.e., an ongoing process to attain the planned goals.

1.05 Principles of Scientific Management

In the last century, organizations already had to deal with management in practice. In the early 1900s, large organizations, such as production factories, had to be managed too. At the time there were only few external management tools, models and methods available.

At this juncture, Mr.Frederick Winslow Taylor (F.W.Taylor) brought about a scientific

Differences between Management Vs Administration

BASIS FOR COMPARISON	MANAGEMENT	ADMINISTRATION
Meaning	An organized way of managing people and things of a business organization is called the Management.	The process of administering an organization by a group of people is known as the Administration.
Authority	Middle and Lower Level	Top level
Role	Executive	Decisive
Concerned with	Policy Implementation	Policy Formulation
Area of operation	It works under administration.	It has full control over the activities of the organization.
Applicable to	Profit making organizations, i.e. business organizations.	Government offices, military, clubs, business enterprises, hospitals, religious and educational organizations.
Decides	Who will do the work? And How will it be done?	What should be done? And When is should be done?
Work	Putting plans and policies into actions.	Formulation of plans, framing policies and setting objectives
Focus on	Managing work	Making best possible allocation of limited resources.
Key person	Manager	Administrator
Represents	Employees, who work for remuneration	Owners, who get a return on the capital invested by them.
Function	Executive and Governing	Legislative and Determinative

approach to managing the workforce after his experiments with the African and South American slaves employed in a coal field in England. His aim was absolute harmony in work place for overall productivity of the organization

Principles of scientific management propounded by Taylor are

1. Science, Not Rule of Thumb
2. Harmony, Not Discord
3. Mental Revolution
4. Cooperation, Not Individualism
5. Development of each and every person to his or her greatest efficiency and prosperity.

They are explained in brief as follows:

1. Science, Not Rule of Thumb:

In order to increase organisational efficiency, the 'Rule of Thumb' method should be substituted by the methods developed through scientific analysis of work.

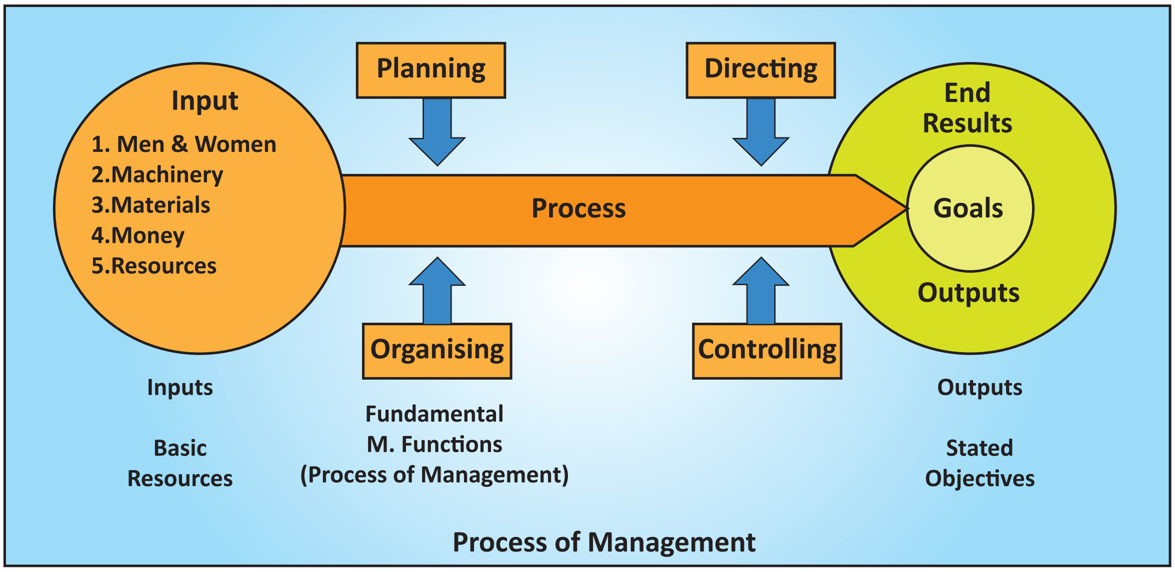
Rule of Thumb means decisions taken by manager as per their personal judgments. According to Taylor, even a small production activity like loading iron sheets into box cars can be scientifically planned. This will help in saving time as well as human energy. Decisions should be based on scientific enquiry with cause and effect relationships.

This principle is concerned with selecting the best way of performing a job through the application of scientific analysis and not by intuition or hit and trial methods. The work assigned to any employee should be observed and analyzed with respect to each element or part thereof and the time involved therein so as to decide the best way of performing that work and to determine the standard output for same.

2. Harmony, Not Discord:

Taylor emphasized that there should be complete harmony between the workers and the management since if there is any conflict between the two, it will not be beneficial either for the workers or the management. Both the management and the workers should realize the importance of each other. In order to achieve this state, Taylor suggested complete mental revolution on the part of both management and workers.

It means that there should be complete change in the attitude and outlook of workers and management towards each other. It should always be kept in mind that prosperity for an employer cannot exist for a long time unless it is accompanied by the prosperity of the employees of that organisation and vice versa. It becomes possible by (a) sharing a part of surplus with workers (b) training of employees, (c) division of work (d) team spirit (e) positive



attitude (f) sense of discipline (g) sincerity etc. Management should always be ready to share the gains of the company with the workers and the latter should provide their full cooperation and hard work for achieving organizational goals. Group action with mutual-trust and understanding should be perfect understanding the focus of working. This principle requires that there should be perfect understanding between the management and workers and both should feel that they are part of same family. It helps to produce synergy effect since both management and workers work in unison.

For example, in most of the Japanese companies, paternalistic style of management is in practice and there is complete openness between workers and the management. Usually, workers don't go on strike but, if at all they do so, they just wear a black badge and work even more than the normal hours just to impress upon the management that their focus is on their demands as well as organisational objectives.

3. Mental Revolution:

The technique of Mental Revolution involves a change in the attitude of workers and management towards each other. Both should realize the importance of each other and should work with full cooperation. Management as well as the workers should aim to increase the profits of the organisation. For this, the workers should put in their best efforts so that the company makes profit and on the other hand management should share part of profits with the workers. Thus, mental revolution requires a complete change in the outlook of both management and workers. There should be a spirit of togetherness between workers and management.

4. Cooperation, Not Individualism:

This principle is an extension of principle of 'Harmony, not discord' and lays stress on mutual cooperation between workers and the management. Cooperation, mutual confidence, sense of goodwill should prevail among both, managers as well as workers. The intention is to replace internal competition with cooperation. Both 'Management' and 'Workers' should realize the importance of each other. Workers should be considered as part of management and should be allowed to take part in decision making process of the management. Management should always welcome their suggestions and should also reward them if their suggestions prove to be beneficial for the organisation viz. reduction of costs or increase in production etc. At the same time, workers should also resist from going on strike or making unnecessary demands from management. Workers should be treated as integral part of organisation and all important decisions should be taken after due consultation with workers. Both of them should visualize themselves as two pillars whose soundness alone can ensure achievement of common goals of the organisation. Taylor also suggested that there should be proper division of work and responsibility between the two. Management should always guide, encourage and help the workers.

5. Development of each and every person to his or her greatest efficiency and prosperity:

Efficiency of any organisation also depends on the skills and capabilities of its employees to a great extent. Thus, providing training to the workers was considered essential in order to learn the best method developed through the use of scientific approach. To attain the efficiency, steps should be taken right from the process of selection of employees. Employees should be scientifically selected. The work assigned to each employee should suit his/her physical, mental and intellectual capabilities. Efficient employees produce more to earn more. This ultimately helps to attain efficiency and prosperity for both organisation and the employees.

The Principles of Taylor's Scientific Management Theory became widely practiced, and the resulting cooperation between workers and managers eventually developed into the teamwork we enjoy today. While Taylorism in a pure sense isn't practiced much today, scientific management did provide many significant contributions to the advancement of management practice. It introduced systematic selection and training procedures, it provided a way to study workplace efficiency, and it encouraged the idea of systematic organizational design.

1.06 Principles of Modern Management

The Father of Modern Management is Mr.Henry Fayol, and according to him there are 14 major principles of management which every manager has to practice for the success of the organization.

1. **Division of Work:** According to this principle the whole work is divided into small tasks. The specialization of the workforce according to the skills of a person, creating specific personal and professional development within the labour force and therefore increasing productivity; leads to specialization which increases the efficiency of labour.
2. **Authority and Responsibility:** This is the issue of commands followed by responsibility for their consequences. Authority means the right of a superior to give the order to his subordinates whereas responsibility means obligation for performance.
3. **Discipline:** It is obedience, proper conduct in relation to others, respect of authority, etc. It is essential for the smooth functioning of all organizations.
4. **Unity of Command:** This principle states that each subordinate should receive orders and be accountable to one and only one superior. If an employee receives orders from more than one superior, it is likely to create confusion and conflict.
5. **Unity of Direction:** All related activities should be put under one group, there should be one plan of action for them, and they should be under the control of one manager.
6. **Subordination of Individual Interest to Mutual Interest:** The management must put aside personal considerations and put company objectives firstly. Therefore the interests of goals of the organization must prevail over the personal interests of individuals.
7. **Remuneration:** Workers must be paid sufficiently as this is a chief motivation of employees and therefore greatly influences productivity. The quantum and methods of remuneration payable should be fair, reasonable and rewarding of effort.
8. **The Degree of Centralization:** The amount of power wielded with the central management depends on company size. Centralization implies the concentration of decision making authority at the top management.
9. **Line of Authority/Scalar Chain:** This refers to the chain of superiors ranging from top management to the lowest rank. The principle suggests that there should be a clear line of authority from top to bottom linking all managers at all levels.
10. **Order:** Social order ensures the fluid operation of a company through authoritative procedure. Material order ensures safety and efficiency in the workplace. Order should be acceptable and under the rules of the company.
11. **Equity:** Employees must be treated kindly, and justice must be enacted to ensure a just workplace. Managers should be fair and impartial when dealing with employees, giving equal attention towards all employees.
12. **Stability of Tenure of Personnel:** Stability of tenure of personnel is a principle stating that in order for an organization to run smoothly, personnel (especially managerial personnel) must not frequently enter and exit the organization.

13. Initiative: Using the initiative of employees can add strength and new ideas to an organization. Initiative on the part of employees is a source of strength for organization because it provides new and better ideas. Employees are likely to take greater interest in the functioning of the organization.

14. Esprit de Corps/Team Spirit: This refers to the need of managers to ensure and develop morale in the workplace; individually and communally. Team spirit helps develop an atmosphere of mutual trust and understanding. Team spirit helps to finish the task on time

1.07 Span of management

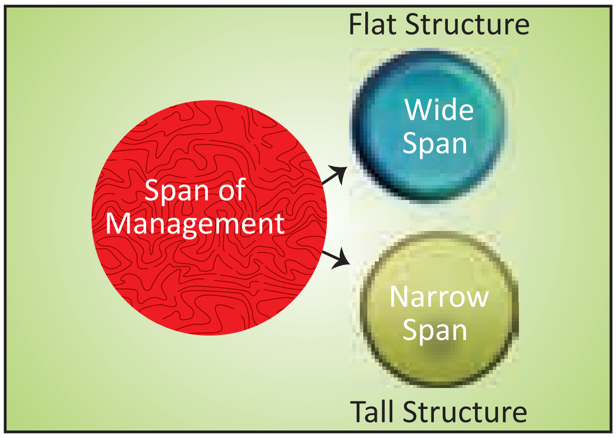
The Span of Management refers to the number of subordinates who can be managed efficiently by a superior. Simply, the manager having the group of subordinates who report him directly is called as the span of management. The Span of Management has two implications:

1. Influences the complexities of the individual manager's job
2. Determine the shape or configuration of the Organization

The span of management is related to the horizontal levels of the organization structure. There is a wide and a narrow span of management. With the wider span, there will be less hierarchical levels, and thus, the organizational structure would be flatter. Whereas, with the narrow span, the hierarchical levels increases, hence the organizational structure would be tall.

1. Both these organizational structures have their advantages and the disadvantages. But however the tall organizational structure imposes more challenges
2. Since the span is narrow, which means less number of subordinates under one superior, requires more managers to be employed in the organization. Thus, it would be very expensive in terms of the salaries to be paid to each senior.
3. With more levels in the hierarchy, the communication suffers drastically. It takes a lot of time to reach the appropriate points, and hence the actions get delayed.
4. Lack of coordination and control because the operating staff is far away from the top management.

The major advantage of using this structure is that the cross communication gets facilitated, i.e., operative staff communicating with the top management. Also, the chance of promotion increases with the availability of several job positions.



In the case of a flatter organizational structure, where the span is wide leads to a more complex supervisory relationship between the manager and the subordinate. It will be very difficult for a superior to manage a large number of subordinates at a time and also may not listen to all efficiently.

However, the benefit of using the wider span of management is that the number of managers gets reduced in the hierarchy, and thus, the expense in terms of remuneration is saved. Also, the subordinates feel relaxed and develop their independent spirits in a free work environment, where the strict supervision is absent.

Key Words

Management	Administration
Span	Scalar chain

For Own Thinking

1. Imagine yourself to be a manager and chart down the functions to be performed.
2. Formulate a new policy relating to timing of employees.

For Future Learning

1. The changes in management and administration of a school growing into a college.
2. Application of management process in accomplishing work life balance.

DO YOU KNOW?

TOP RANKED INDIAN MANAGEMENT THINKERS:

Nirmalya kumar, Professor, London Business school

Vijay Govindarajan, Professor, Tuck School of Business @ Dart mouth college,

New Hampshire.

Pankaj ghemawat, Professor, IESE Business school, Spain.

Exercise

4B3DMB

I. Choose the Correct answers:

1. **Management is what a ________ does?**
   a) Manager b) Subordinate
   c) Supervisor d) Superior
2. **Management is an ________**
   a) Art b) Science
   c) Art and Science d) Art or Science
3. **Scientific management is developed by**
   a) Fayol b) Taylor
   c) Mayo d) Jacob
4. **Dividing the work into small tasks is known as**
   a) Discipline b) Unity
   c) Division of work d) Equity
5. **With a wider span, there will be ________ hierarchical levels.**
   a) More b) Less
   c) Multiple d) Additional

Answers:

1	a	2	c	3	b	4	c	5	b

II. Very short answer questions:

1. What is Management?
2. List out the management tools.
3. State the meaning of Authority.
4. What do you mean by Span of management?

III. Short answer questions:

1. Define the term management.
2. Differentiate management from Administration. (any 3)
3. What are the principles of Taylor?
4. What determines the span of management?

IV. Long answer questions:

1. Explain the concept of management. (any 5)
2. Explain the principles of modern management. (any 5)

References:

Management - Koontz O'Donnel

Principles of management - S S Chatterjee

Management - Rustom S Davor.

UNIT I

MANAGEMENT PROCESS

2 CHAPTER

FUNCTIONS OF MANAGEMENT

இதனை இதனால் இவன்முடிக்கும் என்றாய்ந்து
அதனை அவன்கண் விடல்.

–குறள் 517

COUPLET

After having considered, "this man can accomplish this, by these means", let (the king) leave with him the discharge of that duty.

4QL8NM

Learning Objectives

To enable the students to understand the

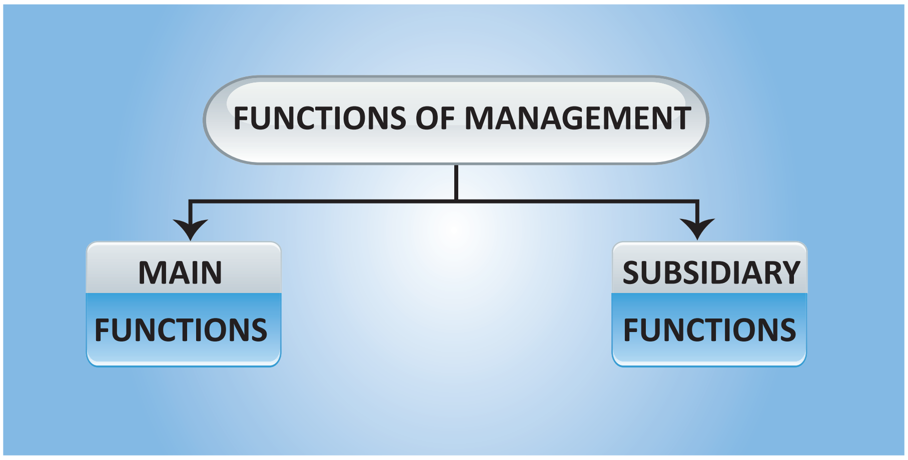
- Various functions of management
- Significance of functions of management

Chapter Synopsis

FUNCTIONS OF MANAGEMENT

Managerial functions are time specific, institution specific and country specific. The management functions of industrial revoluvation may differ from the management functions of 19th century and followed by 20th century. This chapter is an attempt to explain the management functions of 20th century and after.

Management functions are called as Managerial process. This process is 24 hours non stop process for attaining the objectives again and again for reaching the highest level.



Functions of management can be classified into two catogories, they are A. Main functions and B. Subsidiary functions. All functions of management are briefly discussed below:

2.01 Main Functions

Planning, Organising, Staffing, Directing, Motivating, Controlling and Co-ordination are the main functions of management.

1. Planning

Think Before you Act‘ or 'Look Before you Leap' are some of the usual traditional proverbs; which provide a basis or logic for planning. Planning is the primary function of management. Nothing can be performed without planning. (For eg., Writing a book starts with planning). In short, planning refers to deciding in advance. Planning is a constructive reviewing of future needs so that present actions can be adjusted in view of the established goal. Planning should take place before doing; most individual or group efforts are made by determining before any operative action takes place, what shall be done, where, how and who shall do it.

2. Organising

Organising is the process of establishing harmonious relationship among the members of an organisation and the creation of network of relationship among them. Organising function work is assigned to employees who are given authority to carry out the work assigned and made accountable for it.

3. Staffing

Staffing function comprises the activities of selection and placement of competent personnel. In other words, staffing refers to placement of right persons in the right jobs. Staffing includes selection of right persons, training to those needy persons, promotion of best persons, retirement of old persons, performance appraisal of all the personnel, and adequate remuneration of personnel. The success of any enterprise depends upon the successful performance of staffing function.

4. Directing

Directing denotes motivating, leading, guiding and communicating with subordinates on an ongoing basis in order to accomblish pre-set goals. Employees are kept informed of all necessary matters by circulars, instructions manuals, newsletters, notice-boards, meeting, participative mechanism etc., in order to enable the employees to accomplish the organizational goals.

5. Motivating

The goals are achieved with the help of motivation. Motivation includes increasing the speed of performance of a work and developing a willingness on the part of workers. This is done by a resourceful leader. The workers expect, favourable climate conditions to work, fair treatment, monetary or non-monetary incentive, effective communication and gentleman approach.

6. Controlling

Controlling is performed to evaluate the performance of employees and deciding increments and promotion decisions. The control function helps in identifying under performers and arranging remedial training for them. It is the control function which facilitates synchronization of actual performance with predetermined standards.

7. Co-ordination

Co-ordination is the synchronization (or unification or integration) of the actions of all individuals, working in the enterprise in different capacities; so as to lead to the most successful attainment of the common objectives. Co-ordination is included in every managerial function; Eg (i) Planning and co-ordination, (ii).Organising and co-ordination, (iii) Staffing and co-ordination, (iv) Directing and co-ordination, (v) Motivation and co-ordination and (iv) Controlling and co-ordination.

All the activities are divided groupwise or sectionwise under organising function. Now, such grouped activities are co-ordinated towards the accomplishment of objectives of an organisation. The difficulty of co-ordination depends upon the size of organisation. The difficulty of co-ordination is increased with the increasing size of the organisation.

DO YOU KNOW?

“ Passing the buck, the buck stops here”

To shift or reassign the blame or responsibility (for something) to another person, group, or thing.

2.02 Subsidiary Functions

Innovation, Representation, Decision-making, and Communication are the subsidiary functions of management.

1. Innovation

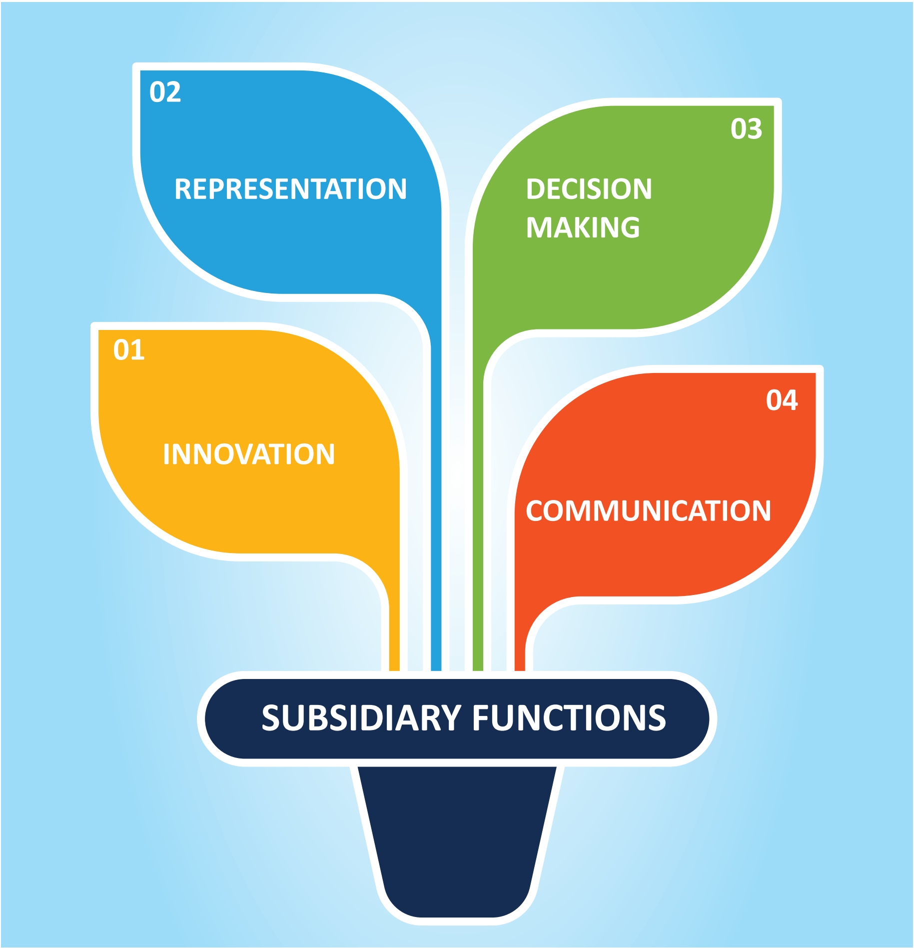
Innovation refers to the preparation of personnel and organisation to face the changes made in the business world. Continuous changes are being made in the business. Consumers are satisfied through innovation. Innovation includes developing new material, new products, new techniques in production, new package, new design of a product and cost reduction.

2. Representation

A manager has to act as representative of a company. Manager has dealings with customers, suppliers, government officials, banks, financial institutions, trade unions and the like. It is the duty of every manager to have good relation with others.

3. Decision-making

Every employee of an organisation has to take a number of decisions every day. Decision-making helps in the smooth functioning of an organisation.



4. Communication

Communication is the transmission of human thoughts, views or opinions from one person to another person. Workers are informed about what should be done, where it is to be done, how it is do be done and when it is to be done. Communication helps the regulation of job and co-ordinates the activities.

Scholars in the field of management have their own classification of functions of management. Some scholars add few functions and delete some other functions.

Key Words

Motivation	Control
Co-ordination	Innovation
Decision - making	Change

For Own Thinking

1. Check for the criterias that add cost in the absence of planning.
2. Design a communication network that speeds up the work.

For Future Learning

1. Identify the need for financial and non-financial motivators relating to Gen Z.
2. What kind of control measures can be planned for minimal waste for future organisations.

DO YOU KNOW?

The generation Z workers motivators are as follows:

- Flexible schedule
- Skip annual performance review
- Embrace tech centered work place
- Plan for in-person intraction
- Expect to provide more structure and direction
- Re-evaluate formal education
- Have a plan for professional growth
- Set clear expectations
- Make them feel valued
- Be transparent.

Exercise

5KE2PM

I. Choose the Correct Answers:

1. Which is the primary function of management?

(a) Innovating (b) Controlling
(c) Planning (d) Decision-making

2. Which of the following is not a main function?

(a) Decision-making (b) Planning
(c) Organising (d) Staffing

3. __________ is included in every managerial function.

(a) Co-ordinating (b) Controlling
(c) Staffing (d) Organising

4. Which of the following is verification function?

(a) Planning (b) Organising
(c) Staffing (d) Controlling

5. The goals are achieved with the help of ____

(a) Motivation (b) Controlling
(c) Planning (d) Staffing

Answers:

1	c	2	a	3	a	4	d	5	a

II. Very Short Answer Questions:

1. Write a short note about Planning.
2. What is meant by Motivation?
3. List the subsidiary functions of management.
4. What is the Traditional proverb used in planning?

III. Short Answer Questions:

1. List out the main functions of management?
2. State the importance of staffing.
3. How the employees are informed about important matters in a company?

IV. Long Answer Questions:

1. Explain the various functions of management. (any 5)

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UNIT I

MANAGEMENT PROCESS

3
CHAPTER

MANAGEMENT BY OBJECTIVES (MBO) MANAGEMENT BY EXCEPTION (MBE)

செயற்கை அறிந்தக் கடைத்தும் உலகத்து
இயற்கை அறிந்து செயல்.

–குறள் 637

COUPLET

Though you are acquainted with the (theoretical) methods (of performing an act), understand the ways of the world and act accordingly.

5ZWWQY

Learning Objectives

To enable the students to

- understand the meaning and definition of MBO and MBE
- understand the concept of Management by Objectives (MBO)
- understand the concept of Management by Exception (MBE)

Chapter Synopsis

3.01 Meaning and Definition of MBO
3.02 Objectives of MBO
3.03 Features of MBO
3.04 Process of MBO
3.05 Advantages of MBO
3.06 Disadvantages of MBO
3.07 Meaning of MBE
3.08 Process of MBE
3.09 Advantages of MBE
3.10 Disadvantages of MBE

MANAGEMENT BY OBJECTIVES (MBO)

3.01 Meaning and Definition

Management By Objectives (MBO) is a management system in which each member of the organisation effectively participates and involves himself. This system gives full scope to the individual strength and responsibility. MBO harmonises the goal of an individual with the organisation's goal. It creates self-control and motivates the manager into action before somebody tells his to do something.

MBO is popularised in the USA by George Odiorne. According to him, "MBO is a system wherein the superior and the sub-ordinate managers of an organisation jointly identify its common goals, define each individual's major area of responsibility in terms of the result expected of him and use these measures guides for operating the unit and assessing the contribution of each of its members".

Prof. Reddin defines MBO as, "the establishment of effective standards for managerial positions and the periodic conversion of those into measurable time bound objectives linked vertically and horizontally and with future planning".

3.02 Objectives of MBO

Management by objectives is intended primarily:

i. to measure and judge performance

ii. to relate individual performance to organisational goals

iii. to clarify both the job to be done and the expectations of accomplishment

iv. to foster the increasing competence and growth of the subordinates

v. to enhance communications between superiors and subordinates

vi. to serve as a basis for judgements about salary and promotion

vii. to stimulate the subordinates' motivation

viii. to serve as a device for organisational control and integration.

3.03 Features of MBO

1. An attempt is made by the management to integrate the goals of an organisation and individuals. This will lead to effective management.
2. MBO tries to combine the long run goals of organisation with short run goals.
3. Management tries to relate the organisation goals with society goals.
4. MBO's emphasis is not only on goals but also on effective performance.
5. It pays constant attention to refining, modifying and improving the goals and changing the approaches to achieve the goals on the basis of experience.
6. It increases the organisational capability of achieving goals at all levels.
7. A high degree of motivation and satisfaction is available to employees through MBO.
8. Recognises the participation of employees in goal setting process.
9. Aims at replacing the exercise of authority with consultations.
10. Encourages a climate of trust, goodwill and a will to perform.

3.04 Process of MBO

The MBO process is characterised by the balance of objectives of the organisation and individual. The process of MBO is explained below:

1. Defining Organisational Objectives

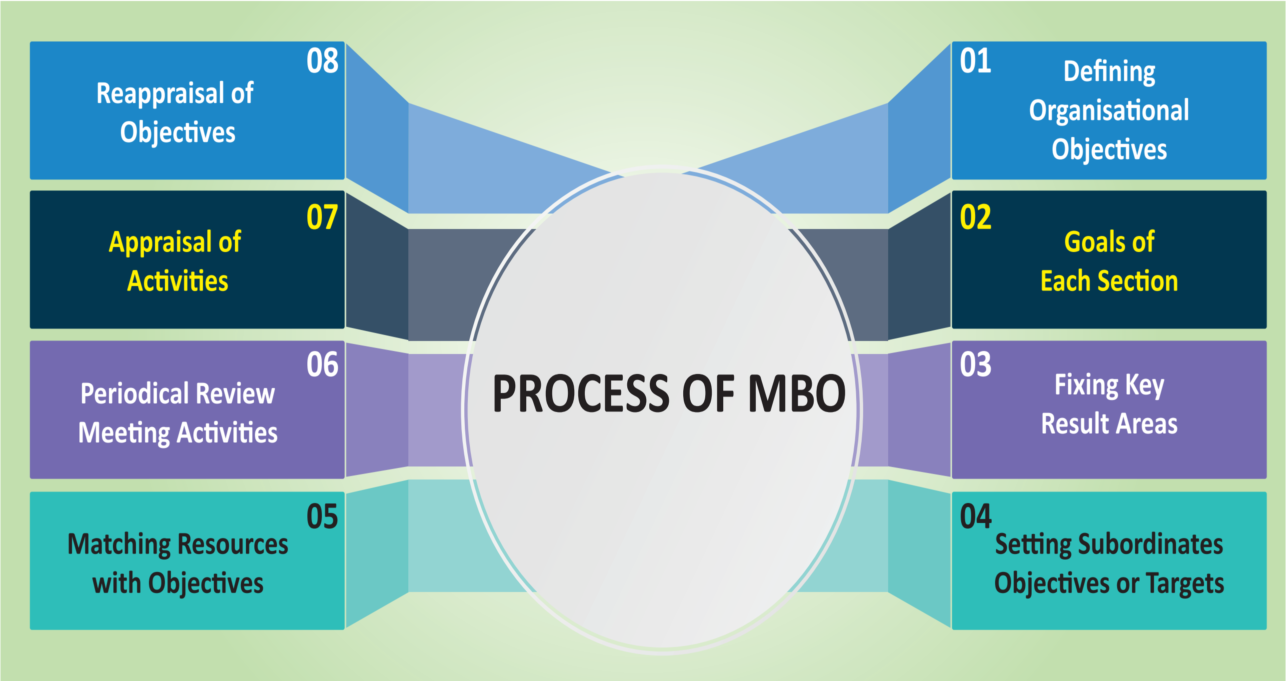
Initially, organisational objectives are framed by the top level employees of an organisation. Then, it moves downwards. The definition of organisational objectives states why the business is started and exists. First, long-term objectives are frames. Then, Short-term objectives are framed taking into account the feasibility of achieving the long-term objectives.

2. Goals of Each Section

Objectives for each section, department or division are framed on the basis of overall objectives of the organisation. Period within which these objectives should be achieved is also fixed. Goals or objectives are expressed in a meaningful manner.

3. Fixing Key Result Areas

Key result areas are fixed on the basis of organisational objectives premises. Key Result Areas (KRA) are arranged on a priority basis. KRA indicates the strength of an organisation. The examples of KRA are profitability, market standing, innovation etc.



4. Setting Subordinate Objectives or Targets

The objectives of each subordinate or individual are fixed. It is preferable to fix the objectives at lower level in quantitative units. There should be a free and frank discussion between the superior and his subordinates. Subordinates are induced to set standards themselves by giving an opportunity. If subordinates are allowed to do so, they may set high standards and the chances of their accomplishment are higher. In this way, the objectives or targets of the subordinates are fixed.

5. Matching Resources with Objectives

The objectives are framed on the basis of availability of resources. If certain resources (technical personnel or scarce raw material) are not adequately available, the objectives of an organisation are changes accordingly. So, there is a need for matching resources with objectives. Next, the available resources should be properly allocated and utilized.

6. Periodical Review Meeting Activities

The superior and subordinates should hold meetings periodically in which they discuss the progress in the accomplishment of objectives. The fixed standards may be changed in the light of progress. But the basic conditions do not change. The periodical review meeting is held during the period set for achieving the objectives.

7. Appraisal of Activities

At the end of the fixed period for achieving the objectives, there should be a discussion between the superior and subordinates. The discussion is related with subordinates' performance against the specified standards. The superior should take corrective action.

The superior should identify the reasons for failure of achieving objectives. The problems faced by the subordinates should be identified and steps should be taken to tackle such problems.

8. Reappraisal of Objectives

An organisation is a part of the dynamic world. There are a lot of changes within short period. The survival and growth of a modern business organisation largely depends upon putting up with the changing conditions. So, the top management executive should review the organisation's objectives to frame the objectives according to the changing situation.

3.05 Advantages of MBO

The advantages of MBO are explained below:

1. Managers are involved in objectives setting at various levels of management under MBO and this commitment ensures hard work to achieve them.
2. MBO process helps the managers to understand their role in the total organisation.
3. Manager recognises the need for planning and appreciates the planning.
4. MBO provides a foundation for participative management. Sub-ordinates are also involved in goal setting.
5. A department does not work at cross purpose with another department. In other words, each department's objectives are consistent with the objectives of the whole organisation.
6. Systematic evaluation of performance is made with the help of MBO.
7. MBO gives the criteria of performance. It helps to take corrective action.
8. Delegation of authority is easily done with the help of MBO.
9. MBO motivates the workers by job enrichment and makes the jobs meaningful.
10. The responsibility of a worker is fixed through MBO.
11. Decision is taken by the management very quickly. The reason is that each worker knows the purpose of taking a decision and does not oppose the decision.

3.06 Disadvantages of MBO

The disadvantages of MBO arise due to the application of the MBO which are discussed below:

1. MBO fails to explain the philosophy; most of the executives do not know how MBO works? what is MBO? and why is MBO necessary? and how participants can benefit by MBO?
2. MBO is a time consuming process. Much time is needed by senior people for framing the MBO. Next,it leads to heavy expenditure and also requires heavy paper work.
3. MBO emphasises only on short-term objectives and does not consider the long-term objectives.
4. The status of subordinates is necessary for proper objectives setting. But, this is not possible in the process of MBO.
5. MBO is rigid one. Objectives should be changed according to the changed circumstances, external or internal. If it is not done, the planned results cannot be obtained.

MANAGEMENT BY EXCEPTION (MBE)

3.07 Meaning of MBE

Management by exception is an important principle of managerial control suggested by the classical writers on management. It is based on the belief that an attempt to control everything results in controlling nothing. Management by exception is a style of business management that focuses on identifying and handling cases that deviate from the norm.

For example, the production manager establishes quality control standards wherein five defects per 100 units produced are permissible.

So long as the number of defects does not exceed 5, the supervisors/foremen (subordinates) will handle the problem. Whenever there are more than 5 defects, the matter will be reported to the production manager.

Management by exception (MBE) has both a general business application and a business intelligence application. General business exceptions are cases that deviate the normal behavior in a business process and need to be cared for in a unique manner, typically by human intervention. Their cause might include: process deviation, infrastructure or connectivity issues, external deviation, poor quality business rules, malformed data, etc.

3.08 Process of MBE

Primarily, it is necessary to set objectives or norms with predictable or estimated results. These performances are assessed and get equated to the actual performance. Next, the deviation gets analysed. With an insignificant or no deviation, no action is required and senior managers can concentrate on other matters. If actual performances deviates significantly, the issue needs to be passed to the senior managers, as an "exception has occurred". Finally, the aim is to solve this "exception" immediately.

3.09 Advantages of MBE

Management by exception provides the following benefits:

i. It saves the time of managers because they deal only with exceptional matters. Routine problems are left to subordinates.

ii. It focuses managerial attention on major problems. As a result, there is better utilisation of managerial talents and energy.

iii. It facilitates delegation of authority. Top management concentrates on strategic decisions and operational decisions are left to the lower levels. There is increase in span of control. This leads to motivation and development of subordinates.

iv. It is a technique of separating important information from unimportant one. It forces managers to review past history and study related business data for identifying deviations. There is better use of knowledge of trends, history and available business data.

v. MBE keeps management alert to opportunities and threats by identifying critical problems. It can avoid uninformed and impulsive action.

vi. Management by exception provides better yardsticks for judging results. It is helpful in objective performance appraisal.

3.10 Disadvantages of MBE

i. The main disadvantage of MBE is, only managers have the power over really important decisions, which can be demotivating for employees at a lower level.

ii. Furthermore, it takes time to pass the issues to managers. Managing employees who deviate from the normal procedures. Because of compliance failures are considered difficult to manage and typically find themselves with limited job duties and ultimately dismissed/terminated.

Key Words

Harmonise   Appraisal   Terminated

For Own Thinking

1. Discussion on the various functions of management, how it helps to MBE?

2. State your own view about MBO and MBE need to the management.

3. Make your own project about MBO and MBE with some examples.

Case Study

1. The company gets 30% of marginal profit for every year, but not increasing the salary of the employees for last three years. The employees conduct the indefinite strike against the company. Assume you are the manager of the company. How to solve the problem with using MBO or MBE?

Exercise

6FFRSA

I. Choose the Correct Answers:

1. **___________ System gives full Scope to the Individual Strength and Responsibility.**

   (a) MBO (b) MBE

   (c) MBM (d) MBA

2. **Which is the First step in Process of MBO?**

   (a) Fixing Key Result Area

   (b) Appraisal of Activities

   (c) Matching Resources with Activities

   (d) Defining Organisational Objectives

3. **__________ keeps Management Alert to Opportunities and Threats by Identifying Critical Problems.**

   (a) MBA (b) MBE

   (c) MBM (d) MBO

4. **Delegation of Authority is Easily Done with the Help of __________ .**

   (a) MBM (b) MBE

   (c) MBO (d) MBA

5. **MBO is popularised in the USA by __________ .**

   (a) Prof. Reddin (b) George Odiorne

   (c) Henry Fayol (d) F.W Taylor

Answers:

1	a	2	d	3	b	4	c	5	b

II. Very Short Answer Questions:

1. What are the objectives of MBO?
2. Bring out the meaning of MBE.
3. Mention any two advantages of MBO?
4. What is known as KRA?

III. Short Answer Questions:

1. Write the features of MBO.
2. What are the Process of MBE?
3. List out any three process of MBO.

IV. Long Answer Questions:

1. What are the major advantages of MBO? (any 5)
2. What are the advantages of MBE? (any 5)
3. Discuss the disadvantages of MBE.

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UNIT II

FINANCIAL MARKETS - I

4
CHAPTER

INTRODUCTION TO FINANCIAL MARKETS

வாரி பெருக்கி வளம்படுத்து உற்றவை
ஆராய்வான் செய்க வினை.

–குறள் 512

COUPLET

Let him do (the king's) work who can enlarge the sources (of revenue), increase wealth and considerately prevent the accidents (which would destroy it).

6UPQRY

Learning Objectives

To enable the students to understand the

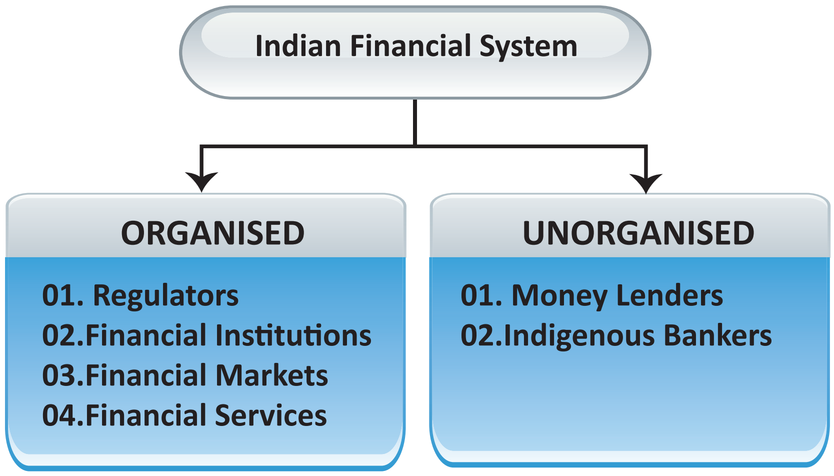
- Meaning and definition of financial market
- Scope of Indian Financial Market
- Types of Financial market
- Role of financial market
- Functions of financial market
- New Issue Market Vs Secondary Market

Chapter Synopsis

4.01 Meaning and Definition of Financial Market
4.02 Scope of Indian Financial Market
4.03 Types of Financial Markets
4.04 Role of Financial Market
4.05 Functions of Financial Market
4.06 New Issue Market (NIM) Vs. Secondary Market

Business firms need large funds to undertake a desired project. Accumulation of these funds may be beyond their capacity in a reasonable period of time. Governments need funds to provide goods and services to the people. Financial market facilitates business firms as well as governments to raise the needed funds by issuing and selling different instruments. Financial market also helps investors to facilitate them to invest surplus funds and earn a return. With the help of financial market, all kinds of business, Government and the financial institutions can get financial assistance in terms of both short term finance and long term finance.

Before going into the details, let us have an understanding of the Indian financial system.The Indian financial system can be broadly classified into organized sector and unorganized sector. Organized sector consist of Regulators, Financial Institutions, Financial Markets and Financial Services. The unorganized sector consists of Money Lenders, Indigenous Bankers etc. The financial system facilitates the flow of funds from

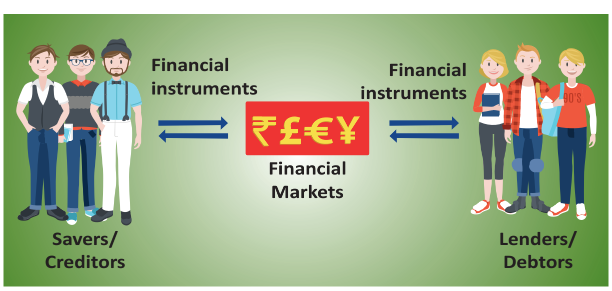


the suppliers to the users. The following diagram explains the Indian Financial System.

4.01 Meaning and Definition of Financial Market

A market wherein financial instruments such as financial claims, assets and securities are traded is known as a 'financial market'.

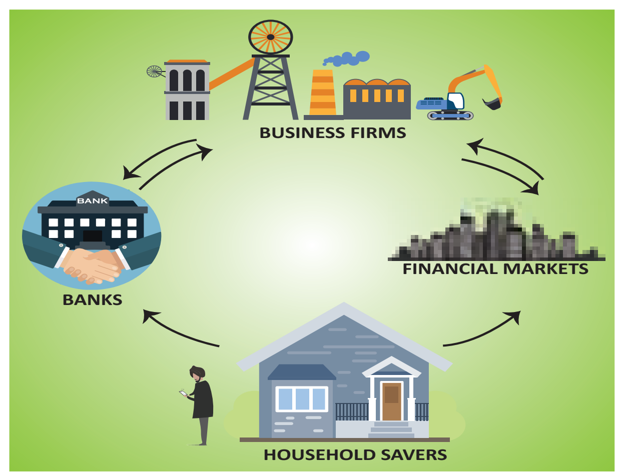
In another words, financial markets may be channels through which flow loanable funds directed from a supplier who has an excess of assets toward a demander who experiences a deficit of funds.



According to Brigham, Eugene F, "The place where people and organizations wanting to borrow money are brought together with those having surplus funds is called a financial market."

A financial market, unlike the other markets, is more of an intangible concept and basically refers to a market place where buyers and sellers usually participate in an exchange of assets such as equities, bonds, derivatives and currencies.

Financial Market is a market for creation and exchange of financial assets from household savers to business firms or financial institutions as in the following picture.



A financial market is an institution or arrangement that facilitates the exchange of financial instruments such as equity shares, preference shares, debentures, deposits and loans, corporate stocks and bonds, government bonds, and more exotic instruments such as options and futures contracts.

Financial market transactions may take place either at a specific place or location, e.g. stock exchange, or through other mechanisms such as telephone, telex, or other electronic media.

4.02 Scope of Indian Financial Market

The financial market provides financial assistance to individuals, agricultural sectors, industrial sectors, service sectors, financial institutions like banks, insurance sectors, provident funds and the government as a whole. With the help of the financial market all the above stated individuals, institutions and the Government can get their required funds in time. Through the financial market the institutions get their short term as well as long term financial assistance. It leads to the overall economic development.

4.03 Types of Financial Markets

Financial Markets can be classified in different ways. They are as follows:

a. On the Basis of Type of Financial Claim

(i) **Debt Market** is the financial market for trading in Debt Instrument (i.e. Government Bonds or Securities, Corporate Debentures or Bonds)

(ii) **Equity Market** is the financial market for trading in Equity Shares of Companies.

b. On the Basis of Maturity of Financial Claim

(i) **Money Market** is the market for short term financial claim (usually one year or less) E.g. Treasury Bills, Commercial Paper, Certificates of Deposit

(ii) **Capital Market** is the market for long term financial claim more than a year E.g. Shares, Debentures

c. On the Basis of Time of Issue of Financial Claim

(i) **Primary Market** is a term used to include all the institutions that are involved in the sale of securities for the first time by the issuers (companies). Here the money from investors goes directly to the issuers.

(ii) **Secondary Market** is the market for securities that are already issued. Stock Exchange is an important institution in the secondary market.

d. On the Basis of Timing of Delivery of Financial Claim

(i) **Cash/Spot Market** is a market where the delivery of the financial instrument and payment of cash occurs immediately. i.e. settlement is completed immediately.

(ii) **Forward or Futures Market** is a market where the delivery of asset and payment of cash takes place at a pre-determined time frame in future.

e. On the Basis of the Organizational Structure of the Financial Market

(i) **Exchange Traded Market** is a centralized organization (stock exchange) with standardized procedures.

(ii) **Over–the–Counter Market** is a decentralized market (outside the stock exchange) with customized procedures.

The above classification is not rigid. One market may come under more than one category.

4.04 Role of Financial Market

One of the important requisites for the accelerated development of an economy is the existence of a dynamic and a resilient financial market. A financial market is of great use for a country as it helps the economy in the following manner:

(i) Savings Mobilization

Obtaining funds from the savers or 'surplus' units such as household individuals, business firms, public sector units, Government is an important role played by financial markets.

(ii) Investment

Financial market plays a key role in arranging the investment of funds thus collected, in those units which are in need of the same.

(iii) National Growth

Financial markets contribute to a nation's growth by ensuring an unfettered flow of surplus funds to deficit units. Flow of funds for productive purposes is also made possible. It leads to overall economic growth.

(iv) Entrepreneurship Growth

Financial markets contribute to the development of the entrepreneurial class by making available the necessary financial resources.

(v) Industrial Development

The different components of financial markets help an accelerated growth of industrial and economic development of a country and thus contributing to raising the standard of living and the society's well-being.

4.05 Functions of Financial Markets

A financial market renders the following functions:

I. Intermediary Functions

The intermediary functions of a financial market include the following:

(i) **Transfer of Resources:** Financial markets facilitate the transfer of real economic resource from lenders to ultimate borrowers.

(ii) **Enhancing Income:** Financial markets allow lenders earn interest/dividend on their surplus investible funds and thus contributing to the enhancement of the individual and the national income.

(iii) **Productive Usage:** Financial markets allow for the productive use of the funds borrowed and thus enhancing the income and the gross national production.

(iv) **Capital Formation:** Financial markets provide a channel through which new savings flow to aid capital formation of a country.

(v) **Price Determination:** Financial markets allow for the determination of the price of the traded financial asset through the interaction of buyers and sellers. They provide a signal for the allocation of funds in the economy, based on the demand and supply, through the mechanism called price discovery processes.

(vi) **Sale Mechanism:** Financial market provides a mechanism for selling of a financial asset by an investor so as to offer the benefits of marketability and liquidity of such assets.

(vii) **Information:** The activities of the participants in the financial market result in the generation and the consequent dissemination of information to the various segments of the markets, so as to reduce the cost of transaction of financial assets.

II. Financial Functions

The financial functions of a financial market include the following:

(i) Providing the borrowers with funds so as to enable them to carry out their investment plans

(ii) Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in productive ventures

(iii) Providing liquidity in the market so as to facilitate trading of funds.

4.06 New Issue Market Vs. Secondary Market

Since his private properties are held liable for satisfying business debts, he can get more financial assistance from others.

Classification of Financial Assets

Financial assets can be classified differently under different circumstances. One such classification is:

(i) Marketable assets

(ii) Non-marketable assets

BASIS FOR COMPARISON	NEW ISSUE MARKET	SECONDARY MARKET
Meaning	The market place for new shares is called primary market. (Initial Issues Market)	The place where formerly issued securities are traded is known as Secondary Market. (Resale Market)
Buying	Direct	Indirect
Financing	It supplies funds to budding enterprises and also to existing companies for expansion and diversification	It does not provide funding to companies
How can securities be sold?	Only once	Multiple times
Buying and Selling between	Company and Investors	Investors
Gained person	Company	Investors
Intermediary	Underwriters	Brokers
Price	Fixed price	Fluctuates, depends on the demand and supply force
Organizational difference	Not rooted to any specific spot or geographical location	It has physical existence

Marketable Assets

Marketable assets are those which can be easily transferred from one person to another without much hindrance. Example: Shares of Listed Companies, Government Securities, Bonds of Public Sector Undertakings etc.

Non-Marketable Assets

On the other hand, if the assets cannot be transferred easily, they come under this category. Example: Bank Deposits, Provident Funds, Pension Funds, National Savings Certificates, Insurance Policies etc.

DO YOU KNOW?

Financial Assets

In any financial transaction, there should be a creation or transfer of financial asset. Hence, the basic product of any financial system is the financial asset. A financial asset is one which is used for production or consumption or for further creation of assets. For instance, a buys equity shares and these shares are financial assets since they earn income in future.

In this context, one must know the distinction between financial assets and physical assets. Unlike financial assets, physical assets are not useful for further production of goods or for earning income. For example X purchases land and buildings or gold and silver. These are physical assets since they cannot be used for further production. Many physical assets are useful for consumption only.

It is interesting to note that the objective of investment decides the nature of the asset. For instance if a building is bought for residence purposes, it becomes a physical asset. If the same is bought for hiring, it becomes a financial asset.

Key Words

Financial Market	Debt Market
Equity Market	New Issue Market

Exercise

7A8KTA

I. Choose the Correct Answers:

1. **Financial market facilitates business firms**

   a) To rise funds
   b) To recruit workers
   c) To make more sales
   d) To minimize fund requirement

2. **Capital market is a market for**

   a) Short Term Finance
   b) Medium Term Finance
   c) Long Term Finance
   d) Both Short Term and Medium Term Finance

3. **Primary market is also called as**

   a) Secondary market b) Money market
   c) New Issue Market d) Indirect Market

4. **Spot Market is a market where the delivery of the financial instrument and payment of cash occurs**

   a) Immediately b) In the future
   c) Uncertain d) After one month

5. **How many times a security can be sold in a secondary market?**

   a) Only one time b) Two time
   c) Three times d) Multiple times

Answers:

1	a	2	c	3	c	4	a	5	d

II. Very Short Answer Questions:

1. What are the components of organized sectors?
2. What is Spot Market?
3. What is Debt Market?
4. How is price decided in a Secondary Market?

III. Short Answer Questions:

1. Give the meaning of Financial Market.
2. Write a note on Secondary Market.
3. Bring out the scope of Financial Market in India.

IV. Long Answer Questions:

1. Distinguish between New issue market and Secondary Market. (any 5)
2. Enumerate the different types of Financial Markets. (any 5)
3. Discuss the role of Financial Market.

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UNIT II

FINANCIAL MARKETS - I

5
CHAPTER

CAPITAL MARKET

முதலிலார்க ஊதிய மில்லை மதலையாஞ்
சார்பிலார்க் கில்லை நிலை.

–குறள் 449

COUPLET

The There can be no gain to those who have no capital; and in like manner there can be no permanence to those who are without the support of adherents.

7PRFUL

Learning Objectives

To enable the students to understand the

- Meaning and definition of Capital Market
- Characteristics of Capital Market
- Functions of Capital Market
- Indian Capital Market Evolution and Growth
- New Financial Institutions

Chapter Synopsis

The term capital market refers to the facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested. It consists of a series of channels through which savings of the community are made available for industrial and commercial enterprises and for the public in general. It directs these savings into their most productive use leading to the growth and development of the economy. The capital market consists of development banks, commercial banks and stock exchanges. An ideal capital market is one where finance is available at reasonable cost. The process of economic development is facilitated by the existence of a well functioning capital market.

5.01 Meaning and Definition

Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, and stocks. The buying/selling is undertaken by participants such as individuals and institutions.Capital market forms an important core of a country's financial system.

Capital market can be defined as "a market for borrowing and lending of long-term capital funds required by business enterprises". Capital market offers an ideal source of external finance. It refers to all the facilities and the institutional arrangements for borrowing and lending medium-term and long-term funds. Like any market, the capital market is also composed of those who demand funds (borrowers) and those who supply funds (lenders).

Stock Exchange

According to Arun K. Datta, capital market may be defined as "a complex of institutions investment and practices with established links between the demand for and supply of different types of capital gains".

5.02. Characteristics of Capital Market

Following are the nature/characteristic of a capital market:

(i) Securities Market

The dealings in a capital market are done through the securities like shares, debentures, etc. The capital market is thus called securities market.

(ii) Price

The price of the securities is determined based on the demand and supply prevailing in the capital market for securities.

(iii) Participants

There are many players in the capital market. The participants of the capital market include individuals, corporate sectors, Govt., banks and other financial institutions.

(iv) Location

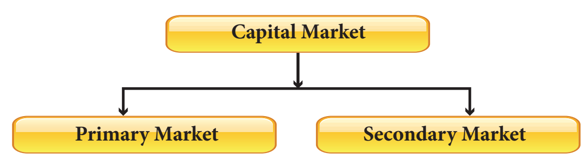
Capital market is not confined to certain specific locations, although it is true that parts of the market are concentrated in certain well-known centers known as Stock Exchanges. It has its impact in the overall economy, wherever suppliers and users of capital get together and do business.

(v) Market for Financial Assets

Capital market provides a transaction platform for long term financial assets.

5.03 Kinds of Capital Market

The capital market is divided into two i.e., primary market and secondary market as shown in the following chart.



I Primary Market

Primary market is a market for new issues or new financial claims. Hence, it is also called New Issue Market. The primary market deals with those securities which are issued to the public for the first time. In the primary market, borrowers exchange new financial securities for long term funds. Thus, primary market facilitates capital formations.

There are three ways by which a company may raise capital in a primary market. They are:

(i) Public Issue:

The most common method of raising capital by new companies is through sale of securities to the public. It is called public issue.

(ii) Rights Issue:

When an existing company wants to raise additional capital, securities are first offered to the existing shareholders on a pre-emptive basis. It is called rights issue.

(iii) Private Placement:

Private placement is a way of selling securities privately to a small group of investors.

II Secondary Market

Secondary Market may be defined as the market for old securities, in the sense that securities which are previously issued in the primary market are traded here. The trading takes place between investors who follow the original issue in the primary market. It covers both stock exchange and over-the counter market.

5.04 Functions of Capital Market

Capital market has a crucial significance to capital formation. For a speedy economic development adequate capital formation is necessary. The significance of capital market in economic development is explained below:-

(i) Savings and Capital Formation

In capital market, various types of securities help to mobilize savings from various sectors of population (Individuals, Corporate, Govt., etc.). The twin features of reasonable return and liquidity in stock exchange are definite incentives to the people to invest in securities. This accelerates the capital formation in the country.

(ii) Permanent Capital

The existence of a capital market/stock exchange enables companies to raise permanent capital. The investors cannot commit their funds for a permanent period but companies require funds permanently. The stock exchange resolves this dash of interests by offering an opportunity to investors to buy or sell their securities, while permanent capital with the company remains unaffected.

(iii) Industrial Growth

The stock exchange is a central market through which resources are transferred to the industrial sector of the economy. The existence of such an institution encourages people to invest in productive channels. Thus it stimulates industrial growth and economic development of the country by mobilizing funds for investment in the corporate securities.

(iv) Ready and Continuous Market

The stock exchange provides a central convenient place where buyers and sellers can easily purchase and sell securities. Easy marketability makes investment in securities more liquid as compared to other assets.

(v) Reliable Guide to Performance

The capital market serves as a reliable guide to the performance and financial position of corporate, and thereby promotes efficiency.

(vi) Proper Channelization of Funds

The prevailing market price of a security and relative yield are the guiding factors for the people to channelize their funds in a particular company. This ensures effective utilisation of funds in the public interest.

(vii) Provision of Variety of Services

The financial institutions functioning in the capital market provide a variety of services such as grant of long term and medium term loans to entrepreneurs, provision of underwriting facilities, assistance in promotion of companies, participation in equity capital, giving expert advice etc.

(viii) Development of Backward Areas

Capital Markets provide funds for projects in backward areas. This facilitates economic development of backward areas.

Long term funds are also provided for development projects in backward and rural areas.

(ix) Foreign Capital

Capital markets makes possible to generate foreign capital. Indian firms are able to generate capital funds from overseas markets by way of bonds and other securities. Government has liberalised Foreign Direct Investment (FDI) in the country. This not only brings in foreign capital but also foreign technology which is important for economic development of the country.

(x) Easy Liquidity

With the help of secondary market investors can sell off their holdings and convert them into liquid cash. Commercial banks also allow investors to withdraw their deposits, as and when they are in need of funds.

5.05 Indian Capital Market – Evolution and Growth

The period between 1947 and 1973 marked the development of infrastructure for capital market. During this period, a network of development financial institutions such as IFCI, ICICI, IDBI and UTI, SFCs and SIDCs were established. These financial institutions strengthened the capital market.

During the period between 1980 and 1992, debenture emerged as a powerful instrument of resource mobilization in the primary market. The public sector bonds were introduced. A number of stock exchanges came into existence. There was a momentous growth in the secondary market.

SEBI emerged as an effective regulatory body for the primary and secondary markets and afford a measure of protection to small investors. New financial services such as credit rating was introduced.

A number of committees were constituted in order to suggest measures to revamp and restructure the working of the secondary market and cause buoyancy in the primary market. Some of these committees were: Committee on Organization and Management of Stock Exchange, Working group on the Development of the Capital Market, A Study Group for Guidelines Relating to Valuation and New Instruments, A High Powered Study Group on Establishment of New Stock Exchange, A Committee on Trading in Public Sector Bonds and Units of Mutual Funds.

5.06 New Financial Institutions

A number of institutions of finance have been established to cater to the credit requirements of various segments of industry and needs. A brief outline of these institutions is presented below;

(i) Venture Fund Institutions

Venture capital financing is a form of equity financing designed especially for funding new and innovative project ideas. Venture capital funds bring into force the hi-technology projects which are converted into commercial production. Many specialized financial institutions have promoted their own venture capital funds. They include Risk Capital Foundation of IFCI, Venture Fund of IDBI, SIDBI, Technology Development and Infrastructure Corporation of India (TDICI), and others.

(ii) Mutual Funds

Financial institutions that provide facilities for channeling savings of small investors into avenues of productive investments are called 'Mutual Funds'. A mutual fund company invests the funds pooled from shareholders and gives them the benefit of diversified investment portfolio and a reasonable return.

Specialized financial institution like LIC, UTI, etc., beside commercial banks such as SBI, and Canara Bank are carrying out the business of mutual funds. The benefits of mutual fund are high return, easy liquidity, safety and tax benefits to the investors.

(iii) Factoring Institutions

"Factoring" is an arrangement whereby a financial institution provides financial accommodation on the basis of assignment/ sale of account receivables. The factoring institutions collect the book debts for and on behalf of its clients. Some of the factoring institutions operating in India are SBI Factors and Commercial Services Private Limited, a subsidiary of State Bank of India and Canbank Factors Limited, a subsidiary of Canara Bank.

(iv) Over the Counter Exchange of India (OTCEI)

The OTCEI was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country. It addresses some specific problems of both investors and medium-size companies. Some of the greatest strengths of OTCEI are transparency of transactions, quick deals, faster settlements and better liquidity.

(v) National Stock Exchange of India Limited (NSEI)

NSEI was established in 1992 to function as a model stock exchange. The Exchange aims at providing the advantage of nation-wide electronic screen based "scripless" and "floorless" trading system in securities. The institution is expected to allow for an efficient and transparent system of securities trading.

(vi) National Clearance and Depository System (NCDS)

Under the scripless trading system, settlement of transactions relating to securities takes place through a book entry. The entire scripless trading system comprises the following three segments:

a. National Trade Comparison and Reporting System which prescribes the terms and conditions of contract for the securities market

b. National Clearing System which aims at determining the net cash and stock liability of each broker on a settlement date

c. National Depository System which arranges to provide for the transfer of ownership of securities in exchange on payment by book entry on electronic ledgers without any physical movement of transfer deed

(vii) National Securities Depositories Limited (NSDL)

The NSDL was set up in the year 1996 for achieving a time bound dematerialization as well as rematerialization of shares. The establishment of NSDL is expected to alleviate the problems of post trade transactions in the secondary market.

(viii) Stock Holding Corporation of India Limited (SHCIL)

Stock Holding Corporation of India Limited (SHCIL) aims at serving as a central securities depository in respect of transactions on stock exchanges. The Corporation also takes up the administration of clearing functions at a national level.

Foreign Exchange Market

The foreign exchange market abets the foreign exchange trading. It is the largest, most liquid market in the world with an average traded value of more than $5 trillion per day. It includes all of the currencies in the world and any individual, company or country can participate in it.

I. Commodity Market

The commodity market manages the trading in primary products which takes place in about 50 major commodity markets where financial transactions increasingly outstrip physical purchases which are to be delivered. Commodities are commonly classified in two subgroups.

- **Hard Commodities Market**
- **Soft Commodities Market**

Hard commodities are raw materials typically mined, such as gold, oil, rubber, iron, and ore.

Soft commodities are typically grown agricultural primary products such as wheat, cotton, coffee, and sugar.

II. Derivatives Market

Derivatives market facilitates the trading in financial instruments such as futures contracts and options used to help control financial risk. The instruments derive their value mostly from the value of an underlying asset that can come in many forms – stocks, bonds, commodities, currencies or mortgages.

DO YOU KNOW?

Gilt-Edged Market also known as Government Securities market is the market for Government and semi-Government securities. An important feature of the securities traded in this market is that they are stable in value and are much sought after by banks.

- Guaranteed return on investments
- No speculation in securities
- Institutional based investors which are compelled by law to invest a portion of their funds in these securities.
- Predominated by such institutions as LIC, GIC, PFs and the commercial banks
- Heavy volume of transactions necessitating negotiation of each transaction

Exercise

8JJ9VL

I. Choose the Correct Answers:

1. Capital market do not provide

a) Short term Funds
b) Debenture Funds
c) Equity Funds
d) Long term Funds

2. When the NSEI was established

a) 1990 b) 1992
c) 1998 d) 1997

3. Primary market is a Market where securities are traded in the

a) First Time b) Second Time
c) Three Time d) Several Times

4. Participants in the Capital Market includes

a) Individuals b) Corporate
c) Financial Institutions d) All of the above

5. The _______ was set up by a premier financial institution to allow the trading of securities across the electronic counters throughout the country.

a) OTCEI b) Factoring
c) Mutual Funds d) Venture Funds Institutions

Answers:

1	a	2	b	3	a	4	d	5	a

II. Very Short Answer Questions:

1. What is Capital Market?
2. Write a note on OTCEI.
3. Who are the participants in a Capital Market?
4. How is price determined in a Capital Market?

III. Short Answer Questions:

1. What are the various kinds of Capital Market? Explain (any 3)
2. Explain any two functions of Capital Market.
3. Explain about Factoring and Venture Capital Institutions.

IV. Long Answer Questions:

1. Discuss the characters of a Capital Market.
2. Briefly explain the functions of Capital Market. (any 5)
3. Explain the various types of New Financial Institutions. (any 5)

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UNIT II

FINANCIAL MARKETS -I

6

CHAPTER

MONEY MARKET

சிறப்புஈனும் செல்வமும் ஈனும் அறத்தினூஉங்கு
ஆக்கம் எவனோ உயிர்க்கு.

–குறள் 31

COUPLET

Virtue will confer heaven and wealth; what greater source of happiness can man possess ?

8Z34WX

Learning Objectives

To enable the students to understand the

- Characteristics of Money Market
- The Difference between Capital Market and Money Market
- The Money Market Instruments

Chapter Synopsis

Money Market

Money Market is a market for purely short-term funds. It deals with the financial assets and securities whose maturity period does not exceed one year.

6.01 Meaning and Definition

Money Market is the segment of financial markets where in financial instruments having maturities of less than one year are traded. Examples: Treasury Bills, Commercial Bills, Certificate of Deposits, Government Securities, etc.,

According to Crowther, "the money market is the collective name given to the various firms and institutions that deal in the various grades of near money".

The RBI defines the money market as, "a market for short-term financial assets that are close substitutes for money facilitates the exchange of money for new financial claims in the primary market as also for financial claims, already issued, in the secondary market".

6.02 Objectives and Characteristics

Objectives

A well-developed Money Market serves the following objectives:

1. Providing an equilibrium mechanism for ironing out short-term surplus and deficits.
2. Providing a focal point for Central Bank intervention for influencing liquidity in the company.
3. Providing access in uses to users of short-term money to meet their requirements at a reasonable price.

Characteristics

1. Short-term Funds

It is a market purely for short-term funds or financial assets called near money.

2. Maturity Period

It deals with financial assets having a maturity period upto one year only.

3. Conversion of Cash

It deals with only those assets which can be converted into cash readily without loss and with minimum transaction cost.

4. No Formal Place

Generally, transactions take place through phone, i.e., oral communication. Relevant documents and written communications can be exchanged subsequently. There is no formal place like stock exchange as in the case of a capital market.

5. Sub-markets

It is not a single homogeneous market. It comprises of several sub-markets each specialising in a particular type of financing. E.g., Call Money Market, Acceptance Market, Bill Market.

6. Role of Market

The components of a money market are the Central Bank, Commercial Banks, Non-Banking Financial Companies, Discount Houses and Acceptance House. Commercial banks generally play a dominant role in this market.

7. Highly Organized Banking System

The Commercial Banks are the nerve centre of the whole money market. They are the principal suppliers of short-term funds. The commercial banks serve as vital link between the Central Bank and the various segments of the money market.

8. Existence of Secondary Market

There should be an active secondary market for these instruments.

9. Demand and Supply of Funds

There should be a large demand and supply of short-term funds. It presupposes the existence of a large domestic and foreign trade.

10. Wholesale Market

It is a wholesale market and the volume of funds or financial assets traded in the market is very large.

11. Flexibility

Due to greater flexibility in the regulatory framework, there are constant endeavours for introducing new instruments.

12. Presence of a Central Bank

The central bank keeps their cash reserves and provides them financial accommodation in difficulties by discounting their eligible securities. Through its open market operations the central bank absorbs surplus cash during off-seasons and provides additional liquidity in the busy seasons.

6.03 Money Market vs. Capital Market

The difference between a money market and capital market is briefly stated in the following table.

Sl. No	Features	Money Market	Capital Market
1	**Duration of Funds**	It is a market for short-term loanable funds for a period of not exceeding one year.	It is a market for long-term funds exceeding period of one year.
2	**Supply of Funds**	This market supplies funds for financing current business operations working capital requirements of industries and short period requirements of the government.	This market supplies funds for financing the fixed capital requirements of trade and commerce as well as the long-term requirements of the government.
3	**Deals with Instruments**	It deals with instruments like commercial bills (bill of exchange, treasury bill, commercial papers etc.).	It deals with instruments like shares, debentures, Government bonds, etc.,
4	**Money Value**	Each single money market instrument is of large amount. A treasury bill is of minimum for ₹25000. Each certificate of deposits or commercial paper is for minimum of ₹5 lakhs.	Each single capital market instrument is of small amount. Each share value is ₹10. Each debenture value is ₹100.
5	**Role of Major Institution**	The central bank and commercial banks are the major institutions in the money market.	Development banks and Insurance companies play a dominant role in the capital market.
6	**Place of Transaction**	Transactions mostly take place over the phone and there is no formal place.	Transactions take place at a formal place. Eg. stock exchange.
7	**Participants**	Transactions have to be conducted without the help of brokers i.e., Bankers, RBI and Government.	Transactions have to be conducted only through authorized dealers i.e., Brokers, Investors, Merchant Bankers, Underwriters and Commercial Banks.
8	**Number of Instruments Dealt**	The number of instruments dealt in money market are include 1) Inter-bank call money 2) Notice money upto 14 days 3) Short-term deposits upto 3months 4) 91 days Treasury bill 5) 182 days Treasury bill 6) Commercial papers etc.,	The number of instruments in capital market is very few namely, shares and debentures.

9	**Claims**	Financial claims, assets and securities are dealt in the Money Market.	Bonds and shares are dealt in the Capital Market
10	**Risk**	Low credit and market risk.	High credit and market risk
11	**Liquidity**	High liquidity in Money Market	Low liquidity in Capital Market
12	**Price Discovery**	No price discovery mechanism and exists in this Market.	Price discovery mechanism exists in Capital Market
13	**Regulator**	Central Bank is the Regulator of Money Market.	Besides Central Bank, Special regulatory authority like SEBI, etc.,
14	**Underwriting**	Underwriting is not a primary function.	It is a primary function.
15	**Dominant Institutions**	Commercial Banks are the dominant institutions.	Non-banking financial companies and special financial institutions.

6.04 Participants in Money Markets

There are many participants operating in the Money Market. The participants deal with the money market instruments like Treasury Bills, Commercial Bills, Commercial Papers, etc.,

1. Government of different countries
2. Central Banks of different countries
3. Private and Public Banks
4. Mutual Funds Institutions
5. Insurance Companies
6. Non-Banking Financial Institutions
7. RBI and SBI
8. Commercial Banks
9. State Governments
10. Public

6.05 Money Market Instruments

There are many kinds of Instruments available in Money Market. In India, till 1986, only a few instruments were available. They were as follows:

i. Treasury Bills in the Treasury Market
ii. Money at Call and Short Notice in the Call Loan Market
iii. Commercial Bills and Promissory Notes in the Bill Market

Now in addition to the above, the following new instruments come into existence:

i. Commercial Papers
ii. Certificate of Deposits
iii. Inter-Bank participation Certificates.
iv. Repo Instruments.

These instruments are brieflty highlighted in this chapter.

Treasury Bill Market

A market for the purchase and sale of Treasury Bills is known as a "Treasury Bills Market".

6.05.01 Treasury Bills

Treasury bills are very popular and enjoy a higher degree of liquidity since they are issued by the Government. A Treasury bill is nothing but a promissory note issued for a specified period stated therein. The Government promises to pay the specified amount mentioned therein to the bearer of the instrument on the due date. The period does not exceed a period of one year.

General Features

Treasury Bills incorporate the following general features.

1. Issuer
2. Finance Bills
3. Liquidity
4. Vital Source
5. Monetary Management

Types of Treasury Bills

Treasury Bills are issued to the public and other financial institutions for meeting the short-term financial requirements of the Central Government. These bills are freely marketable and they can be bought and sold at any time and these bill are tradable in secondary market as well.

On the basis of periodicity, Treasury Bills may be classified into three. They are:

1) 91 days Treasury Bills
2) 182 days Treasury Bills and
3) 364 days Treasury Bills

Ninety one days Treasury Bills are issued at a fixed discount rate of 4 per cent as well as through auctions. The RBI holds 91 days and 182 Treasury Bills and they are issued on tap basis throughout the week. 364 days Treasury Bills do not carry any fixed rate. The discount rate on these bills are quoted in auction by the participants and accepted by the authorities. Such a rate is called cut off rate.

6.05.02 Certificate of Deposits

Specimen Copy of Certificate of Deposit

Certificate of Deposits are short-term deposit instruments issued by banks and financial institutions to raise large sums of money. Certificate of Deposits are issued in the form of usance promissory notes. They are easily convertible in nature and are in marketable form having particular face value and maturity. The Certificate of Deposit is transferable from one party to another. Due to their negotiable feature, they are also known as negotiable certificate of deposit.

Issuers

The Issuers of Certificate of Deposits are Commercial Banks, Financial Institutions, etc.,

Subscribers

Certificate of Deposits are available for subscription by individuals, corporations, trusts, associations and NRIs. It is a document of title to a time deposit. It is a bearer certificate and is negotiable in the market.

Features of Certificate of Deposit

1. Document of title to time deposit
2. It is unsecured negotiable instruments.
3. It is freely transferable by endorsement and delivery.
4. It is issued at discount to face value.
5. It is repayable on a fixed date without grace days.

6.05.03 Commercial Bills

A bill of exchange issued by a commercial organization to raise money for short- term needs. These bills are of 30 days, 60 days and 90 days maturity.

The Commercial Bill is an instrument drawn by a seller of goods on a buyer of goods. It possesses the advantages like self-liquidating in nature, recourse to two parties, knowing exact date of transactions, transparency of transactions etc.,

Features

The features of the Commercial Bills are as follows:

1. Drawer
2. Acceptor
3. Payee
4. Discounter
5. Endorser
6. Assessment
7. Maturity
8. Credit Rating

Types of Commericial Bills

a. Demand Bills

A demand bill is one wherein no specific time of payment is mentioned. So, demand bills are payable immediately when they are presented to the drawee.

b. Clean bills and documentary Bills

Bills that are accompanied by documents of title to goods are called documentary bills. Clean bills are drawn without accompanying any document.

E.g. Railway Receipt and Lorry Receipt

c. Inland bills and Foreign Bills

Bills that are drawn and payable in India on a person who is resident in India are called inland bills. Bills that are drawn outside India and are payable either in India or outside India are called foreign bills.

d. Indigeneous Bills

The drawing and acceptance of indigenous bills are governed by native custom or usage of trade.

e. Accommodation Bills

Accommodation bills are those which do not arise out of genuine trade of transactions.

6.05.04 Government or Gilt-Edged Securities Market

A market whereby the Government or gilt-edged securities can be bought and sold is called 'Government Securities Market'.

Government or Gilt-Edged Securities

Government securities are issued for the purposes of refunding the maturing securities, for advance refunding securities, which have not yet matured and for cash financing, i.e., raising fresh cash resources.

Specimen Copy of Government or Gilt-Edged Securities

Characteristics

Government Securities plays a significant role in the Indian Money Market. The characteristics of Government Securities are discussed below:

1. Agencies

Government securities are issued by agencies such as Central Government, State Governments, semi-government authorities like local Government authorities, e.g. municipalities, autonomous institution such as metropolitan authorities, port trusts etc.,

2. RBI Special Role

RBI takes a special and an active role in the purchase and sale of these securities as part of its monetary management exercise.

3. Nature of Securities

Securities offer a safe avenue of investment through guaranteed payment of interest and repayment of principal by the Government.

4. Liquidity Profile

The liquidity profile of gilt-edged securities varies. Accordingly liquidity profile of securities issued by Central Government is high.

5. Tax Rebate

A striking feature of these securities is that they offer wide-range of tax incentives to investors. This has made these securities very popular for this benefit.

6. Market

As each sale and purchase has to be negotiated separately, the Gilt-Edged Market is an Over-The-Counter Market. The Government securities market in India has two segments namely primary market and secondary market.

7. Forms

The securities of Central and State Government take such forms as inscribed stock or stock certificate, promissory note and bearer bond.

8. Participants

The participants in Government securities market include the Government sector comprising Central and State Governments whose holdings represent governmental transfer of resources.

9. Trading

Although the secondary market for Government securities is narrow, small and less active, banks and corporate holders who purchase and sell Government securities on the stock exchanges participate in trading.

10. Issue Mechanism

The Public Debt Office (PDO) of the RBI undertakes to issue government securities.

11. Issue opening

A notification for the issue of the securities is made a few days before the public subscription is open.

12. Grooming Gradual

Acquisition of securities nearing maturity through the stock exchanges by the RBI in order to facilitate redemption is described as 'grooming'.

13. Switching

The purchase of one security against the sale of another security carried out by the RBI in the secondary market as part of its open market operations is described as 'Switching'.

14. Auctioning

A method of trading whereby merchants bid against one another and where the securities are sold to the highest bidder is known as 'auctioning'.

Key Words

Treasury Bills	Commercial Bills
Commercial Papers	Government Bonds
Money Market	Capital Markets
Certificate of Deposits	Auctioning

DO YOU KNOW?

London Money Market is the oldest, most developed and leading Money Market in the world.

New York Money Market is ranked as the second well-developed Money Market in the world next only to the London Money Market.

For Future Learning

How to Invest Money in Money Market Funds?

Gathering information about Money Market Funds

Learn about money market

Understand the goal of money market funds.

Learn the disadvantages of money market funds.

Investing in Money Market Funds

Understand the different types of Money Market Funds

Understand the purpose of Money Market Funds

Compare past yields

Buying and Tracking of Money Market Funds

For Own Thinking

If you earn money, which investment plan would you like?

1. Mutual Funds
2. Shares
3. Debentures
4. Treasury Bill
5. Commercial Bill
6. Certificate of Deposit

Why? Give reasons.

Exercise

9EKYY9

I. Choose the Correct Answers:

1. The money invested in the call money market provides high liquidity with __________________.

a) Low Profitability

b) High Profitability

c) Limited Profitability

d) Medium Profitability

2. A major player in the money market is the __________________.

a) Commercial Bank

b) Reserve Bank of India

c) State Bank of India

d) Central Bank.

3. Debt Instruments are issued by Corporate Houses are raising short-term financial resources from the money market are called ___________.

a) Treasury Bills

b) Commercial Paper

c) Certificate of Deposit

d) Government Securities

4. The market for buying and selling of Commercial Bills of Exchange is known as a ___________.

a) Commercial Paper Market

b) Treasury Bill Market

c) Commercial Bill Market

d) Capital Market

5. A marketable document of title to a time deposit for a specified period may be referred to as a __________.

a) Treasury Bill

b) Certificate of Deposit

c) Commercial Bill

d) Government. Securities

Answers:

1	a	2	a	3	b	4	c	5	b

II. Very Short Answer Questions:

1. What is a CD market?
2. What is Government Securities Market?
3. What do you meant by Auctioning?
4. What do you meant by Switching?

III. Short Answer Questions:

1. What are the features of Treasury Bills? (any 3)
2. Who are the participants of Money Market? (any 3)
3. Explain the types of Treasury Bills? (any 3)
4. What are the types of Commercial Bill? (any 3)

IV. Long Answer Questions:

1. Differenciate between the Money Market and Capital Market. (any 5)
2. Explain the characteristics of Money Market? (any 5)
3. What are the characteristics of Government Securities? (any 5)

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1. Financial Markets and Services – E.Gordon and Natarajan,
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UNIT III

FINANCIAL MARKETS - II

7
CHAPTER

STOCK EXCHANGE

பொருளென்னும் பொய்யா விளக்கம் இருளறுக்கும்
எண்ணிய தேயத்துச் சென்று.

–குறள் 753

9TUXXX

COUPLET

The imperishable light of wealth goes into regions desired (by its owner) and destroys the darkness (of enmity therein).

Learning Objectives

To enable the students to understand the

- Origin, Meaning and Definition of Stock Exchange
- Functions and Features of Stock Exchange
- Benefits and Limitations of Stock Exchange
- Stock Exchanges in India
- Stock Exchange Traders
- Types of Speculators
- Difference between Stock Exchange and Commodity Exchange
- Recent Development in Stock Exchange

Chapter Synopsis

7.01 Stock Exchange – Origin, Meaning and Definition
7.02 Functions of Stock Exchange
7.03 Features of Stock Exchange
7.04 Benefits and Limitations of Stock Exchange
7.05 Stock Exchanges in India
7.06 Types of Speculators
7.07 Stock Exchange Vs Commodity Exchange
7.08 Recent Development in Stock Exchange

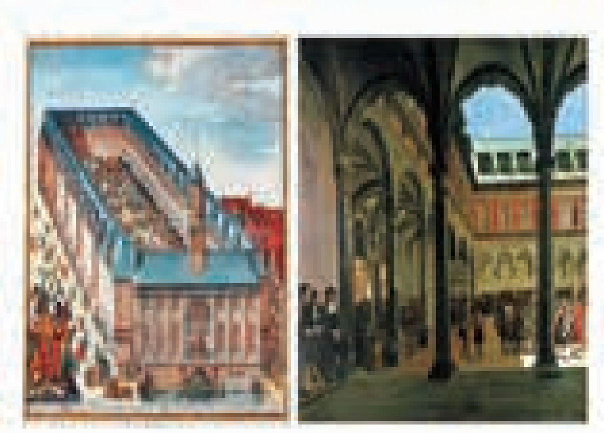
Stock exchanges contribute in a huge measure to the growth and expansion of national business and to the ultimate benefit and well-being of the national economy and its people. They provide an ideal conduit through which enormous amounts of capital flows through the interconnected network of financial organizations to all corporate enterprises in the country. Thus, stock exchanges ensure liquidity and transferability of financial assets that are dealt with.

Stock exchanges and organized market provide a place for the investors to buy and sell securities freely. The market offers perfectly competitive conditions where a large number of sellers and buyers participate. Further, stock exchanges provide an auction market in which members of the exchange participate to ensure continuity of price and liquidity to investors.

The efficient functioning of the stock exchange is responsible for creating a conductive climate for an active and growing primary market for new issues. Moreover, an active and a healthy secondary market in existing securities leads to a better psychology of expectations, considerably broadening the investment enquiries and thereby, rendering the task of raising resources by entrepreneurs easier. Good performance and outlook for equities in the stock exchanges imparts buoyancy to the new issue market.

7.01 Stock Exchange – Origin, Meaning, Definition

Origin



Amsterdam Stock Exchange is considered as the oldest stock exchange in the world. It was established in the year 1602 by Dutch East India company called VerenigdeOost-IndischeCompagnie called 'VOC'. It was later rechristened as "Amsterdam Bourse". The first stock exchange in India was"The Native Shares and Stock Brokers Association". It was recognized by Government of India on Aug 31, 1957 under Securities Contract (Regulation) Act, 1956. It became The Bombay Stock Exchange subsequently.

Meaning

Stock Exchange (also called Stock Market or Share Market) is one of the important constituents of Capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is a convenient place where trading in securities is conducted in a systematic manner i.e. as per certain rules and regulations. It performs various functions and offers useful services to investors and borrowing companies. It is an investment intermediary and facilitates economic and industrial development of a country.

Stock exchange is an organized market for buying and selling corporate and other securities. Here, securities are purchased and sold out as per certain well-defined rules and regulations. It provides a convenient and secured mechanism or platform for transactions in different securities. Such securities include shares and debentures issued by public companies which are duly listed at the stock exchange, and bonds and debentures issued by government, public corporations and municipal and port trust bodies.

Stock exchanges are indispensable for the smooth and orderly functioning of corporate sector in a free market economy. A stock exchange need not be treated as a place for speculation or a gambling den. It should act as a place for safe and profitable investment, for this, effective control on the working of stock exchange is necessary. This will avoid misuse of this platform for excessive speculation, scams and other undesirable and anti-social activities.

London stock exchange (LSE) is the most popular stock exchange in the world. While **Bombay stock exchange** (BSE) is the oldest stock exchange in India. Similar Stock exchanges exist and operate in other parts of the world. (Tokyo Stock Exchange, Bankgaco Stock Exchange, Singapore Stock Exchange, Dubai Stock Exchange, Newyork Stock Exchange)

Definition

According to Husband and Dockerary, "Stock exchanges are privately organized markets which are used to facilitate trading in securities."

The Indian Securities Contracts (Regulation) Act of 1956, defines Stock Exchange as,"An association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."

7.02 Functions of Stock Exchange:

The various functions of a Stock Exchange are explained below.

The various functions of a Stock Exchange are explained below.

1. Ready and Continuous Market

Stock Exchange is, in fact, a market for existing securities. If an investor wants to sell his securities, he can easily and quickly dispose them off on a stock exchange. In other words, he can convert his shares into cash and with the same ease he can convert his cash into securities. This easy marketability of securities increases their liquidity (conversion of securities into cash easily and quickly) and consequently raises their value.

2. Correct Evaluation of Securities

The prices at which securities are bought and sold are recorded and made public. These prices are called “market quotations”. One can easily evaluate the worth of one’s securities on the basis of these quotations. The lender can easily assess the worth of security offered for loan.

3. Protection to Investors

All dealings in a stock exchange are in accordance with well-defined rules and regulations. For example, brokers cannot charge higher rate of commission for their services. Any malpractice will be severely punished. Thus stock exchange provides reasonable measure of safety and fair dealing in buying and selling of securities.

4. Proper Chanalisation of Capital

People like to invest in the shares of such companies which yield good profits. The savings of individuals are directed towards promising companies which declare good dividends over a period of time. But for the stock exchanges, these savings are likely to be wasted on the shares of unprofitable units.

5. Aid to Capital Formation

The publicity which the stock exchange gives to various industrial securities and their prices and the facilities provided by it for their purchase and sale induce people to save and invest. Stock exchanges thus ensure a steady flow of capital into industry and assists industrial development.

6. Facilities for Speculation

Speculation is an integral part of stock exchange operations. As a result of speculation, demand for and supply of securities are equalized. Similarly, price movements are rendered smoothly.

7. Seasoning of Securities

Speculators and underwriters hold for a temporary period, securities issued by new companies. They unlock them when the market is prepared to absorb the new issues.

8. Clearing House of Business Information

Listed companies are required to furnish all important information relating to capital management, dividend distribution etc, and forward copies of financial statements, annual reports etc, to the stock exchange. They publish every year, books detailing the financial position of companies. Thus, it gives vital information to the investing public for deciding on investment.

7.03 Features of Stock Exchange:

These are various qualities of a Stock Exchange. Such qualities are enumerated below:

1. Market for Securities

Stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.

2. Deals in Second Hand Securities

It deals with shares, debentures bonds and such securities already issued by the companies. In short, it deals with existing or second hand securities and hence it is called secondary market.

3. Regulates Trade in Securities

Stock exchange does not buy or sell any securities on its own account. It merely provides the necessary infrastructure and facilities for trade in securities to its members and brokers who trade in securities. It regulates the trade activities so as to ensure free and fair trade.

4. Allows Dealings only in Listed Securities

In fact, stock exchanges maintain an official list of securities that could be purchased and sold on its floor. Securities which do not figure in the official list of stock exchange are called unlisted securities. Such unlisted securities cannot be traded in the stock exchange.

5. Transactions Effected only through Members

All the transactions in securities at the stock exchange are effected only through its authorised brokers and members. Outsiders or direct investors are not allowed to enter in the trading circles of the stock exchange. Investors have to buy or sell the securities at the stock exchange through the authorised brokers only.

6. Association of Persons

A stock exchange is an association of persons or body of individuals which may be registered or unregistered.

7. Recognition from Central Government

Stock exchange is an organised market. It requires recognition from the Central Government.

8. Working as per Rules

Buying and selling transactions in securities at the stock exchange are governed by the rules and regulations of stock exchange as well as SEBI Guidelines. No deviation from the rules and guidelines is allowed in any case.

9. Specific Location

Stock exchange is a particular market place where authorised brokers come together daily (i.e. on working days) on the floor of market called trading circles and conduct trading activities. The prices of different securities traded are shown on electronic boards. After the working hours market is closed. All the working of stock exchanges is conducted and controlled through computers and electronic system.

10. Financial Barometers

Stock exchanges are the financial barometers and development indicators of national economy of the country. Industrial growth and stability is reflected in the index of stock exchange.

7.04 Benefits and Limitations of Stock Exchange

The Benefits of Stock Exchange are classified into Benefits to the Community, Company and Investors.

A. Benefits to the Community

i. Economic Development

It accelerates the economic development by ensuring steady flow of savings into productive purposes.

ii. Fund Raising Platform

It enables the well-managed, profit-making companies to raise limitless funds by fresh issue of shares from time to time.

iii. Tools to Divert Resources

Scarce resources are thus diverted to efficiently run enterprises for better utilization.

iv. Capital Formation

It encourages capital formation.

v. Fund Raiser for Government

It enables Government to raise funds for undertaking projects through sale of securities on the stock exchange. Thus stock exchange serves as a platform for raising public debt.

B. Benefits to the Company

i. Enhances Goodwill or Reputation

Companies whose shares are quoted on a stock exchange enjoy greater goodwill and credit standing.

ii. Wide Market

There is a wide and ready market for such securities.

iii. Raises huge funds

Stock Exchange can raise huge funds easily by issue of shares and debentures.

iv. Increases bargaining strength

Companies whose shares rise in the stock exchange command higher bargaining power in the event of further expansion, merger or amalgamation.

C. Benefits to Investors

i. Liquidity

Stock exchange helps an investors to convert his shares into cash quickly and thus increases the liquidity of his investments.

ii. Adding collateral value of security

The fact that a security is dealt on a stock exchange makes it a good collateral security for obtaining loan from banks.

iii. Investor protection

The stock exchange safeguards, investor's interest and ensures fair dealing by strictly enforcing its rules and regulations.

iv. Assessing real worth of security

An investor can easily assess the real worth of securities in his hands, as market quotations are published daily in the newspapers and in websites.

v. Mechanism to trade security

Stock Exchange provides a mechanism by which purchase and sale of listed securities take place in a matter of few minutes.

Limitations of Stock Exchange:

The limitations of stock exchange are as follows

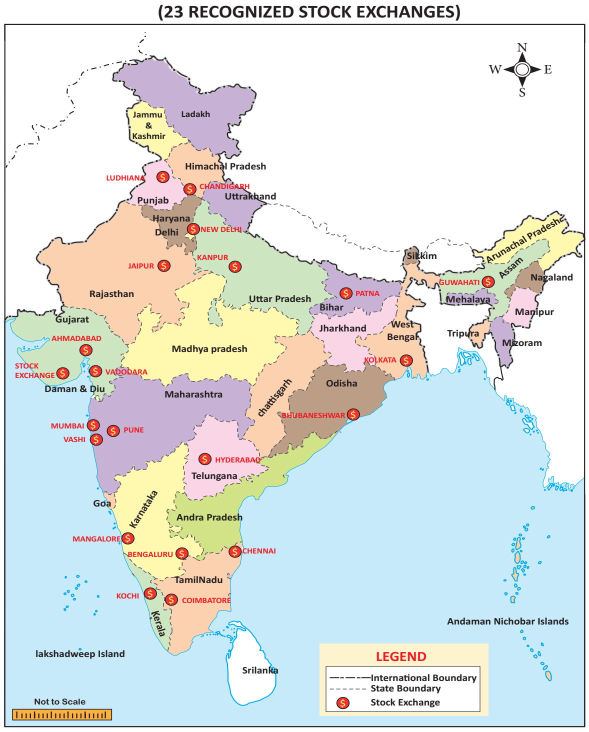
i. Lack of uniformity and control of stock exchanges.
ii. Absence of restriction on the membership of stock exchanges.
iii. Failure to control unhealthy speculation.
iv. Allowing more than one charge in the place.
v. Non-insistence of margin requirement in stock exchange or in the case of produce exchanges.
vi. No proper regulation of listing of securities on the stock exchange.

7.05 Stock Exchanges In India:

There are 24 stock exchanges in the country, with 21 of them being regional in nature. Three others that have been set up in the reforms era, viz., National Stock Exchange (NSE), the Over the Counter Exchange of India Limited (OTCEI), and Interconnected Stock Exchange of India Limited (ISE) have mandate to nationwide trading network. The ISE has been promoted by 15 regional stock exchanges in the country and is based at Mumbai. The ISE provides a member-broker of any of these stock exchanges an access into the national market segment, which would be in addition to the local trading segment available at present.

The NSE, OTCEI, ISE, and majority of the regional stock exchanges have adopted the Screen Based Trading System (SBTS) to provide automated and modern facilities for trading in a transparent, fair and open manner with access to investors across the country.

STOCK EXCHANGES IN INDIA
(23 RECOGNIZED STOCK EXCHANGES)



Following are the names of the various stock exchanges in India:

i. The Bombay Stock Exchange

ii. The Ahmedabad Stock Exchange Association Ltd.

iii. Bangalore Stock Exchange Ltd.

iv. Bhubaneshwar Stock Exchange

v. The Calcutta Stock Exchange Association Ltd.

vi. The Cochin Stock Exchange Ltd.

vii. The Delhi Stock Exchange Association Ltd.

viii. The Guwahati Stock Exchange Ltd.

ix. The Hydrabad Stock Exchange Ltd.

x. The Jaipur Stock Exchange Ltd.

xi. The Kanara Stock Exchange Ltd.

xii. The Ludhiana Stock Exchange Association Ltd.

xiii. The Madras Stock Exchange Ltd.

xiv. The Madhya Pradesh Stock Exchange Ltd.

xv. The Magadh Stock Exchange Ltd.

xvi. The Mangalore Stock Exchange Ltd.

xvii. The Pune Stock Exchange Ltd.

xviii. The Saurashtra Kutch Stock Exchange Ltd.

xix. The Vadodara Stock Exchange Ltd.

xx. The Coimbatore Stock Exchange Ltd.

xxi. The Meerut Stock Exchange Ltd.

xxii. The Over The Counter Exchange of India (OTCEI)

xxiii. The National Stock Exchange of India (NSE) Ltd.

xxiv. The Interconnected Stock Exchange of India Ltd.

Top 10 Stock Exchanges in the World.

As on January 31st, 2017, the ten biggest stock exchanges in the world by market capitalisation of listed securities are:

i. The New York Stock Exchange - Located in New York City; \$19.223 trillion in listed market capitalization.

ii. NASDAQ - Short for the "National Association of Securities Dealers Automated Quotation", this electronic stock exchange is located in New York City; \$6.831 trillion in listed market capitalization.

iii. London Stock Exchange - Located in London, England; \$6.187 trillion in listed market capitalization.

iv. Tokyo Stock Exchange - Formally known as the Japan Exchange Group, located in Tokyo, Japan; \$4.485 trillion in listed market capitalization.

v. Shanghai Stock Exchange - Located in Shanghai, China; \$3.986 trillion in listed market capitalization.

vi. **Euronext** - Located throughout Europe (France, Portugal, The Netherlands, and Belgium); \$3.321 trillion in listed market capitalization.

vii. **Hong Kong Stock Exchange** - Located in Hong Kong, Hong Kong; \$3.325 trillion in listed market capitalization.

viii. **Shenzhen Stock Exchange** - Located in Shenzhen, China; \$2.285 trillion in listed market capitalization.

ix. **TMX Group** - The Canadian stock exchange is located in Toronto, Canada; \$1.939 trillion in market capitalization.

x. **Bombay Stock Exchange** - Located in Mumbai, India; \$1.682 trillion in market capitalization.

REMISERS

He acts as an agent of a member of a stock exchange. He obtains businessfor his principal ie., the member and gets a commission for that service.

AUTHORIZED CLERKS

The authorised clerks are mere employees of the members, appointed by themember of stock exchange. The authorised clerks transact business on behalf of their employers on the floor of the stock exchange. They are paid a salary, plus acommission.

BROKERS

Brokers are commission agents, who act as intermediaries between buyers and sellers of securities. They do not purchase or sell securities on their behalf. They bring together the buyers and sellers and help them in making a deal. Brokers charge a commission from both the parties for their service. Brokers are experts in estimating trends of price and can effectively advice their clients in getting a fruitful gain. Brokers get orders from investing public and execute the orders through Jobbers and they are entitled to a prescribed sale of brokerage.

JOBBERS

Jobbers are security merchants dealing in shares, debentures as independent operators. They buy and sell securities on their own behalf and try to earn through price changes. Jobbers cannot deal on behalf of public and are barred from taking commission. In India, they are called Taravaniwalas.

SPECULATION

Speculation involves trading a financial instrument involving high risk, in expectation of significant returns. The motive is to take maximum advantage from fluctuations in the market. Speculators are prevalent in the markets where price movements of securities are highly frequent and volatile.

GAMBLING

There is no reasoning involved in gambling. It accentuates fluctuations in price and it is unethical and illegal. It does not perform economic function.

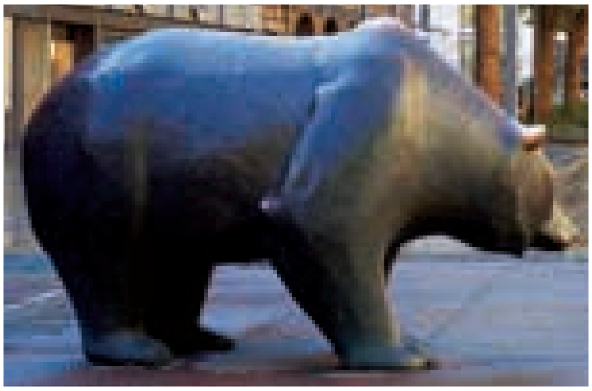
7.06 Types of Speculators

Speculators in a stock market are of different types. They carry their names depending on their motive of trading in the stock exchange. They are named after animals as their behavior could be compared best with the behavior of animals.

Bull

A Bull or Tejiwala is an operator who expects a rise in prices of securities in the future. In anticipation of price rise he makes purchases of shares at present and other securities with the intention to sell at higher prices in future. He is called bull because just like a bull tends to throw his victim up in the air, the bull speculator stimulates the price to rise. He is an optimistic speculator.

Bear

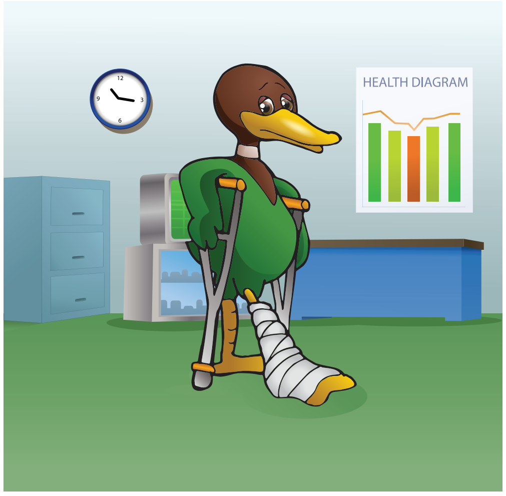


A bear or Mandiwala speculator expects prices to fall in future and sells securities at present with a view to purchase them at lower prices in future. A bear does not have securities at present but sells them at higher prices in anticipation that he will supply them by purchasing at lower prices in future. A bear usually presses its victim down to ground. Similarly the bear speculator tends to force down the prices of securities. A bear is a pessimistic speculator.

Stag

A stag is a cautious speculator in the stock exchange. He applies for shares in new companies and expects to sell them at a premium, if he gets an allotment. He selects those companies whose shares are in more demand and are likely to carry a premium. He sells the shares before being called to pay the allotment money. He is also called a premium hunter.

Lame Duck



When a bear finds it difficult to fulfill his commitment, he is said to be struggling like a lame duck. A bear speculator contracts to sell securities at a later date. On the appointed time he is not able to get the securities as the holders are not willing to part with them. In such situations, he feels concerned. Moreover, the buyer is not willing to carry over the transactions.

7.07 Stock Exchange Vs Commodity Exchange

The key difference between commodity exchange and stock exchange is that a commodity exchange is an exchange where commodities are traded whereas stock exchange is an exchange where stock brokers and investors buy and / or sell stocks, bonds, and other securities. Both types of exchanges are driven by the demand and supply for commodities or financial instruments. An exchange facilitates a trading platform for buyers and sellers to meet and conduct transactions. With the increase in the opportunities provided by the commodity and exchange markets, they are able to attract a growing customer base.

Stock Exchange Vs Commodity Exchange.

Sl.No	Feature	Stock Exchange	Commodity Exchange
1.	Meaning	Stock Exchange (also called Stock Market or Share Market) is one important constituent of capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is convenient place where trading in securities is conducted in a systematic manner i.e. as per certain rules and regulations.	A commodity exchange is an exchange where commodities are traded. Tradable commodities fall into the following categories. Metals (e.g. gold, silver,copper) Energy (e.g. crude oil, natural gas) Agricultural (e.g. rice, wheat, cocoa) Livestock and meat (e.g. live cattle, lean hog)
2.	Function	Providing easy marketability	Offering hedging or price insurance services and liquidity to securities.
3.	Object	Object is facilitating capital formation and making best use of capital resources	Object is facilitating goods flow through risk reduction
4.	Participants	Investors and Speculators	Producers, dealers, traders and a body of speculators.
5.	Period of dealings	Cash, ready delivery and dealings for account for a fortnight	Instant cash dealings and a settlement period of 2 or 3 months for Future Market dealings
6.	Articles Traded	Industrial securities such as stocks and bonds and government securities.	Only durable, graded and goods having large volume of trade, price uncertainty and uncontrolled supply
7.	Speculation	Speculation ensures saleability of securities affording a broad, ready, liquid and continuous market of securities.	Speculation ensures assumption and absorption of price risk.
8.	Forward contract	Forward dealings are simplified as securities are fully standardized	Standards are to be fixed for deliverable grades to facilitate futures contract
9.	Cornering	As seller has to deliver the agreed securities, cornering is easy	Cornering is difficult as the seller has option to deliver standard or other deliverable goods.
10.	Price Quotation	As regards forward dealings, only one quotation is possible	For future dealings, multiple quotations are possible

7.08 Recent Development in Stock Exchange

The structure of stock market in India has undergone a vast change due to the liberalization process initiated by the Government. A number of new structures have been added to the existing structure of the Indian stock exchange. A brief description of these structures in the Indian stock market system is presented below:

National Stock Market System (NSMS)

National stock market system was advocated by the - High Powered Group on the Establishment of New Stock Exchanges headed by Shri.M.J.Pherwani (popularly known as Pherwani Committee). At present the National Stock Market in India comprises the following:

1. National Stock Exchange of India Limited (NSE)
2. Stock Holding Corporation of India Limited (SHCIL)
3. National Clearing and Depository System (NCDS)
4. Securities Trading Corporation of India (STCI)
5. National Securities Depositary Limited (NSDL)

1. National Stock Exchange (NSE)

NSE was incorporated in November, 1992. It is a country wide, screen based, online and order driven trading system. It uses satellite link to spread trading throughout the country thereby connecting members scattered all over the India. Through computer network, member‘s orders for buying and selling within prescribed price are matched by central computer with each other and instantly communicate to the trading member. NSE has two segments, i.e., Debt segment and Capital segment. It has ushered in transparent, screen based and user friendly trading of global standards. It has revolutionised stock trading in India.

2. Stock Holding Corporation of India Limited (SHCIL)

SHCIL

The Stock Holding Corporation of India Ltd (SHCIL) is committed to speed up trading, clearance and settlement services for securities and monetary instruments. SHCIL came into being in 1986. SHCIL is the first depository participant registered with SEBI and acts as an agent of the National Securities Depository. It started its actual operations in 1988. It has its head office in Bombay, and its branch network covers Kolkatta, Delhi and Chennai.

3. National Clearance and Depository System (NCDS)

This system was created chiefly to help overcome the problem of settlement and clearance of transactions consequent to enormous workload on the clearing agencies and share transfer agencies. The problems mainly arose out of systematic risk like counter party risk, credit risk, bad deliveries, long delayed delivery, counterfeit scrips, and forged scrips.

4. Securities Trading Corporation of India (STCI)

The Reserve Bank of India set up Securities Trading Corporation of India Limited (STCI) in May 1994, under the provisions of the Indian Companies Act, 1956, jointly with public sector banks and All-India financial institutions. The main objective of establishing the Corporation was to foster the development of an active secondary market for Government securities and bonds issued by public sector undertakings. It had an authorized and paid-up capital of Rs. 500 crores of which, RBI contributed 50.18 percent. The RBI in December 1997 divested part of its equity in STCI in favor of the Bank of India, an existing shareholder of the Company.

5. National Securities Depository Limited (NSDL)

The Government of India enacted the Depositories Act in August 1996, paving the way for setting up o f depositories in India. Thus, pioneering the concept of depositories and ushering in an era of paperless settlement of securities. National Securities Depository Ltd (NSDL) was inaugurated as the first depository in India on November 8, 1996. Trading in dematerialized securities on the National Stock Exchange (NSE) commenced in December 26, 1996. The Bombay Stock Exchange, (BSE) also extended the facility of trading in dematerialized securities from December 29, 1997.

NIFTY

The word Nifty originates from 2 words, `National' and 'Fifty'. Nifty basically means the index of the 50 most actively traded stocks from across all sectors. Nifty represents the top stocks of the NSE and when we talk about Nifty going up, it means that all the heavyweight stocks of NSE across all sectors are moving up. Most of the stock trading in the country is done through NSE and BSE. There are other stock exchanges as well, like the Calcutta stock exchange, but they are not that popular. Nifty consists of top 50 companies from 24 different sectors. Nifty is computed from the performance of top stocks from different sectors. Some mutual funds use Nifty as a benchmark. The performance of the mutual funds is assessed against the performance of the Nifty. On NSE, futures and options are available for trading with the Nifty as an underlying index. Nifty is calculated by using the market capitalization weighted method according to which weights are assigned according to the size of the company. Larger the size, larger the weightage.

SENSEX

Sensex is an index of the stocks in BSE (Bombay Stock Exchange). Sensex has a list of 30 stocks. BSE decides the stocks that are to be listed on Sensex. The criteria for picking a stock to be listed on Sensex is volume of the trade of that stock and total volume of the stock in BSE.

Based on the above said factors, BSE regularly prepares a set of 30 stocks which will be together called as SENSEX. BTW Sensex means sensitive Index Now each stock is allotted a weight-age according to a criteria and the criteria also keeps on changing with time. So now stocks are normally traded in BSE each day and price of stocks is determined according to demand and supply

Stock Trading Timings in India

There are two major stock exchanges in India- Bombay stock exchange (BSE) and National stock exchange (NSE). However, the timing of both BSE & NSE is the same. First of all, you need to know that the stock market in India is closed on weekends i.e. Saturday and Sunday. It is also closed on the national holidays. The normal trading time for equity market is between 9:15 a.m to 03:30 p.m, Monday to Friday.

The trading time for commodity (MCX) market is between 10:00 a.m. to 11:30 a.m. Monday to Friday.

The normal trading time for Agri-community (NCDEX) market is between 10:00 a.m. to 05:00 p.m. Monday to Friday.

In addition, there is no lunch break or tea break in the Indian stock market timings.

The timings of the Indian stock market are divided into three sessions:

1. Normal session (also called continuous session)
2. Pre-opening session
3. Post-closing session

Future Market

A Future market is an auction market in which participants buy and sell commodity and futures contracts for delivery on a specified future date. Examples of futures markets are the New York Mercantile Exchange, the Kansas City Board of Trade, the Chicago Mercantile Exchange, the Chicago Board of Options Exchange and the Minneapolis Grain Exchange. Originally, trading was carried on through open yelling and hand signals in a trading pit, though in the 21st century, like most other markets, futures exchanges are mostly electronic.

Options Market

An 'Option' is a type of security that can be bought or sold at a specified price within a specified period of time, in exchange for a non-refundable upfront deposit. An options contract offers the buyer the right to buy, not the obligation to buy at the specified price or date. Options are a type of derivative product. The right to sell a security is called a ‘Put Option', while the right to buy is called the ‘Call Option‘.

They can be used as:

Leverage: Options help you profit from changes in share prices without putting down the full price of the share. You get control over the shares without buying them outright.

Hedging: They can also be used to protect yourself from fluctuations in the price of a share and letting you buy or sell the shares at a pre-determined price for a specified period of time

DO YOU KNOW?

Dalal Street

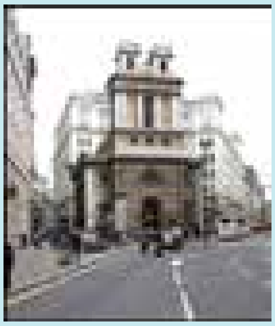
Dalal Street is an area in downtown Mumbai, India, that houses the Bombay Stock Exchange (BSE) – the largest stock exchange in India – and other reputable financial institutions. It received the name Dalal Street after the Bombay Stock Exchange moved to the area in 1874 and became the first stock exchange recognized by the Indian Government.

The literal translation of Dalal in Marathi is a broker or intermediary. Today, Dalal Street is a metonym for the entire Indian financial sector much like Wall Street in the United States.

DO YOU KNOW?

Lombard Street

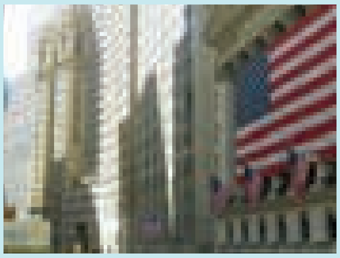
Lombard Street, London, is a street notable for its connections with the City of London's merchant, banking and insurance industries, stretching back to medieval times. From Bank junction, where nine streets converge by the Bank of England, Lombard Street runs southeast for a short distance before bearing left into a more easterly direction, and terminates at a junction with Grace church Street and Fenchurch Street. Its overall length is 260 metresIt has often been compared with Wall Street in New York City



DO YOU KNOW?

Wall Street

Wall Street is a street in lower Manhattan that is the original home of the New York Stock Exchange and the historic headquarters of the largest U.S. brokerages and investment banks. The term Wall Street is also used as a collective name for the financial and investment community, which includes stock exchanges and large banks, brokerages, securities and underwriting firms, and big businesses. Today, brokerages are geographically diverse, allowing investors free access to the same information available to Wall Street's tycoons.



Key Words

Stock Exchange	Commodity Exchange
Rechristended	Brokers
Jobbers	Clearing House
Investors	Speculators
Optimistic	Pessimistic

For Own Thinking

2. Read the Business Section of a daily newspaper or a specialised Business Newspaper. Locate the segment where share prices of important stock exchanges are given. Select any five companies and record their share prices everyday for a period of three weeks. Observe their price movement and see how major events in the economic, political or social environment affect the prices of these shares. You may even get information about these share prices from the television.

For Own Thinking

1. Identify any two persons in your vicinity who are associated with the financial market/stock exchanges, either as an investor or as a stockbroker. Talk to them and find out (i) how sale and purchase of securities takes place; (ii) what are the popular instruments traded in the market; and (iii) about recent SEBI/ government guidelines that may have affected their transactions.

For Future Learning

1. Study the website of Mumbai Stock Exchange and compile information which you find useful. Discuss it in your class and find out how it can help you to invest in the stock market. Prepare a report on your findings with the help of your teacher.

Case Study

1. Ramesh and Asaladeepesh are good friends. Ramesh is very god-fearing kind, while Asaladeepesh was an enterprising person, having practical in approach. Read the following conversation.

Ramesh : Hi, Deepesh! What are you doing?

Asaladeepesh : Hi, I am reading the newspaper - financial market page that gives us information about the shares price.

Ramesh : Shares, that is an area of big gambles.

Asaladeepesh : No, not really! You must understand how it works.

Ramesh : Frankly speaking, I think this Capital market is all a gambling game and I don't see any use of them.

Asaladeepesh : No, you are seriously mistaken; you do not know the importance of capital market. I will tell how it is needed for an individual and an economy.

You are required to play the role of Asaladeepesh and continue the conversation.

Exercise

31RPJZ

I. Choose the Correct Answers:

1. ____ is the oldest stock exchange in the world.

a) London Stock Exchange
b) Bombay Stock Exchange
c) National Stock Exchange
d) Amsterdam Stock Exchange

2. There are _____ stock exchange in the country.

a) 21 b) 24
c) 20 d) 25

3. Jobbers transact in a stock exchange

a) For their Clients
b) For their Own Transactions
c) For other Brokers
d) For other Members

4. A pessimistic speculator is

a) Stag b) Bear
c) Bull d) Lame Duck

5. An optimistic speculator is

a) Bull b) Bear
c) Stag d) Lame duck

Answers:

1	d	2	b	3	b	4	b	5	a

II. Very Short Answer Questions:

1. What is meant Stock Exchange?
2. Write any 5 Stock Exchanges in India.
3. What is meant by Remisier?
4. Who is called a Broker?
5. What are the types of Speculator?

III. Short Answer Questions:

1. What are the limitations of Stock exchange? (any 3)
2. Explain Bull and Bear.
3. Explain Stag and Lame Duck.

IV. Long Answer Questions:

1. Explain the functions of Stock Exchange. (Any 5)
2. Explain the features of Stock Exchange. (Any 5)
3. Distinguish between Stock Exchange and Commodity Exchange (any 5).

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2. Dr.S.GURUSAMY 2012, Financial Markets and Institutions

UNIT III

FINANCIAL MARKETS - II

8 CHAPTER

SECURITIES EXCHANGE BOARD OF INDIA (SEBI)

அறன்ஈனும் இன்பமும் ஈனும் திறனறிந்து
தீதின்றி வந்த பொருள்.

– குறள் 754

COUPLET

The wealth acquired with a knowledge of the proper means and without foul practices will yield virtue and happiness.

A9DSZ9

Learning Objectives

To enable the students to understand the

- Meaning and Origin of SEBI
- Objectives, Features, Functions and Powers of SEBI
- Dematerialization
- Demat account
- Working of Demat account

Chapter Synopsis

8.01 Introduction

Securities and exchange Board of India (SEBI) was first established in the year 1988 as a non-statutory body for regulating the securities market. It was made as an autonomous body by The Government of India on 12 May 1992 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament. SEBI has its headquarters at the business district of BandraKurla Complex in Mumbai, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad respectively.

Initially SEBI was a non statutory body without any statutory power. However, in 1992, SEBI was given additional statutory power by the Government of India through an amendment to the Securities and Exchange Board of India Act, 1992

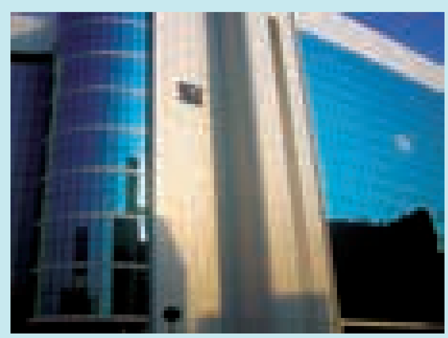
The SEBI is managed by its members, which consists of following:

Organization Structure of SEBI

- Director
  - Additional Directors/ Joint Directors
    - Deputy Directors / Assistant Directors
  - Additional Director (Administration)
    - Deputy Director (Administration)
      - Assitant Director (Administration)
        - Section Officers (Administration)
  - Technical Director / Joint Directors(System)
    - Deputy Directors (System)
      - Assistant Director (System)
        - Technical Assistants

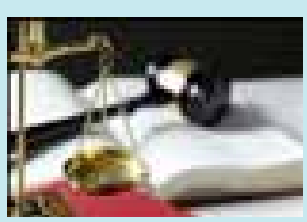
DO YOU KNOW?

Securities and exchange board of India(SEBI) is an apex body that maintains and regulates our capital market. It was established in 1988 by Indian government but got the statutory powers in 1992. Well it plays a great role in Indian economy such as it...



1. Monitor's the working of mutual funds

2. Restricts illegal practices of firms



3. Plays a great role in protecting investors interest

4. Regulates working of stock exchanges

5. Conducts audit, inspection

6. Prohibits insider activity

8.02 Objectives of SEBI

The various objectives of a Stock Exchange are explained below

1. Regulation of Stock Exchanges

The first objective of SEBI is to regulate stock exchanges so that efficient services may be provided to all the parties operating there.

2. Protection to the Investors

The capital market is meaningless in the absence of the investors. Therefore, it is important to protect the interests of the investors. The protection of the interests of the investors means protecting them from the wrong information given by the companies in their prospectus, reducing the risk of delivery and payment, etc. Hence, the foremost objective of the SEBI is to provide security to the investors.

3. Checking the Insider Trading

Insider trading means the buying and selling of securities by directors Promoters, etc. who have access to some confidential information about the company and who wish to take advantage of this confidential information. This affects the interests of the general investors and is essential to check this tendency. Many steps have been taken to check insider trading through the medium of the SEBI.

4. Control over Brokers

It is important to supervise/check the activities of the brokers and other middlemen in order to control the capital market. To regulate their activities, it was necessary to establish the SEBI.

8.03 Functions of SEBI

Securities and Exchange Board of India (frequently abbreviated **SEBI)** is the nodal agency which safeguards the interests of an investor in the Indian Financial market. SEBI performs three key functions: **quasi-legislative, quasi-judicial and quasi-executive.** It drafts regulations, conducts investigation & enforcement action and it passes rulings and orders.

i. Safeguarding the interests of investors by means of adequate education and guidance. SEBI makes rules and regulation that must be followed by the financial intermediaries like portfolio exchanges, underwriters and merchant bankers, etc. It takes care of the complaints received from investors . Additionally, it issues notices and booklets for the information, assistance and protection of small investors.

ii. Regulating and controlling the business on stock markets. Registration of brokers and sub-brokers is made mandatory and they have to abide by certain regulations and rules.

iii. Conduct inspection and inquiries of stock exchanges, intermediaries and self-regulating organizations and to take appropriate measures wherever required. This function is carried out for organized working of stock exchanges and intermediaries.

iv. Barring insider trading in securities.

v. Prohibiting deceptive and unfair methods used by financial intermediaries operating in securities markets.

vi. Registering and controlling the functioning of stock brokers, sub-brokers, share transfer agents, bankers, trustees, registrars, merchant bankers, underwriters, portfolio managers, investment advisers and various other intermediaries who might be linked to securities markets in any manner.

vii. SEBI issues Guidelines and Instructions to businesses concerning capital issues. Separate guidelines are provided for initial public issue made by listed companies, etc. It conducts research and publishes information beneficial to all market players (i.e. all buyers and sellers).

viii. SEBI regulates mergers and acquisitions as a way to protect the interest of investors. For this, SEBI has released appropriate guidelines with the intention that such mergers and takeovers won't be at the expense of small investors.

ix. Registering and controlling the functioning of collective investment schemes such as mutual funds. SEBI has created regulations and guidelines that should be followed by mutual funds. The aim is to maintain effective supervision and avoid any unfair and anti-investor actions.

x. Promoting self-regulatory organization of intermediaries. It has extensive legal powers. Having said that, self-regulation is preferable to external regulation. The function of SEBI is to motivate financial intermediaries to create their professional associations and manage harmful actions of their members. It can also make use of its powers when needed for protection of investors.

xi. Carrying out steps in order to develop the capital markets by having an accommodating approach.

xii. Provide appropriate training to financial intermediaries. This function is great for healthy environment in the stock markets and also for the protection of investors.

xiii. Levying fee or any other type of charges to carry out the purpose of the Act.

xiv. Performing functions that may be assigned to it by the Central Government of India.

8.04 Powers of SEBI

The various powers of a Stock Exchange are explained below

1. Powers Relating to Stock Exchanges & Intermediaries

SEBI has wide powers regarding the stock exchanges and intermediaries dealing in securities. It can ask information from the stock exchanges and intermediaries regarding their business transactions for inspection or scrutiny and other purpose.

2. Power to Impose Monetary Penalties

SEBI has been empowered to impose monetary penalties on capital market intermediaries and other participants for a range of violations. It can even impose suspension of their registration for a short period.

3. Power to Initiate Actions in Functions Assigned

SEBI has a power to initiate actions in regard to functions assigned. For example, it can issue guidelines to different intermediaries or can introduce specific rules for the protection of interests of investors.

4. Power to Regulate Insider Trading

SEBI has power to regulate insider trading or can regulate the functions of merchant bankers.

5. Powers Under Securities Contracts Act

For effective regulation of stock exchange, the Ministry of Finance issued a Notification on 13 September, 1994 delegating several of its powers under the Securities Contracts (Regulations) Act to SEBI.

SEBI is also empowered by the Finance Ministry to nominate three members on the Governing Body of every stock exchange.

6. Power to Regulate Business of Stock Exchanges

SEBI is also empowered to regulate the business of stock exchanges, intermediaries associated with the securities market as well as mutual funds, fraudulent and unfair trade practices relating to securities and regulation of acquisition of shares and takeovers of companies.

8.05 Dematerialization (DEMAT)

Dematerialization is the process by which physical share certificates of an investor are taken back by the company/registrar and destroyed. Then an equivalent number of securities in the electronic form are credited to the investors account with his Depository Participant.

Dematerialization is done at the request of the investor. Investors will first have to open an account with a DP (Depository Participant) and then request for dematerialization of certificates through the DP.

Purchases made by an investor are credited to his account and sales are debited. The securities held in dematerialized form are fungible. In other words they do not have any distinguishing features. Dematerialized shares do not have any distinctive numbers. All the holdings of a particular security will be identical and interchangeable.

Trading in dematerialized shares commenced on the NSE in December 1996 where Reliance Industries was the first company to trade its 100 shares in demat form. In case of the BSE, dematerialization of shares commenced in the year December 1997.

8.06 Benefits of Dematerialization

i. The risks pertaining to physical certificates like loss, theft, forgery and damage are eliminated completely with a DEMAT account.

ii. The lack of paperwork enables quicker transactions and higher efficiency in trading.

iii. Trading has become more convenient as one can trade through computers at any location, without the need of visiting a broker.

iv. The shares that are created through mergers and consolidation of companies are credited automatically in the DEMAT account.

v. As all the transactions occur through the depository participant, a trader does not have to communicate individually with each and every company.

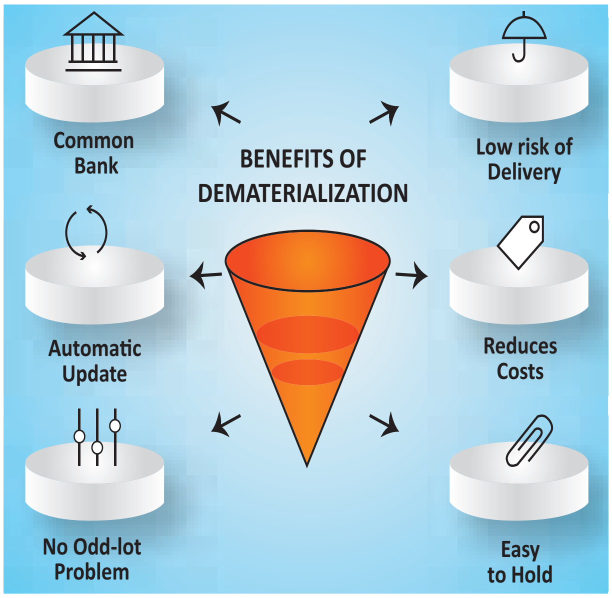
vi There is no need for stamp duty for transfer of securities; this brings down the cost of transaction significantly.

vii. Certain banks also permit holding of both equity and debt securities in a single account.

viii. Banks also provide dedicated and trained customer care officers to assist through all the procedures.

ix. A DEMAT account holder can buy or sell any amount of shares. However, there is limit on the number of transactions done using physical securities.

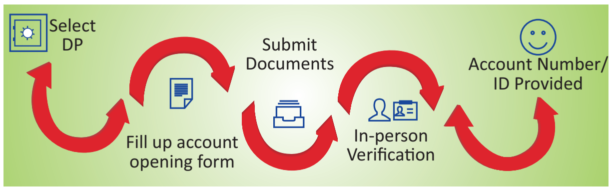
x. One can also choose to take a loan against securities which are held in a DEMAT account by offering it as a collateral to the lender.



What is Demat Account?

A demat account holds all the shares that are purchased in electronic or dematerialized form. Basically, a demat account is to shares what a bank account is to money. Like the bank account, a demat account holds the certificates of financial instruments like shares, bonds, government securities, mutual funds and exchange traded funds (ETFs).

How to Open a Demat Account?



i. Fill up an account opening form and submit along with copies of the required documents and a passport-sized photograph. You also need to have a PAN card. Also carry the original documents for verification.

ii. You will be provided with a copy of the rules and regulations, the terms of the agreement and the charges that you will incur.

iii. During the process, an In-Person Verification would be carried out. A member of the DP's staff would contact you to check the details provided in the account opening form.

iv. Once the application is processed, the DP will provide you with an account number or client ID. You can use the details to access your demat account online.

v. As a demat account holder, you would need to pay some fees like the annual maintenance fee levied for maintenance of account and the transaction fee levied for debiting securities to and from the account on a monthly basis. These fees differ from every service provider (called a Depository Participant or DP). While some DPs charge a flat fee per transaction, others peg the fee to the transaction value, and are subject to a minimum amount. The fee also differs based on the kind of transaction (buying or selling). In addition to the other fees, the DP also charges a fee for converting the shares from the physical to the electronic form or vice-versa.

vi. Minimum shares: A demat account can be opened with no balance of shares. It also does not require that a minimum balance be maintained.

What are the documents required for a Demat Account?

You need to submit proof of identity and address along with a passport size photograph and the account opening form. Only photocopies of the documents are required for submission, but originals are also required for verification.

Proof of identity: PAN card, voter's ID, passport, driver's license, bank attestation, IT returns, electricity bill, telephone bill, ID cards with applicant's photo issued by the central or state government and its departments, statutory or regulatory authorities, public sector undertakings (PSUs), scheduled commercial banks, public financial institutions, colleges affiliated to universities, or professional bodies such as ICAI, ICWAI, ICSI, bar council etc.

Proof of address: Ration card, passport, voter ID card, driving license, bank passbook or bank statement, verified copies of electricity bills, residence telephone bills, leave and license agreement or agreement for sale, self-declaration by High Court or Supreme Court judges, identity card or a document with address issued by the central or state government and its departments, statutory or regulatory authorities, public sector undertakings (PSUs), scheduled commercial banks, public financial institutions, colleges affiliated to universities and professional bodies such as ICAI, ICWAI, Bar Council etc.

Key Words

Dematerialization
Depository
Investors

PAN, or permanent account number, is a unique 10-digit alphanumeric identity allotted to each taxpayer by the Income Tax Department under the supervision of the Central Board of Direct Taxes. It also serves as an identity proof.

Format of DEMAT APPLICATION FORM

Internal Ref. No. ________________ 1

STATE BANK OF INDIA

Reference Sr. No.

Branch Code
Branch Name
Pl. Open Demat A/C

Br. Manager

Branch Seal

Application Form for Opening a Demat Account

Individual ☐ NRI ☐ Foreign National

Please fill all the details in BLOCK LETTERS in English	Br. Code	Year	Sr. No.
Application No.	Ref. No.		
Date	Account No. 1 3 0 1 9 3 0 0		

(To be filled by the Depository Participant/Br.)

I/We request you to open a Demat Account in my / our name/s as per the following details :

Sole / First Holder's Details

First Name			
Middle Name			
Father / Husband Name			
Title	Mr. Mrs. Ms. Other	Suffix	
Correspondence Address			
City		State	
Country		PIN	
Telephone No.		Fax No.	
PAN / GIR No.			
IT Circle Ward / District		Mobile No.	
E-mail ID			
MAPIN Code			

Join Holders - Second Holder's Details

First Name			
Middle Name			
Last Name			
Father / Husband Name			
Title	Mr. Mrs. Ms. Other	Suffix	
PAN / GIR no.			
IT Circle Ward / District		Mobile No.	
Date of Birth			
E-mail ID			
MAPIN Code			

Join Holders - Third Holder's Details

First name			
Middle Name			
Last Name			
Father / Husband Name			
Title	Mr. Mrs. Ms. Other	Suffix	
PAN / GIR No.			
IT Circle Ward / District		Mobile No.	
Date of Birth			
E-mail ID			
MAPIN Code			

Case Study

a. Koushikaa's father has gifted her the shares of a large cement company with which he had been working. The securities were in physical form. She already has a bank account and does not possess any other forms of securities.

She wishes to sell the shares and approached a registered broker for the purpose. Mention one mandatory detail which she will have to provide with the broker.

b. Mr.Kulandaivel was the Chairman of Thangam Bank. The bank was earning good profits. Shareholders were happy as the bank was paying regular dividends. The market price of their share was also steadily rising. The bank was about to announce taking over the 'Trinity Bank'. Mr.Kulandaivel knew that the share price of Thangam Bank would rise on this announcement. Being a part of the bank, he was not allowed to buy shares of the bank. He called one of the his rich friends Mr.Chandrasekaran and asked him to invest ₹5 crores in shares of his bank promising him the capital gains.

As expected, the share prices went up by 40% and the market price of Chandrasekaran's shares was now ₹7 crores. He earned a profit of ₹2 crores. He gave ₹1 crore to Mr.Kulandaivel and kept ₹1 crore with himself. On regular inspection and by conducting enquires of the brokers involved, the Securities and Exchange Board of India (SEBI) was able to detect this irregularity. The SEBI imposed a heavy penality on Mr.Kulandaivel.

By quoting the lines from the above paragraph, identify and state any two functions that were performed by SEBI in the above case.

For Own Thinking

1. Collect the information on various measures taken by SEBI to protect the interests of investors since its inception.
2. Send a group of students to a trading terminal in your city to gain first hand information on securities trading and prepare a report.
3. Collect information about SEBI action for Investor Protection taken duringlast two years.

For Own Thinking

1. Prepare a report on the role of SEBI in regulating the Indian stock market.
   You can get this information on its website. Do you think something else should be done to increase the number of investors in the stock market?
2. **Investors' Grievances Redressal**

i. SEBI and Stock Exchanges have set up investor grievance redressal cells for fast redressal of investor complaints relating to securities markets

ii. SEBI has directed all the stock exchanges, registered brokers, sub-brokers, depositories and listed companies to make a provision for a special email ID of the grievance redressal division/ compliance officer for the purpose of registering complaints by the investors

iii. SEBI has set up a mechanism for redressal of investor grievances arising from the issue process

iv. SEBI provides "walk-in" service at its head office at Mumbai and its regional offices at New Delhi, Chennai, Kolkatta and Ahmedabad on all working days. Investors can meet the officials and get guidance relating to the grievances that they may have against issuers. Investors can also meet the higher officials of SEBI on specified working days

v. Investors can lodge their complaints with SEBI at: investorcomplaints@sebi.gov.in

vi. Investors can approach SEBI for any assistance at: asksebi@sebi.gov.in

Exercise

ANWN1K

I. Choose the Correct Answers:

1. **Securities Exchange Board of India was first established in the year ____**

   a) 1988 b) 1992
   c) 1995 d) 1998

2. **The headquarters of SEBI is _______**

   a) Calcutta b) Bombay
   c) Chennai d) Delhi

3. **Registering and controlling the functioning of collective investment schemes as _______**

   a) Mutual Funds b) Listing
   c) Rematerialisation d) Dematerialization

4. **SEBI is empowered by the Finance ministry to nominate ______ members on the Governing body of every stock exchange.**

   a) 5 b) 3
   c) 6 d) 7

5. **Trading is dematerialized shares commenced on the NSE is ________**

   a) January 1996 b) June 1998
   c) December 1996 d) December 1998

Answers:

1	a	2	b	3	a	4	d	5	c

II. Very Short Answer Questions:

1. Write a short notes on SEBI.
2. Write any two objectives of SEBI.
3. Mention the headquarters of SEBI.
4. What are the various ID proofs?

III. Short Answer Questions:

1. What is meant by Dematerialization?
2. What are the documents required for a Demat account?
3. Draw the organization structure of SEBI.

IV. Long Answer Questions:

1. What are the functions of SEBI? (any 5)
2. Explain the powers of SEBI. (any 5)

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UNIT IV

HUMAN RESOURCE MANAGEMENT

9 CHAPTER

FUNDAMENTALS OF HUMAN RESOURCE MANAGEMENT

கருமம் சிதையாமல் கண்ணோட வல்லார்க்கு
உரிமை உடைத்திவ் வுலகு.

–குறள் 578

COUPLET

The world is theirs (kings) who are able to show kindness, without injury to their affairs, (administration of justice).

BIPH2K

Learning Objectives

To enable the students to understand the

- Meaning and definition of Human Resource
- Characteristics of Human Resource
- Significance of Human Resource
- Meaning and definition of Human Resource Management
- Features of Human Resource Management
- Significance of Human Resource Management
- Functions of Human Resource Management

Chapter Synopsis

The human resource is the most important element in any organisation. The success, growth and development of organisations depend on the quality of work force they possess. It is only through the human resource all other resources are actively utilised leading to the efficient and effective running of an establishment. The significance of human resource is gaining momentum in recent years because of the growing global business leading to demand for quality workforce.

9.01 Meaning and Definition of Human Resource

With the advent of globalisation, liberalisation and privatisation leading to advancement in information, communication and technology paved way for exhibiting the high level of innovation and creativity in human resource. In the current scenario unless the organisation recruits, selects and utilises high quality human resource the sustainability remains a question. In order to accomplish personal and organisational objectives the unique asset called human resource has to be appropriately placed and appreciated. In an organisation the human resource are the employees who are inevitable for the survival and success of the enterprise.

According to Peter.F.Drucker "Man, of all resources available to him, can grow and develop"

It is clear from the definitions that not all human beings are considered to be human resources but only those individuals who acquired the required skill sets, talents, knowledge, competencies and capabilities in the accomplishment of both individual and organisational objectives.

9.02 Characteristics of Human Resources

The unique, peculiar and distinctive features of human resources are as under:

i. Human resource is the only factor of production that lives
ii. Human resource created all other resources
iii. It is only the labour of employees that is hired and not the employee himself
iv. Human resource exhibits innovation and creativity
v. Human resource alone can think, act, analyse and interpret
vi. Human resources are emotional beings
vii. Human resources can be motivated either financially or non financially
viii. The behaviour of human resources are unpredictable
ix. Over years human resources gains value and appreciates
x. Human resources are movable
xi. Human resource can work as a team

9.03 Significance of Human Resources

The vital resource namely human resource is significant because of the following reasons :

i. It is only through human resource all other resources are effectively used
ii. The sustainable growth of an organisation depends on the important resource human resource
iii. Industrial relations depend on human resource
iv. Human relations is possible only through human resource
v. Human resource manages all other factors of production
vi. The skill sets of the Human resources can be improved through training and development programmes
vii. Human resource can be utilised at all levels of management
viii. Human resources are well protected by legislative frameworks.

9.04 Meaning and Definition of Human Resource Management

The branch of management that deals with managing human resource is known as Human Resource Management. In order to achieve the personal and organisational objectives human resources are to be trainedup and managed. In short, it is managing people of different strata for the accomplishment of the organisational goals. It includes the overall progress of the employee and the enterprise.

Human Resource Management is a function of management concerned with hiring, motivating and maintaining people in an organisation. It focuses on people in an organisation.

In the words of E.F.L.Brech HRM as that part of management process which is primarily concerned with the human constituents of an organisation.

9.05 Features of Human Resource Management

The following are the characteristics of human resource management :

i. **Universally relevant :** Human Resource Management has universal relevance. The approach and style varies depending the nature of organisation structure and is applicable at all levels.

ii. **Goal oriented :** The accomplishment of organisational goals is made possible through best utilisation of human resource in an organisation.

iii. **A systematic approach :** Human resource management lays emphasis on a systematic approach in managing the tasks performed by human resource of an organisation. The two sets of functions performed are managerial and operative functions.

iv. **It is all pervasive :** Wherever there is existence of human resource the effective management of the available human resource is very important especially in functional areas.

v. **It is a continuous process :** As long as there is human resource in the running of an organisation, the activities relating to managing human resource exists.

vi. **It is a dynamic activity :** Human resource management is not the same as that of other factors of production, as they have feelings and emotions which are to be handled with care and diligence to maximise its utilisation.

vii. **It is an integrative tool :** The main idea behind managing the human resource is to motivate, participate and coordinate the available work force.

viii. **Focuses on development :** Human resource management focuses on the development of manpower through training and development programmes. Honing of skills through training increases the effective use of the resource procured.

ix. **Human resource management is both science as well as art :** As it relies on experiments and observations as well as effective handling of manpower it is both science and art.

x. **It is interdisciplinary :** Human resource management makes use of concepts of different disciplines like sociology, psychology, economics etc. making it interdisciplinary.

xi. **It is intangible :** Human resource management is a intangible function which can be measured only by results.

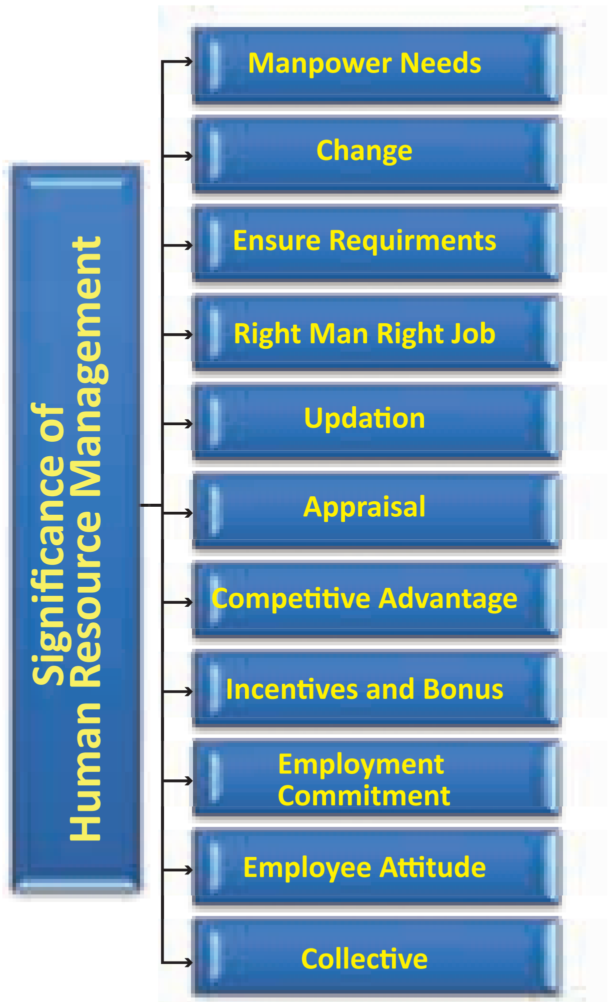
9.06 Significance of Human Resource Management

The strategic role of human resource management is the process of acquiring, training, appraising, and compensating employees, and attending to their labour relation, health, safety and fariness concerns.

There are various reasons why human resource management is important. They are as follows:

i. **To identify manpower needs :** Determination of manpower needs in an organisation is very important as it is a form of investment. The number of men required are to be identified accurately to optimise the cost.

ii. **To incorporate change :** Change is constant in any organisation and this change has to be introduced in such a way that the human resource management acts as an agent to make the change effective.



iii. **To ensure the correct requirement of manpower:** At any time the organisation should not suffer from shortage or surplus manpower which is made possible through human resource management.

iv. **To select right man for right job:** Human resource management ensures the right talent available for the right job, so that no employee is either under qualified or over qualified.

v. **To update the skill and knowledge:** Managing human resource plays a significant role in the process of employee skill and knowledge enhancement to enable the employees to remain up to date through training and development programmes.

vi. **To appraise the performance of employees:** Periodical appraisal of performance of employees through human resource management activities boosts up good performers and motivates slow performers. It helps the workforce to identify their level of performance.

vii. **To improve competitive advantage:** Organisations with capable and competent employees can truly gain competitive advantage in the globalised market. Higher the level of good performers greater the possibility of fast paced growth of the enterprise.

viii. **To provide incentives and bonus to best performers:** It is the role of human resource management to recognise the best performers and to provide them with bonus and incentives as a form of appreciation for their work. This motivation can be either financial or non financial.

ix. **To determine employee commitment:** Human resource management determines the level of commitment of employees to their work either through interview or questionnaire. The higher the level of commitment the higher the possibility of the organisation to be successful. This can be carried out through appropriate policies.

x. **To emphasise socialisation:** Human beings are social animals and they should be ensured that they are comfortable in the work place by maintaining cordial relationship with peers, subordinates and managers so as to contribute maximum to the organisation.

xi. **To promote favourable employee attitude:** Organisations are expected to provide a good work environment to secure favourable employee attitude towards the management. This can be accomplished through conflict resolution, counselling, grievance reprisals etc.

xii. **To provide scope for collective bargaining:** Human resource management encourages workforce to form a union to represent their grievances and find early solution for their problems by collective representation.

9.07 Functions of Human Resource Management

The functions of human resource management may be classified as under :

1. **Managerial function** - Planning, Organising, Directing, Controlling
2. **Operative function** – Procurement, Development, Compensation, Retention, Integration, Maintenance

Managerial Functions

i. **Planning** – Planning is deciding in advance what to do, how to do and who is to do it. It bridges the gap between where we are and where we want to go. It helps in the systematic operation of business. It involves determination objectives, policies, procedures, rules, strategies, programmes and budgets. It ensures maintenance of correct number of employees to carry out activities and also to formulate timely employee policies.

ii. **Organising** – It includes division of work among employees by assigning each employee their duties, delegation of authority as required and creation of accountability to make employees responsible.

iii. **Directing** – It involves issue of orders and instructions along with supervision, guidance and motivation to get the best out of employees. This reduces waste of time energy and money and early attainment of organisational objectives.

iv. **Controlling** – It is comparing the actuals with the standards and to check whether activities are going on as per plan and rectify deviations. The control process includes fixing of standards, measuring actual performance, comparing actual with standard laid down, measuring deviations and taking corrective actions. This is made possible through observation, supervision, reports, records and audit.

Operating Functions

i. **Procurement** – Acquisition deals with job analysis, human resource planning, recruitment, selection, placement, transfer and promotion

ii. **Development** – Development includes performance appraisal, training, executive development, career planning and development, organisational development

iii. **Compensation** – It deals with job evaluation, wage and salary administration, incentives, bonus, fringe benefits and social security schemes

iv. **Retention** – This is made possible through health and safety, welfare, social security, job satisfaction and quality of work life

v. **Integration** – It is concerned with the those activities that aim to bring about reconciliation between personal interest and organisational interest

vi. **Maintenance** – This encourages employees to work with job satisfaction, reducing labour turnover, accounting for human resource and carrying out audit and research.

Key Words

Human resource	Workforce	Management
Training	Development	Contribution
System	Turnover	Conflict

For Future learning

1. Ensuring the quality of work force through quality assurance.
2. Describe two management techniques to improve job satisfaction.
3. To prepare Human Resource Planning Schedule.
4. Analyse the ways of forecasting Human resource requirements.
5. Evaluate the shortfalls of Human resource management and its consequence.

For Own Thinking

1. Identify points of differences between HRM and HRD.
2. Analyse the impact of Change Mangement.
3. Prescribe ways of resolving Conflict Management.
4. Project ways of having a control over the operation of Trade Unions.
5. Clearly specify the available Competency Mapping Process.

Exercise

I. Choose the Correct Answer

1. Human resource is a ________

a) Tangible b) Intangible

c) Fixed d) Current

BY8C3W

2. Human Resource management is both ________ and ________.

a) Science and art

b) Theory and practice

c) History and Geography

d) None of the above

3. Planning is a ________ function.

a) selective b) pervasive

c) both a and b d) none of the above

4. Human resource management determines the ________ relationship.

a) internal, external

b) employer, employee

c) Owner, Servant

d) Principle, Agent

5. Labour turnover is the rate at which employees ________ the organisation

a) enter b) leave

c) Salary d) None of the above

Answers:

1	b	2	a	3	b	4	b	5	b

II. Very Short Answer Questions:

1. What is Human Resource Management ?
2. State two features of HRM.
3. Mention two characteristics of Human Resource.
4. What are the managerial functions of HRM.

III. Short Answer Questions:

1. Define the term Human Resource Management.
2. What are the characteristics of Human resources ? (any 3)
3. What is the significance of Human resource? (any 3)

IV. Long Answer Questions:

1. Explain the characteristics of Human Resource (any 5).
2. Describe the significance of Human Resource Management (any 5).
3. Discuss the Operative functions HRM.

UNIT IV HUMAN RESOURCE MANAGEMENT

10 CHAPTER RECRUITMENT METHODS

இதனை இதனால் இவன்முடிக்கும் என்றாய்ந்து
அதனை அவன்கண் விடல்.

–குறள் 517

COUPLET

After having considered, "this man can accomplish this, by these means", let (the king) leave with him the discharge of that duty.

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Learning Objectives

To enable the students to understand the

- Meaning and definition of Recruitment
- Recruitment Process
- Sources of Recruitment/Recruitment Methods
- Recent Trends in Recruitment

Chapter Synopsis

10.01 Meaning And Definiton of Recruitment

Recruitment is the process of finding suitable candidates for the various posts in an organisation. It is a process of attracting potential people to apply for a job in an organisation.

It acts as a link between job provider and job seeker. It encourages the prospective employees to apply for the job. Then the organisation scrutinises the applications received and the suitable candidates are shortlisted for selection. The following are some of the definitions of Recruitment.

According to Edwin B. Flippo, "It is a process of searching for prospective employees and stimulating and encouraging them to apply for jobs in an organisation."

Reasons Behind Recruitment :

There are different reasons why vacancy arises and they are

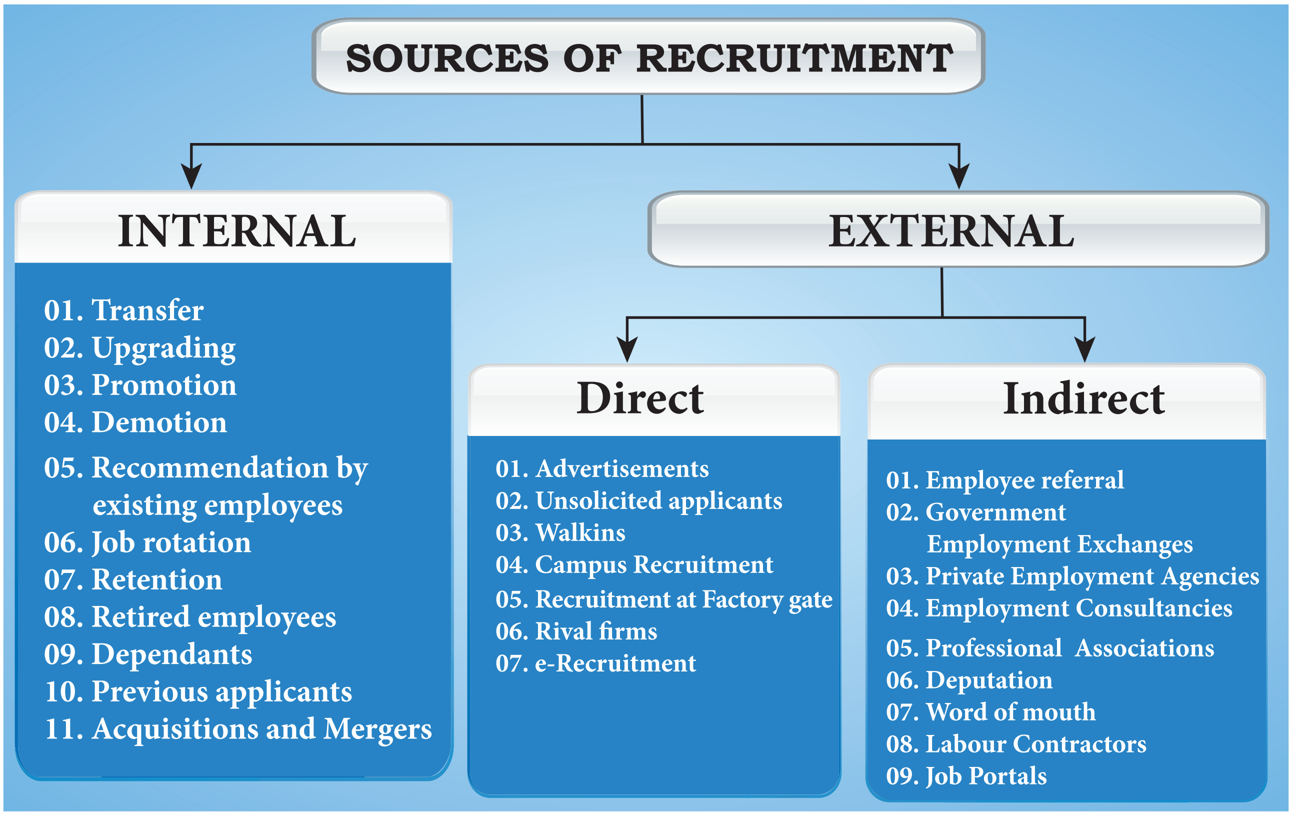
i. Retirement of an employee
ii. Death of an employee
iii. Resignation of job by an employee
iv. Disablement of an employee
v. Dismissal of an employee

10.02 Recruitment Process

Recruitment process includes the following steps :

i. Planning recruitment
ii. Determining vacancies
iii. Identifying the sources
iv. Drafting information for advertisement
v. Selecting the suitable mode of advertisement
vi. Facilitating selection process
vii. Evaluation and control

10.03 Sources of Recruitment



There are basically two ways by which an organisation can recruit its employees namely Internal and External sources. External sources can further be classified into Direct and Indirect sources.

Internal Sources – Transfer, Upgrading, Promotion, Demotion, Recommendation by existing Employees, Job rotation, Retired employees, Dependants, Previous applicants, Acquisitions and Mergers

External Sources

i. **Direct** – Advertisements, Unsolicited applicants, Walk ins, Campus Recruitment, Recruitment at Factory gate, Rival firms, e Recruitment

ii. **Indirect** – Employee referral, Government/ Public Employment Exchanges, Employment Agencies, Employment Consultancies, Professional Associations, Deputation, Word of mouth, Labour Contractors, Job Portals, Outsourcing, Poaching

i. Internal Sources

The following are the internal sources of Recruitment

i. **Transfer** - The simplest way by which an employee requirement can be filled is through transfer of employee from one department with surplus staff to that of another with deficit staff.

ii. **Upgrading** – Performance appraisal helps in the process of moving employees from a lower position to a higher position

iii. **Promotion** – Based on seniority and merits of the employees they are given opportunity to move up in the organisational hierarchy

iv. **Demotion** – Movement of employee from a higher position to a lower position because of poor performance continuously to make him realise the significance of performance

v. **Recommendation by existing Employees** – A family member, relative or friend of an existing employee can be recruited and placed

vi. **Job rotation** – One single employee managing to learn how to perform in more than one job on rotation. This familiarises the employees with all kind of jobs performed and becomes a source.

vii. **Retention** – The retiring employees can be used to meet the requirement after superannuation as per management discretion

viii. **Retired employees** - The employees who have already retired can be called to fill the vacancy as they have the required qualification and experience

ix. **Dependants** – The legal heir or the dependent employee may be given a chance to replace the deceased.

x. **Previous applicants** – The applicants who have already applied for any job advertised in the past whose name appears in the data base but not selected at that point of time can be utilised

xi. **Acquisitions and Mergers** – This is another way by which the organisation acquires another business unit or merging with another establishment.

ii. External Sources

A. Direct

i. **Advertisements** – The employer can advertise in dailies, journals, magazines etc. about the vacancies in the organisation specifying the nature of work, nature of vacancy, qualification and experience required, salary offered, mode of applying and the time limit within which the candidate has to apply.

ii. **Unsolicited applicants** – These are the applications of job seekers who voluntarily apply for the vacancies not yet notified by the organisations.

iii. **Walkins**– Walk-in applicants with suitable qualification and requirement can be another source of requirement.

iv. **Campus Recruitment** – The organisations visit the educational institutions to identify and recruit suitable candidates.

v. **Recruitment at Factory gate** – Usually casual or temporary unskilled employees are recruited by this way. They are recruited at factory gate and paid on hourly or daily basis.

vi. **Rival firms** – This is also called poaching where the efficient employees of rival companies are drawn to the organisations by higher pay and benefits. For example Salesmen, Chartered Accountants, Management professionals etc.

vii. **e-Recruitment** – The organisations which carry out recruitment online methods is said to follow e recruitment. The advancement in technology and communication has made it possible to reach out prospective applicants globally online. It has become inevitable external source of recruitment.

B. Indirect

i. **Employee referral** – The existing employees of the organisation may recommend some of their relatives or known people who will be suitable for the existing vacancies. Based on the credibility of the employee the referrals will be considered.

ii. **Government/Public Employment Exchanges –** These are exchanges established by Government which facilitates recruitment throughout the country. It makes available the information required through the data base for the employer as well as the job seeker by bridging the gap between them.

iii. **Private Employment Agencies –** These are similar to Public employment exchanges except that the ownership is the hands of Private parties. It connects the job provider and the job seeker by providing the relevant and required information.

iv. **Employment Consultancies –** These types of firms facilitate recruitment on behalf of client companies at cost. Usually they provide data relating to executives and top level personnel for which service they charge consultation fees also known as Recruitment Process Outsourcing.

v. **Professional Associations –** Organisations seeking applicants of high calibre and repute with technical knowledge approach professional associations like Institute of Chartered Accounts, The Indian Medical Association, The Institute of Training and Development, The Institute of Engineers, All India Management Association etc. to identify the right person.

vi. **Deputation –** A person who is already an employee of an organisation can be deputed for a specific job for a specified period as a short term solution.

vii. **Word of mouth –** The information relating to job seekers is collected through people of repute who pass on the message about the vacancy to their known people.

viii. **Labour Contractors –** Organisations recruit unskilled and manual labourers through these contractors.

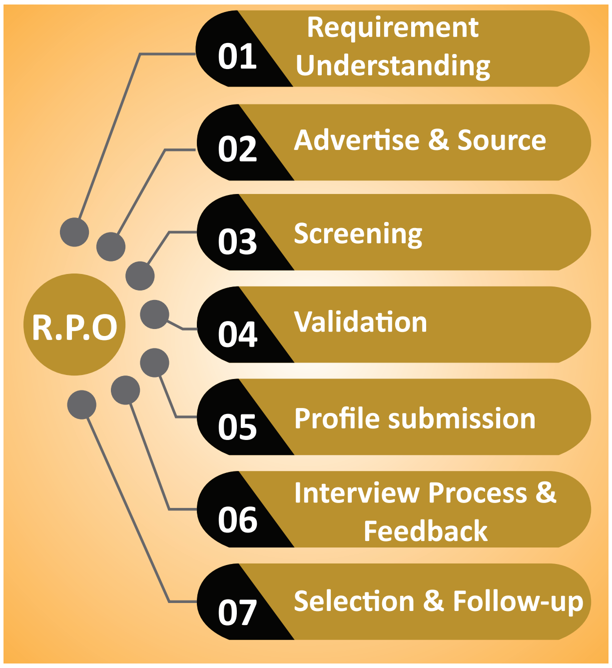
ix. **Job Portals –** Using internet job portals organisations can screen for the prospective candidates and fill up their vacancies.

10.04 Recent Trends in Recruitment

The recent methods of recruiting by organisations include the following methods :

1. **Outsourcing –** There are outsourcing firms that help in the process of recruiting through screening of applications and finding the right person for the job for which job they are paid service charges.

Recruitment Process Outsourcing



2. **Poaching –** Organisations instead of training and developing their own employees hire employees of other competitive companies by paying them more both financial and non financial benefits. It is also called raiding.

Key Words

Recruitment	Selection	Interview
Procurement	Training	Development
Profession	Unsolicited	Poaching

For Future learning

1. Students can be asked to identify four or five job portals with websites.
2. Writing an advertisement for the recruitment of Product Manager.
3. Write an assignment on the ways by which recruitment can be Outsourced.
4. Suggest suitable methods of Training for middle and top level employees.
5. Projecting the future methods of recruitment that can save time and money.

For own thinking

1. Designing new ways of Recruitment through internet.
2. Enhancing the role of HR department in promoting work life balance.
3. Simplifying the process of registering in Employment Exchanges.
4. Reducing the time gap between search for new jobs and availability of new jobs.
5. To formulate policies to enhance the job opportunities in both Public and Private sector.

Exercise

CT164W

I. Choose the Correct Answers:

1. Recruitment is the process of identifying ___.

a) right man for right job

b) good performer

c) Right job

d) All of the above

2. Recruitment bridges gap between _____ and ________ .

a) job seeker and job provider

b) job seeker and agent

c) job provider and owner

d) owner and servant

3. Advertisement is a ________ source of recruitment

a) internal b) external

c) agent d) outsourcing

4. Transfer is an ________ source of recruitment.

a) internal b) external

c) outsourcing d) None of the above

5. E-recruitment is possible only through ________ facility.

a) Computer b) internet

c) Broadband d) 4G

Answers:

1	a	2	a	3	b	4	a	5	b

II. Very Short Answer Questions:

1. Give the meaning of Recruitment.
2. What is promotion ?
3. Write any two internal source of recruitment.
4. What is meant by Poaching?

III. Short Answer Questions:

1. What is meant by unsolicited applicants?
2. What is meant by job portals?
3. State the steps in Recruitment process outsourcing.

IV. Long Answer Questions:

1. Explain the Internal sources of Recruitment (any 5).
2. Explain the External sources of Recruitment (any 5).
3. What is the Recent trends in Recruitment?

UNIT IV

HUMAN RESOURCE MANAGEMENT

11
CHAPTER

EMPLOYEE SELECTION PROCESS

வினைக்குரிமை நாடிய பின்றை அவனை
அதற்குரிய னாகச் செயல்.

குறள் 518

COUPLET

Having considered what work a man is fit for, let (the king) employ him in that work.

D8J168

Learning Objectives

To enable the students to understand the

- meaning and definition of selection
- standard steps for selection process
- factors influencing the selection process
- importance of selection
- difference between selection and recruitment
- meaning and definition of placement
- significance of placement
- principles of placement

Chapter Synopsis

11.01 Meaning & definition of Employee Selection process

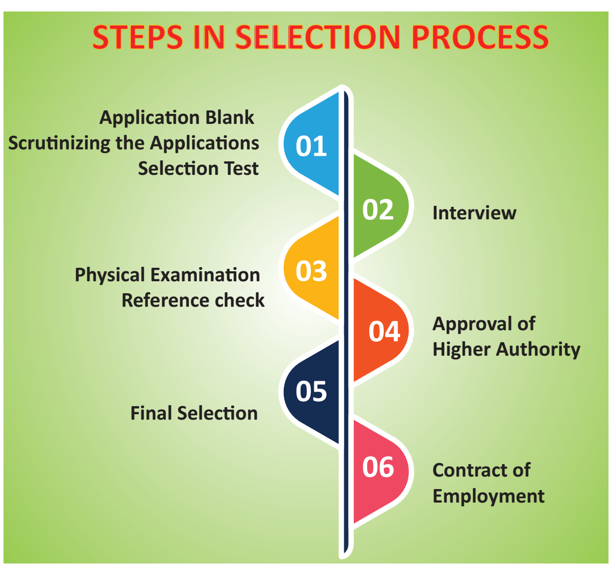
Employee selection can range from a very simple process to a very complicated process. There is no standard universally accepted selection process adopted by all organizations. The selection process may be adopted depending upon the nature of jobs and organizations. The process may differ from organization to organization.

A selection process includes a number of steps – screening the application forms, test, interview, checking of references, physical examination, and approval by appropriate authority, and handing over the selected candidates to orientation and placement section. These steps are not necessary for all types of selection process. The main aim of selection process is to find out the suitable candidate for specific job. Since there are various factors which affect the seeking of such information, the same type of selection process cannot be applied in all types of selection.

Selection is the process of differentiating between applicants in order to identify and hire those with a greater likelihood of success in a job. Selection is the process of choosing the most suitable person for the vacant position in the organization.

David & Robbins: Selection is a managerial decision making process is to predict which job applicants will be successful if hired."

11.02 Steps in Employee Selection Process



A comprehensive selection process involves the various steps as shown in figure

01. (a) Application Blank

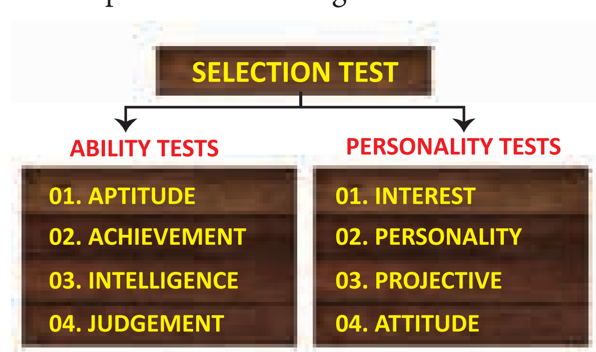
Most of public sector undertaking, various ministries of Government, Selection Commissions, Recruitment Boards and Private Sector Companies either supply pre-printed application form or direct the candidates to download the forms uploaded in their respective websites. In the case of voluntary applications submitted by the candidates, they are issued application form afresh at the venue of the interview to collect complete information about the candidate in the standardized format. Selector can collate different types of information from the application blank namely family background, educational qualification, co-curricular activities, work experience, exposure to related activities, scale of pay drawn, academic distinction, area of expertise and so on.

01. (b) Scrutinizing the Applications

Where the applications received in response to advertisement inviting applications for opening are more, it is not possible for recruitment agency to call all the applicants for interview. Hence, selection committee has to evolve some criteria like age, length of experience, level of education, percentage of marks, higher qualification, level of exposure, communal quotos, proficiency etc., to shortlist the number of applicants for the interview.

01. (c) Selection Test

Several tests are conducted in the selection process to ensure whether the candidate possesses the necessary qualification to fit into various positions in the organization.



A) Ability Test

A test designed to measure an individual's cognitive function in a specific area,

such as variety of skills, mental aptitude, problem solving, knowledge of particular field, reasoning ability, intelligence etc. This test is used to find the suitability of a candidate for a given job role.

1. Aptitude test

Aptitude test is a test to measure suitability of the candidates for the post/role. It actually measures whether the candidate possess a set of skills required to perform a given job. It helps in predicting the ability and future performance of the candidate. Aptitude test can be measured by the following ways:

i) **Numerical Reasoning Test -** Numerical reasoning test provides information about candidate's numerical aptitude. In other words this test measure the candidate's ability to make correct decision from numerical data.

ii) **Verbal Reasoning Test -** It measures the candidate's ability to comprehend the written text and ability to arrive at factual conclusion from the written text.

iii) **Inductive Reasoning Test -** Inductive Test is one of the psychometric tests conducted in the selection process to measure the problem solving abilities and ability to apply logical reasoning.

iv) **Mechanical Reasoning Test -** This test measures the engineering student's ability to apply engineering concepts in actual practice.

v) **Diagrammatic Reasoning Test -** This test measures the candidate's ability to understand the shapes, abstract ideas and ability to observe and extract values from illustrations and apply them to new samples.

vi) **Spatial Reasoning Test -** The test measures the candidate's ability to clearly manipulate and remember the shapes, still images, and find out pattern which govern the sequence.

vii) **Situational Judgment Test -** This test measures the candidate's ability to choose the most desirable action in critical situations using his judging ability.

viii) **Mental Arithmetic Test -** It tests the candidate's basic numerical ability like addition, subtraction, multiplication, division and fraction. It tests the speed of doing calculation.

ix) **Vocabulary Test -** The test measures candidate's ability to recognize the relationship among the ideas, think methodically and fluency in English language.

x) **Number Sequence Test -** This measures the candidate's ability to find a logic in a series or pattern. Under this test, candidates have to find out missing number in a sequence to determine the pattern.

2. Achievement Test

This test measures a candidate's capacity to achieve in a particular field. In other words this test measures a candidate's level of skill in certain areas, accomplishment and knowledge in a particular subject. The regular examination conducted in educational institution represents achievement test. It is also called proficiency test. This test is conducted before, during or after a learning experience. In short it is a test conducted to find out candidate's mastery over the subject. Example,

a) A driver may be asked to drive a vehicle to test his driving efficiency

b) Music student may be asked to play a given instrument

c) Teacher candidate may be asked to give a demonstration

3. Intelligence Test

Intelligence tests are one of the psychological tests, that is designed to measure a variety of mental ability, individual capacity of a candidate. The main aim of these tests is to obtain an idea of the person's intellectual potential.

Mental age and Actual (age wise) calculate the Flow of IQ level.

Formula for IQ :

$$\frac{\text{Mental Age}}{\text{Actual Age}} \times 100$$

(Physical age or current age)

Mental age: A person's mental age is a measurement of their ability to think when compared to the average person's ability at that age.

Example: Average intelligence or Average IQ = 100

If ten years old has a mental age 13,

Therefore, IQ = 130, ie, Above average.

4. Judgment Test

This test is conducted to test the presence of mind and reasoning capacity of the candidates

B) Personality Test

Personality test refers to the test conducted to find out the non-intellectual traits of a candidate namely temperament, emotional response, capability and stability. There is no right or wrong answer in the test. It comprises of following tests.

1. Interest Test

Interest test measures a candidate's extent of interest in a particular area chosen by him/her so that organization can assign the job suited to his/her in term.

2. Personality Inventory Test

Under this method standardised questionnaire is administered to the candidate to find out traits like interpersonal rapport, dominance, intravertness, extravertness, self confidence, lower sign quality etc. This test assesses the reliability and innate characters of the candidate concerned.

3. Projective Test / Thematic Appreciation Test

This test measures the candidate's values, attitude apprehensive personality etc. out of the interpretation or narration given by the candidate to the pictures, figures etc. shown to him in the test situation.

4. Attitude Test

This test measures candidate's tendencies towards the people, situation, action and related things. For example, morale study, values study, social responsibility study expresses attitude test and the like are conducted to measure the attitude of the candidate.

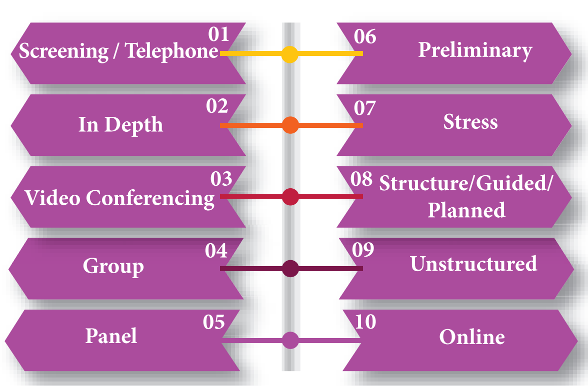
02. Interview

Next step in selection process is interview. The term 'interview' has been derived from French word enter voir that means to glimpse or to see each other .

In other words interview represents a face to face interaction between the interviewer and interviewee. According to Scott and others "an interview is a purpose full exchange of ideas, the answering of questions and communication between two or more persons."

Various types of interview are shown in figure

TYPES OF INTERVIEW



01) Screening / Telephone Interview

Where the candidates live far away from organization and find it difficult to attend preliminary interview for various reasons, telephone interview is conducted by some organization to eliminate unfit and unsuitable candidate at the preliminary stage itself.

02) In depth Interview

This interview is conducted to test the level of knowledge of the interviewee in a particular field intensively and extensively. Thus interview helps the interviewers to learn about the candidate's expertise and practical exposure with respect to his/her area of specialization.

03) Video Conferencing Interview

Video conferences interview is similar to face to face interview. Video conferencing interview is a kind of conference call that connects the candidate with companies located across various geographies. Just like telephone call a video conferencing interview has multi point which allows two or more people in different locations to participate in the interview process. Interview can be conducted from a desktop at work, a home computer or smart phone or a tablet.

04) Group Interview

A group interview is a screening process where multiple candidates are interviewed at the same time. Group interview is a good time saving type of interview. Instead of spending 5 hours interviewing 5 candidates individually, one hour can be spent interviewing them in a group. Some time particular topic is given to the group, and they are asked to discuss it. The competency of members of group is assessed by keenly observing the participation of members in the discussion.

05) Panel Interview

Where a group of people interview the candidate, it is called panel interview. Usually panel comprises chair person, subject expert, psychological experts, representatives of minorities/underprivileged groups, nominees of higher bodies and so on. All panel members ask different types of questions on general areas of specialization of the candidate. Each an every member awards marks for the candidate separately. At the end, the marks awarded by all the members are aggregated and the candidates are ranked accordingly. This method eliminates bias in selection process. It ensures more reliability in the selection of the candidate.

06) Preliminary Interview

This interview is conducted to know the general suitability of the candidates who have applied for the job. Team of experts conducts their interview primarily to eliminate those who are unqualified and unfit candidates. This helps the employer organization to cut cost and time in selection process.

07) Stress Interview

This type of interview is conducted to test the temperament and emotional balance of the candidate interviewed. Interviewer deliberately creates stressful situation by directing the candidate to do irrational and irritating activities. They assess the suitability of the candidate by observing the reaction and response of the candidate to the stressful situations. Mostly this type of interview is conducted for recruiting sales representatives staff for defence and law enforcement agencies.

08) Structure/Guided/Planned Interview

Under this method, a series of question to be asked by the interviewer are pre-prepared by the interviewer and only these questions are asked in the interview. Ultimately interviewees are ranked on the basis of score earned by the candidate in the interview.

09) Unstructured Interview

This is quite contrary to structured interview. An atmosphere for free and frank interaction is created in the interview environment. There is no pre-prepared questions. Interviewers determine the suitability of the candidate based on their response to the random questions raised in the interview.

10) Online Interview

Due to tremendous growth in information and communication technology, these days interviews are conducted by means of internet via **Skype, Wechat, Google duo, Viber, Whatsapp** or **Video chat** applications. This enables the interviewers to conduct interview with the candidates living in faraway places. They saves a lot of time, money and energy both for employer's organisation and the candidate.

DO YOU KNOW?

10 most common Interview questions

1. Tell me about (your self)
2. Why do you want to work for this Organization?
3. Why are you interested in this position?
4. Why should we select you?
5. What is your greatest strength?
6. Tell about the time, when you failed?
7. What is your salary requirement?
8. What is your five year plan ?
9. Why are you looking to leave your present job?
10. Do you have any questions for me!

03. (a) Physical Examination or Medical Examination

The last technique used in selection process is medical examination. This is the most important step in the selection because a person of poor health cannot work competently and any investment on him may go waste, if he/she is unable to discharge duties efficiently on medical grounds. In other words, it determines an applicant's physical ability to perform a specific job.

The main purpose of medical examination is to find out

1. Physical fitness of the candidate under selection to the job concerned
2. To protect the existing employees of business organization from the infectious diseases likely to be spread by the candidate selected
3. To check excessive expenditure in the treatment of selected employee after placement.

03. (b)Reference Check

Reference check is done to know reliability and trustworthiness of the candidate. Usually application blank contains a column for the candidate to furnish the list of persons to be contacted for reference purpose. Employer organization used to send either standardized form to referees or request them to write in detail about certain behavioral traits of candidate under selection like conduct, character, attitude, behavior, value system etc., of the candidate under selection process. The selector decides the selection worthiness of the candidate based on the reference and recommendation given by referees.

04. Approval by Higher Authority

Selection committee sends the list of candidates selected with some candidate kept in waiting list for approval by higher authority like chairman, HR director, CEO and the like. Once the list is approved the selected candidate will be called for final interview.

05. Final Selection

The successful candidate who passed through various stages of selection process will be called for final interview. These candidates are briefied about the rules and regulations of the organization, organizational culture, reporting relationship, dress code, expectations of employer, facilities available for career growth etc. At the end of the final interview even the candidate under selection is allowed freedom to seek clarification or make his own demands if any.

06. Contract of Employment

After the final selection process is completed, certain documents are expected to be signed both by the organization and the candidate. Hence there is a need for preparing a contract of employment. The following basic information which need to be included in a written contract of employment varies according to the level of the job. Generally it contains details like 1. Job Title 2. Duties & Responsibilities 3. Scale of Pay allowance, increments 4. Working hours 5. Date when continuous employment starts and basis for calculating service. 6. Work Rules 7. Grievance procedure 8. Disciplinary procedure 9. Special terms and Conditions relating to rights etc.

11.03 Factors influencing Selection Process

Factors influencing employee selection process are listed below

1. Nature of Post

The process of selection of employee varies according to type of personnel to be recruited. For instance, selection process of probationary officer of a bank differs from that of selection of officer for Indian Police Service.

2. Number of Candidates

Selection process depends on the response of candidates to the advertisement inviting applications for the post. For instance, for clerical and other physical jobs, more candidate tend to apply. Hence short listing needs to be done. The selection process would be longer if the number of applicants is lesser and consequently selection process becomes shorter.

3. Selection Policy

The selection policy and selection process are inter-related. For example some organizations put in place tougher selection process involving several steps to identify the best fit while certain other organizations just conduct straight interview and thus cutting short the selection procedure.

4. Cost factor / Budget

The longer selection process entails higher cost. Hence, organizations which cannot afford to spend a larger resource tend to shorten selection process while organizations with sound financial condition can afford to adopt lengthier selection process.

5. Level of Educational Qualification and Experience and Exposure

The process of selection depends on the experience and educational qualification, and exposure required for the post. For example for selection of finance officer, treasurer, legal adviser, designer, architecture, CEOs, scientist, chairman etc. selection process is shorter as only few candidates compete with higher educational qualification, and credentials.

11.04 Importance of Selection

1. Good Talent

Proper selection system enables the organization to appoint talented persons for various activities and thereby leading to improved productivity and profitability of the organisation.

2. Better Efficiency

Selection of right person to the right job is sure to produce better quality of work and may facilitate faster achievement of objectives. This will help in greater measure to tone up the overall efficiency of organisation.

3. Reduced Cost of Training and Development

Better selection of candidates definitely reduces the cost of training because qualified personnel have better grasping power. If they select suitable candidates for suitable job, they can easily understand the techniques of the work better in quick time. Besides, the organization can develop different training programmes for different persons on the basis of their individual differences, thus reducing the time and cost of training considerably.

4. Reduced Turnover

Proper selection of candidates contributes to low labour turnover. This will inturn help the organisation to minimize recruitment cost.

5. Job Motivation

If the right person is selected for the right job, it tends to motivate the person to work more effectively and efficiently. They feel that their skills are properly used and they tend to contribute more attention to the job.

6. Other Benefits

Proper selection of candidates reduces absenteeism. They would pay better attention to their jobs and take safety precautions on their own accord would minimize the occurance of work place accidents.

11.05 Selection differs from Recruitment

Recruitment and selection play a vital role in the Human Resource Management. These are the two sides of the same coin but there exists some difference between the two. The difference have been highlighted and the exhibit is given below.

11. 06 Placement

Introduction on Placement is an important human resource activity after a candidate has been selected. He / she should be placed on a particular job. In fact, placement signifies placing the right person on the right job in a good manner. The term 'placement' includes initial assignment of new employees and promotion, transfer or demotion of present employees.

The process of placing the right man on the right job is called 'Placement'.

In other words, Placement is a process of assigning a specific job to each and every candidate selected.

According to Dale Yoder, Placement may be defined as "the determination of

the job to which an accepted candidate is to be assigned, and his assignment to that job".

11.07 Significance of Placement

The significance of the placement is given below

i) It improves employee morale

ii) It helps in reducing employee turnover

iii) It helps in reducing conflict rates or accidents

iv) It avoids misfit between the candidates and the job.

v) It helps the candidate to work as per the predetermined objectives of the organization

vi) It involves assigning a specific rank and responsibilities to an individual

vii) It helps to avoid short term staff shortage.

11.08 Principles of Placement

Following principles are followed at the time of placement of an employee:

1. Job First, Man Next

Man should be placed on the job according to the requirements of the job. There is no compromise on the requirements or qualifications of the man with respect to job. "Job first Man next" should be principles of Placement.

2. Job Offer

The job should be offered to the man based on his qualification.

3. Terms and conditions

The employee should be made conversant with the conditions and culture prevailing in the organization and all those things relating to the job.

4. Aware about the Penalties

The employee should also be made aware of the penalties if he / she commits a wrong or lapse.

5. Loyalty and Co-operation

When placing new recruit on the job, an effort should be made to develop a sense of loyalty and co-operation in him, so that he/she may realise his/her responsibilities better towards the job and the organization.

Placement is not an easy process. It is very difficult for an new employee, who

Recruitment Vs Selection

S. No.	Basis of Comparison	Recruitment	Selection
1	Meaning	Recruitment is an activity of searching candidates and encouraging them to apply for it.	Selection refers to the process of selecting the suitable candidates and offering them job.
2	Approach	Approach under recruitment is positive one.	Approach under selection is negative one.
3	Objective	Inviting large number of candidates to apply for the vacant post	Picking up the most suitable candidates and eliminating the rest
4	Sequence	First	Second
5	Method	It is an economical method	It is an expensive method
6	Contractual relation	It involves the communication of vacancies. No contractual relation is established	It creates contractual relation between employer and employee
7	Process	Recruitment process is very simple	Selection process is very complex and complicated
8	Time	Requires less time since it merely involves just identifying vacancies and advertising them. Hence less time is required	It is more consuming as each and every candidate has to be tested on various aspects before selecting the candidates. Hence more time is required

cannot be expected to be not familiar with the job and environment. For this reason, the employee is generally put on a probation/trial period ranging from one year to two years. After completion of the probation period, if the employee shows a better performance, he/she is confirmed at the job as a regular employee of the organization.

Key Words

Application	Blank	Structured
Turnover	Placement	Job Offer
Loyalty	Recruitment	Evaluation
Relocation	Aptitude	Attitude

For Future learning

1. Know the job selection methods in TamilNadu government
2. Collection of job application related to different types job.
3. Student should know about the skilled and unskilled workers.
4. Students should know how to apply and fill up the job application

For own Thinking

1. How will you prepare your Resume and Application?
2. Find out any 5 Selection interview questions.
3. Student should arrange face to face interview
4. To Identify the Placement process
5. Student should visit a nearby organization and observe the selection interview.

Exercise

DN2V7J

I. Choose the Correct Answers:

1. The recruitment and Selection Process aimed at right kind of people.

a) At right people b) At right time

c) To do right things d) All of the above

2. Selection is usually considered as a ___________ process

a) Positive b) Negative

c) Natural d) None of these

3. Which of the following test is used to measure the various characteristics of the candidate?

a) physical Test b) Psychological Test

c) attitude Test d) Proficiency tests

4. The process of eliminating unsuitable candidate is called

a) Selection b) Recruitment

c) Interview d) Induction

5. Job first man next is one of the principles of ___________.

a) Test b) Interview

c) Training d) placement

Answers:

1	d	2	b	3	b	4	a	5	a

II. Very Short Answer Questions:

1. What is selection?
2. What is an interview?
3. What is intelligence test?
4. What do you mean by placement?

III. Short Answer Questions:

1. What is stress interview?
2. What is structured interview?
3. Name the types of selection test?
4. What do you mean by achievement test?

IV. Long answer questions:

1. Briefly explain the various types of tests. (any 5)
2. Explain the important methods of interview (any 5).
3. Differentiate Recruitment and Selection. (any 5)

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UNIT IV

HUMAN RESOURCE MANAGEMENT

12 CHAPTER

EMPLOYEE TRAINING METHOD

அன்பறிவு தேற்றம் அவாவின்மை இந்நான்கும்
நன்குடையான் கட்டே தெளிவு.

– குறள் 513

COUPLET

Let the choice (of a king) fall upon him who largely possesses these four things, love, knowledge, a clear mind and freedom from covetousness.

EHUP8J

Learning Objectives

To enable the students to understand the

- Meaning and definition of training
- Purpose of training or Need for training
- Steps in designing a training programme
- Training methods
- Difference between on the job training and Off the job training
- Benefits of training

Chapter Synopsis

Each and every organization needs the services of trained persons for performing the better activities in a systematic way. After having selected the most suitable persons for the various suitable jobs in the organization by way of application of scientific techniques,the next task of management should arrange for their proper training. Some employees already have some previous knowledge regarding the jobs, while others may be entirely new to the jobs. Both types of employees need some different kinds of training to acquaint themselves with the jobs.

Training is the act of increasing / enhancing the new skill of problem solving activity and technical knowledge of an employee for doing the jobs them self. Training enables the employees to guide their behavior. Training refers to the teaching and learning activities carried on for the primary purpose of helping members of an organization to acquire and to apply the required knowledge, skill and attitudes to perform their jobs effectively and efficiently.

According to Edwin B. Flippo" Training is the act of increasing the Knowledge and skills of an employee for doing particular jobs".

12.01 Purpose of Training or Need for Training

The purpose of Training can be explained as follows

i) Improved Quality of Work

Training helps to focus on specific area and develop employee skills. It enables employee to increase the quality of work carried out by them.

ii) Enhance Employee Growth

Employees who undergo training becomes good at their job. Imparting new skills helps in performance enhancement of the employees.

iii) Prevention of Obsolence

Training helps to learn more knowledge regarding the latest technologies and techniques. The employee gets updated with the latest technology and trend. The major purpose of training is to avoid obsolence.

iv) Enlightening New Recruits

New employee can learn the methods of working, techniques, reporting, related tools and equipment used in the job, the work culture of the company etc. with the help of training.

v) Improved Safety Measures

Employees gain awareness about the risks involved in job and safety measure to be adopted through a proper training program. This helps to improve safety in the work place and avoid accidents.

vi) Motivating Employees

An employee needs continuous development to move along the career path as per the career planning. Training motivates and instils organizational commitment.

vii) Higher Productivity and Profits

Efficient training improves higher productivity and more profits as the trained employee can apply more skills and techniques at works. It helps them do work at faster rate and complete it with high perfection.

viii) Cost Reduction

Trained employees can utilize the resources in an efficient manner. There is no possibility of wastages of resources and all facilities are used at an optimum level. This will lead to cost reduction.

ix) Reduced Supervision

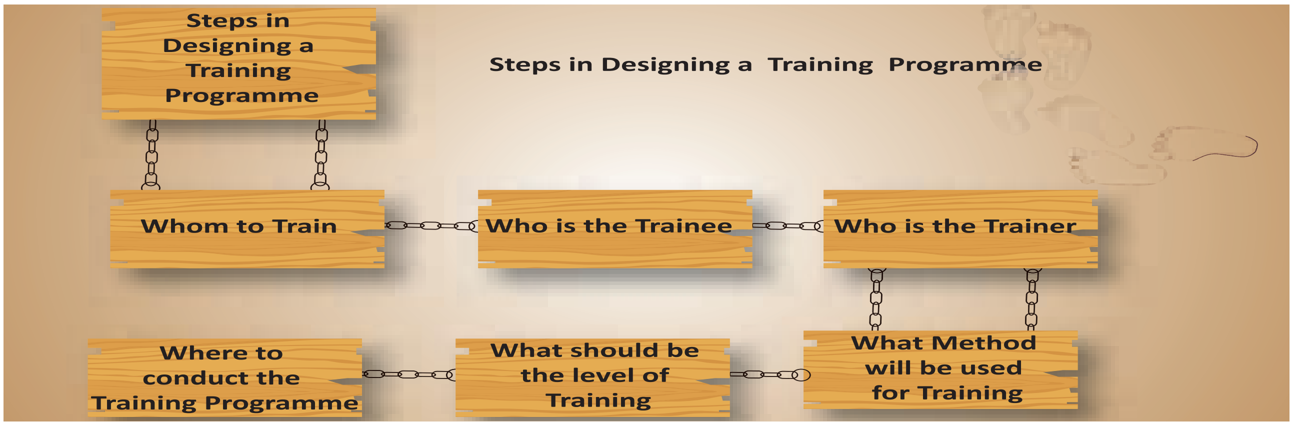
Trained employees need minimum supervision as they are educated about various aspect of job in detail at the training programme.

x) Better Adaptability

Employees are able to adapt themselves to new technologies and new methods of work which constantly undergoes changes.

12.02 Steps in Designing a Training Programme

Training is one of the planned activities to transfer or modify knowledge, skills and attitude. Every training programme must address certain vital issues listed below.



1. Whom to Train?

Training department has to determine the candidates for whom the training should be imparted. In other words it should identify whether it is needed for operational level employees or supervisory level employees or executive level.

2. Who is the Trainee?

A person who is learning and practising the skills of particular job is called trainee. Trainees should be selected on the basis of self-interest and recommendation by the supervisor or by the human resource department itself.

3. Who are Trainers?

Trainer is a person who teaches skills to employee and prepare them for a job activity. Trainers may be supervisor, coworkers, HR staffs, specialists in the other parts of the company, outside consultants, industry association,faculty members of Educational Institutions like University etc. The trainers is otherwise called Instructor, Coach, Teacher, Mentor, Adviser, Counsellor, Guide, Guru, Manager, Handler, Tutor and Educator etc,.

4. What Method will be used for Training?

Training segment should decide the appropriate method of training among the various methods of training available.

5. What should be Level the Training?

Training department should decide the level of training to be imparted to the employees. Usually introductory training is given to new recruit to sensitize item to various aspects of the work. Middle level employees are given skill development training while higher level training is given for enhancing the functional efficiency of executives.

6. Where to Conduct the Training Programme?

The venue of training and duration of training should be fixed based on the availability of other related factors.

12.03 Training Methods

Various methods of training are used to train the employees. It is varying from one organization to another. Various factors like skill requirement, qualification of the candidates, cost and time availability and indepth knowledge should be considered before adopting any given method. There are two principal methods of employee training which are used by the organization as given in the figure.

On the Job Training and Off the Job Training

> My employees are my most important assets. When they go home in the evening networth drops to Zero - A software Billionaire in Silicon Vally (USA)

12.03 (I) On the Job Training

On the job training refers to the training which is given to the employee at the work place by his immediate supervisor. In an other words the employee learns the job in the actual work environment. It is based on the principle of "Learning by Doing and Learning While Earning". On the job training is suitable for imparting skills that can be learnt in a relatively short period of time. The following are the on the job training methods.

i) Coaching Method

In the coaching method of training, the superior teaches or guides the new employee about the knowledge and skills relevant to a given job. In this method superior plays the role of coach or guide and an instructor. Under this method the superior should point out mistakes/lapses committed by the new worker and also advise the remedial measures, to trainees. The trainees can clear their doubts then and there.

ii) Mentoring method

Mentoring is the process of sharing knowledge and experience of an employee. The focus in this training is on the development of attitude of trainees. It is mostly used for managerial employees. Mentoring is always done by senior person, it is also one-to-one interaction ,like coaching. Besides the mentor is responsible for the providing necessary support to trainees, and feedback on the performance of trainee.

iii) Job Rotation Method

Job rotation is an important method for broadening the knowledge of executives. Under this method a trainee is periodically shifted from one work to another work and from one department / division to another department / division for a particular period of time. The main aim of job rotation is to expose the employee to various inter related jobs.

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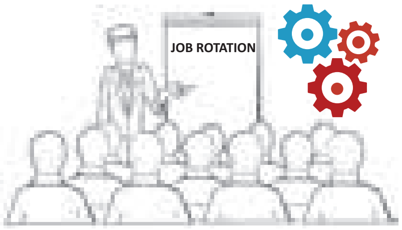
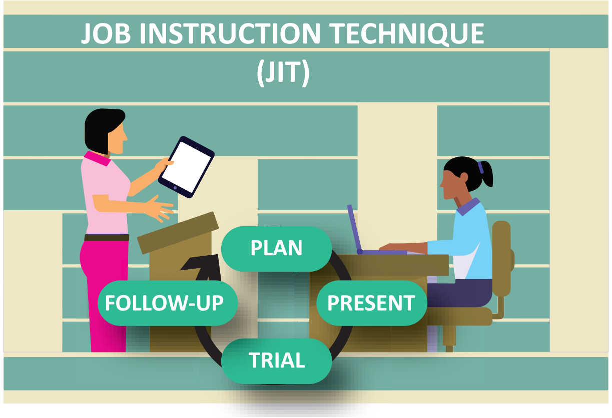


iv) Job Instruction Techniques (JIT) Method:

In this method, a trainer at the supervisory level gives some instructions to an employees to how to perform his job and its purpose.



v) Apprenticeship Training Method:

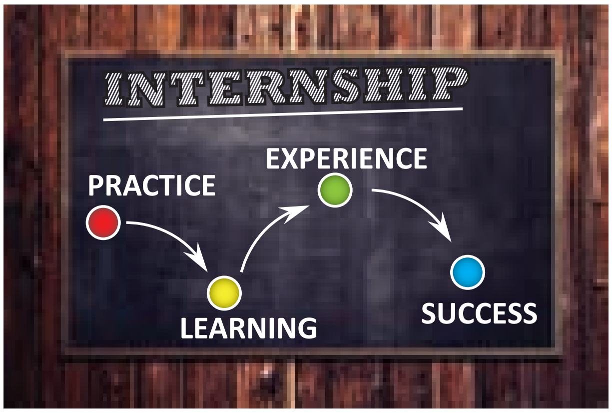
The apprentice or trainee learns the job knowledge and skills from the trainer or superior or senior worker. Generally the apprenticeship training is given to the technical cader like that Mechanics, Electricians, Craftsmen, Welders, Fitter etc., This duration of this training programme ranges from one to five years. The trainee gets the stipend during the training period.

vi) Committee Assignment:

When employees are assigned to committee to address a particular issue, they are able to work closely with other members and committee leader. They gain more knowledge by observing and participating in decision making process.

vii) Understudy/Internship Training Method:

A superior gives training to a subordinates or understudy like an assistant to a manager or director. The subordinates learn through experience and observation by participating in handling day to day problems. Basic purpose of internship training is to prepare subordinate for assuming the full responsibilities and duties.



12.03 (II) Off the Job Training

Off the job training is the training method where in the workers/employees learn the job role away from the actual work floor. In other words training which is carried out away from your normal place of work. Off-the-job training comprises of a place specifically allotted for the training purpose which may be near the actual work place, where the workers are required to learn the skills and get well equipped with the tools and techniques that are to be used at the actual work floor.

i) Lecture Method

Under this method trainees are educated about concepts, theories, principles and application of knowledge in any particular area. Trainer may be generally drawn from Colleges, Universities, Consultancies, Institutions, Manufacturing concern, Union etc., They impart training effectively by their oratorical skill, knowledge and practical knowledge using audio visual tools.

ii) Group Discussion Method

Group of people participate and discuss particular subject or one topic. Under this method participants are divided into various groups. They were provided a particular issue for deliberation. Each groups has to prepare solution after deep discussion with their group members. The group leader has to present the solution to the audience,which will be discussed or deliberated by other groups. Moderator will give final solution after listening to divergent view points.

iii) Case Study Method

Trainees are described a situations which stimulate their interest to find solution. They have to use their theoretical knowledge and practical knowledge to find solution to the problem presented. There is no single solution to the problem. It may vary depending upon view points of trainees. In short, the purpose of case study method is, to make trainee apply their knowledge.

iv) Role Play Method

Under this method trainees are explained the situation and assigned roles. They have to act out the roles assigned to them without any rehearsal. There are no pre-prepared dialogues. Thus they have to assume role and play the role without any preparation. For example the role of customer and salesman, management and union leader, foreman and worker etc. may be played in the training arrangements. The moderator after observing the role played gives his views to the role players.

v) Seminar/Conference Method

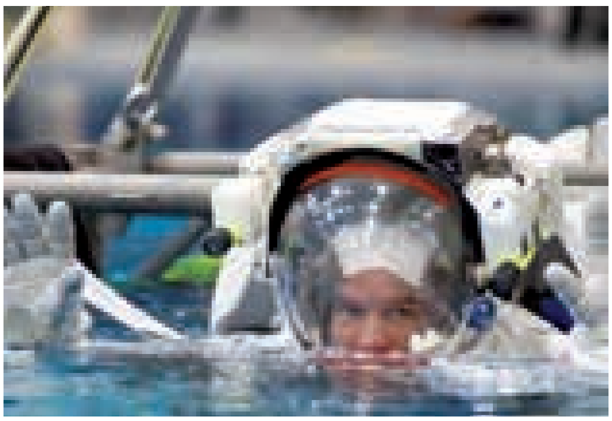
This method enables the trainees to listen to the lectures / talk delivered on specific topics and provides opportunities to participate, to interact with the speaker and get their doubts clarified or select participants may be allowed to present papers with the audio visual aids as delegates. They share their rich experience at the seminar through their papers. Thus participants can widen and deepen their knowledge by their active participation at the conference. e.g. Doctors conference, Salesman Conference etc., This is one of the oldest method, but still a favorite training method.

vi) Field Trip Method

A field trip or field work or training in the field is a journey undertake by a group of employees/ trainees to a place away from their actual work site. In other words, trainees are taken to actual workplace/ site/facility to gain exposure and knowledge. They are explained the process of work by supervisor/ manager of the facility visisted by the partipants. They are free to clarity their doubts from the organization experts. This method helps the trainees to strengthen their theoretical knowledge obtained in a class room evironment by practical exposure.

vii) Vestibule Training Method

Vestibule training is training of employees in an environment similar to actual work environment artificially created for training purpose. This type of training is given to avoid any damage or loss to machinery in the actual place by trainees and avoid disturbing the normal workflow in the actual workplace. It is given to Drivers, Pilots, Space Scientists etc.,



viii) E-learning Method

E learning is the use of technological process to access of a traditional classroom or office. E learning is also often referred to us online learning or web based training. E learning training courses can save lakhs and lakhs of rupees to an organizations as they no longer have to pay for over time or costly seminar to improve employees skills. Under this type of web based training is anywhere and any time information can pass over the internet.

ix) Demonstration Training Method

This method is a visual display of how something works or how to do something. Demonstration involves showing by reason or proof explaining or making clear by use of examples or experiments. As an example, trainer shows the trainees how to perform or how to do the task of the job.

x) Programmed Instruction Method

Under this method, the subject matter to be learnt is presented in a series of units. These units are arranged from simple to complex level. It consists of three parts: Presenting facts, New knowledge and Question and Answer. Trainee has to read the unit understand the concept and take part in self-evaluation exercise. The system provides feedback on the accuracy of response given by trainee. On the successful completion of each and every unit, he/she will go to subsequent level. If hey forget, they should go back to original information. If they do not forget the information they are allowed to go to the next step for learning. Programmed instructions is made available in printed form i.e books, table, interactive video and other formats. Besides there are number of other advanced methods of training of the employees which will be taught to students in their higher studies

12. 04 Difference Between on the Job Training and off the Job Training

The major differences between these two training method is listed below.

Basis for comparison	On the Job Training	Off the Job Training
Meaning	The employee learns the job in the actual work environment.	Off the Job training involves the training of employees out side the actual work location
Cost	It is cheapest to carry out	It requires expenses like separate training rooms, specialist, resources like projectors.
Location	At the work place	Away from the work place
Suitable for	Generally imparted in case of Manufacturing for production related Jobs	Mostly imparted for managerial andnon production related jobs.
Approach	Practical approach	Theoretical approach
Principle	Learning by performing	Learning by acquiring knowledge
Carried out	It is carried out by the experienced employee	Training which is provided by the experts.
Deals with	Training is very relevant and practical dealing with day –to –day requirement of job	It can more easily deal with groups of workers at the same time.
Work disturbance	The scope for distractions is more, as there may be noise and disturbances because of working machines, tools and gadgets.	There is no distraction because trainees are away from the actual working environment.
Methods	Coaching, job rotation, apprenticeship, mentoring, under study, job instruction, committee assignment are some of the avenues of on-the job training methods	Role –plays , seminar, lectures, case studies, vestibule field trip programmed instruction demonstration e-learning are some of the off – the job training methods.

12.05 Benefits of Training

(i) Benefits to the Organization

i) It improves the skill of employees and enhances productivity and profitability of the entity.

ii) It reduces wastages of materials and idle time

iii) It exposes employees to latest trends.

iv) It minimizes the time for supervision.

v) It reduces the frequency of accidents at workplace and consequent compensation payment.

vi) It reduces labour turnover of employee

vii) It improves union and management relation.

(ii) Benefits to the Employees

i) It adds to the knowledge skill and competency of employee

ii) It enables him to gain promotion or achieve career advancement in quick time.

iii) It improves the employees productivity

iv) It enhances the morale of the employee.

v) Employees get higher earnings through incentives and rewards.

v) It builds up the confidence of employee by changing his attitude positively towards to work

vi) It enables him to observe safety practices voluntarily during his engagement in dangerous operation

(iii) Benefits of Customer

i) Customers get better quality of product/ service.

ii) Customers get innovative products or value added or feature rich products.

Key Words

Vestibule training	Mentoring
Job instruction	Field trip
Demonstration	E learning,
Off the job training	On the job training,

Case Study

Hemalatha is the MD of Aravindh Textile manufacturing company. Her company produces textiles which has a good sales record in Indian marketas well as foreign market. Hemalatha plans to buy new tech machineries for his company. But she first decides to give a training program to his employees about the new machineries.

i) What kind of training program should she provide to his employees and

ii) What are the benefits does the employees gain from that training program.

DO YOU KNOW?

PMKVY?

Pradhan mantra Kaushal Vikas Yojana is a unique initiative by the Government of India that aims to offer 24 lakh Indian Youth meaningful ,industry relevant skill based training. Under this scheme, the trainees will be offered a financial reward and a government certification on successful completion of training and assessment, which will help them in securing a job for a better future. ICA (Infotech Private Ltd.) offers skill based training, under this initiative ,in the following sectors:

✓ Agriculture
✓ Apparel, Maufacturing Made Ups and Furnishing
✓ Leather products
✓ Media and Entertainment
✓ Handicrafts
✓ Telecom

"Success is 80% Attitude and 20% aptitude" (Funmiwale – Adegbite)

Exercise

EXDJ9V

I. Choose the Correct Answers:

1. Off the Job training is given

a) In the class room
b) On off days
c) Outside the factory
d) In the playground

2. Improves Skill Levels of employees to ensure better job performance

a) Training
b) Selection
c) Recruitment
d) Performance appraisal

3. When trainees are trained by supervisor or by superior at the job is called

a) Vestibule training
b) Refresher training
c) Role play
d) Apprenticeship training

4. _________ is useful to prevent skill obsolescence of employees

a) Training b) Job analysis
c) Selection d) Recruitment

5. Training methods can be classified into _________ and _________ training.

a) Job rotation and Job enrichment
b) On the Job and Off the Job
c) Job analysis and Job design
d) Physical and mental

Answers:

1	c	2	a	3	d	4	a	5	b

II. Very Short Answer Questions:

1. What is meant by training?
2. What is Mentoring training method?
3. What is Role play?
4. State e-learning method?

III. Short Answer Questions:

1. What is vestibule training?
2. What do you mean by on the job Training?
3. Write down various steps in a training programme.
4. Write short note on trainer and trainee.

IV. Long Answer Questions:

1. Discuss various types of training. (any 5)
2. What are the difference between on the job training and off the job training? (any 5)
3. Explain the benefits of training. (2 points from each headings)

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13 CHAPTER

CONCEPT OF MARKET AND MARKETER

செய்வினை செய்வான் செயன்முறை அவ்வினை
உள்ளறிவான் உள்ளம் கொளல்.
–குறள் 677

COUPLET

The method of performance for one who has begun an act is to ascertain the mind of him who knows the secret thereof.

FCWEB7

Learning Objectives

To enable the students to understand the

- Understand the Meaning and Definition of Market and Marketer
- Know the Need of Markets
- Classification of markets
- Things which can be Marketed
- Understand the Role and Functions of Marketer

Chapter Synopsis

13.01. Meaning and Definition of Market

Meaning of Market

The word market is derived from the Latin word 'Marcatus' which means trade, commerce, merchandise, a place where business is transacted. The common usage of market means a place where goods are bought or sold. It is a medium or place to interact and exchange goods and services. In simple words, the meeting place of buyers and sellers in an area is called Market.

Definition of Market

The term market defined by different authors in different ways among them the most important are given below.

i. According to Pyle "Market includes both place and region in which buyers and sellers are in free competition with one another."

ii. In the words of Clark and Clark "A market is a centre or an area in which the forces leading to exchange title to a particular product operate and towards which the actual goods tend to travel."

From the above definition it is observed that

i. Market may mean a Place; where buying and selling take place.

ii. Buyers and sellers come together for transactions.

iii. An organisation through which exchange of goods takes place.

iv. The act of buying and selling of goods (to satisfy human wants).

v. An area of operation of commercial demand for commodities.

13.02. Need for Market

i. To exchange (barter) goods and services.

ii. To adjust demand and supply by price mechanism.

iii. To improve the quality of life of the society.

iv. To introduce new modes of life.

v. To develop product by enhancing market segment.

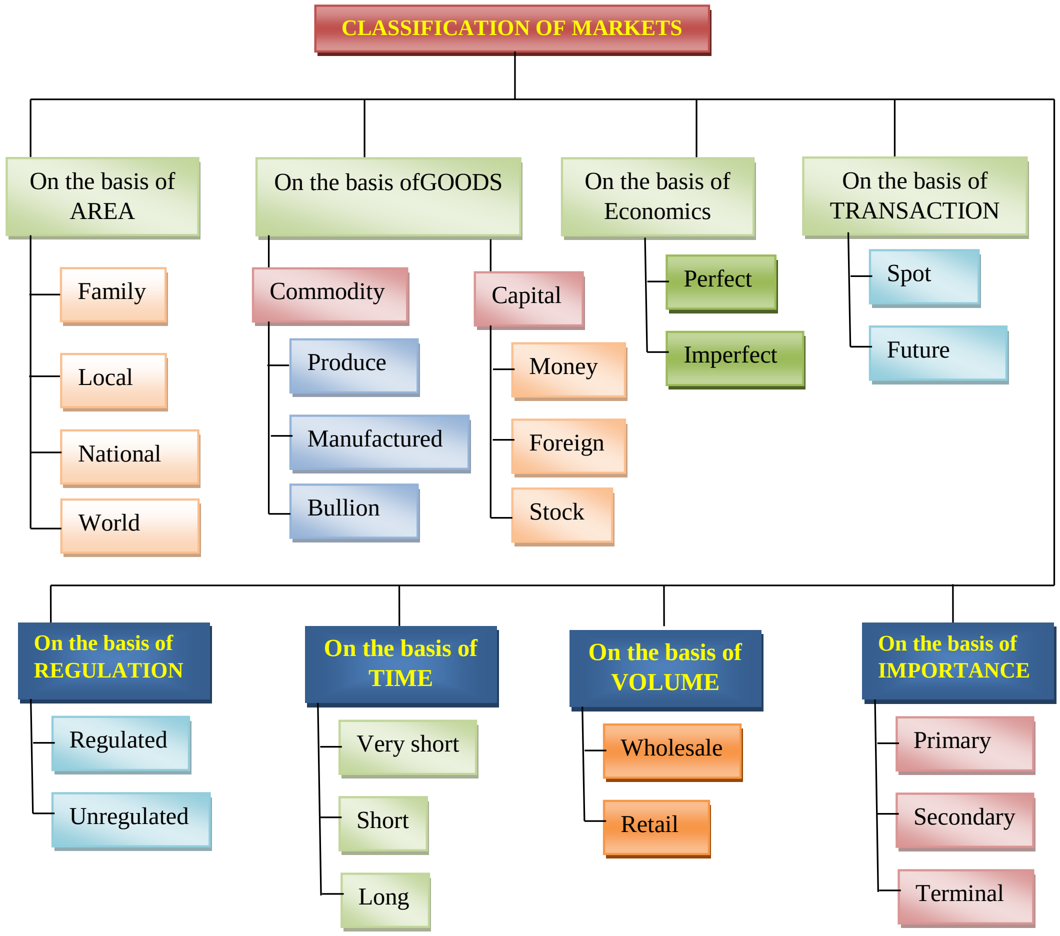
13.03. Classification of Markets

On the basis of different approaches markets have been classified on the basis of Area, Nature of Goods, and Economic view, Transaction, Regulation, Time, Volume and importance. The detailed classification is presented in the following chart.

I. On the Basis of Geographical Area

a. **Family Market:** When exchange of goods or services are confined within a family or close members of the family, such a market can be called as family market.

b. **Local Market:** Participation of both the buyers and sellers belonging to a local area or areas, may be a town or village, is called as local market. The demands are limited in this type of market. For example, perishable goods like fruits, fish, vegetables etc. But strictly speaking such markets are disappearing because of the efficient system of transportation and communication. Even, then, in many villages such markets exist even today.



c. National Market: a.Certain type of commodities has demand throughout the country. Hence it is called as a national market. Today the goods from one corner can reach another corner with ease as the communication and transportation facilities are developed well in India. This creates national markets for almost all the products.

d. International Market or World Market: World or international market is one where the buyers and sellers of goods are from different countries i.e., involvement of buyers and sellers beyond the boundaries of a nation.


Flower Market


Goat Market


Cattle Market


Horse Market

II. On the Basis of Commodities/Goods

a. Commodity Market:

A commodity market is a place where produced goods or consumption goods are bought and sold. Commodity markets are sub-divided into:

i. Produce Exchange Market: It is an organised market where commodities or agricultural produce are bought and sold on wholesale basis. Generally it deals with a single commodity. It is regulated and controlled by certain rules. e.g. Wheat Exchange Market of Hapur, the Cotton Exchange Market of Bombay etc.

ii. Manufactured Goods Market: This market deals with manufactured goods. e.g., Leather goods, Manufactured machinery etc. The Leather Exchange Market at Kanpur is an example of the same.

iii. Bullion Market: This type of market deals with the purchase or sale of gold and silver. Bullion markets of Mumbai, Kolkata, Kanpur etc., are examples of such markets.

b. Capital Markets:

New or going concerns need finance at every stage. Their financial needs are met by capital markets. They are of three types:

i. Money Market: It is a type of market where short term seurities are exchanged. It provides short term and very short term finance to industries, banks, governments agencies and financial intermediates.

ii. Foreign Exchange Market: It is an international market. This type of markets helps exporters and importers, in converting their currencies into foreign currencies and vice versa.

iii. The Stock Market: This is a market where sales and purchases of shares, debentures, bonds etc., of companies are dealt with. It is also known as Securities market. Stock Exchanges of Mumbai, Kolkata, Chennai etc., are examples for this type of market.

III. On the Basis of Economics

a. Perfect Market: A market is said to be a perfect market, if it satisfies the following conditions:

i. Large number of buyers and sellers are there.

ii. Prices should be uniform throughout the market.

iii. Buyers and sellers have a perfect knowledge of market.

iv. Goods can be moved from one place to another without restrictions.

v. The goods are identical or homogenous.

It should be remembered that such types of markets are rarely found.

b. Imperfect Market: A market is said to be imperfect when

i. Products are similar but not identical.

ii. Prices are not uniform.

iii. There is lack of communication.

iv. There are restrictions on the movement of goods.

IV. On the Basis of Transaction

i. Spot Market: In such markets, goods are exchanged and the physical delivery of goods takes place immediately.

ii. Future Market: In such markets, contracts are made over the price for future delivery. The dealing and settlement take place on different dates.

V. On the Basis of Regulation

i. Regulated Market: These are types of markets which are organised, controlled and regulated by statutory measures.

Example: Stock Exchanges of Mumbai, Chennai, Kolkata etc.

ii. Unregulated Market: A market which is not regulated by statutory measures is called unregulated market. This is a free market, where there is no control with regard to price, quality, commission etc. Demand and supply determine the price of goods.

VI. On the Basis of Time

i. Very Short Period Market: Markets which deal in perishable goods like, fruits, milk, vegetables etc., are called as very short period market. There is no change in the supply of goods. Price is determined on the basis of demand.

ii. Short Period Market: i. In certain goods, supply is adjusted to meet the demand. The demand is greater than supply. Such markets are known as Short Period Market.

iii. Long Period Market: This type of market deals in durable goods, where the goods and services are dealt for longer period usages.

VII. On the Basis of Volume of Business

i. Wholesale Market: In wholesale market goods are supplied in bulk quantity to dealers/ retailers. The goods and services are not sold to customers directly.

ii. Retail Market: In retail market the goods are purchased from producer or wholesales and sold to customers in small quantities by retailers.

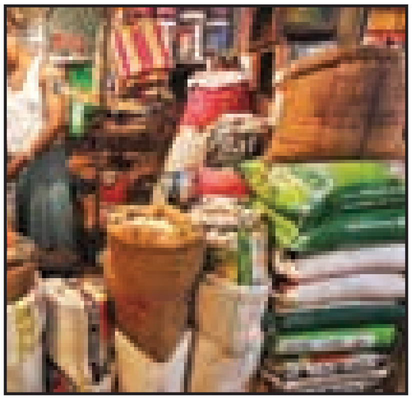
VIII. On the Basis of Importance

i. Primary Market: The Primary producers of farm sell their output or products through this type of markets to wholesalers or consumers. Such markets can be found in villages and mostly the products arrive from villages.

Village market

City market

Local market



Retail market

Wholesale market

ii. Secondary Market: In this market, the semi finished goods are marketed. Here finished goods are not sold. The commodities arrive from other markets. The dealings are commonly between wholesalers or between wholesalers and retailers.

iii. Terminal Market: It is a central site that serves as an assembly and trading place for commodities in a metropolitan area. For agricultural commodities, these are usually at or near major transportation hubs.

13.04 Meaning and Definition of Marketer

Meaning of marketer

1. One who deals in a market; specifically, one who promotes or sells a product or service

2. A marketer is someone whose job involves marketing

3. Someone who promotes or exchanges goods or exchanges goods or services for money.

Definition of marketer

"A person whose duties include the identification of the goods and services desired by a set of consumers, as well as the marketing of those goods and services on behalf of a company".

- Business Dictionary

13.05. What can be Marketed?

Marketing is a comprehensive concept which starts from the point of creation, promotion and ultimately delivering the goods and services to consumers and businesses. The dynamic items that can be marketed are listed below:

i. Goods: Manufactured Goods are the main constituent of marketing endeavor in all the countries across the world. Companies and individuals market goods like consumer durables, electronic products, machineries, Computers and its software and hardware etc.,

ii. Services: Not only physical goods can be marketed. Even the services of many organisations can be marketed to the consumers namely banking, insurance, finance, hospitality, tourism, professional consultations etc.,

iii. Experiences: The unique and varied experiences pertaining to a place or a park or an event can be marketed under this concept. For eg. Amusement Park, Theme Park, Mountaineering etc.,

iv. Events: The event marketing aims at promoting and marketing of special events, shows, exhibitions, fairs, performances, sports events like World Cup, Olympics, T20 etc.,

v. Persons: The marketing of goods and services through celebrities is a successful formula for creating a brand relationship with the consumers. The endorsement for the brand of a company can be carried down by Cinema Stars, Sports Stars, Musicians and eminent personalities.

vi. Places: Under place marketing, tourist business prospects, new residents and land are appealed to visit and particular geography by promoting special characteristics of places like infrastructural facilities, amusement, climatic conditions, entertainment, culture etc.,

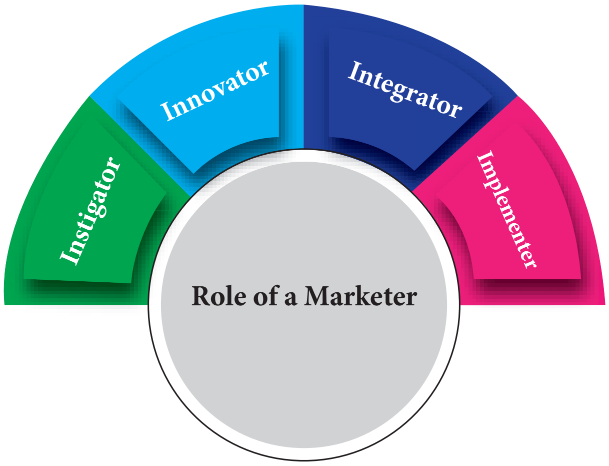
vii. Properties: Properties include both real property and financial property which involve transfer of ownership on sale or purchase of the same. For eg. Constructed house, Land, Plot, Building, Shares, Debentures, Mutual funds etc.,

viii. Organisations: An organisation can market itself in order to build an image for it by sponsoring events, adoption of villages, donations for charitable causes, corporate social responsibility activities etc.,

ix. Information: Information is the most valuable product that can be marketed today. The data collected by an organisation can be used as a product for this purpose. For eg., Information collected by libraries, research agencies, educational institutions, book publishers, broadcasting companies, internet, etc.

x. Ideas: An idea may change the world. Innovative and attractive ideas are the desirable products for the marketers to sell. Social media marketing thrives on new ideas in a consistent manner.

13.06. Role of a Marketer



The marketer plays four roles as follows

i. Instigator

As an instigator, marketer keenly watches the developments taking place in the market and identifies marketing opportunities emerging in the ever changing market. He/she puts in place appropriate marketing mix to capitalize the opportunity. In such a case, marketer plays as an instigator and leads the business toward new directions.

ii. Innovator

Marketer seeks to distinguish his products/ services by adding additional features or functionalities to the existing product, modifying the pricing structure, introducing new delivery pattern, creating new business models, introducing change in production process and so on.

iii. Integrator

Marketer plays a role of integrator in the sense that he collects feedback or vital inputs from channel members and consumers and provides products/service solutions to customers/consumers by co-ordinating multiple functions of organisation.

iv. Implementer

Marketer plays a role of implementer when he/she actually converts marketing opportunities into marketable product with the help of several functional teams put in place in the organisation.

13.07. Functions of Marketer

i. Gathering and Analysing market information

ii. Market planning

iii. Product Designing and development

iv. Standardisation and Grading

v. Packaging and Labelling

vi. Branding

vii. Customer Support Services

viii. Pricing of Products

ix. Promotion and Selling

x. Physical Distribution

xi. Transportation

xii. Storage and Warehousing

Key Words

Market	Marketer	Instigator
Innovator	Integrator	Implementer

DO YOU KNOW?

i. There is a Goat market in Aathur in Tamil Nadu.

ii. There is a daily flower market in Hosur in Tamil Nadu.

For Future learning

To learn about:

1. - Co-operative Market
2. - Farmers Market

For Own thinking

Mention any two Types of Markets on the basis of Goods

Mention any two Markets on the basis of Time

Exercise

FS6DAV

I. Choose the Correct Answers:

1. One who promotes (or) Exchange of goods or services for money is called as ______________ .

a) Seller b) Marketer

c) Customer d) Manager

2. The marketer initially wants to know in the marketing is ______________ .

a) Qualification of the customer

b) Quality of the product

c) Background of the customers

d) Needs of the customers

3. The Spot market is classified on the basis of ______________ .

a) Commodity b) Transaction

c) Regulation d) Time

4. Which one of the market deals in the purchase and sale of shares and debentures?

a) Stock Exchange Market

b) Manufactured Goods Market

c) Local Market

d) Family Market

5. Stock Exchange Market is also called ____________

a) Spot Market

b) Local Market

c) Security Market

d)National Market

Answers:

1	b	2	d	3	b	4	a	5	c

II. Very Short Answer Questions:

1. What is Market?
2. Define Marketer.
3. What is mean by Regulated Market?
4. What is meant by Spot Market?
5. What is meant by Commodity Market?

II. Short Answer Questions:

1. What can be marketed in the Market? (any 3)
2. Mention any three Role of Marketer?
3. Explain the types of market on the basis of time.

III. Long Answer Questions:

1. How the market can be classified? (any 5)
2. How the market can be classified on the basis of Economics?

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UNIT V

ELEMENTS OF MARKETING

14 CHAPTER

MARKETING AND MARKETING MIX

பொருள்கருவி காலம் வினையிடனொடு ஐந்தும்
இருள்தீர எண்ணிச் செயல்.

குறள் 675

COUPLET

Do an act after a due consideration of the (following) five, viz. money, means, time, execution and place.

G7P8C7

Learning Objectives

To enable the students to understand the

- Introduction to marketing
- Evolution of marketing
- Marketing concept
- Definition of marketing
- Objectives of marketing
- Importance of marketing to the society
- Importance of marketing to the individual firms
- Functions of marketing
- Meaning and definition of marketing mix
- Elements of marketing mix
- Marketing mix matrix

Chapter Synopsis

14.01 Introduction

Marketing is one of the business functions that all activities that take place in relation to markets for actualise potential exchanges for the purpose of satisfying human needs and wants. In other words marketing is the performance of buying activities that facilitate to more flow of goods and services from producer to ultimate user. Selling is basically concerned with putting the goods into the hands of the buyers for a price, but marketing is much wider than selling.

The development of marketing is evolutionary rather than revolutionary. There is no single answer to the question of what is marketing? To understand, it may be explained in brief, as "Marketing is what a marketer does," But this meaning lacks clarity in understanding the subject. The evolution of marketing is as old as the Himalayas. It is one of the oldest professions in the world.

Marketing is indeed an ancient art; it has been practiced in one form or the other since the days of Adam and Eve. The word, marketing has been defined differently by authorities in different ways. The traditional objective of marketing had been to make the goods available at places where they are needed. This idea was later on changed by shifting the emphasis from **"exchange"** to **"satisfaction of human wants".** Different authors tried to give suitable definition from their viewpoint. Some are very broad; others are rather too narrow. Some emphasise on the traditional view of producing goods and finding out customers, others emphasise on the modern view that marketing must first find out what customers want and then plan a product to satisfy the wants. As any other subject, it has its own origin, growth and development.

14.02 Evolution of Marketing

i. Barter System: The goods are exchanged against goods, without any other medium of exchange, like money.

ii. Production Orientation: This was a stage where producers, instead of being concerned with the consumer preferences, concentrated on the mass production of goods for the purpose of profit. They cared very little about the customers.

iii. Sales Orientation: The stage witnessed major changes in all the spheres of economic life. The selling became the dominant factor, without any efforts for the satisfaction of the consumer needs.

iv. Marketing Orientation: Customers' importance was realised but only as a means of disposing of goods produced. Competition became more stiff. Aggressive advertising, personal selling, large scale sales promotion etc. are used as tools to boost sales.

v. Consumer Orientation: Under this stage only such products are brought forward to the markets which are capable of satisfying the tastes, preferences and expectations of the consumers-consumer satisfaction.

vi. Management Orientation: The marketing function assumes a managerial role to co-ordinate all interactions of business activities with the objective of planning, promoting and distributing want-satisfying products and services to the present and potential customers.

14.04 Definition of Marketing

"Marketing is concerned with the people and the activities involved in the flow of goods and services from the producer to the consumer".

–American Marketing Association.

14.03. Marketing Concepts

Marketing Concepts	***What I can sell?*** MAKE WHAT YOU CAN SELL, BUT DO NOT TRY TO SELL WHAT YOU CAN MAKE. ***Shall I first create products?*** NO, FIRST CREATE A CUSTOMER, THEN CREATE PRODUCTS. ***Shall I love my products?*** NO, LOVE YOUR CUSTOMERS AND NOT THE PRODUCTS. ***Who is supreme in markets?*** CUSTOMER IS SUPREME OR KING. ***Who will shape my decisions?*** CUSTOMER'S PREFERENCES SHAPE YOUR DECISIONS.

14.05. Objectives of Marketing

Baker and Anshen say, "The end of all the marketing activities is the satisfaction of human wants". Through the satisfaction of human wants, profits are rewarded to the business and the reward is inducement for marketing. Now the time has changed and object of marketing is more than securing profits.

The following are the objectives of marketing:

i. Intelligent and capable application of modern marketing policies.

ii. To develop the marketing field.

iii. To develop guiding policies and their implementation for a good result.

iv. To suggest solutions by studying the problems relating to marketing.

v. To find sources for further information concerning the market problems.

vi. To revive existing marketing function, if shortcomings are found.

vii. To take appropriate actions in the course of action.

14.06. Importance of Marketing

a) To the Society

i. Marketing is a connecting link between the consumer and the producer.

ii. Marketing helps in increasing the living standard of people.

iii. Marketing helps to increase the nation's income.

iv. Marketing process increases employment opportunities.

v. Marketing creates modern cultivators.

vi. Marketing removes the imbalances of supply by transferring the surplus to deficit areas, through better transport facilities.

vii. Marketing helps to maintain economic stability and rapid development in underdeveloped or developing countries.

viii. Marketing includes all activities in the creation of utilities-form, place, time and possession.

ix. A reduction in the cost of marketing is a direct benefit to society.

x. Marketing adds value of goods by changing their ownership and by changing their time and place of consumption.

b) To the Individual Firms

i. Marketing generates revenue to firms.

ii. Marketing section of a firm is the source of information to the top management for taking overall decisions on production.

iii. Marketing and innovation are the two basic functions of all businesses. The world is dynamic.

iv. Marketing facilities the development of business and creates employment opportunities for people.

14.07. Functions of Marketing

Some of the most important functions of marketing are as follows:

The delivery of goods and services from producers to their ultimate consumers or users includes many different activities. These different activities are known as marketing functions. Different scholars have described different functions of marketing as under:

G.B. Giles described seven functions of marketing:

i. Marketing research

ii. Marketing planning

iii. Product development

iv. Advertisement and sales promotion

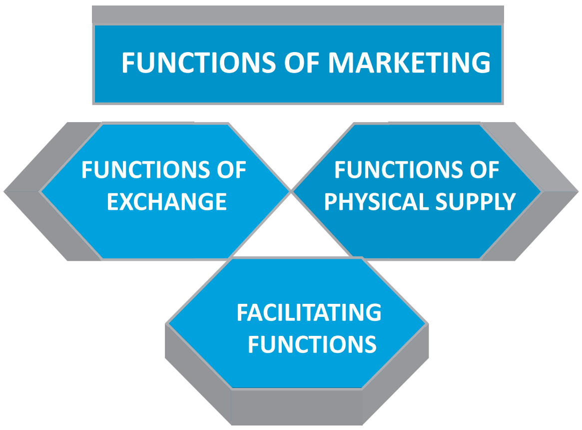
v. Selling and distribution

vi. After sale services

vii. Public relations.

Another classification of marketing functions is given by professors Clark and Clark, which is widely accepted by one and all. Functions of marketing are classified into three types.

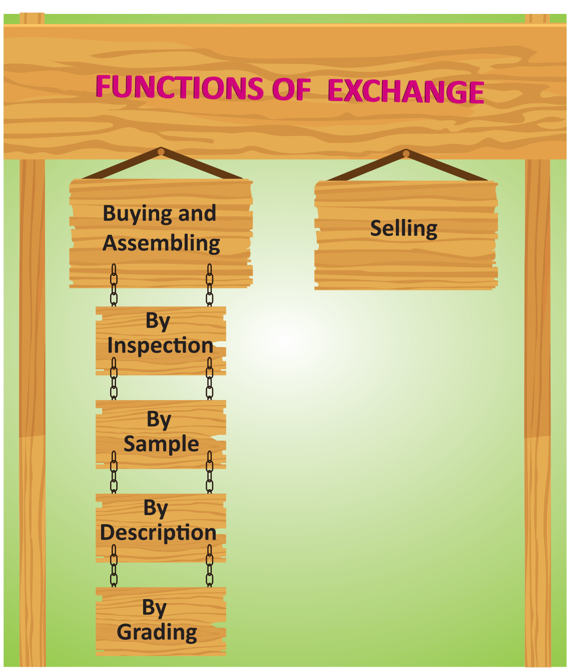
1. Functions of Exchange
2. Functions of Physical Supply
3. Facilitating Functions.



Functions of Exchange:

Exchange refers to transfer of goods and services for money's worth. This process can be divided into:

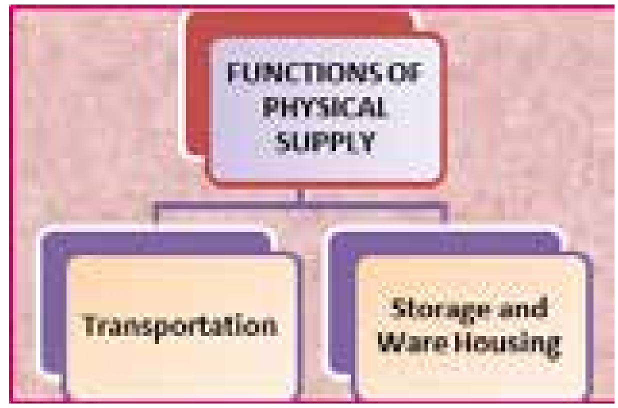
(a) Buying and assembling
(b) selling



Functions of Physical Supply

There are two important functions under this classification:

i. Transportation
ii. Storage and ware housing.



i. Transportation:

Transport means carrying of goods, materials and men from one place to another. It plays an important role in the marketing. It creates place utility by moving goods from the place where they are available in plenty, to places where they are needed. Various types of transport are used for carrying goods like

a. Land transport
b. Water transport
c. Air transport.

ii. Storage and Warehousing:

a. Storage

Storage is another function of marketing process and it involves the holding and preservation of goods from the time they are produced to the time they are consumed. Generally, there is a time gap between the production and consumption of goods. Therefore, there is need for storing so as to make the goods available to the consumers and when they are required.

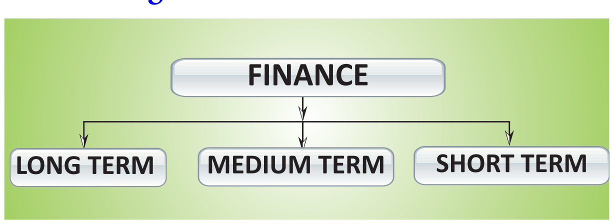
b. Warehousing

Warehouses create time utility by storing the goods throughout the year and releasing them as and when they are needed. Several types of warehouses are used for storage of goods.

Facilitating Functions

There are the functions which help or facilitate in the transfer of goods and services from the producer to the consumer. They are not directly connected with the transfer of goods. Under this category the following functions are included.

i. Financing:



a. Long-term finance

b. Medium-term finance

c. Short-term finance

ii. Risk Bearing:

a. Time risk

b. Place risk

c. Competition risk

d. Risk of change in demand

e. Risk arising from natural calamities

f. Human risks

g. Political risks

iii. Market Information:

According to Clark and Clark market information means "all the facts, estimates, opinions and other information used in marketing of goods".

iv. Standardization:

Standardization means establishment of certain standards based on intrinsic qualities of a commodity. The quality may be determined on the basis of various factors like size, colors, taste, appearance etc.

v. Grading:

Grading means classification of standardized products in to certain well defined classes.

vi. Branding:

Branding means giving a name or symbol to a product in order to differentiate it from competitive products.

vii. Packing:

Packing means wrapping and crating of goods before distribution. Goods are packed in packages or containers in order to protect them against breakage, leakage, spoilage and damage of any kind.

viii. Pricing:

Pricing is perhaps the most important decision taken by a businessman. It is the decision upon which the success or failure of an enterprise depends to a large extent. Therefore, price must be determined only after taking all the relevant factors into consideration.

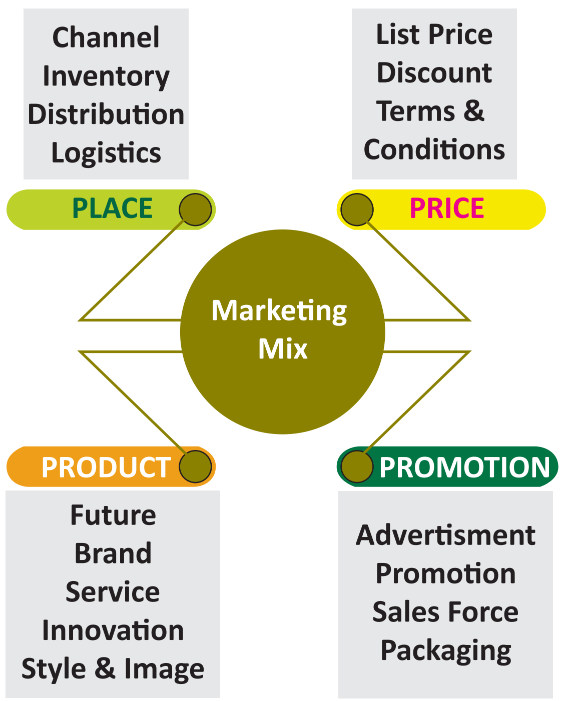
14.08. Definition of Marketing Mix

"Marketing mix is a pack of four sets of variables namely product variable, price variable, promotion variable, and place variable".

Mr. Jerome McCarthy

In simple words marketing mix means a marketing programme that is offered by a firm to its target consumers to earn profits through satisfaction of their wants. Such a marketing programme is a mixture of four ingredients, namely Product mix, Price mix, Place (Distribution)mix and Promotion mix.

14.09 Elements of Marketing of Mix



Let us discuss these 4 elements of marketing mix in detail.

i. Product

Product is the main element of marketing. Without a product, there can be no marketing.

ii. Price

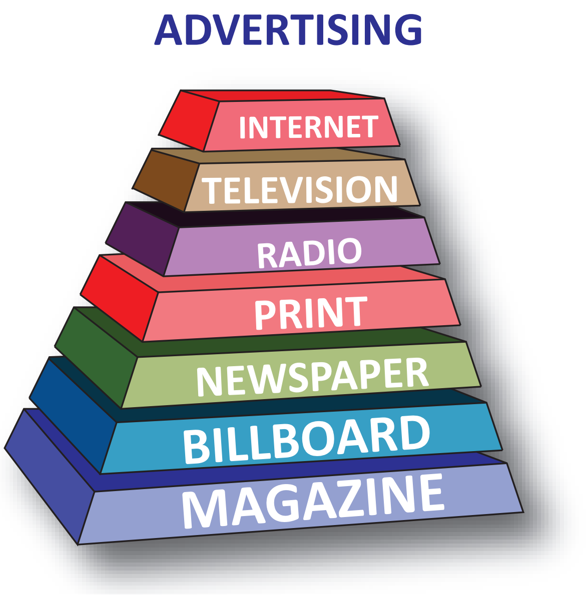
Price is the value of a product expressed in monetary terms. It is the amount charged for the product.

iii. Place (Physical Distribution)

An excellent quality product, with a competitive price structure, backed up by efficient promotional activities, will be a waste if it is not moved from the place of production to the place of consumption at an appropriate time. The fourth element of product mix, namely place or physical distribution facilitates the movement of products from the place of manufacture to the place of consumption at the right time.

iv. Promotion

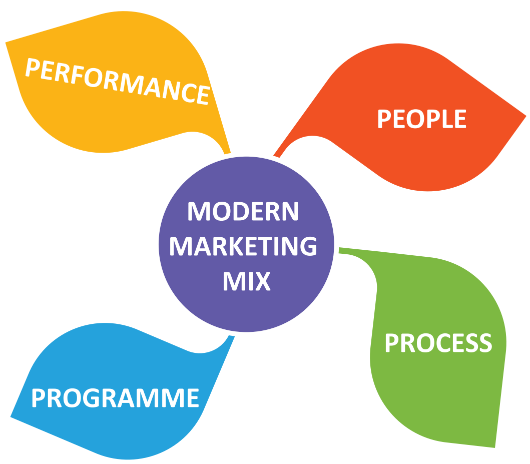
An excellent product with competitive price cannot achieve a desired success and acceptance in market, unless and until its special features and benefits are conveyed effectively to the potential consumers.



Advertisement Media

14.10. Marketing Mix Matrix

The principle of the 4P Matrix is that marketing decisions usually fall into four controllable categories: product, place, price and promotion. Carefully positioning the product in each category will generate a better response from the target market.



Key Words

Assurance	Dominant	Potential
Perishable	Completion	Surplus
determined	consumption	Unique
Grading	Necessity	

Do You Know?

i. There is a weekly market for Fire wood in Karaikudi

ii. There is a Annual Market for Horse in Andhiyur in Tamil Nadu.

For Own thinking

i. Mention any two man made risks in Marketing

ii. Mention any two natural risks in Marketing

For Future Learning

i. To organise a Model Marketing Practices in your class with some kind of goods and services

ii. To arrange and invite a marketing practitioner and good speakers for guest lectures about success and failures of market

Exercise

GM83DI

I. Choose the Correct Answers:

1. The initial stage of Marketing system is____________

a) Monopoly system

b) Exchange to Money

c) Barter system

d) Self producing

2. Who is supreme in the Market?

a) Customer　　b) Seller

c) Wholesaler　　d) Retailer

3. In the following variables which one is not the variable of marketing mix?

a) Place Variable

b) Product Variable

c) Program Variable

d) Price Variable

4. Marketing mix means a marketing program that is offered by a firm to its target ______________ to earn profits through satisfaction of their wants.

a) Wholesaler　　b) Retailer

c) Consumer　　d) Seller

5. **Which one is the example of Intangible product?**

a) Education b) Mobiles

c) Garments d) Vehicles

Answers:

1	c	2	a	3	c	4	c	5	a

II. Very Short Answer Questions:

1. What is Marketing?
2. Define Marketing Mix.
3. What is meant by Grading?

III. Short Answer Questions:

1. What are the objectives of marketing?
2. What are the concept of marketing?
3. What do you mean by marketing mix? Write any two elements.

IV. Long Answer Questions:

1. Discuss about the Evolution of marketing. (any 5)
2. Narrate the Elements of Marketing mix.

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UNIT V

ELEMENTS OF MARKETING

15
CHAPTER

RECENT TRENDS IN MARKETING

ஞாலம் கருதினுங் கைகூடுங் காலம்
கருதி இடத்தாற் செயின்.

குறள் 484

COUPLET

Though (a man) should meditate (the conquest of) the world, he may accomplish it if he acts in the right time, and at the right place.

HGZWEI

Learning Objectives

To enable the students to understand the

- Meaning and definition of E-Business and E-Commerce
- Objectives, advantage and disadvantages of E-Marketing
- Concept of Green, Niche, Ambush and Referral Marketing

Chapter Synopsis

15.01 Recent Trends in Marketing

The market scenario in the world today is changing very rapidly. The boundaries of nations are disappearing for exploiting the opportunities of business. Today's customers are global and exhibit international characteristics. Because of developments of information technology, rapid means of transportation, liberalization, and mobility of people across the world, their buying habits are fast varying and so are the fortunes of various organisations. In the Globalised business environment, the marketer must move goods faster and quicker to satisfy the consumers' needs and wants by serving the best quality goods and services. Therefore marketers are shifting from transaction thinking to relationship building and also focusing on life long customers. So, marketer has given more emphasis on the notion, "offer more for less" and adopt different strategies to satisfy the consumers. It is possible to carry out all the business transactions over an electronic network, primarily through the internet. The number of internet users is increasing very rapidly. They use a variety of tools like computers, laptops, tablet and smart or android phone devices to access different websites. Besides the social media networks have opened new avenues of interacting with customers.

(i) Electronic Commerce (E-Commerce)

It is well known that business is a branch of commerce. It looks after the distribution aspect of the business and also is concerned with the exchange of goods and services. If all activities, which directly or indirectly facilitate that exchange of goods done through internet and other online environments is known as Electronic Commerce (EC) or simply as E-Commerce.

(ii) E-Business

The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants is known as business. Electronic business (e-business) via, web, internet, intranets, extranets or some combination thereof to conduct business. In simple words, if all the business transaction carried out through internet and other online tools is called E-business

(iii) E-Commerce Vs E-Business

E-commerce simply refers to the buying and selling of products and services through online but E-business goes a way beyond the simple buying and selling, of goods and service and much wider range of business processes, such as supply chain management, electronic order processing and customer relationship management. E-Commerce and E-Business is used interchangeably in its broader meaning just as commerce and business.

15.02 E-Marketing

Electronic Marketing or E-Marketing is the process of marketing of products and services over internet and telecommunication networks. In simple terms, marketing strategies and techniques which are utilised to access target customers through online mode are referred to E-marketing. E-marketing includes use of internet for all the activities of advertising, promotion publicity, channel of distribution, marketing research to find out customers' needs and wants. Electronic marketing is interchangeably used to mean online marketing, web marketing, internet marketing and digital marketing

(i) E-Marketing - Definition

According to Judy Strauss, "E-marketing refers to application of broad range of information technology for creating more customer value through more effective segmentation, targeting, differentiation and positioning strategies, planning more efficiently and executing the conception, distribution, promotion and pricing of goods, services and ideas; and creating exchanges that satisfy individual consumer and organization's consumer objectives".

"E-Marketing is achieving marketing objectives through use of digital technologies like Internet, word wide web, email, wireless media, and management of digital customer data and electronic customer management systems (E-CRM)"

(ii) Objectives of E-Marketing

The following are the objectives of E-Marketing

1. Expansion of market share
2. Reduction of distribution and promotional expenses.
3. Achieving higher brand awareness.
4. Strengthening database.

(iii) Advantages of E-Marketing

1. Any Time market: E - Marketing provides 24 hours and 7 days "24/7" service to its users. So consumer can shop or order the product anytime from anywhere.
2. Direct contact of end consumer by the manufacturers cuts down the substantially intermediation cost. Thus products bought through e-marketing become cheaper.
3. Customer can buy whatever they want/ need just by browsing the various sites.

(iv) Disadvantages of E-Marketing

1. High Cost for E- marketing which requires a strong online advertising campaign a for which company has to spend large amount. The cost of web site design, software, hardware, maintenance of business site, online distribution costs and invested time, all must be factored into the cost of providing service or product online.
2. It is not suitable for small size business and also deters customers from buying who lives on long distances.
3. While the number of customers are continuously growing, companies hardly update the information on website.
4. Many buyers are suspicious about the security of the internet. As a result, many visitors of business web sites, do not like to use their credit card to make a purchase. So there is a fear of their cards being misused by fraudulent practitioners.

(v) E-Market Vs Traditional Market

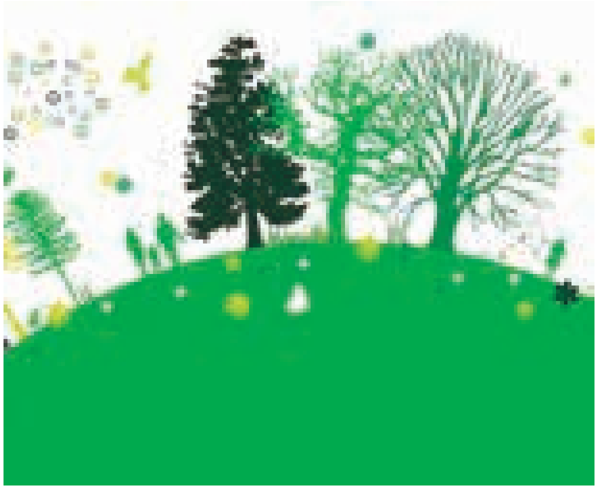
E-Marketing	Traditional Marketing
It is very economical and faster way to promote the products.	It is very expensive and takes more time to promote product.
It is quiet easier for promoting product globally in the short time.	It is very expensive and time consuming to promote product/ service under traditional marketing.
E-Business enterprises can expand their operation with minimum manpower.	It needs more man power.
In this marketing product can be sold or bought 24 x 7, round the year with minimum manpower	That is not possible in traditional marketing.

15.03 E-Tailing

E-tailing or electronic retailing refers to selling of goods and services through a shopping website (internet) or through virtual store to the ultimate consumer. Just as a physical store displays its products in windows and attracts the customer towards it, the shopping website displays the images of the products and highlights features and benefits along with attractive offers and lures the customer to buy the product. The customer buys the product by paying through credit card or other methods mentioned at the shopping website. The customer receives the product at their preferred address through courier service. E-tailing is a business to consumer (B2C) transaction model. E-tailing is also called online retailing

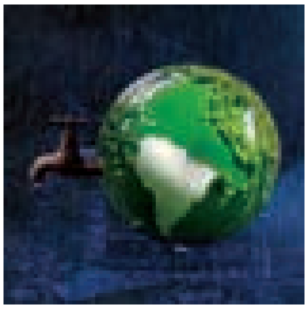
15.04 Green Marketing

Green marketing implies marketing environmentally friendly products. Green marketing involves developing and promoting products and services which satisfy customers' wants and needs for quality, performance, affordable pricing and convenience – all without causing a detrimental impact on the environment. It refers to holistic marketing concept with growing awareness about the implications of global warming, non-biodegradable solid waste, harmful impact of pollutants etc. Green marketing is also known as environmental marketing, ecological marketing eco-friendly marketing and sustainable marketing. Consumers are beginning to recognize that competition in the market place should not be among companies harming the environment but among those making to save it



15.05 Social Marketing

Social marketing is a new marketing tool. It is the systematic application of marketing philosophy and techniques to achieve specific behavioural goals which ensure social good. For example, this may include asking people not to smoke in public areas, asking them to wear seat belts or persuading them to follow speed limits. The primary aim of social marketing is 'social good' such as anti-tobacco, anti-drug, anti-pollution, anti-dowry, road safety, protection of girl child, against the use of plastic bags. Social marketing promotes the consumption of socially desirable products and develops health consciousness. It helps to eradicate social evils that affect the society and quality of life



15.06 Rural Marketing

Rural marketing is a process of developing pricing, promoting and distributing rural specific goods and services leading to derived exchange with rural customers to satisfy their needs and wants. Rural marketing has got a lot of untapped potential improvement in infrastructure it is supposed to open great opportunities for rural market. Rural marketing is now a two-way marketing process. There is inflow of products into rural markets for production or consumption and there is also outflow of products to urban areas. The urban to rural flow consists of agricultural inputs, fast-moving consumer goods (FMCG) such as soaps, detergents, cosmetics, textiles, and so on. The rural to urban flow consists of agricultural produce such as rice, wheat, sugar, and cotton. There is also a movement of rural products within rural areas for consumption

15.07 Service Marketing

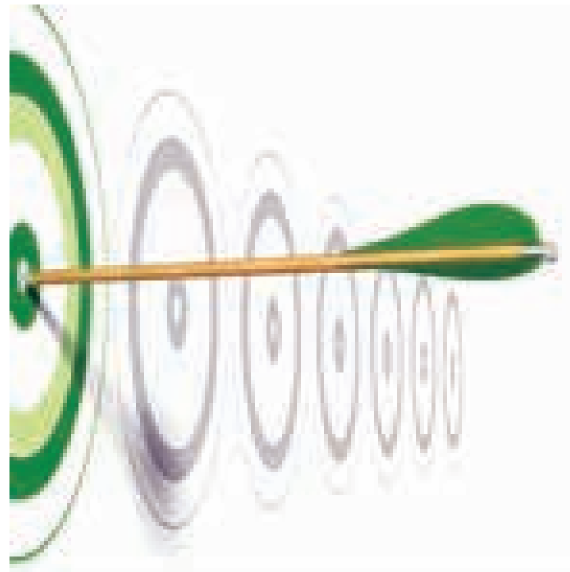
A service is any activity or benefit that one party can offer to another which is essentially intangible and which does not result in the ownership of anything like business and professional services insurance, legal service, medical service etc. Service marketing is a specialized branch of marketing. Service marketing denotes the processing of selling service goods like telecommunication, banking, insurance, car rentals, healthcare, tourism, professional services, repairs etc., The service products are mostly intangible, inseparable from service provider and service variable depending on the mood swing of service providers perishable in quick time, unstandardisable and deliverable directly from service provider without inter-median. The unique characteristics of services marketing warrant different strategies compared with the marketing of physical goods

15.08 Commodity Exchanges

A commodity exchange is an organized and regulated market that facilitates the purchase and sale of contracts whose values are tied to the price of commodities (e.g. crude oil, natural gas, copper and gold). Typically, the buyers of these contracts agree to accept delivery of a commodity, and the sellers agree to deliver the commodity

15.09 Niche Marketing

Niche marketing denotes a strategy of directing all marketing efforts towards one well defined segment of the population. Actually there is no market in niche market. It is found by company, by identifying the need of customers which are not served or under served by the competitors. The company which identified niche market develops solution to satisfy the needs of niche market. A niche market does not mean a small market, but it involves specific target audience with a specialized offering. It aimed at being a big fish in a small pond instead of being a small fish in a big pond. For example, there are various cinema halls across India, but there are few which have recliner seats to offer. Not everybody wants to watch a movie by paying 5x-6x times the cost of a normal ticket. The sports channels like STAR Sports, ESPN, STAR Cricket and Fox Sports target the niche market of sports enthusiasts.



15.10 Viral Marketing

Viral marketing is marketing technique that impels the users to pass on a marketing message to other users, creating a potentially exponential growth in the message's visibility and effect. Viral marketing is able to generate interest and the potential sale of a brand or product through messages that spread quickly like a virus from person to person. Messenger message and the environment are vital element indispensable in spreading message widely across various distance Hotmail Company owned by Microsoft promote the services and advertisement message instantly. The most widespread example in recent times is the creation of moving, surprising or spectacular videos on YouTube, which are then shared on Facebook, Twitter and other channels.

15.11 Ambush Marketing

Ambush marketing technique is a new technique whereby a particular advertiser seeks to connect his product to the event in the mind of potential customer without paying sponsoring expenses to the event. In other words it is a method of building brands in covert ways. For example X has sponsored a football event to promote his brand. Every time camera zooms on reference, a group of people sitting on the bench wearing 'Y' company brand name imposed shirt comes into focuses. In this case 'Y' company promote its brand at X's companies expenses. Bigger companies engage in ambush marketing tactics to undermine official event sponsors.

15.12 Guerrilla Marketing

The concept of Guerrilla Marketing was invented as an unconventional system of promotions that relies on time, energy and imagination rather than a big marketing budget. Guerrilla marketing represents an advertisement strategy to promote products/ services on streets or other public places with monkey like shopping malls, parks beach etc., Consumers/ customers are taken by surprise to make a big impression about the brand which in turn creates buzz about the brand on shirts it create a memorable experience in the mind of target audience which triggers good responses to sales. It is suited to small companies which cannot set apart big advertisement budget.

15.13 Multilevel Marketing

Multilevel Marketing is the marketing strategy wherein the direct sales companies encourage its existing distributors to recruit new distributors to facilitate the sale of goods and services. The distributor is compensated not only for the sales generated by him but also gets a percentage on sales revenue of the other distributor he recruits, thus; a multilevel marketing is a type of direct selling wherein the distributor sells the product via relationship referrals and word-of-mouth marketing. The salespersons or distributor not only sell the products but also encourage others to join the company. The recruits are called as the participant's "Downline" or distributor's "Downline". Example, Tupperware, and Amway are the direct sales companies that use the multilevel marketing. The multilevel marketing is also called as a network marketing, referral marketing or pyramid selling. For instance 'A' sells to 'B' a product. In these sales 'A' gets commission on sale to 'B' who in turn sells to 'C', D, and E. A gets certain percentage commission on B's sales to C,D, and E.

15.14 Referral Marketing

Referral marketing is the method of promoting products or services to new customers through referrals. Referral marketing is refer to spreading the word about a product or service through existing customers of business enterprises rather than through traditional advertising. Word-of-mouth marketing, which occurs when others tell each other about a business, is also considered to be a form of referral marketing.

15.15 Content Marketing

Content marketing is said to be the art of communicating with customers and prospects without selling. The Content Marketing institute calls it non-interruption marketing. Under this concept products/ services are presented impressively to target market which respond to the content delivered in the form of good sales response and greater loyalty.

Key Words

Electronic Marketing	e-tailing
Green Marketing	Social Marketing
Rural Marketing	Services Marketing
Content Marketing	Niche market
Guerrilla Marketing	Referral Marketing

For own thinking (Green Practices)

1. Encourage family members, friends and relatives to use "real" mugs, glasses, dishes and cutlery rather than disposables.
2. Practice sourcing and purchasing the least or not environmentally damaging goods (green procurements).
3. Look for and purchase green products such as staple-less staplers and pens that can be refilled repeatedly rather than sent to a landfill.
4. Save paper by avoid unnecessary printing, by printing on both sides of a sheet of paper whenever possible.
5. Do not leave your home or school lights on overnight Turn the lights off in rooms when they're not in use. Replace bulbs with compact fluorescent lamps (CFLs) or LED bulbs wherever possible. These use 75 percent less energy.

WAYS TO REDUCE WATER USAGE IN SCHOOL/HOME PREMISES

Fixing dripping taps, plumbing leaks, and installing low-flow toilets and low-flow faucet aerators in washrooms. uses a sprinkling system converting to a drip system will dramatically reduce water usage

Toyota's marketing of the Prius hybrid. Volkswagen/Mercedes-Benz' marketing of its vehicles as "clean diesel" "Earth Friendly" vehicles.

Exercise

HWIRFU

I. Choose the Correct Answers:

1. Selling goods/ services through internet is

a. Green marketing b. E- business

c. Social marketing d. Meta marketing

2. Which is gateway to internet?

a. Portal b. CPU

c. Modem d. Webnaire

3. Social marketing deals with:

a. Society b. Social Class

c. Social change d. Social evil

4. Effective use of Social media marketing increase conversion rates of ___________.

a. Customer to buyers

b. Retailer to customers

c. One buyer to another buyer's

d. Direct contact of marketer

5. Pure play retailers are called

a. Market creators

b. Transaction brokers

c. Merchants

d. Agents

Answers:

1	b	2	c	3	b	4	a	5	b

II. Very Short Answer Questions:

1. What is service marketing?
2. What is green marketing?
3. What is Ambush marketing?
4. What is Social marketing?

III. Short Answer Questions:

1. What are the advantages of E-Marketing?
2. Discuss the objectives E-Marketing. (Any 3)
3. Explain in detail about Niche marketing.

IV. Long Answer Questions:

1. Explain in detail how traditional marketing differ from E-marketing.
2. Disscuss any two new methods of marketing.

References:

1. Essentials of Marketing –Dr.K.Sundar - Vijay Nicole publication
2. Modern Marketing Principles and Practices- by Pillai R.S.N. and Bagavathi – S.Chand publication.

UNIT VI

CONSUMER PROTECTION

16 CHAPTER

CONSUMERISM

அழக்கொண்ட எல்லாம் அழப்போம் இழப்பினும்
பிற்பயக்கும் நற்பா லவை.

–குறள் 659

COUPLET All that has been obtained with tears (to the victim) will depart with tears (to himself); but what has been by fair means; though with loss at first, will afterwards yield fruit.

IC2LH6

Learning Objectives

To enable the students to understand the

- Exploitation of consumers
- Meaning and definition of consumerism
- Evolution of consumer movements
- Consumer Protection Act, 1986

Chapter Synopsis

The nature of society was monoistic and its needs were very limited. Before industrial revolution most of the people lived in rural areas and the farmers produced the substantial portion of the goods consumed by them. Businesses were small and the manufacturers produced only those items which could not be produced in agriculture. As the nation became industrialised and the society becoming pluralistic, the raw materials changed their characters through advanced technology. New products appeared and consumers' dependence of business increased. Consumer dependency and business responsibility are the two sides of a coin. The producer, the consumer and the government are the three constituent elements of business. The consumer is the most exploited constituent in the business world. This lesson explains about the consumer exploitation and consumer protection.

16.01 Consumer

A consumer is one who consumes goods manufactured and sold by others or created (air, water, natural resources) by nature and sold by others. One, who avails services such as banking, transport, insurance, etc., is also called a consumer. In other words, a consumer is an individual who consumes goods- manufactured by firms or created by nature air, water etc.and services offered by government or firms, hospitals, educational institutions etc.,

Meaning of Consumer under The Indian Consumer Protection Act, 1986

A person who buys any goods or services for a consideration which has been paid or promised or partly paid and partly promised or under any system of deferred payment is a consumer.

A person who obtains such goods for resale or for any commercial purposes will not be a consumer. However, if such goods are bought by a person exclusively for the purpose of earning his livelihood by means of self-employment then such a person will be considered a consumer.

In theory, all business enterprises consider consumer's satisfaction as their main objective. A consumer is said to be the king and the businessmen are primarily supposed to serve and satisfy customers. The consumer occupies the central position in the entire scheme of free economy; consumers have not always received the attention they deserve. In reality consumers are cheated and exploited in many ways. In the practical world, a consumer is a 'slave' and not the 'sovereign' as described.

The consumer's well-being or the welfare lies in the fulfilment of their normal, legitimate, interests, expectations and aspirations as to goods and services they need. Each and every customer is worried, and harmed till buried about the quality, quantity, price and the timeliness of the supply of goods and services they need.

16.02 Consumer Exploitation

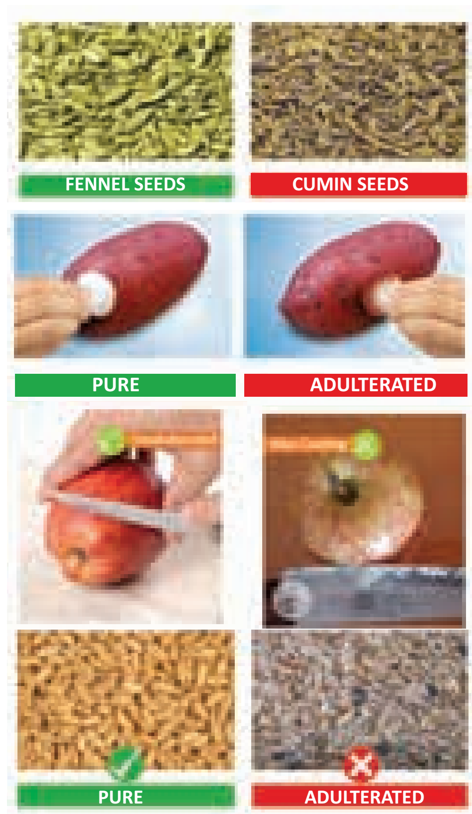
Some of the ways in which consumers are being exploited are enumerated hereunder:

1. Selling at Higher Price

The price charged by the seller for a product service may not be commensurate with the quality but at times it is more than the fair price. Even though sellers have surplus or adequate goods they create artificial scarcity in the market with an intent to push up the prices. As a result, consumers are forced to buy the short supply of goods at higher prices in the black market.

2. Adulteration

It refers to mixing or substituting undesirable material in food. This causes heavy loss to the consumers. This will lead to monitory loss and spoil the health. But adulterators make illegitimate profit while prudent businessmen aim at normal profit whenever unscrupulous traders seek to reap higher profit out of greed, they seek to adulterate the products. Adulteration is quite common in food articles. It is a crime which cannot be pardoned as it spoils the very health of consumers.



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Example:

1. Chemicals, detergent chalk, urea caustic soda, etc. are added to make the milk dense and white.
2. Mixing of stones with grains
3. Mixing of coconut oil with palmolein
4. Honey is adulterated with water and table sugar to enhance the quantity
5. powdered rice/wheat is adulterated with starch
6. Coffee powder is adulterated with tamarind seed
7. Spices like turmeric powder is adulterated with methanol
8. Papayas seed is added to black pepper
9. Chilli powder is adulterated with brick powder

3. Duplicate or Spurious goods

Duplicate products of popular products are illegally produced and sold. Duplicates are available in plenty in the market for every original and genuine parts or components like automobile spare parts, blades, pens, watches, radios, medicines, jewellery, clothes and even for currency notes. Duplicate medicines are sold in large measure, from Cape to Kashmir. A consumer is not in a position to distinguish duplicate from the original.

4. Artificial Scarcity

There are certain situations where the shop-keepers put up the board 'No Stock" in front of their shops, even though there is plenty of stock in the store. In such situations consumers who are desperate to buy such goods have to pay hefty price to buy those goods and thus earning more profit unconscientiously. Even in Cinema houses, board may hang in the main entrance 'House Full' while cinema tickets will be freely available at a higher price in the black market.

5. Sub-standard

On opening a packet or sealed container one may find the content to be of poor quality. If defective or damaged items are found in a pack, a consumer finds it difficult to exchange the defective one for good one and consumers have to blame for lack of attention one cannot return it and the consumers have tendency to blame their carelessness or fate for having bought such sub-standard product. Whenever goods are bought, seller try to avoid raising bill or consumers do not demand bill as a matter of right. This prevents the consumers from escalating the complaint against the seller where the product happens to be sub-standard. Some seller give bills which contain a stipulation that goods sold cannot be taken back. Thus gullible consumers are easily and legally cheated.

6. Product Risk

Whenever the usage of goods is likely to cause danger or hurts to customers, manufactures have to forewarn the consumers of various sources of dangers involved in the products and the precautionary measures to be taken by the consumers. In absence of such information or warnings consumers are more likely to encounter risks while using the risky products.

7. Warranty and Services

In case of consumer durable goods like televisions, washing machines, refrigerators, cars, two wheelers and air conditioners etc. free service is guaranteed only for few years called warranty period. But in reality free service are denied on flimsy grounds even during the warranty period. Customer care service is likely to be rendered the shorter warranty period only for select few items which the manufacturers know pretty well that they do not get damaged during such period .Warranty service may not be extended to many parts/components of the product sold. Thus consumers may be charged exorbitant charges in the name of repair costs.

8. Unsuitability of Products

The product quality, durability and suitability may come under the category of product fitness. What is claimed by the product advertiser must correspond to the products sold. But in actual practice, it is not so. Items unsuitable for human consumption are sold in the market. Some items marked as "unbreakable" break while using them. Battery having a label 'leak proof" is more likely to leak. In all these eventualities users/consumers have to bear the consequences while producers/manufacturers escape utilising the loopholes in the legal system.

9. False Advertisements

The main purpose of advertisement is to educate the consuming public and customers of various aspects of the products/service. In reality, advertisements convey very little information about the product. Many times it makes false representation about the quality, price, grade, composition, utility guaranteed, performance etc. Consumers who buy the products on the faith of claims made in advertisements are cheated.

Thus consumerism has emerged and evolved out of outcome of sufferings and exploitation of consumers, whose sole aim is to secure protection from commercial terrorism and exploitative practices and thereby safeguarding their interest by establishing the rights and powers against producers and sellers.

16.03 Meaning and Definition of Consumerism

It is the social force protecting the consumer and aiding the consumer. In other words, it is an organised effort to fight against the unfair marketing practices with a view to secure consumer protection. Consumerism is the society's attempt to bring back the balance in the exchange between the buyers and sellers as the strength of power is normally in favour of sellers rather than buyers.

The term consumerism came into existence in the early 1960s when it was coined by the business community in the western world particularly in America. It is the social force designed to protect the interest of consumers by organising the consumers to bring pressure on the business community to ensure protection.

Producers, sellers and service providers give importance to the consumers. In a sense every one of us is a consumer. It may be individuals, families and institutions. They consume a variety of products and avail a number of services almost every day. You buy textbooks, notebooks, pen and other stationery items for your studies. Sometimes one–quire notebooks you buy do not contain 192 pages and the pencil is not of a good quality. Have you not been dissatisfied and heated over these when you have paid a fair price? Thus, a consumer is one who consumes goods manufactured and sold by others

The term consumerism was first coined by businessmen in the mid 1960s as they thought consumer movement as another "ism" like socialism and communism threatening capitalism.

"Consumerism is an attempt to enhance the rights and powers by buyers in relation to sellers"

-L. Massie

16.04 Importance of Consumerism

Importance of consumerism lies in

1. Awakening and uniting consumers.
2. Discouraging unfair trade practices.
3. Protecting against exploitation.
4. Awakening the government.
5. Effective implementation of consumer protection laws.
6. Providing complete and latest information.
7. Discouraging anti-social activities

16.05 Origin, Evolution, and Growth of Consumerism

Origin

In the beginning of 20th century industrial economy reached a boom state. The early 20th century marked a period of reform and expansion in many areas as well. Advertising and consumer consumption would become big areas of reform and expansion with the growth of industry and consumer reform societies to the outcry for more truthful advertisement. Progressives, Women's movements and Henry Ford and his assembly line would become characteristic icons of the time. As consumers took a closer look into the products they were buying and working class persons began to demand better working conditions, America hit a cross roads between industry and consumer satisfaction. Industrial reform for consumers would be an answerable to inconsistencies that existed between product, price, and consumer satisfaction. The first consumer wave marked a shift toward recognition "the centrality of consumers to the nation's economy and polity (Cohen)" The companies began to make efforts towards targeting consumers on a more massive scale.

Progressives, as well as other American citizens began to realise the value in fighting for better quality goods. Consumers should be guaranteed for some type of accountability from industries in their quality for food and goods quality. Middle class progressive women began organisation like 'The National Consumers League' (NCL) in response to the substandard quality of goods and the lack of involvement by the government in protecting consumers against terrible food and other goods conditions.

The majority of the consumers in advanced countries are well educated, well –informed and are in a position to protect them. But our Indian situation is entirely different from the western, where adequate production and proper distribution of products exist. In India, industries have not achieved the level of affluence of technology and the existing markets of products run in shortages, adulteration, and black market prices. Indian people have less money at their disposal. The profit making attitude of the business failed to discharge social responsibilities of maintaining fair price, quality of goods and providing services etc. In short, consumerism is an outcome of sufferings and exploitation of consumers and some businessmen aim to make abnormal profit, which is at the cost of consumer's safety and health. However, it has been accepted and agreed that "A consumer is a king of the market," but in fact he is not. The majority of the Indian problems relating to consumers are adulteration, artificial scarcity, unreasonable prices etc.

There are different religious customs, traditions, and languages in India; and about three fourth of population live in rural areas, where cultivation is the source of livelihood, and there is wide disparity in the income of people. Majority of the people are mostly illiterate and have low income. In order to save or protect them, against exploitative practices of trade, consumerism has emerged and has been accepted as a defensive force to safeguard the interest of the customers.

Evolution of Consumerism

The major causes of consumerism in India have been identified as rising prices, poor product performance and service quality, product shortages and deceptive advertising and inflation. Government has been very responsive to the consumer needs through legislative actions. Economic discontent has been generated out of spiralling inflation. Thus it has become necessary for the consumers to stand up for their rights through effective organisation in order to redress the grievances. The word consumerism came into existence in the year 1960.

Growth

Consumerism or consumer movement is an outcome of sufferings, and exploitations of consumers. It intends to shield the consumers from commercial terrorism and exploitative practices. Its aim is to safeguard their interests by establishing their rights and powers in relation to products and sellers.

Mr. Ralph Nader pioneered the fight against monopoly and unethical trade practices of large companies in the United States. He is considered to be the father of the Consumer Movement. He initially fought against automobile industry for violating safety standards and pollution control norms. But today, in almost all countries the consumer movement is well developed. Countries like Britan, Sweden, Netherlands, Denmark and even in Kenya have stringent laws against consumer exploitation in their respective countries. The United Nations General Assembly has adopted a set of general guidelines for consumer protection.

16.06 Consumer Protection

Consumer protection is a form of social action which is designed to attain the well-being of the society namely consumers. A consumer is said to be a king in a free market economy. The earlier approach of caveat emptor, which means “Let the buyer beware,” has now been changed to caveat venditor (“Let the seller beware”). However, with growing competition, manufacturers and service providers may be tempted to engage in unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black-marketing etc in an attempt to expand their market share in a competitive environment. As a consequence, consumers may have to buy unsafe products, may have to suffer from various health disorders, due to adulteration; may have to pay higher price due to hoarding and have to get duped by misleading advertisement. In this situation there is a need to provide adequate protection to consumers against all such malpractices of sellers/vendors.

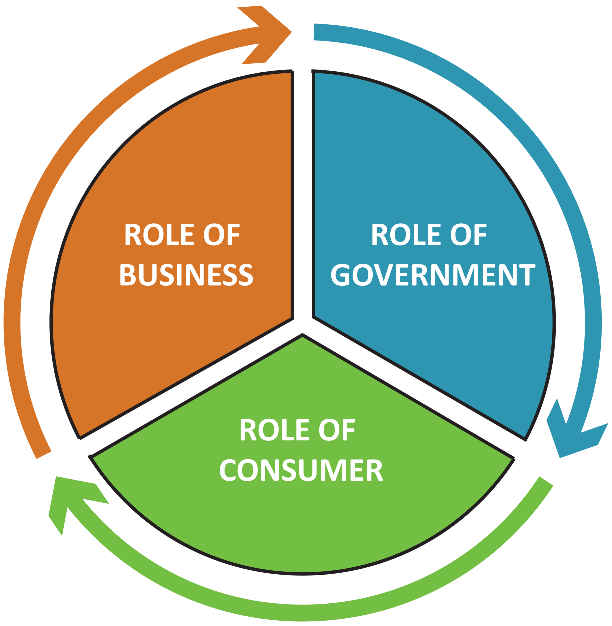
Both voluntary measures and law serve as tools to protect consumer’s interest.

Self-regulation, Consumer Associations, Alert consumer, and State Support are some of the means of consumer protection. Individual consumer is considered more vulnerable, in the modern world, to exploitation and harassment by the manufacturers and distributors or sellers because of environmental complexities of business operations, technological changes, application of mass production techniques, vast resources, man-power and acrimonious advertising, Hence it is necessary to protect and promote the consumer interest. Satisfaction and well being of the consumer should be the main objective of all business units. In real practice, consumer is not protected or safeguarded but, consumer is cheated and looted. Thus, there is a need for consumer movement to safeguard their interest.

16.07 Need for Consumer Protection

Though consumer is said to be the king of entire business sphere, his interests are virtually neglected. Shortage of goods makes the consumers to be content with whatever is offered for sale. Quality is sacrificed: warranty of performance has no meaning; health hazard is never considered; profit maximisation turns out to be sole consideration of business enterprises. In such a context, consumer protection remains a vital importance.

There are three parties involved in the sphere of business transactions viz. the Government, business and the consumers. Let us discuss what each party has to do in this regard



Role of Business

Business enterprises should do the following towards protecting consumers.

1. Avoidance of Price Hike

Business enterprises should desist from hiking the price in the context of acute shortage of goods /articles.

2. Avoidance of Hoarding

Business enterprises should allow the business to flow normally. It should not indulge in hoarding and black marketing to earn maximum possible profit in the short term at the cost of consumers.

3. Guarantees for Good Quality

Business enterprises should not give false warranty for the products. It should ensure supply of good quality.

4. Product Information

Business enterprises should disclose correct, complete and accurate information about the product viz. size, quality, quantity, substances, use, side effects, precautions, weight, exchange, mode of application etc.

5. Truth in advertising

Business enterprises should not convey false, untrue, bogus information relating to the product through the advertisements in media and thus mislead the consumers.

6. Protection from the Hazard

Business enterprises should not market the product which is potentially hazardous and harmful. It should test the safety of the product before they are marketed. As regards food items, business enterprises should withdraw spoiled and contaminated food items.

7. Money Refund Guarantee

Where the product becomes defective, business enterprises should replace it with new one or refund the purchase price. If the product causes injury or harm to consumers, it should reimburse the expenditures done by the consumers concerned.

8. Consumer Grievances

Where the business enterprises have customer care department, it should handle the grievances' of consumer immediately or within a definite time frame.

Role of Government

Since most of consumers including academically educated are illiterate about their rights and hence passive. Government should assure an active role in safeguarding the consumers. Government both the central and the state have brought out a number of legislations to protect the interest of consumers across the country. Other statues have been listed out in the 'Do you know' segment of this lesson. Despite the existence of legal system to protect the consumers, consumers in India are still illiterate and passive. Mere statue book will not address the problem. Law enforcement authorities should see that penal clause is not mere paper jaws-they should sting the offenders mercilessly.

Role of Consumers

Ultimately it is the consumer who alone can put an end to all their unethical trade practices. Business enterprises may break the codes and Government may rest content with mere enaction of laws and do little to protect consumers. In this context consumers have to be vigilant and organise themselves into a movement for concerted action.

Activation of Consumer Action Councils

1. Consumer action councils established at village levels should educate consumers of the right.
2. Consumer protection agencies should take necessary steps to investigate consumer complaints and grievances and arrange to forward them to correct forum.
3. It should regulate business enterprises according to the rules of the industry.
4. Voluntary consumer groups should provide information so as to educate consumers on matters affecting them through media.
5. It should organise movement against the malpractice of manufacturers and traders.
6. Consumer cooperatives need to be strengthened.
7. Consumer groups should contact the legislators to raise the consumer issues in Assembly and Parliament.
8. There should be testing laboratories at each district to test the purity of goods.
9. Voluntary consumer organisations should publicise the malpractices of manufacturers and traders by media.
10. It should take initiation to report such officials and authorities who let the offender to go scot free to follow enforcement agencies.

United Nations Guidelines for Consumer Protection

The General Assembly of the United Nations passed a Resolution on April

9, 1985 adopting a set of guidelines for consumer protection to persuade the member countries to adopt policies and laws for better protection of the interests of the consumers. The guidelines provided that the governments should develop or maintain a strong consumer protection policy, taking into account the guidelines.

Objectives of United Nations Guidelines for Consumer Protection

i. To assist countries in achieving or maintaining adequate protection for their population as consumers

ii. To facilitate production and distribution patterns responsive to the needs and desires of consumers

iii. To encourage high levels of ethical conduct for those engaged in the production and distribution of goods and services to consumers

iv. To assist countries in curbing abusive business practices by all enterprises at the national and international levels which adversely affect consumers

v. To facilitate the developing of independent consumer groups

vi. To further international co-operation in the field of consumer protection

vii. To encourage the development of market conditions which provide consumers with greater choice at lower prices.

16.08 Consumer Legislation

i. **The Indian Contract Act, 1872** was passed to bind the people on the promise made in the contract.

ii. **The Sale of Goods Act, 1930** This Act protects consumers against sellers not complying with expressed and implied warranties in the sale contract.

iii. **The Essential Commodities Act, 1955** protects the consumers against artificial shortages created by the sellers by hoarding the goods and thus selling the goods at high prices in black market in respect of essential commodities.

iv. **The Agricultural Products Grading and Marketing Act, 1937** ensures the supply of agricultural commodities at high quality.

v. **The Prevention of Food Adulteration Act, 1954** checks the adulteration of food articles and ensures purity of goods supplied and thus protects the health of consumers.

vi. **Weights and Measures Act, 1976** protects the consumer against malpractices of underweight or under measurement. This Act has been replaced as the Legal Metrology Act, 2009.

vii. **The Trademark Act, 1999** prevents the use of fraudulent marks on the product.

viii. **The Competition Act, 2002** protects the consumers against unhealthy competition.

ix. **Indian Standard Institution (Certification marks) Act, 1952** (Now ISI is known as Bureau of Indian Standards) provides special marks to products fulfilling minimum quality standards and thus ensures supply of quality products to consumers.

x. **The Drugs and Magic Remedies (advertisements) Act, 1954** prohibits advertisement of drugs and remedies claiming to have magical properties.

xi. **The Drugs and Cosmetics Act, 1940** ensures the safety of drugs and cosmetics sold in India.

xii. **The Food Safety Standard Act, 2006** regulates the manufacture, storage, and distribution of food in safe and wholesome condition to consumers.

xiii. **The Air (Prevention and Control of Pollution) Act, 1981** controls and prevents pollution in India.

xiv. **The Public Liability Insurance act, 1991** provides immediate relief to persons affected by accidents securing while handling hazardous substance.

xv. **The Narcotic Drugs and Psychotropic Substances Act, 1985** prevents the production of narcotic drugs except for educational use.

16.09 The Consumer Protection Act 1986 (COPRA)

Nowadays, the consumers' grievances and dissatisfactions grow largely. Consumers themselves did not have any effective mechanism or institutional arrangement for the speedy redressal of their grievances. Lack of effective popular movement isolated the consumer and so his plight is increased. Sensing the pressure mounting from various consumer protection groups and consumers themselves, the Central Government enacted a comprehensive law called the Consumer Protection Act in 1986. This Act came into force with effect from 15.04.1987. This Act was further amended in 1993. The Act is referred in short as 'COPRA'.

The Consumer Protection Act 1986 seeks to protect and promote the interests of consumers. The act provides safeguards to consumers against defective goods, deficient services, unfair trade practices, and other forms of their exploitation. The object of the act is to provide for the better protection of the interests of the consumer courts for the settlement of consumer's disputes and all matters connected there with. The Consumer Protection Act is of great importance. It is the latest to be adopted. It is applicable to public sector, financial, and cooperative enterprises. Recently even medical services have been brought under its scope. The Act shall apply to all goods and services across board.

The Consumer Protection Act 1986 does not create rights or liabilities, but it has emerged as new forum for the settlement of disputes relating to the sale of goods or services. The loss claimed by the consumers must be a loss resulting from on some "deficiency of service" or "defect in the goods." The Act provides for the setting up of a three tier-machinery, consisting of District Forums, State Commissions, and the National Commission. It also lays down rules for formation of consumer protection councils in every District and State and at the apex level.

Salient features of The Indian Consumer Protection Act, 1986

The salient features of the Indian Consumers Protection Act, 1986 are listed below

i. Protecting consumers against products and services which are harmful to the health of consumers.

ii. Protecting consumers from the breach of contract by sellers / manufacturers.

iii. Ensuring consumers with supply of goods at fair quality.

iv. Safeguarding consumers against misleading and untrue messages communicated through advertisement.

v. Ensuring that consumers are charged fair price.

vi. Ensuring uninterrupted supply of goods.

vii. Ensuring the availability of goods in correct quantity and right size.

viii. Protecting the consumers against unfair trade practices of unscrupulous trader

xi. Protecting the consumers against pollution of various kinds

x. Protecting consumers against the evil effect of competition.

Importance of Consumer Protection

Consumer protection has a wide agenda. It not only purports to educate consumers about their rights and responsibilities, but also helps in getting their grievances redressed. It provides judicial machinery for protecting the interests of consumers to come together and organise themselves into consumer associations for protection and promotion of their interests. Consumer protection has a special significance for business too.

Objectives of the Consumer Protection Act 1986

Following are the objectives of Consumer Protection act 1986

i. Protection of consumers against marketing of goods which are hazardous and dangerous to life and property of consumers.

ii. Providing correct and complete information about quality, quantity, purity, price and standard of goods purchased by consumers.

iii. Protecting consumers from unfair trade practices of traders.

iv. Empowering consumers to seek redressal against exploitation

v. Educating the consumer of their rights and duties

vi. Ensuring better standard of living for consumers by providing them with quality products at fair price.

vii. Putting in place right mechanism like councils and other authorities to enable the consumers to enforce their rights.

16.10 'Caveat Emptor'

'Caveat emptor' is a Latin term that means "let the buyer beware." Similar to the phrase "sold as is," this term means that the buyer assumes the risk that a product fails to meet expectations or have defects. In other words, the principle of caveat emptor serves as a warning to the buyers that they have no recourse with the seller if the product does not meet their expectations.

The term actually means that 'let a purchaser beware', for he ought not to be ignorant of the nature of the property which he is buying from another party. The assumption is that buyers will inspect and otherwise ensure that they are confident with the integrity of the product before completing a transaction. This does not, however, give sellers the green light to actively engage in fraudulent transactions.

16.11 Caveat Venditor

Caveat emptor was the rule for most purchases and land sales prior to the Industrial Revolution, although sellers assume much more responsibility for the integrity of their goods in the present day.

Today, most sales in the U.S. fall under the principle of caveat venditor, which means "let the seller beware," by which goods are covered by an implied warranty of merchantability. Unless otherwise advertised (for example, "sold as is") or negotiated with the buyer, nearly all consumer products are guaranteed to work, if used for their intended purpose

Key Words

Consumer Protection	Consumerism
Consumer	Consumer movement
Caveat Emptor	Caveat Venditor
Buyer Beware	Consumer Grievances

DO YOU KNOW?

What are the functions of the Consumer Clubs in schools?

The following basic structure of functioning is recommended:

i. Monthly meetings and demonstrations for one hour after school hours on the First Thursday of each month. Each month a topic / activity may be scheduled as in the model calendar.

ii. Days of National and International importance to consumers may be celebrated in the School / College. Poster / Speech / Essay competitions can be organised at school level by the Consumer Club to sensitise the students on the importance of the day.

iii. Field visits to local markets / Consumer Courts and door to door campaign in the local community etc., may be organized for at least 4 days in a year. It can be done on Saturdays with prior arrangement.

iv. Minutes of each activity have to be recorded by the Student and Teacher Co-ordinator jointly as properly document.

Mahatma Gandhi's quote about Consumerism

"What is a man if he is not a thief who openly charges as much as he can for the goods he sells?"

For own learning

Students should go to the nearest consumer court and watch the activities of the consumer court

Case Study

Mr.Narasimachary bought a refrigerator of a familiar brand with a warranty for seven years. He uses the fridge as per the guidelines given by the manufacturer. After the completion of two years the fridge went out of order. He was shocked, and approached the dealer. But the dealer refused to service the fridge at free of cost. What is your suggestion to Mr. Narasimachary to this grievance?

For Future learning

Students may collect further details regarding Consumer Protection. For this purpose, they may contact their District Collector and the Chairman, District Consumer Protection Council and also the Voluntary Consumer Organisation of locality with valid reputation to learn more about actual implementation of Consumer Protection Act in practice.

Exercise

IRBKGU

I. Choose the Correct Answers:

1. The term 'consumerism' came into existence in the year __________.

a) 1960 b) 1957

c) 1954 d) 1958

2. Who is the father of Consumer Movement?

a) Mahatma Gandhi

b) Mr. Jhon F. Kennedy

c) Ralph Nader

d) Jawaharlal Nehru

3. Sale of Goods Act was passed in the year?

a) 1962 b) 1972

c) 1930 d) 1985

4. The Consumer Protection Act came into force with effect from

a) 1.1.1986 b) 1.4.1986

c) 15.4.1987 d) 15.4.1990

5. _____ of every year is declared as a Consumer Protection Day to educate the public about their rights and responsibilities.

a) August 15 b) April 15

c) March 15 d) September 15

Answers:

1	a	2	c	3	c	4	c	5	c

II. Very Short Answer Questions:

1. Who is a consumer?
2. Give two examples of adulteration.
3. What is Caveat Emptor?
4. What is Caveat Venditor?
5. Write a short notes on Consumer Protection Act, 1986.

III. Short Answer Questions:

1. What are the important legislations related to consumerism in India? (any 3)
2. What is meant by artificial scarcity?
3. Write the importance of consumerism. (any 3)

IV. Long Answer Questions:

1. How consumers are exploited? (any 5)
2. Explain the role of business in consumer protection. (any 5)
3. What are the objectives of Consumer Protection Act, 1986? (any 5)

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UNIT 6

CONSUMER PROTECTION

17
CHAPTER

RIGHTS, DUTIES & RESPONSIBILITIES OF CONSUMERS

சலத்தால் பொருள்செய்தே மார்த்தல் பசுமண்
கலத்துள்நீர் பெய்திரீஇ யற்று.

–குறள் 660

COUPLET

(For a minister) to protect (his king) with wealth obtained by foul means is like preserving a vessel of wet clay by filling it with water.

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Learning Objectives

To enable the students to understand the

- Rights of consumer
- Duties of consumers
- Responsibilities of the consumers

Chapter Synopsis

The modern marketing concept recognises that the consumer is the pivotal point around which the business moves. Satisfaction of consumer needs/requirements is stated to be supreme objective of a business. To protect their own interest, consumers must first be aware of their rights as buyers. This chapter explains about consumer duties, responsibilities as well as consumer rights.

RIGHTS OF CONSUMERS

DUTIES OF CONSUMERS

RESPONSIBILITIES OF CONSUMERS

17.01 Rights of Consumer

The modern marketing concept recognises the fact that the consumer is the pivotal point around which the entire business moves. Satisfaction of consumers wants and needs is stated to be the prime and supreme objective of a business. But in reality consumer feels he is supplied with adulterated stuff at a price far above the cost price. In order to protect their own interest, consumers must educate themselves about their rights.

Consumer Right is interpreted as "the right to have information about the quality, potency, quantity, purity, price, and standard of goods or services".

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The consumer is to be protected against any unfair practices of trade. It is mandatory for the consumers to know these rights. However, there are strong and clear laws in India to defend consumer rights. The most important law is the Consumer Protection Act, 1986. According to this law, everybody including individuals, a firm, a Hindu undivided family and a company, has the right towards the purchase of goods made by them. It is the significant that, as a consumer, everyone should know the basic rights as well as about the courts and procedures that follow with the infringement of one's rights

John F. Kennedy's view on Consumer Rights

The former president of U.S.A Mr. John F. Kennedy defined the basic consumer rights as "The Right of Safety, the Right to be informed, the Right to choose and the Right to be heard."

The consumer is the king of the modern marketing, but in fact he is not. The various rights of consumers guaranteed under the Consumer Protection Act have been discussed here under.

i) Right to Protection of Health and Right of Safety

There may be few products that are more likely to cause physical danger to consumers' health, lives and property. They may contain potentially harmful substances which are dangerous from the consumer welfare point of view. The best examples of this kind are Food additives, colours, emulsifiers, preservatives. The health hazards which are likely to arise have to be eradicated or reduced altogether. In case of food items and drugs both life saving and life sustaining safety is to be guaranteed. One thing that is encouraging to-day is that recent legislations have shifted the responsibility for the production of such unsafe items onto the shoulders of sellers rather than on buyers.

ii) Right to be Informed

Consumers should be given all the relevant facts about the product so that they can take intelligent decisions on purchasing the product. Advertising and labelling on the package should provide objective information to buyers. This implies that manufacturer and the dealer are expected to disclose all the material facts relevant and relating to the product. The package should contain the full details about the name of the product, composition, dosage, date of manufacturing, date of expiry, batch number, warnings, antidote etc. In addition, it should clarify as to the name of the manufacturer, price with or without tax. Such information goes a long way towards saving the consumer against the possible deceit.

iii) Right to choose

Consumer satisfaction is the ultimate aim of modern marketing and is the philosophy of marketing concept. A wise trader or dealer or manufacturer is one who maximises his profits by maximising the consumer satisfaction. Consumer satisfaction can be increased by giving the consumer the widest choice. The term 'Choice' means offering the widest range of products in quality and brand varieties at reasonable prices. In short consumers should have access to varieties of goods in terms of colour, quality, design, size etc.

iv) Right to be Heard

Consumers have every right to ventilate and register his/her dissatisfaction, disagreements and get the complaint heard and aired. This right is vital. Business enterprises should lend a compassionate ear to complaints or grievances of consumers. All business enterprises should have a separate department or wing or segment for addressing consumer grievances.

v) Right to Seek Redressal

This step is one step ahead of the previous right. The complaints and protests are not just to be heard: but the aggrieved party is to be granted compensation within a reasonable time period . There should be prompt settlement of complaints and claims lodged by the aggrieved customers. This will boost consumer confidence and help render justice to buyers. There should be fair and just settlement of deserving claims in a definite timeframe.

vi) Right to Consumer Education

The consumer has a right to acquire knowledge and stay well-informed all through his life. He should be aware about his rights and the reliefs granted to him where a product or service falls short of his expectations. Many consumer organisations and some enlightened businesses are taking a pro active part in educating consumers in this respect.

CONSUMERS RIGHTS IN INDIA

On 24th December 1986,
Government of India enacted the

CONSUMER PROTECTION ACT 1986 to

01. Ensure Rights of Consumers

02. Provide Remedies for deceived Consumers

03. Check Unfair Business Practices & Restrictive Trade Practices.

This is a unique law in the WORLD.

vii) Right to Quality of Life

Quality of life refers to the perceived well-being of people, in groups and individually, and well-being of the environment in which these people live. Consumerism has been defined as 'an improved quality of life." It means that the environmental problems affect the very life of consumers and on the environment which people live. In other words air pollution, water pollution, food pollution, noise pollution, and relation pollution, and legacies of on-going industrialisation take a heavy toll on the quality of life of people and on the environment of their inhabitation. The social cost of these pollutions far exeed their social benefits. In other words, each kind of pollution is eating away the social benefits resulting from the society. It is where the social responsibilities of business enterprises arise; there is nothing wrong in producing the products/output for the mankind. But the manufacturers have to safely dispose the inevitable sewage and effluent in such a way that it does not cause any damage to human or environment.

viii) Right to Consumer Protection

The consumer has a right to be aware of his rights and remedies available to him, redress his grievances through publicity in the mass media. Consumer has a right to be protected against goods and services which are hazardous to life and health. For instance, electrical appliances which are manufactured with substandard components or which do not conform to the safety norms might cause serious physical injury to the user. Therefore, consumers need to be educated that they should use electrical appliances with ISI mark which stands testimony to the quality and standards observed in the manufacturers.

ix) Right to Basic Needs

Every consumer has a right to get basic necessities of life such as food, clothing and water, and right to pure and healthy environment. It is the latest addition to consumer bill of rights. Community life should be free from various modes of pollution. This will enhance the quality of human life.

17.02 Duties of Consumers

Apart from rights, there are certain duties imposed on the consumer. Consumer should be conscious of his duties. He should make purchases judiciously and should not misuse his rights. Following are source of the duties of consumers:

i) Buying Quality Products at Reasonable Price

It is the responsibility of a consumer to purchase a product after gaining a thorough knowledge of its price, quality and other terms and conditions. The consumer should enquire about the price from certain shops and if possible from government stores to get an idea of its price. The consumer has to have the knowledge about the quality from his own experiences or from the experiences of other persons who used the product or by browsing the website. Hence it is the duty of the consumer to buy scrupulously.

ii) Ensure the Weights and Measurement before Making Purchases

The sellers often cheat consumer by using unfair weights and measures. The consumer should ensure that he/she is getting the product of exact weight and measure. Consumer should check the weights and balance of the product. Consumer should not buy a product which has been weighed along with its packing. Therefore the consumer should remain vigilant when the seller is naturally measuring or weighing the product.

iii) Reading the Label Carefully

It is the duty of the consumer to thoroughly read the label of the product. It should have correct, complete and true information about the product.

iv) Beware of False and Attractive Advertisements

Often the products are not as attractive as shown in the advertisement by the sellers. Hence, it is the prime duty of consumer not to get misled by such fraudulent advertisements.

v) Misleading Schemes

Mostly advertisements are used to be very attractive and appealing to the senses. They may be occasionally false and misleading. The consumer is supposed to be careful with the attractive advertisements and avoid such misleading and false advertisements. These days almost every product in the market is offered for sale with a gift, discount, or a free product to bait the consumer to buy. For example, a free comb with soap, a discount off on the price of the soap or one free soap on buying one, and the like. Often a consumer is allured by such offers and buys such a product even when it is not desperately in order, to avail them of free offer.

In this case consumers should not forget the fact that the seller has already inflated the price of the product supplied with free offer and recovers its cost price under the scheme. Hence the consumer should be aware of the fact that he is not getting anything free and should not buy unwanted things out of greed.

vi) Ensuring the Receipt of Cash Bill

It is a legitimate duty of consumers to collect cash receipt and warranty card supplied along with bills. This will help them in seeking redressal for their grievances. Unscrupulous sellers offer to reduce the final price of goods if they sell without bill. Often consumers get allured by this trap. In this case, if the goods bought without bill go out of order or turn defective, consumers cannot approach the consumer court without proof of purchase. Hence it is the duty of the consumer to demand and collect the cash receipt, and warranty card.

vii) Buying from Reputed Shops

It is advisable for the consumer to make purchase from the reputed shops or government shops like super bazaar, cooperative stores, and the like. The consumer by purchasing from such shops can escape from the malpractice of the manufacturers and shopkeepers or vendors.

viii) Never Purchase from Black Market

The consumer should discharge his duties as responsible citizen. He should not buy things from black market and in excess of his requirements. At times of scarcity consumer should not resort to panic buying and stock things excessively. This practice prevents others from purchasing their share of requirement.

ix) Buying Standardized Products

Often the consumer buys cheap products which are not durable or are not safe. Therefore, it is the duty of the consumer to buy products with standardization marks which is supposed to be safe in every respect.

x) Follow the Instruction of the Manufacturer

It is the duty of the consumer to use the product as per its instructions, e.g., if a medicine carries an instruction regarding its storage, it should be stored in the fridge. This would help in prevention of any damage to the medicine and harm to the consumer's health.

xi) Knowledge of Consumer Rights

These days it is not uncommon to see a seller trying to cheat the consumer in every possible way in order to earn quick profits. It is the duty of the consumer to be aware of his rights. If a consumer is cheated by a seller, then he should immediately lodge a complaint with the authorities designated for consumer grievance redressal rather than remaining a silent spectator.

17.03 Responsibilities of Consumer

Consumer rights, by themselves, cannot be effective in achieving the objective of consumer protection. Consumer protection can, in effect, be achieved only when the consumers also understand their responsibilities. Consumers should keep in mind their responsibilities while purchasing, using and consuming goods and services. Rights and responsibilities are two sides of the same coin. Just as consumers enjoy certain rights, they owe certain responsibilities. The responsibilities of consumer are listed below;

1. The consumer must pay the price of the goods according to the terms and conditions of the sales contract.
2. The consumer has got a responsibility to apply to the seller for the delivery of the goods. He/she has to take delivery of the goods in time.
3. The consumer has to bear any loss, which may arise to the seller when the consumer delays taking delivery of the goods as per the terms of contract.
4. The consumer is bound to pay any interest and special damages caused to the seller in case if there is delay in the payment.
5. The consumer has to assiduously follow and keenly observe the instructions and precautions while using the products.
6. The consumer has the responsibility to express unambiguously to the seller of his requirements and expectations from the product.
7. The consumer must seek to collect complete information about the quality, quantity, price etc of the product before purchasing it.
8. The consumer must get cash receipt as a proof of goods purchased from the seller. If it carries any warranty, the buyer must obtain the warranty card mentioning the date of purchase and period of warranty. It must also bear the signature and stamp of the seller organisation.
9. The consumer must file a complaint with the seller concerned about defects or shortcomings noticed in their products and services.
10. The consumer should never compromise on the quality of goods. The consumers must watch for ISI, Agmark, FPO, the standard quality certification marks and the like in the label.

11. The consumer should not be carried away by exaggerating the quality of the goods through advertisements. If there is any discrepancy between the features advertised and the actual features observed in the product, it must be brought to the notice of the seller or advertiser.

12. The consumer has every right to safety, right to be informed, right to choose, right to represent, and right to seek redressal and right to seek information. If any of these rights is violated, the consumer should file a complaint with the appropriate legal machinery under the Consumer Protection Act, 1986.

DO YOU KNOW?

Consumer's Name: Mr.Shashi Bhushan, Delhi

Bank Complaint against: Punjab National Bank

He has a salary account in Punjab National Bank, ECE House, K.G. Marg New Delhi. His complaint is that while trying to withdraw money from PNB's ATM on 25th August 2012, the machine hang. He had entered only two digits of the password.

He waited a few minutes for the ATM machine to function properly and again tried withdrawing money but the machine hang again. Subsequently, he found out that ₹ 15000/- was debited from his account. He called up customer care and filed a complaint in this regard. He was given a complaint number. On 31st August 2012, the bank sent an sms to the customer rejecting his complaint, saying that the transaction was done successfully. Why is it interesting? As Punjab National Bank's ATM was not working, the customer could not even enter password. So there is no question of withdrawing money. How the bank debited amount from his account is a mystery Secondly, the bank agreed to show footage of the transaction which the bank claimed to be genuine but later backed-out. This is a clear violation of RBI directive. Failed transaction in case of ATM requires not only reversal of any excess debit within 7 days but also ₹ 100 per day as penalty needs to be paid by the bank to the aggrieved customer after the specified period.

NCH Suggestions:- Customer must insist that PNB (which holds the recorded Footage of the ATM transaction) show him the recorded footage to him to prove once and for all who is at fault. Here if the customer has withdrawn the money bank is not required to do anything. But if the customer has not withdrawn the money as claimed by him and the recorded footage proves it, The consumer will not only get ₹ 15000 wrongly debited by the bank but also he is eligible to receive additional ₹ 5000 or more @ ₹ 100 each day of delay from 31st August 2012.

Key Words

Consumer rights	Consumer duties
Cash memo	Cash receipt
Consumer responsibilities	

For own Thinking

Students should watch the activities of consumer council of their school.

Case Study

Mr. K.V.Chandran bought a branded LED Television set from a popular T.V showroom with a warranty of five years and installed it in his home. After 18 months of the purchase, the audio system of the T.V developed trouble. He approached the dealer and claimed service to the T.V. but he refused to service the T.V. What is your suggestion to Mr. K.V. Chandran

For Future learning

Students should collect the information about consumer court activities, learn further about consumer rights through visit the following websites:

Exercise

JLDAJH

I. Choose the Correct Answers:

1. The final aim of modern marketing is _______

a. Maximum profit
b. Minimum profit
c. Consumer satisfaction
d. Service to the society

2. _______ is the king of modern marketing.

a. Consumer b. Wholesaler
c. Producer d. Reatailer

3. As the consumer is having the rights, they are also having ________.

a. Measures b. Promotion
c. Responsibilities d. Duties

4. Which of the following is not a consumer right summed up by John F. Kennedy

a. Right to safety
b. Right to choose
c. Right to consume
d. Right to be informed

5. It is the responsibility of a consumer that he must obtai______ as a proof for the purchase of goods.

a. Cash receipt b. Warranty card
c. Invoice d. All of these

Answers:

1	c	2	a	3	c	4	c	5	a

II. Very Short Answer Questions:

1. Write short notes on: "Right to be informed."
2. What are the rights of consumer according to John F. Kennedy?
3. Which is the supreme objective of business?

III. Short Answer Questions:

1. What do you understand by "Right to redressal".
2. What do you understand about" Right to protection of health and safety".

IV. Long Answer Questions:

1. Explain the duties of consumers. (any 5)
2. What are the responsibilities of consumers? (any 5)

References:

1. Modern Marketing - S.A. Sherlekar
2. Modern Marketing - R.S. N. Pillai and Bagavathi.
3. Marketing Management - Dr. C.B.Gupta and Dr. N.Rajan Nair
4. Marketing management - S.A. Sherlaker
5. Marketing Management - R.S.N.Pillai and Bagavathi

UNIT 6

CONSUMER PROTECTION

18 CHAPTER

GRIEVANCE REDRESSAL MECHANISM

பிணியின்மை செல்வம் விளைவின்பம் ஏமம்
அணியென்ப நாட்டிவ் வைந்து.

–குறள் 738

COUPLET

Freedom from epidemics, wealth, produce, happiness and protection (to subjects); these five, the learned, say, are the ornaments of a kingdom.

KG64KH

Learning Objectives

To enable the students to understand the

- Grievance Redressal Mechanism
- Three Tier Consumer Councils
- Voluntary Consumer Organisations

Chapter Synopsis

18.01 Grievance and Redressal Mechanism

Exploitation is common where consumers are unaware of their rights and privileges. In this modern world, Consumers are the vital part of the business. They decide the success or otherwise of the business. However they are exploited by the sellers in many ways because, they are not aware of the products and services available. Government has also taken necessary steps to save the Consumers. It is in this context grievance redressal mechanism becomes important. This chapter is an attempt to explain grievance redressal mechanism followed in India.

Mahatma Gandhi said about the Customer

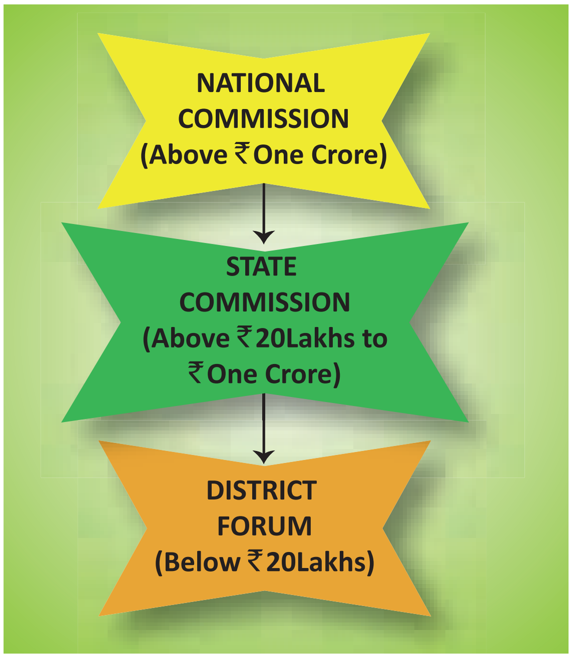
"A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption of our work. He is the purpose of it. He is not an outsider of our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us the opportunity to do so."

Under the modern philosophy of marketing, consumer is supposed to be the king and business is expected to provide maximum possible satisfaction to consumers. But in reality, consumers are often exploited. In a country like India there is shortage of many products. A few firms enjoy monopoly power in the market place. A large majority of consumers are ignorant and illiterate and do not know their rights. They are poor and there is lack of unity among them. Due to these reasons, consumers are often deprived of their rights. They are often exploited through misleading advertisements, poor quality goods, fractional weights and measures, overcharging, etc.

18.02 Consumer Councils

The Consumer Protection Act postulates establishment of Consumer Protection Councils at the District, State and Central levels for the purpose of spreading consumer awareness. The objects of the Councils, as per the Act, shall be to promote and protect the rights of the consumers.

18.03 Three Tier Courts or Quasi Judiciary



18.04 District Forum

As per the Consumer Protection Act of 1986 and Section 9 thereof the establishment of a District Forum by the State Government in each district is necessary today to protect the interest of aggrieved consumers in that district. The State Government can establish more than one District Forum in a district if it deems fit to do so.

Complaints can be filed with the forum by a consumer. Complaints can also be filed by the Central or State Government or by a group of consumers. Thus, it is not necessary that complaint should be filed only by the affected person. Others can also take up the matter with the District Forum.

Members

1. A person who is or who has been or is qualified to be, a District Judge as its President.
2. Two other members who shall be persons of ability, integrity and standing and have adequate knowledge or experience of or who have shown their capacity in dealing with problems relating to economics, law, commerce, accountancy, industry, public affairs or administration. It is insisted in the Act that out of such two other members' one shall be a woman.

Jurisdiction

The District Forum can entertain complaints within the territory of genuine district and where the value of goods or services and the compensation if any claimed is less than Rs 20 Lakhs.

Powers

Every proceedings before the District Forum shall be deemed to be judicial proceedings within the meaning of sections 193 and 228 of the Indian Penal Code and the Forum shall be deemed to be Civil Court.

If the value of the complaint exceeds this limit of Rs 20 Lakhs the complaint should be made direct to the State Commission. Further the District Forum also may pass orders against traders indulging in unfair trade practices, sales of defective goods or rendering deficient services, the turnover of goods or value of services does not exceed Rs 20 Lakhs.

DO YOU KNOW?

At present, there are more than 620 District Forums and more than 30 State Commissions. The National Consumer Disputes Redressal Commission (NCDRC) at the apex is situated at New Delhi.

Pecuniary Jurisdiction of Consumer Forum

1. **For the District Consumer Forum (Value upto Rupees twenty lakhs)**
2. **For the State Commission (Value above twenty Lakhs to Rupees one crore)**
3. **For the National Commission (Value of above Rupees One Crore)**

Appellate Forum

The aggrieved party can prefer appeal against the order passed by the District Forum to the State Commission.

18.05 State Consumer Disputes Redressal Commission or State Commission

The State Commission is to be appointed by the State Government in consultation with the Centre. It has the same function as state level. The state consumer protection council is also known as "Consumer Disputes Redressal Commission". Both goods and services are included in the purview of the council. A consumer has to be protected against defects, deficiencies and unfair and restrictive trade practices. The State Consumer Protection Council is also called State Commission.

Members

Each State Commission shall consist of the following members.

1. A person who is or has been a Judge of a High Court appointed by the State Government as its President.
2. Two other members who shall be persons of ability, integrity and standing and have adequate knowledge or experience of or have shown capacity in dealing with problems relating to economics, law, commerce, industry, public affairs or administration of them, one shall be a woman.

Jurisdiction

The Jurisdiction of the State Commission is as follows.

1. The State Commission can entertain complaints within the territory of entire state and where the value of the goods or services and the compensation, if any claimed exceed Rs. 20 lakhs and below Rupees One Crore.
2. The State Commission also has the jurisdiction to entertain appeals against the orders of any District Forum within the State.

Powers

The following are the powers of the State Commission.

1. The State Commission also has the power to call for the records and pass appropriate orders in any consumer dispute which is pending before or has been decided by any District Forum within the State.
2. To produce before and allow to be examined by an officer of any of these agencies, such books of accounts, documents or commodities as may be required and to keep such books, documents, etc., under his custody for the purposes of the Act.
3. To furnish such information that may be required for the purposes of the Act to any officer so specified.

Appellate Forum

1. The State Commission's jurisdiction may be original, appellate or revision. The State Commission may reverse or confirm the orders passed by the District Forum.
2. Any person aggrieved by an order of the State Commission may prefer an appeal to the National Commission within 30 days from the date of such order.

18.06 National Consumer Disputes Redressal Commission (NCDRC) or National Commission

The National Consumer Disputes Redressal Commission (NCDRC), India is a quasi-judicial commission in India which was set up in 1988 under the Consumer Protection Act of 1986. Its head office is in New Delhi. The Commission is headed by a serving or retired judge of the Supreme Court of India. The National Consumer Disputes Redressal Commission (NCDRC) is also called as National Commission.

Members

The National Consumer Disputes Redressal Commission has been constituted by a Notification.

1. The National Commission should have five members.
2. One should be from judiciary.
3. Four other members of ability, knowledge and experience from any other fields.
4. It should include a woman.

Jurisdiction

Section 21 of The Consumer Protection Act, 1986 describes, the National Commission shall have jurisdiction

1. To entertain a complaint valued more than 1 Crore.
2. Revised the orders of State Commissions.
3. To call for the records and pass appropriate orders from the State Commission and District Forum.

Powers

1. Adoption of uniform procedure in the hearing of the matters is followed in the National Commission
2. Prior service of copies of documents produced by one party to the opposite parties.
3. Speedy grant of copies of documents are issued by the National Commission.
4. Generally over-seeing the functioning of the State Commissions and the District Forums to ensure that the objects and purposes of the Consumer Protection Act are best served, without interfering with their quasi-judicial freedom.

Appellate Forum

Any consumer dispute which is pending before or has been decided by any State Commission where it appears to the National Commission that such State Commission has exercised a jurisdiction not vested in it by law, or has failed to exercise a jurisdiction so vested or has acted in the exercise of its jurisdiction illegally or with material irregularity. Section 23 of Consumer Protection Act, 1986, provides that any person aggrieved by an order of National Commission may prefer an Appeal against such order to Supreme Court of India within a period of 30 days.

DO YOU KNOW?

You can call to register your complaint 1800-11-4000 or 14404

Timing: All Days except National Holidays (09:30 AM To 05:30 PM) or SMS on this Number 8130009809

18.07 Voluntary Organizations for Consumer Awareness

Consumer is a broad label for any individuals or households that use goods and services produced within the economy. Voluntary consumer organisations refer to the organisation formed voluntarily by the consumers to protect their rights and interests.

Objectives

1. The Department of Consumer Affairs (DCA) operates the Consumer Welfare Fund (CWF). The primary objective of the CWF is to strengthen the Consumer Advocacy Movement in India.

2. A wide network of Voluntary Consumer Organisation (VCO) is doing commendable work to raise awareness amongst consumers.

3. To strengthen consumer protection and welfare and to provide counselling, guidance and mediation services.

4. VCO's supported through CWF provides grants for diverse projects including comparative testing of products and services and dissemination of the findings

5. Steps have been taken to enhance transparency and to digitalise the government's interface with its citizens.

Accelerating Consumer Awareness/Educating Consumers

The first priority of a consumer organization is to accelerate consumer awareness towards their rights. To accomplish this task the following efforts are made:

i. To publish brochures journals and monographs.

ii. To arrange conferences, seminars and workshops.

iii. To educate consumers to help themselves.

iv. To provide special education to women about consumerism.

To maintain desirable standards, the following steps are followed:

i) Collecting Data on Different Products and testing them

These organizations collect samples of different products from time to time and test them. After that the results of the tests are declared to public. In this way, these organisations provide prior information to consumers about the authenticity of product and protect them.

ii) Filing Suit on Behalf of Consumers

Whenever a consumer fails to raise his voice of protest regarding his complaints, these consumers' organisations come to the rescue and file a case in the court, on behalf of a consumer. By giving this service to the consumers, the consumers get a feeling that they are not alone in their struggle.

iii) Organising Protests against Adulteration etc.

The consumer's organizations play a significant role in eliminating the evil of adulteration, hoarding black-marketing and under-weight selling.

iv) Helping Educational Institutions

These organizations advice the educational institutions the way to prepare courses of study keeping in view the interests of the consumers.

v) Promoting Network of Consumer Association

Consumer organizations are trying to grow their numbers. They want to cover all the regions of the country so that consumers of all the regions are benefited by their services.

vi) Extending Support to Government

Consumer organisations keep informing the government agencies about adulteration, artificial scarcity, inferior quality produce etc. to help the government.

Procedures for Filing Complaint

A complaint can be filed by a complainant against the seller, manufacturer, or dealer of goods which are defective or against the provider of services, if they are deficient in any manner whatsoever. An unfair trade practice or restrictive trade practice can also invite complaint

Steps involved in filing Complaint in Consumer Court

The first step in filing a consumer complaint is to send a legal notice to the seller or company. A legal notice must be drafted with the help of a consumer court lawyer and include the following:

1. Details of the consumer like name, address, product or services purchase details of the company, etc.
2. Necessary details of the problem faced and describe the deficiency in service.
3. Action taken by the company in response to the customer complaint
4. Action expected from the company
5. Time period given to the company to take action
6. The legal action that will be taken upon failure by the company in sending a reply to the legal notice.

Who can make complaint?

1. A consumer as defined under Consumer Protection Act, 1986
2. A registered Voluntary Consumer Association
3. Central Government
4. State Government / Union Territory
5. One or more consumer representing numerous consumers having the same interest.

When the complaints can be made?

A complaint may be made in writing under the following circumstances:

1. Loss or damage is caused to the consumer due to unfair trade practice of a trader.
2. If the article purchased by a consumer is defective.
3. If the services availed of by a consumer suffer from any deficiency.
4. When the price paid by a consumer is in excess of the price displayed on the goods or when the price is in excess of the price fixed under any law in force.
5. Goods, which will be hazardous to life and safety, when used are being offered for sale to the public in contravention of the provisions of any law.

How to register the complaints?

The complaint should be registered by the following ways:

1. Complaint can be registered within 2 years from the date on which the cause of action has arisen, to the date on which the completion from the deficiency in service.
2. Stamp paper is not required for declaration
3. Complaint can be registered, in person, by the complainant or through his authorised agent or by post addressed to the Redressal Agency.
4. Advocates are not necessary.

What are the particulars that should be furnished along with the complaint?

The complaint should contain the following particulars:

1. The name and complete address of the complainant
2. The name and complete address of the opposite party/parties
3. Date of purchase of goods or services availed
4. Amount paid for the above purpose
5. Particulars of goods purchased with number or details of services availed
6. The details of complaint, whether it is against Unfair Trade Practices/supply of defective goods/deficiency in service provided/ collection of excess price, should explicitly be mentioned in the complaint petition.
7. Bills/receipts and copies of related correspondence, if any.

Relief to the Consumers

The District Forum / State Commission can order the following reliefs to the consumers:

1. To remove the defects in the goods pointed out
2. To replace the goods
3. To return to the complainant the price of the goods
4. To pay such amount of compensation for the loss or injury suffered by the consumer
5. To discontinue the unfair trade practice or not to repeat it

6. To withdraw the hazardous goods from being offered for sale
7. To provide the cost of expenditure incurred by the complainant

What is the appeal provision?

1. Aggrieved by the orders issued by the District Consumer Redressal Forum appeal, petition can be filed before State Consumer Dispute Redressal Commission within 30 days from the date of receipt of orders
2. Aggrieved by the orders issued by the State Consumer Dispute Redressal Commission appeal petition can be filed before National Consumer Dispute Redressal Commission within 30 days from the date of receipt of orders
3. Aggrieved by the orders issued by the National Consumer Dispute Redressal Commission appeal petition can be filed before Supreme Court of India within 30 days from the date of receipt of orders
4. No fee is charged for registering an appeal petition before State / National Consumer Dispute Redressal Commissions
5. The appeal petition has to be filed with the grounds for appeal with copies of orders of the lower redressal agencies and registering procedures are same, as is being done in the case of registering complaint.

DO YOU KNOW?

The International Organisation of Consumers Unions (IOCU) was first established in 1960 to create cross-border campaigns and share knowledge; it has over 250 member organisations in 120 countries. Its head office is based in London, England, with regional officers in Latin America, Asia, Pacific, Middle East and Africa.

Key Words

Grievance Redressal Mechanism	District Forum
Consumer Voluntary Organisation	Consumer Welfare Fund
Three Tier Court	Consumer Awareness

For Future Learning

STUDENTS CONSUMER CLUB

Students may create "Students Consumer Club". They may create awareness about the Products and Services. They can motivate the parents about the consumer awareness of the following

1. MRP of the Product.
2. Expiry of the Product
3. Quality of the Product (ISI, ISO and Agmark, etc.)

Exercise

KVNYLT

I. Choose the Correct Answers:

1. The Chairman of the National Consumer Disputes Redressal Council is ______

a) Serving or Retired Judge of the Supreme Court of India.

b) Prime Minister

c) President of India

d) None of the above

2. The Chairman of the State Consumer Protection Council is _____

a) Judge of a High Court

b) Chief Minister

c) Finance Minister

d) None of the above

3. The Chairman of the District Forum is ________

a) District Judge

b) High Court Judge

c) Supreme Court Judge

d) None of the above

4. The State Commission can entertain complaints where the value of the goods or services and the compensation, if any claimed exceed

a)₹ 2 lakhs but does not exceed ₹ 5 lakhs

b) ₹ 20 lakhs but does not exceed ₹ 1 crore

c) ₹ 3 lakhs but does not exceed ₹ 5 lakhs

d) ₹ 4 lakhs but does not exceed ₹ 20 lakhs

5. The International Organisation of Consumers Unions (IOCU)was first established in

a) 1960 b) 1965

c) 1967 d) 1987

Answers:

1	a	2	a	3	a	4	b	5	a

II. Very Short Answer Questions:

1. What do you meant by Redressal Mechanism?
2. What do you know about National Commission?
3. State the meaning of the term State Commission.
4. What is an term District Forum?

III. Short Answer Questions:

1. Who are the members of the National Commission?
2. Who are the members of the State Commission?
3. Write a note on the Voluntary Consumer Organisation.

IV. Long Answer Questions:

1. Explain the overall performance of National Commission.
2. Explain the overall performance of State Commission.

References:

1. Consumer Protection Law and Practice by Dr V.K.Agarwal
2. Consumer Behaviour Dr L. Natarajan, Margham Publications, Chennai
3. Marketing Management Dr. R.L.Varshney and Dr S.L.Gupta, Sultan Chand&Sons, NewDelhi.

UNIT 7

BUSINESS ENVIRONMENT

19 CHAPTER

ENVIRONMENTAL FACTORS

தெரிந்த இனத்தொடு தேர்ந்தெண்ணிச் செய்வார்க்கு
அரும்பொருள் யாதொன்றும் இல்.

–குறள் 462

COUPLET

There is nothing too difficult to (be attained by) those who, before they act, reflect well themselves, and thoroughly consider (the matter) with chosen friends.

LB7TN5

Learning Objectives

To enable the students to understand the

- Meaning of Business environment
- differences between internal and external business environment
- various controllable and uncontrollable factors affecting business
- examples that impact economic, socio-cultural, political and legal, geo-physical and technological factors of business

Chapter Synopsis

A business is an integral part of the social system. The sum total of all factors both internal and external which has an impact on the functioning of a business can be termed as business environment. The aggregate of all factors, forces and institutions which are external to and beyond the control of an individual business enterprise but which exercises a significant influence on the functioning and growth of individual enterprises business environment.

It is dynamic in nature since it keeps changing.Therefore any strategic decision relating to a business can be taken only after scanning the environment for a SWOT analysis of the strengths, weaknesses, opportunities and threats. The internal environment which is controllable yields the strengths and weaknesses of an organisation while the external environment which is uncontrollable relates to two factors namely opportunities and threats. The understanding of business environment is essential for taking important decisions, and ensuring success.

19.01 Meaning and Definition of Business Environment

According to Bayard O 'Wheeler Business environment is *"the total of all things external to firms and industries which affect their organisation and operations".*

A business in order to remain successful and competitive has to adapt to the constantly changing environment. The formulation of strategic decisions , policies and programmes requires an understanding of the environmental factors impacting the business. Therefore scanning of the environment for identifying threats and opportunities is essential for any business.

The significance of understanding the business environment is as follows:

i. **Helps in formulating Strategy and future planning:** The data relating to the business environment are used as a record for devising important business strategies and to plan for the future development of the business concerned.

ii. **Enables to identify the opportunities available:** The analysis of business environment helps a business to identify new opportunities .For example in the 80's Dr Reddy identified the need for quality service in healthcare and started Apollo Hospitals. He was a pioneer in corporate hospital care and thus enjoys the first ever advantage in offering world class medical facilities in India.

iii. **Environment scanning:** It helps the firms to identify threats which may affect the business. Thus measures can be taken by the firm to overcome the threats.

iv. **Business aids:** It stimulates systematic monitoring of environment which helps business in taking steps to cope with the rapid changes

v. **Public image:** Environmental analysis helps a business to enhance its image by being sensitive and quickly responding to the changing environment and needs of people. Example large scale Retail stores like Aditya Birla's "More" are now providing home delivery services.

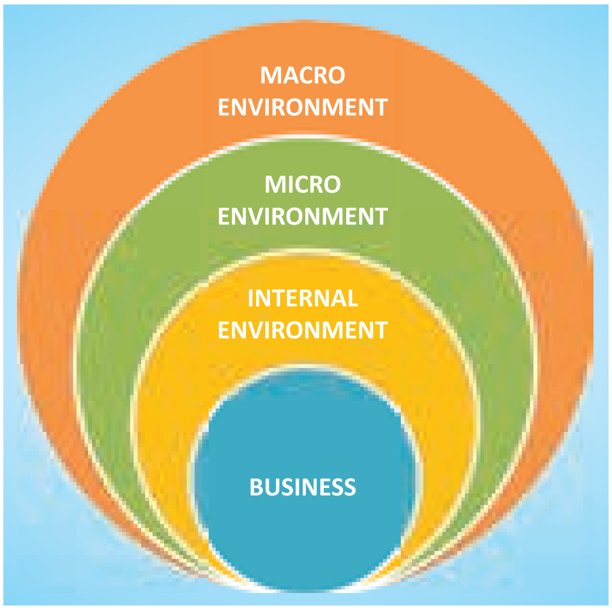
For Example Japanese camera film making company Fuji Films which had global presence for over 50 years was affected with the advent of digital cameras.

19.02 Types of Business Environment

The Business Environment can be classified as follows:

I) Internal Environment

II) External Environment

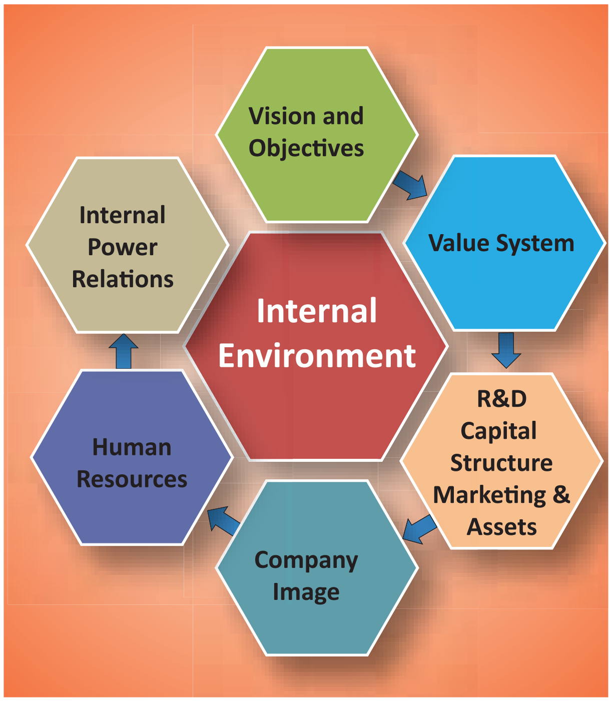


Internal environment refers to those factors within an organisation e.g Policies and programmes, organisational structure, employees, financial and physical resources. These factors can be changed or altered and hence are known as controllable factors.

External environment refers to those factors outside the business These factors by and large are beyond the control of a business and hence uncontrollable .e.g economic, political and socio-cultural factors.

19.02.01 Internal Environment

Internal Environment Factors



The major internal factors affecting business decisions are

i ***Values system:*** The values of the founder/ owner of the business , percolates down to the entire organisation and has a profound effect on the organisation. The success of an organisation depends upon the sharing of value system by all members. External business associates like suppliers and distributors consider the value system practised by an organisation with strong culture of ethical standards and values.

ii. Vision and objectives: The vision and objectives of a business guides its operations and strategic decisions. Example 'Amul the taste of India' Gujarat Co-operative Milk Marketing Federation GCMMF

Two Indian companies TATA Steel and WIPRO have been named as the world's most ethical companies by American Think tank Ethisphere Institute. Infosys, Murugappa group, TVS group

Vision: Liberate our farmers from economic oppression and lead them to prosperity.

iii. Management structure and nature: The structure of management/board and their style of functioning, the level of professionalism of management, the composition of the board are the various factors which affects the decision making. Since the board is the highest decision making authority, it's composition, degree of professionalism and style of operations plays a very critical role in the growth and development in an organisation.

iv. Internal power relations: This refers to the internal power relations that exist in an organisation. The relations among board members , between board members and the CEO and the level of support enjoyed by the board from its' stakeholders namely employees and shareholders are significant factors which affects decision making and its implementation in an organisation.

v. Human resources: The success of an enterprise is solely dependent on its manpower. Therefore the quality, skill competency, right attitude and commitment of its human resources is essential for the success of an organisation.

vi. Company image: The image of an organisation plays an important role in introducing new products, selecting agents and dealers for distribution, forging alliances with suppliers, expanding and entering new markets both domestic and international, raising finance etc.

vii. Other factors: The firm's ability to innovate reflected by its research and development, the strength of its financial position and the capital structure, the efficiency in managing the marketing and distribution network ,and the physical resources like plant, building technology are the other major factors on which affects the success of a business.

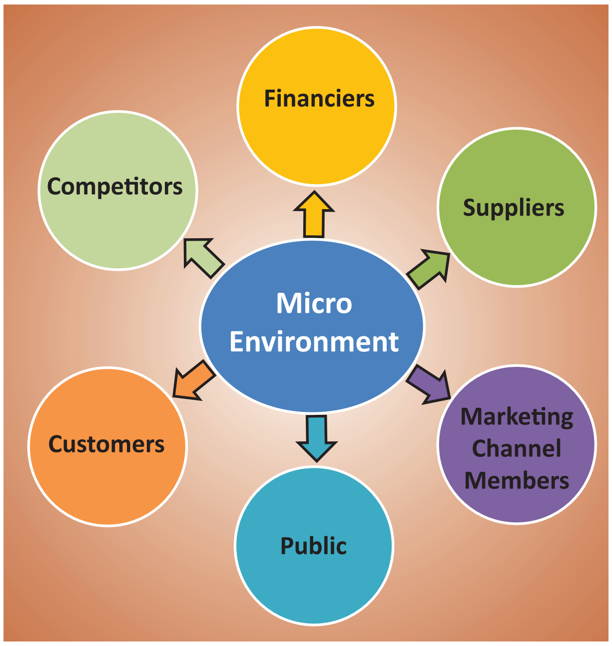
12th Commerce Unit 7.indd 155 12/12/2020 2:18:51 PM

19.02.02 External environment

All factors outside the business which have a bearing on the working of a business can be termed as the external environment. This is subdivided into micro or task environment and macro or general environment.

19.02.03 Micro Environment

Micro Environment Factors



This refers to those factors which are in the immediate environment of a business affecting its performance. These include the following:

i) ***Financiers:*** The financiers of a business which includes the debenture holders and financial institutions play a significant part in the running of a business. Their financial capability, policies strategies, attitude towards risk and ability to give non–financial assistance are all important to a business.

ii) ***Suppliers:*** In any organisation the suppliers of raw materials and other inputs play a very vital role. Timely procurement of materials from suppliers enables continuity in production and reduces the cost of maintaining stock/inventory. Organisations generally obtain supplies from a panel of suppliers instead of relying on a single source. Organisations have realised the importance of nurturing and maintaining good relationship with the suppliers.

iii) ***Marketing Channel members:*** The marketing inter-mediaries serve as a connecting link between the business and its customers .The middlemen like dealers, wholesalers and retailers ensure transfer of product to customers .physical distribution is facilitated by transporters, and warehouses help in storing goods. Market research agencies help the firm to understand the needs of the customers while advertising agencies help in promoting the products and services. Insurance firm is another marketing intermediary which provides coverage for risk in business.

iv) ***Public:*** This refers to any group like media group, citizen action group and local public which has an impact on the business. The public group has the ability to make or mar a business. Many companies had to face closure due to actions by local public.

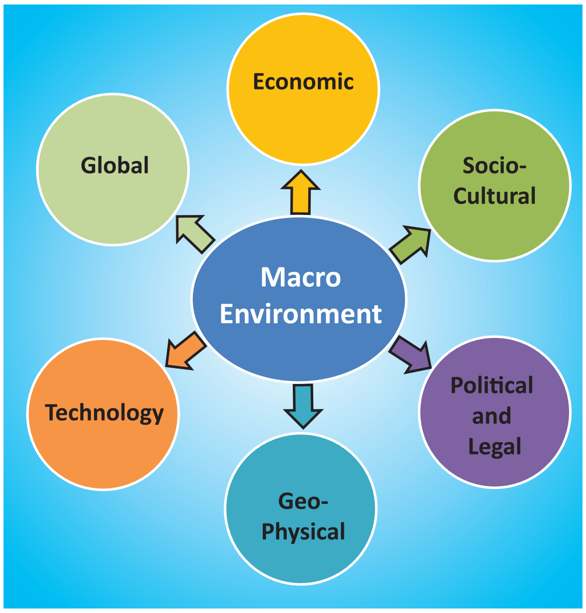
v) ***Customers:*** The aim of any business is to satisfy the needs of its customers. The customer is the king and the fulcrum around which the business revolves. Hence it is essential for any business to understand the needs of its varied customers like individuals, retailers, wholesalers, industries and government sector. Customer relationship management aims at creating and sustaining cordial relations with customers.

vi) ***Competitors:*** All organisations face competition at all levels local, national and global. Competitors may be for the same product or for similar products. It is important for a business to understand its competitors and modify their business strategies in the face of competition.

For example. the closure of Sterlite Copper factory in Thoothukudi due to protests by environment protection group in 2018.

19.02.04 Macro Environment:

Macro Environment Factors



This is the general or overall environment in which the business operates. The success of a business is dependent on its ability to adapt to the macro environment, since these are uncontrollable factors. They offer enormous opportunities to business and also poses serious threats to business. The general or remote environment factors are as follows;

I. **Economic environment:** The business is an integral part of the economic system prevalent in a nation. The multiple variables in the macro environment system which has a bearing on a business include

1) **The nature of economy based on the stage of development:** The countries across the globe can be categorised on the basis of growth and per capita income as developed nations, developing nations and under developed nations. The USA, Japan, Germany, Canada and Australia developed economies generally have high degree of technological advancement, very strong and robust industrial base, and high standard of living. Many of these developed nations have successfully integrated the computer based technologies with their existing business. Developing nations like India, China, Brazil Mexico are middle income economies are characterised by low to moderate industrial growth, the inequality in the distribution of income, high population, a low standard of living and slow absorption of technology. Under developed nations are low income economies with a very low degree of technology adoption and a very poor standard of living.

2) **The nature of economic system:** The economic systems can be classified as Capitalistic, Socialistic and Mixed economy. Capitalistic economy is a free enterprise market where individual ownership of wealth is predominant. Socialistic economy is a state controlled with a lot of restrictions on private sector. Mixed economy is a combination of both state owned and private sector ownership.

3) **The economic policies of a nation:** Monetary policy, fiscal policy, Export-import policy, Industrial policy Trade policy, Foreign exchange policy etc are part of the economic environment.

4) **Economic indices:** The Economic indices like GDP, GNP national income, per-capita income, balance of payments, rate of savings and investments etc. form an important part of economic environment.

5) **Development of financial market:** The organisation and development of money market, capital market securities market and, the banking system has a greater impact.

6) **Economic structure:** The Economic structure includes capital formation, investment pattern, composition of trade balance, occupational distribution of workforce, and the structure of national output.

II. Socio-Cultural environment - Business is a part of the society .Social environment refers to the sum total of factors of the society in which the business is located. Social and cultural environment of society affects the business. It is dynamic and includes the behaviour of individuals, the role and importance of family, customs, traditions, beliefs and values, religion and languages, the ethical values. The literacy level, and the social attitudes of the people of the society. The socio-cultural environment also includes the following;

1) The social institutions and groups
2) Family structure prevalent in the society
3) Role of marriage as an institution
4) Caste system in the society
5) Customs , beliefs and values
6) Demographic factors which includes the size, composition, literacy level, distribution and mobility of the population
7) The lifestyle of people and their tastes, likes and preferences.

III. Political and Legal environment – The framework for running a business is given by the political and legal environment. The success of a business lies in its ability to adapt and sustain to political and legal changes. The legislative, executive and judiciary are the three political institutions which directs and influences a business.The major elements of the legal and political environment are

1) Political stability is reflected by the following parameters like the election system, the law and order situation, the role and structure of Military and Police force, the declaration of President's rule, civil war etc
2) Political organisation refers to the ideology and philosophy of the political parties, the government, the role and degree of authority of bureaucracy, the level of political consciousness among citizens and the funding of political parties by business houses and the clout wielded by them.
3) The image of the leader and the country in the inter-national arena.
4) Legal framework of business and their degree of flexibility.
5) The constitution of the nation.
6) The Foreign policy of the country with special reference to tariffs and free trade.

IV. Geo-physical environment – The natural, geographical and ecological factors have a bearing on the business. These are as follows;

1) the availability of natural resources like minerals oil .etc, since setting up of industries requires availability of raw materials
2) the weather and climatic conditions and availability of water and other natural resources is essential for the agricultural sector .
3) topographical factors like the terrain impacts type of business since the demand and consumption pattern may vary in these regions. E.g in the the hilly region mode of transport will have to be modified to tackle the terrain.
4) ecological factors are now gaining momentum, since the governments across the globe are framing stringent policies for ecological conservation and prevention of pollution. The ban on use of plastic bags imposed by the Ooty corporation is an example.
5) location of certain industries is influenced by the geographical conditions For e.g In Tamilnadu the concentration of cotton textile industry in Coimbatore is due to conducive weather conditions. .
6) availability of natural harbours and port facilities for transporting goods .

V. Technological environment – The development in the IT and telecommunications has created a global market. Technology is widely used in conducting market research for understanding the special needs of the customer. Digital and social media are used as a platform for advertising and promoting the products/services. Data-mining and data analytics are used to know the customer better. Technology is used in managing inventory, storing goods in warehouses, in distributing goods and in receiving payment. This dynamic environment also includes the following ;

1) the level of technology available within the country
2) rate of change in technology
3) technology adopted by competitors
4) technological obsolescence

VI. Global environment - With the rapid growth of technology the physical boundaries are fast disappearing and the new global market is emerging. The international environmental factors which affects a business are as follows;

1) Differences in language and culture
2) Differences in currencies
3) Differences in norms and practices
4) Differences in tastes and preferences of people
5) The tax structure relating to import and export.
6) Differences in the degree of adoption of technology.

19.03 Future environment of business-VUCA

The future environment of business in this age of rapid technological advancement has been captured aptly in the acronym VUCA – volatility, uncertainty, complexity and ambiguity, developed in the late 80's by the U.S military. Every business has to take strategic decisions.The dynamic ever changing environment, the unpredictability of various factors, the multiplicity of forces affecting business and the lack of clarity are the variables which affects business.

It is now important for every business to meet the challenges posed by the environment in order to remain competitive. The uncertain conditions and situations requires a firm to be prepared to face the volatility by planning. The presence of complex variables impacting business should be understood and alternative measures for solving the issues should be developed. In an VUCA environment a firm has to be forward looking anticipating the change, adaptability will remain essential for the success of any business in an ambiguous, uncertain environment.

19.04 Corporate Governance

Corporate governance is a set of rules and policies which governs a company. It provides a frame work for managing a company and achieving its objectives. It gives guidelines for internal control, performance measurement and corporate disclosure. Corporate governance lays down the rules and responsibilities of the stakeholders of a company primarily the shareholders, the directors and the management. The role of board of directors is very important in corporate governance. It is the board that provides the guidelines for the company and its other stakeholders including employees, customers, suppliers and financiers. Corporate governance is based on the four fundamental pillars of fairness, transparency, accountability and responsibility.

In India the Kumara Mangalam Birla Committee 2000, Narayana Murthy Committee 2003 , Adi Godrej Committee 2008, and presently Uday Kotak Committee were constituted to give a comprehensive framework for Corporate Governance. The present corporate governance norms, included in the Companies Act 2013, SEBI listing regulations and Clause 49 of the listing agreement are the outcome of discussion by these committees.

The Indian Corporate Governance framework requires listed companies

i) to have independent directors on the board; At least one third of the directors have to be independent directors.

ii) to have at least one independent woman director ,

iii) to disclose all deals and payments to related parties.

iv) to disclose details of managerial compensation

v) CEO and CFO to sign stating that the governance norms have been complied with in the financial statements.

It can thus be concluded that the presence of active governance norms in a company enhances the image of the company, increases investor confidence and safeguards the interests of the shareholders and the society. The new norms laid down in Companies Act 2013 by bringing in transparency in corporates have raised the governing standards of Indian companies as per International Standards.

19.05 GST Goods and Services Tax

GST is the indirect tax levied on goods and services across the country. It is a **comprehensive,** multi-stage, destination-based tax that is levied on every value addition.

There are 3 taxes applicable under this system.

i) **CGST:** Collected by the Central Government on an intra-state sale (Eg: transaction happening in TamilNadu)

ii) **SGST:** Collected by the State Government on an intra-state sale (Eg: transaction happening within TamilNadu)

iii) **IGST:** Collected by the Central Government for inter-state sale (Eg: Punjab to Tamil Nadu)

Goods & Services Tax Council is a constitutional body for making recommendations to the Union and State Government on issues related to Goods and Service Tax. The GST Council is chaired by the Union Finance Minister and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.

The Goods and Services Tax Council shall make recommendations to the Union and the States on

a. the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax

b. the goods and services that may be subjected to, or exempted from the goods and services tax

c. model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply

d. the threshold limit of turnover below which goods and services may be exempted from goods and services tax

e. the rates including floor rates with bands of goods and services tax

f. any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster

g. special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand and

h. any other matter relating to the goods and services tax, as the Council may decide.

Purpose

At the Tata group we are committed to improving the quality of life of the communities we serve. We do this by striving for leadership and global competitiveness in the business sectors in which we operate.

Our practice of returning to society what we earn evokes trust among consumers, employees, shareholders and the community. We are committed to protecting this heritage of leadership with trust through the manner in which we conduct our business.

Core values

Tata has always been values-driven. These values continue to direct the growth and business of Tata companies. The five core Tata values underpinning the way we do business are:

Integrity: We will be fair, honest, transparent and ethical in our conduct; everything we do must stand the test of public scrutiny.

Excellence: We will be passionate about achieving the highest standards of quality, always promoting meritocracy.

Unity: We will invest in our people and partners, enable continuous learning, and build caring and collaborative relationships based on trust and mutual respect.

Responsibility: We will integrate environmental and social principles in our businesses, ensuring that what comes from the people goes back to the people many times over.

Pioneering: We will be bold and agile, courageously taking on challenges, using deep customer insight to develop innovative solutions.

Mission: To improve the quality of life of the communities we serve globally through long-term stakeholder value creation based on Leadership with Trust.

Key Words

Micro Environment	Macro Environment
Capitalistic Economy	Socialistic Economy
Mixed economy	Core Values

For Future learning

1) Identify top five Indian companies and understand their vision , mission and core values.
2) Examine how mobile phones are replacing the existing technologies- Radio, Music system, Camera etc.

Case Study

Dr.VargheseKurien – Pioneer of White revolution in India

Amul meant different things to different people :

To a Milk Producer	A life enriching experience
To a Consumer	Assurance of having wholesome milk
To a Mother	A reliable source of nourishment for her child
To the Country	Rural Development and Self Reliance

Case Study

Apollo Hospitals

Our Vision

Apollo's vision for the next phase of development is to 'Touch a Billion Lives'.

Our Mission

"Our mission is to bring healthcare of International standards within the reach of every individual. We are committed to the achievement and maintenance of excellence in education, research and healthcare for the benefit of humanity".

The TVS Group traces its origins to a rural transport service, founded in 1911 in Tamil Nadu, India. Today, this renowned business conglomerate remains faithful to its core ideals of trust, values, service and ethics.

Exercise

LQGSMT

I. Choose the Correct Answers:

1. VUCA stands for____,_____,_____,______.

(a) Volatility, Uncertainty, Complexity and Ambiguity

(b) Value, Unavoidable, Company and Authority

(c) Volatility, Uncontrollable, Company and Auction

(d) All of the above

2. GST stands for ______,______,______.

(a) Goods and Social Tax

(b) Goods and Service Tax

(c) Goods and Sales Tax

(d) Goods and Salary Tax

3. Factors within an organisation constitutes _________ environment.

(a) Internal Thinker

(b) External Thinker

(c) Fellow human beings

(d) All of the above

4. Macro Environment of business is an _________ factor.

(a) Uncontrollable (b) Controllable

(c) Manageable (d) Immanageable

5. The two major types of business environment are _______ and ___________.

(a) Positive and Negative

(b) Internal and External

(c) Good and Bad

(d) Allowable and Unallowable

Answers:

1	a	2	b	3	a	4	a	5	b

II. Very Short Answer Questions:

1. What is internal environment?
2. Give the meaning of corporate governance.
3. What is GST?
4. Expand VUCA.

III. Short Answer Questions:

1. What are the political environment factors? (any 3)
2. Write about any three internal environmental factors of business.
3. What do you know about Technological environment?

IV. Long Answer Questions:

1. Discuss the role of macro environment of business. (any 5)
2. Explain the micro environmental factors of business. (any 5)

UNIT 7 BUSINESS ENVIRONMENT

CHAPTER 20 LIBERALIZATION, PRIVATIZATION AND GLOBALIZATION

ஊருணி நீர்நிறைந் தற்றே உலகவாம்
பேரறி வாளன் திரு.

–குறள் 215

COUPLET

The wealth of that man of eminent knowledge who desires to exercise the benevolence approved of by the world, is like the full waters of a city-tank.

M5ZMP5

Learning Objectives

To enable the students to understand the

- Meaning, measures, advantages, disadvantages and impact of Liberalisation
- Meaning, measures, advantages, disadvantages and impact of Privatisation
- Meaning, measures, advantages, disadvantages and impact of Globalisation
- Highlights of LPG

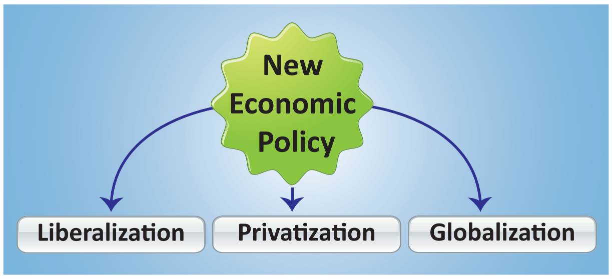
Chapter Synopsis

During 1991, India approached International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and International Monetary Fund (IMF) and received $ 7 million as loan to repay the external borrowings. These international agencies expected India to liberalise and open up economy by removing restrictions on private sector and remove trade restrictions between India and other countries.

India agreed to the conditions of World Bank and IMF and announced New Economic Policy (NEP) which consists of wide range of economic reforms. This new set of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model.

20.01 Dimensions of New Economic Policy

There are three dimensions of New Economic Policy. They are explained below.



The base for New Economic Policy in various countries of the world is Dunkel Draft, which was all about the General Agreements on Trade and Tariff. Mr. Arthur Dunkel (1932-2005) submitted a 22000 page document for the World Trade Organisation (WTO) and followed by many Nations to adopt their respective New Economic Policies. India is one among such nations to commit itself to the New Economic Policy in 1991.

20.02 Meaning and forms of Liberalization

Liberalization refers to laws or rules being liberalized, or relaxed, by a government. Liberalization means relaxation of various government restrictions in the areas of social and economic policies in order to make economies free to enter in the market and establish their venture in the country. Liberalizing trade policy by the government includes removal of tariff, subsidies and other restrictions on the flow of goods and services between countries. Liberalization is the result of New Industrial Policy which abolished the "License system" or “Licence Raj”.

Forms of Liberalization

The government of India has adopted several measures of liberalization. Some of these measures are as under:

(a) Liberalization for industrial licensing: In India, it was mandatory to obtain license before liberalization for setting up certain industries. After liberalisation, all industries except six specific industries were liberalized i.e., free from obtaining license.

Those Six non-liberalised industries were drugs and pharmaceuticals, hazardous chemicals, explosives, tobacco products, alcoholic drinks, and electronic, aerospace and defence equipment. Currently, only five industries are under compulsory licensing. Drugs and Pharmaceuticals industry has been liberalised.

(b) Freedom for expansion and production to industries: Earlier government used to fix the maximum limit of production capacity. Now the industries are free to decide their production limits by their own on the basis of the requirement of the markets.

(c) Increase in the investment limit of the small industries: Investment limit of the small scale industries has been raised to Rs. 1 cr. So these companies can upgrade their machinery and improve their efficiency.

(d) Foreign Exchange reforms: The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange.

(e) Liberalization of export and import transactions: By simplifying procedures for imports and exports the government wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.

20.03 Advantages and Disadvantages of Liberlization

Advantages

(a) Increase in foreign investment: If a country liberalises its trade, it will make the country more attractive for inward investment. Inward investment leads to capital inflows but also helps the economy through diffusion of more technology, management techniques and knowledge.

(b) Increase the foreign exchange reserve: Relaxation in the regulations covering foreign investment and foreign exchange has paved way for easy access to foreign capital.

(c) Increase in consumption: Liberalization increases the number of goods available for consumption within a country due to increase in production.

(d) Control over price: The removal of tariff barriers can lead to lower prices for consumers. This would be particularly a benefit for countries who are importers.

(e) Reduction in external borrowings: Liberalization reduces the dependence on external commercial borrowings by attracting more foreign investments.

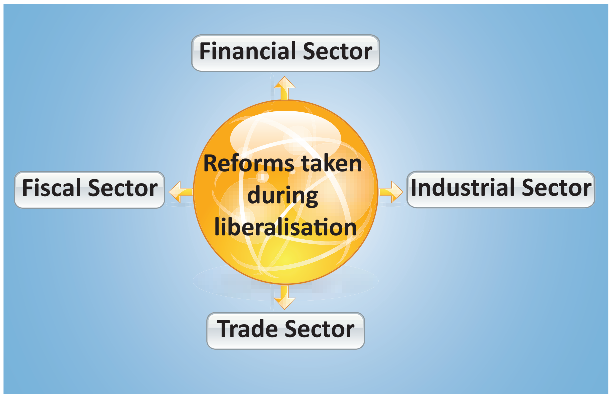
Disadvantages

(a) Increase in unemployment: Trade liberalisation often leads to a shift in the balance of an economy. Some industries grow, some decline. Therefore, there may often be structural unemployment from certain industries closing.

(b) Loss to domestic units: With fewer entry restrictions, it has been possible for many entrants to make inroads into the country, which poses a threat and competition to the existing domestic units.

(c) Increased dependence on foreign nations: Trade liberalisation means firms will face greater competition from abroad. When competition is not automatically enhanced, it can lead to domination by big institution that has market controlling powers.

(d) Unbalanced development: Trade liberalisation may be damaging for developing economies which cannot compete against free trade. The trade liberalisation often benefits developed countries rather than developing economies.



20.04 Impact of Liberalization

(a) The impact of Liberalisation on Indian Economy was well afforeciable with the phenominal growth by contributing \$1.3 Trillion to the world GDP. So also the Indian Economy because the Seventh Largest among the world leading economies.

(b) Liberalization has opened up new business opportunities abroad and increased foreign direct investment.

(c) New market for various goods came into existence and resulted not only in urban but also in rural development.

(d) It became very easy to obtain loans from banks for business expansion.

(e)"Foreign Collaboration" is the latest outcome of liberalization.

(f) A number of multinational companies started operating world-wide including India.

20.05 Meaning and forms of Privatization

Privatization is the incidence or process of transferring ownership of a business enterprise, agency or public service from the government to the private sector. Simply speaking, privatisation means permitting the private sector to set up industries which were previously reserved for the public sector. Under this policy many Public Sector Units (PSUs) were sold to private sector.

The main reason for privatisation was that PSUs were running in losses due to mismanagement and political interference. The managers could not work independently and the production capacity remained under-utilized. To increase competition and efficiency privatisation of PSUs was inevitable. Some examples of Public Sector Enterprises recently privatlised are as follows.

i. Bharat Aluminimum Co. Ltd., (BALCO)

ii. Hindustan Zinc Ltd (HZL)

iii. Indian Petrochemicals Corporation Ltd (IPCL)

iv. Maruthi Udyog Ltd (MUl)

v. Modern Food Industries Ltd (MFIL)

India Scooters Limited - The first ever company Privatized in India

Forms of Privatization

(a) Contraction(minimisation) of public sectors: The number of industries reserved for public sector was reduced from 17 (as per 1956 policy) to only 8 industries viz, Arms and Ammunition, Atomic Energy, Coal and Lignite, Mineral oils, Mining of ores, Mining of copper, lead, zinc etc., Minerals for atomic energyand Railways.

> Currently only Atomic Energy, Defence and Railways are Government monopoly industries i.e., Public sector industries in the country.

(b) Sales of shares of public sectors to the private sector: Indian Govt. started selling shares of PSUs to public and financial institution. Now the private sector will acquire ownership of these PSU's. The share of private sector has increased from 45 % to 55 % in the year 2011 and after.

(c) Memorandum of Understanding: MoU system was introduced in 1991to raise the productivity and performances of PSUs. It strengthens the relationship between PSUs and administrative departments. The main work of MoU is to judge the PSUs and level their performance.

(d) Disinvestment in PSUs: The Govt. has started the process of disinvestment in those PSUs which had been running into loss. It means that Govt. has been selling out these industries to private sector. So disinvestment is a system of privatizing government enterprises.

20.06 Advantages and Disadvantages of Privatization

Advantages

(a) Increase in efficiency: Privatization is associated with improved efficiency due to the profit incentive. Private companies will ensure they improve their operational efficiency in order to reduce their costs and improve in profits.

(b) Professional management: Government owned enterprises make poor economic management compared to private owned enterprises. This is because of the fear of negative publicity. Private ownership makes bold management decisions due to their strong foundation at international level.

(c) Increase in competition: Privatisation of state-owned monopolies occurs alongside deregulation i.e. policies to allow more firms to enter the industry and increase the competitiveness of the market. It is this increase in competition that can be the greatest spur to improvements in efficiency.

(d) Reduction in economic burden of Government: Since the ownership, control and management of many PSUs are transferred to private, the burden and responsibility of government has comparatively reduced.

Disadvantages

(a) Lack of welfare: Majority of private companies whose main motive is profit-making, do not indulge in public interest or welfare services like free education to poor, free medical treatment, etc.

(b) Political pressure: When private companies fail to deliver, the public has no powers to intervene and government does not always have time or expertise to force them to keep their promises.

(c) Ignores the weaker sections: Privatisation often goes hand in hand with encouraging richer people to pay more and opt for best quality services. This leads to division, making it harder to provide excellent public services for weaker sections.

20.07 Impact of Privatization

(a) Privatization has a positive impact on the financial growth by decreasing the deficits and debts.

(b) Increase in the efficiency of government undertakings.

(c) Provide better goods and services to the consumers.

(d) Making way for Foreign Direct Investment (FDI)

20.08 Meaning and Forms of Globalization

Globalisation means the interaction and integration of the domestic economy with the rest of the world with regard to foreign investment, trade, production and financial matters. It is the process by which businesses or other organizations develop international influence or start operating on an international scale. Globalization stands for the consolidation of the various economies of the world.

GLOBALISATION

Globalization results from the removal of barriers between national economies to encourage the flow of goods, services, capital, and labour. While the lowering or removal of tariffs and quotas that restrict free and open trade among nations has helped globalize the world economy.

Forms of Globalization

(a) Foreign trade policy: India has signed a number of agreements in order to expand Indian trade worldwide. Some of the agreement includes TRIPS (Trade Related Intellectual Property Rights), GATS (General Agreement on Trade in Service).

(b) Export promotion: Globalisation promotes export by reducing quotes and tariffs, by eliminating trade restrictions and by simplifying trade procedures.

(c) Freedom to repatriate: Repatriate means, to send or bring money back to one's own country. Since globalisation has integrated many countries, repatriation has become very easy.

(d) Reduction in tariffs: Custom duties and tariffs imposed on imports and exports are reduced gradually to make Indian economy attractive to the global investors.

(e) Encouraging open competition: Globalisation brings an end to the difference between domestic and international markets. Domestic companies start their operations in the international level and therefore there is an open competition.

20.09 Advantages and Disadvantages of Globalization

Advantages

(a) Increase in foreign collaboration: Globalisation increases foreign collaboration through various modes such as joint venture, merger, franchise, turn-key projects, etc.

(b) Expansion of market: The size and operation of business moves from local to national and from national to international.

(c) Technological development: Technological advancement paves way for a company to enter foreign market. Globalisation of technology is done by Royalty or purchase of technology or by technology collaborations.

(d) Reduction in brain drain: Brain drain is a situation in which a country loses its most educated and talented workers to other countries through migration. Globalisation paves way for employment opportunities in the home country and utilise the man-power efficiently.

Disadvantages

(a) Loss of domestic industries: Globalisation causes decline in the demand of domestic products which in turn vanishes the domestic business.

(b) Increase in inequalities: Globalisation widens the gap between rich and poor. Also developed countries exploit the resources of developing countries.

(c) Dominance of foreign institutions: Economic power shifts from independent industries to international organisations which is a threat to national sovereignty.

20.10 Impact of Globalization

(a) Corporations got a competitive advantage from lower operating costs, and access to new raw materials and additional markets.

(b) Multinational corporations (MNCs) can manufacture, buy and sell goods worldwide.

(c) Globalisation has led to a boom in consumer products market.

(d) The advent of foreign companies and growth in economy has led to job creation.

(e) Globalisation has touched every aspect of agriculture like technological advancement, improved production techniques and quality based enhancement.

20.11 Highlights of the LPG Policy

Given below are the salient highlights of the Liberalisation, Privatisation and Globalisation Policy in India:

(a) Introduction of new Foreign Trade Agreements

(b) Foreign Investment (FDI & FII)

(c) MRTP Act, 1969 (Amended)

(d) Deregulation

(e) Opportunities for overseas trade

(f) Steps to regulate inflation

(g) Tax reforms

(h) Abolition of License

Globalization and liberalization are concepts closely related to one another, and both globalization and liberalization refer to relaxing social and economic policies which results in better integration with an economy and between nations. Globalization and liberalization both occur as a result of modernization. Globalization is the greater integration among countries and economies for trade, economic, social and political benefits. Liberalization generally refers to removal of restrictions; usually government rules and regulations imposed on social, economic, or political matters.

Key Words

FDI, TRIPS, TRYSEM, GATS

DO YOU KNOW?

The former Prime Minister of India Dr.Manmohan Singh is considered as the architect of Indian economic reforms who introduced the policy of liberalisation in India in 1991.

Exercise

I. Choose the Correct Answers:

1. __________ is the result of New Industrial Policy which abolished the 'License System'.

(a) Globalisation (b) Privatisation

(c) Liberalisation (d) None of these

2. ___________ means permitting the private sector to setup industries which were previously reserved for public sector.

(a) Liberalisation (b) Privatisation

(c) Globalisation (d) Public Enterprise

3. ____________ ownership makes bold management decisions due to their strong foundation in the international level.

(a) Private (b) Public

(c) Corporate (d) MNC's

4. __________ results from the removal of barriers between national economies to encourage the flow of goods, services, capital and labour.

(a) Privatisation (b) Liberalisation

(c) Globalisation (d) Foreign Trade

5. New Economic Policy was introduced in the year _______.

(a) 1980 (b) 1991

(c) 2013 (d) 2015

Answers:

1	c	2	b	3	a	4	c	5	b

II. Very Short Answer Questions:

1. State the branches of New Economic Policy.
2. What is Privatisation?
3. Mention any two disadvantages of Liberalisation.
4. Give any two advantages of Globalisation.

III. Short Answer Questions:

1. What do you mean by Liberalisation?
2. State any three impacts on Globalisation.
3. Write a short note on New Economic Policy.

IV. Long Answer Questions:

1. Explain the advantages and disadvantages of liberalisation. (any 5)
2. What are the highlights of the LPG policy? (any 5)

UNIT VIII

THE SALE OF GOODS ACT 1930 AND THE NEGOTIABLE INSTRUMENTS ACT 1881

21
CHAPTER

THE SALE OF GOODS ACT 1930

அழிவதூஉம் ஆவதூஉம் ஆகி வழிபயக்கும்
ஊதியமும் சூழ்ந்து செயல்.

–குறள் 461

NFBBRG

COUPLET

Let a man reflect on what will be lost, what will be acquired and (from these) what will be his ultimate gain, and (then, let him) act.

Learning Objectives

To enable the students to understand the

- Contract of sale
- Differentiate the sale and agreement to sell
- Knows the types of Goods
- Transfer of ownership
- Conditions and warranties
- Knows the rights of unpaid seller

Chapter Synopsis

21.01 Formation of Contract of Sale

21.02 Difference between Sale and Agreement to Sell

21.03 Types of Goods

21.04 Transfer of Ownership

21.05 Conditions and Warranties

21.06 Rights of an Unpaid Seller

Sale of Goods is one of the most important Acts coming under special contract. This Act was passed in the year 1930. Prior to this Act, it was governed by Chapter 7 of the Indian Contract Act 1872. Contracts for the sale of Goods are subjected to general legal principles applicable to all contracts. Hence the general provisions of Indian Contract Act continue to apply to the Contract for the sale of goods.

21.01 Formation of Contract of Sale

Contract of Sale of Goods

Contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property (ownership) of the goods to the buyer for a price. The term 'ownership' is utmost importance in the sale of goods. Students have to understand that sale means selling the ownership of the goods to the buyer for a price besides transferring the physical possession of the goods. Mere possession of the goods does not entitle a person to ownership. Similarly purchase means buying the ownership of the goods from the seller for a price. The term ownership or property confers on the buyer an absolute freedom to dispose of the assets in any way as they like. Buyer has unlimited rights of the property purchased against the whole world. In this context, it is essential to learn the essential elements of a contract of sale.

Essential Elements of a Contract of Sale

Following essential elements are necessary for a contract of sale.

(1) Two Parties

A contract of sale involves two parties – the seller and the buyer. The buyer and the seller should be two different persons. If a person buys his own goods, there is no sale. On the dissolution of partnership when the surplus assets including goods were distributed among the partners, the court held that it was not a sale attracting sales tax. The partners were themselves joint owners of the goods and they could not be both sellers and buyers. However, there is one exception. When the goods of a person are sold in execution of a decree, he himself may buy the goods to retain their ownership.

(2) Transfer of Property

To constitute sale, the seller must transfer or agree to transfer the ownership in the good to the buyer. A mere transfer of possession does not amount to sale.

(3) Goods

The subject matter of contract of sale must be goods. It excludes money, actionable claims and immovable property. The term 'goods' includes every kind of movable property, stocks and shares, growing crops etc. Goodwill, trademarks, copy rights, patent rights etc., are all also regarded as goods.

(4) Price

The monetary consideration for the goods sold is called price. If goods are exchanged for goods, it is only barter and not a sale. But if goods are sold partly for goods and partly for money, the contract is one of sale.

(5) Includes both 'Sale' and 'Agreement to Sell'

The term contract of sale includes both sale and agreement to sell. If the property in goods is transferred immediately to the buyer it is called a sale. On the other hand, if the transfer of property takes place at a future date or on fulfilment of certain conditions, it is called 'an agreement to sell'.

21.02 Difference between Sale and Agreement to Sell

Sl. No.	Particulars	Sale	Agreement to Sell
1.	**Ownership Transference**	The property (ownership or title) in the goods passes from the seller to the buyer immediately so that the seller is no more owner.	The property (ownership or title) in the goods has to pass at a future time or after the fulfilment of certain conditions specified in the contract.

2.	**Risk of Loss**	Where the goods sold under the contract of sale are destroyed, the loss falls squarely on the buyer as the ownership in the goods has already passed on to the latter. Even though the goods are in the possession of seller.	Where the goods under the agreement to sell are destroyed, the loss falls squarely on the seller as the ownership is still vested with the seller even though the possession of the goods is with the buyer.
3.	**Consequences of violating the contract**	Where the buyer fails to pay the price, the seller cannot seize the goods. The seller can only file a case against the buyer for violating the contract.	Where the buyer violates the contract, the seller can repossess the goods from the former. He can sue for damages for violation of the contract.
4.	**Nature of contract**	It is an executed contract i.e. completed contract	It is an executory contract, i.e. contract yet to be performed by the party to the contract.
5.	**Insolvency of the Buyer**	In a sale, if a buyer becomes insolvent before he pays for the goods even though the goods sold are under the possession of the seller, the latter has to return them to the Official Receiver or Assignee as the ownership of goods has already been transferred to the buyer. The seller can claim only rateable dividend. The seller has to inevitably part with the possession of the goods under his custody.	If the buyer becomes insolvent before the payment of the price, the seller can retain the goods if they are under his possession or even he can repossess the goods even if the possession of the goods is transferred to the buyer. In other words, the seller is not bound to lose possession of the goods.
6.	**Insolvency of the Seller**	If the seller become insolvent before delivering the goods to the buyer, the buyer can claim the delivery of the goods from the Official Receiver or Assignee as the ownership is already passed on to the buyer.	The buyer cannot do so. Further if the buyer has already paid the price of the goods or made any advance, he can claim only rateable dividend and not the goods because the ownership in the goods is not yet passed to him.

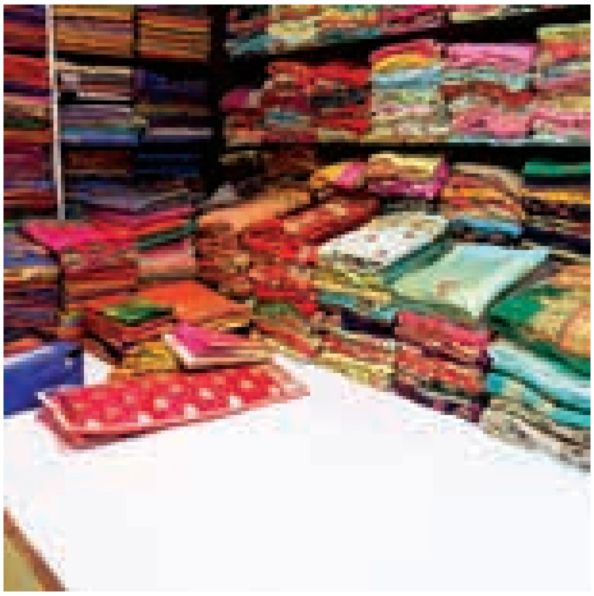
21.03 Types of Goods

The term goods mean every kind of movable property other than actionable claim and money. The term actionable claim means debt secured by a mortgage of immovable property, Fixed Deposit Receipt, Dividend Due on Shares, Amount due under LIC policy, Claim for rent which falls due in future etc., The term good includes shares, stocks, growing crops, grass, things attached to the land or forming part of the land agreed to be cut off from the land before sale (eg. trees grown on the land agreed to be sold after harvest), goodwill, copyright, trade mark, patents, water, gas, electricity, power etc., under the contract of sale.

1. Existing Goods

Existing goods are those owned or possessed by the seller at the time of contract of sale. Goods possessed even refer to sale by agents or by pledgers.

The diagram given below exhibits the type of goods covered under the sale of goods act.



Existing goods may be either

(i) Specific Goods

(ii) Ascertained Goods

(iii) Generic or Unascertained Goods

(i) Specific Goods

Specific goods denote goods identified and agreed upon at the time of contract of sale. For eg. if a buyer selects a particular variety of saree after examining several other sarees, the selected one denotes specific goods.

(ii) Ascertained Goods

The term 'ascertained goods' is also used as similar in meaning to specific goods. But this term may even refer to goods which become ascertained subsequent to the formation of the contract.

(iii) Unascertained or Generic Goods

These are goods which are not identified and agreed upon at the time of contract of sale. For eg. A wants to buy a car from a showroom where different models at different prices have been displayed. All these displayed models represents unascertained goods.

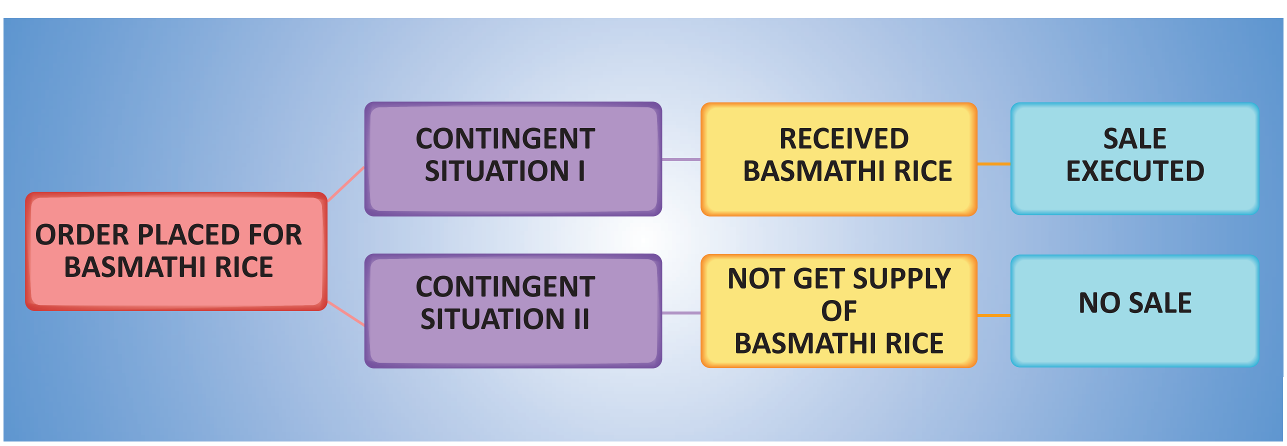
2. Future Goods

These are goods which a seller does not possess at the time of contract of sale but which will be manufactured or produced or acquired by him after entering into the contract of sale agreement. Eg. 'A' contractor agrees to supply 100 bags of rice to 'B' for giving marriage feast. It is a case of future goods. Similarly where the bus company agrees to buy spare parts from a particular supplier, it is an example of future contract. Future goods represents unascertained goods.

3. Contingent Goods

Contingent goods are the goods, the acquisition of which by the seller depends upon a contingency (an event which may or may not happen). Contingent goods are a part of future goods. Eg.'A' agrees to sell a particular painting work, provided he gets from 'C'. In this case, the painting work represents contingent goods. Similarly a rice merchant agrees to supply 10 bags of basmathi rice from Pakistan if he get supplies. In this case, basmathi rice representing contingent goods may or may not be available to the rice merchant.

CONTINGENT GOODS (Eg.Basumathi Rice)



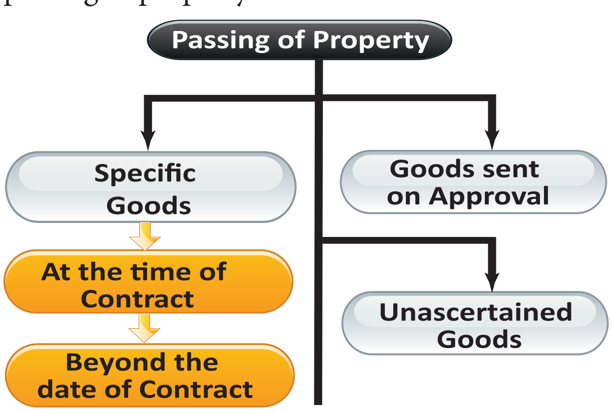
21.04 Transfer of Ownership

Transfer of property (ownership) in goods from the seller to the buyer is the main object of a contract of sale. The term property in goods must be distinguished from possession of goods. Property in goods means the ownership of goods while possession of goods refers to the custody of goods or control over the goods.

For eg. 'A' may possess a watch. Just because 'A' possesses the watch, he cannot be owner. He might have borrowed the watch from his friend or stolen the watch from somebody or found it on the highways. In this case, he cannot be called owner. It is important to know the precise movement of time at which the ownership in goods passes from seller to buyer.

Passing of Property

Transfer of title of a property is called as passing of property.



I. Specific Goods

(i) At the Time of Contract

Where there is an unconditional contract for the sale of specific goods in a deliverable state, ownership in the goods passes to the buyer when the contract is made. The time of payment of price or time of delivery of goods is immaterial in the matter of transferring the ownership of the goods.

eg. 'B' selects certain books in a bookshop. The price is settled. 'B' arranges to take delivery of books next day through his servant and agrees to pay for the books on the 1st of next month. The books were destroyed by fire in the same evening. In this case, 'B' has to bear the loss and pay for the books selected since the ownership has already passed on to 'B'.

(ii) Beyond the Date of Contract

(a). Goods not in a Deliverable condition

Where there is a contract for sale of specific goods not in a deliverable condition i.e. the seller has to do certain activities to bring the goods into deliverable condition like painting, quality checking, weighing etc., then the ownership does not pass till such activities bringing them into deliverable condition are completed. eg. There was a contract for a sale of machine weighing 30 tonnes and installed in a concrete floor. Some parts of the machine were damaged during the process of removal. In this case, buyer is entitled to refuse to buy the machine as it is not in a deliverable condition.

(b) When the Price of Goods is to be Ascertained by Weighing or Testing or Doing Something

Where there is a contract for the sale of specific goods in a deliverable condition, but the seller is yet to weigh, measure, test or do some other act or think with reference to the goods for the purpose of fixing the price, then the ownership in the goods passes to the buyer only after such activities are carried out and completed and the buyer has a knowledge of it.

eg. 'A' sold some quantity of wheat to 'B' at the rate of Rs. 10 per kg. However, 'A' had to weigh the wheat in order to know the price of the entire quantity of wheat sold to 'B'. In this case, the ownership of the wheat shall transfer to 'B' as soon as 'A' weighs the wheat 'B' comes to know about the completion of the weighing activity.

II. Unascertained Goods

As already we studied that the unascertained goods are those which are not specifically identified at the time of contract of sale. The ownership in the case of unascertained goods, is transferred to the buyer subject to the fulfilment of following conditions:

a. When the Goods are Ascertained

Ascertainment is a process by which the goods to be delivered under the contract of sale are identified and set apart. It is a unilateral act of the seller alone to identify and isolate the goods.

b. When the Goods are Appropriated to the Contract

Appropriation is a process by which the goods to be delivered under the contract of sale are identified and isolated with the consent of the seller as well as the buyer. It is a bilateral act of the seller and the buyer to identify and isolate the goods. In other words, where the goods identified and isolated are put into boxes or any container with the consent of the buyer, it is called appropriation. eg. 'A' agrees to sell 'B' the oil to be produced by him. The oil was filled by 'A' into the bottles supplied by 'B'. It is an effective appropriation and the ownership of oil goods passes to the buyer when the oil is filled into the bottles. In this case, the buyer gave his consent to the appropriation by supplying the bottles.

c. Delivery to the Carrier

Where the seller delivers the goods to a carrier for the purpose of transmission to the buyer, he is deemed to have unconditionally appropriated the goods to the contract. But the only condition is that the seller should not have reserved the right of disposal of the goods.Where the railway receipt or the bill of lading is made out in the name of the buyer, the presumption is that the seller has not reserved the right of disposal of the goods. The property in such goods passes to the buyer immediately on delivering them to the carrier.

III. Goods Sent 'On Approval' or 'On Sale or Return' Basis

Goods sent on approval or on sale or return basis mean those goods in respect of which the buyer has option either to return or retain.

Sl. No	Rule	Time of Transfer of Ownership	Examples
1.	Where the buyer communicates his approval or acceptance	Ownership passes right from the time of communication of the approval	'A' offer to sell his scooter to 'B' and delivers it to 'B' for trial run for 2 days. 'B' communicates his acceptance after 2 days. In this case, ownership passes right from the time of his communication of his approval.
2.	Where the buyer does some act adopting the transaction	When the act of adoption is done	'A' delivered some jewellery to 'B' on sale or return basis. 'B' pledged the jewellery with 'C'. It was held that ownership of the jewellery had transferred to 'B' as he had adopted the transaction by pledging the jewellery with 'C'. In this case, A has no right against 'C'. He can only recover the price of the jewellery from 'B'.

3.	Where the buyer fails to return the goods		
(i)	After the time fixed for return	On the expiry of the fixed term	'X' delivers some goods to 'Y' on sale or return for 7 days. 'Y' neither returns nor gives notice of rejection of goods even after the expiry of 7 days. The goods were destroyed by fire on 8th day. In this case, 'Y'has to bear the loss as the ownership has passed on 8th day after the lapse of stipulated period i.e. 7 days.
(ii)	Where no time has been fixed for return	On the expiry of the reasonable time	S Ltd. Agreed to sell a Tractor to Municipality on the condition that if the latter was not satisfied with the tractor, it could reject it. The municipality used the tractor for a month and a half and then wanted to reject. In this case the property in the tractor is deemed to have passed to the municipality as reasonable time elapsed.

21.05 Conditions and Warranties

A stipulation in a contract of sale with reference to goods may be a condition or a warranty.

(i) Condition: A condition is a stipulation which is essential to the main purpose of the contract. It is core to the contract. The non-fulfilment of the condition cancels the very contract. In other words, if a condition is broken, it leads to cancellation of contract. eg. 'A' intends to buy a motorbike from 'B'. 'A' insists that the bike should give him a mileage of 50 kms per litter. He prefers to have red colour bike. 'B', a mechanicgets a bike which gives him 55 kms per litter. But the colour is green. In this case, 'A' cannot cancel the contract. Since 'A' is very particular about the mileage, it is a condition to the contract. That part of contract is fulfilled by 'B'. However, 'A' can ask the mechanic 'B' to bear the cost of repainting it with red colour.

(ii) Warranty: Warranty represents a stipulation which is collateral to the main purpose of the contract. It is of secondary importance to the contract. The violation of warranty entitles the affected party to claim damages or compensation from the other party. But he cannot cancel the contract altogether. In the above example, preference of red colour represents warranty. Mechanic 'B' breaks the warranty in the above contract by acquiring a green colour bike. Hence, 'A' is entitled merely to demand just change of colour by instructing 'B'to repaint it with red colour and making him bear the cost of repainting.

In short, the stipulation or condition is contract specific. In other words, it can be determined with reference to the terms and conditions of the contract. Let us further examine the difference between conditions and warranties:

Sl. No	Basic of Difference	Condition	Warranty
1.	**Meaning**	It is a stipulation which is essential to the main purpose of the contract of sale.	It is a stipulation which is collateral to the main purpose of contract.
2.	**Significance**	Condition is so essential to the contract that the breaking of which cancels out the contract.	It is of subsidiary or inferior character. The violation of warranty will not revoke the contract.
3.	**Transfer of Ownership**	Ownership on goods cannot be transferred without fulfilling the conditions.	Ownership on goods can be transferred on the buyer without fulfilling the warranty.
4.	**Remedy**	In case of breach of contract, the affected party can cancel the contract and claim damages.	In the case of breach of warranty, the affected party cannot cancel the contract but can claim damages only.
5.	**Treatment**	Breach of condition may be treated as breach of warranty	Breach of warranty cannot be treated as breach of condition.

Implied Conditions and Warranties

In every contract of sale, there are certain expressed and implied conditions and warranties. The term implied conditions means conditions which can be inferred from or guessed from the context of the contract. Following are the implied conditions:

Implied Conditions

1. Conditions as to Title

In the case of sale, seller has a right to sell the goods. The buyer can assume that the seller has a right to sell the goods. eg. 'R' purchased a motorcar from 'D' and used it for 4 months. Later after six months, true owner came and proved that he is a true owner. In this case, 'R' has to return the car to the true owner and claim the full price paid by him from 'D'.

2. Conditions as to Description

In a contract of sale by description, there is an implied condition that goods supplied should agree with the descriptions made by the seller. eg. 'A' has bought a machinery from 'B' who described it to be just one year old. After buying the machinery and using it for a month, 'A' came to know that it is very old machinery. In this case, 'A' can return the machinery to 'B' on the ground that machinery is not as per the description i.e. not recent one.

3. Sale by Sample

Where goods are sold by showing samples by the seller eg. foodgrains, cloth, medicine, chemicals etc., the bulk of goods supplied by the seller should be similar to the sample shown by the seller. In other words, where the goods supplied do not match with the samples; the buyer can very well return the goods subject to the following conditions:

1. The bulk of the goods must correspond with the sample in quality
2. The buyer should have a reasonable opportunity of comparing the bulk with the sample and

3. The good must be free from any defect rendering them unsalable.

4. Conditions as to Quality or Fitness

There is no implied condition as to the quality or fitness for any particular purpose of goods. But goods must be fit for a particular purpose if

(i) The buyer has made known to the seller the particular purpose for which he needs the goods

(ii) The buyer relies on the seller's skill or judgement and

(iii) The goods are of a description which is in course of the seller's business to supply

eg. 'A' bought set of false teeth from a dentist. The set did not fit into A's mouth. Held that he could reject the set as the purpose for which it was bought was known to the dentist.

5. Conditions as to Merchantability

If goods are bought by description and the seller is a dealer in goods of that description, the implied condition is that goods must be of merchantable quality. It only means that the goods must be saleable in the market under that denomination. "A watch that will not keep time, a pen that will not write and tobacco which will not smoke, cannot be regarded as merchantable under such names."

6. Condition as to Wholesomeness

In the case of eatables, the goods must be wholesome besides being merchantable.

eg. 'F' bought milk from 'A', a dairy owner. The milk was contaminated with germs of typhoid fever. F's wife on taking the milk became infected and died of it. 'A' was held liable in damages.

7. Condition Implied by Trade Usage

An implied condition as to quality or fitness for a particular purpose can also be fixed by the usage of trade.

Eg.'X' sold certain drugs by auction to 'Y'. In the auction sale, there is a trade custom to declare any defect in the goods. But 'X' sold the goods without such declaration. Later, such goods were found to be defective. In this case, 'Y' can claim refund of the price on the ground of breach of custom.

Implied Warranties

(i) Quiet Possession

There is an implied warranty that the buyer shall have and enjoy quiet possession of the goods. If the buyer's possession is disturbed by a person having a superior right to that of the seller, the buyer is entitled to claim the damages.

eg. 'X' sold a second hand radio to 'Y' who spendsRs. 100 on the repairs of the radio. This radio was seized by the police as it was a stolen one. 'Y' filed a suit against 'X' for the recovery of damages for breach of warranty of quiet possession including the cost of repair. 'Y' won the case. In other words, he was held entitled to recover the damages.

(ii) Free from Any Encumbrances

The goods bought must not have been subject to any charge or right in favour of a third party. If the buyer's possession is disturbed by reason of the existence of any encumbrance, he is entitled to claim damages for breach of warranty.eg. 'X' borrowed Rs. 50,000 from 'Y' and hypothecated his autorickshaw with 'Y' as security. Later on, 'X' sold the autorickshaw to 'Z' who bought it in good faith. In this case, 'Z' can claim damages from 'X' because his possession is disturbed by 'Y' having a encumbrance on the auto.

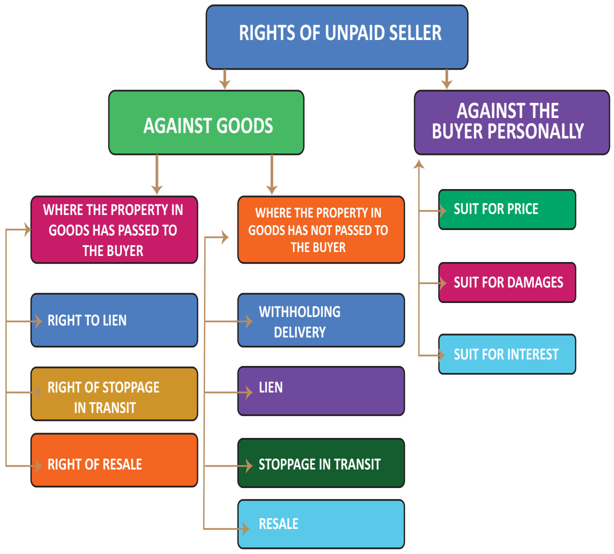
(iii) Warranty in the case of Dangerous Goods

Where the seller knows that the goods he is selling are dangerous or likely to be dangerous to the buyer and the buyer is ignorant of the danger, the seller should warn the buyer of the probable danger, otherwise he will be liable to compensate the buyer in case of any injury.eg. 'C' bought from 'A' a tin of disinfectant powder. 'A' knew that the lid of the tine was defective and that if it was opened without special care, it might be dangerous. Yet 'A' did not warn 'C'. 'C' opened the tine in the usual way whereupon the powder flew into her eyes, causing injury. Held that 'A' was liable in damage to 'C' as he should warned 'C' of the probable danger.

Unpaid Seller - Meaning

A seller is deemed to be an unpaid seller (a) when the whole of the price has not been paid or (b) a bill of exchange or other negotiable instrument given to him has been dishonoured. Thus it would be obvious that a seller who has received only a part of the price is also an unpaid seller. Seller includes not only the actual seller but also an agent of a seller or a consignee.

21.06 Rights of an Unpaid Seller



Rights of an Unpaid Seller

I. (a). Rights of an Unpaid Seller against the Goods

(i) Where the Property in the Goods has Passed to the Buyer

a. Right of Lien: An unpaid seller has a right to retain the goods till he receives the price. But to exercise this lien

i. He must be in possession of goods

ii. The goods must have been sold without any stipulation as to credit or where goods have been sold on credit, the terms of credit must have expired. He can also exercise the right of lien when the seller becomes insolvent.

iii. It must be remembered that the right of lien depends on actual possession. Thus where the seller has transferred to the buyer the documents of title to the goods, his lien is not affected so long as he continues to be in possession of the goods.

For eg.'A' has sold the 10 TV sets to 'B' and transferred the documents of title to the goods to 'B' by courier service. But goods are under the custody of 'A' ready for despatching to booking office. Meantime, 'B' became insolvent. In this case, 'A' can retain the goods.

Where an unpaid seller has made a part delivery of the goods, he has lien on the reminder. However, if delivery of a part is intended as a delivery of the whole, then this lien is lost.

Right of Lien is Lost

(a) When he delivers the goods to a carrier or other bailee for the purpose of transmission to the buyer without reserving the right of disposal of the goods. eg. 'X' of Delhi sold some goods to 'Y' of Bombay and took the railway receipt in the name of 'Y' and sent the railway receipt to 'Y'. In this case, 'X' has not reserved the right of disposal of goods. (or)

(b) When the buyer or his agent lawfully obtains possession of them. In other words, buyer took delivery from booking office (or)

(c) When the seller waives his right of lien

(b). Right of Stoppage in Transit

Where the seller has delivered the goods to a carrier or other bailee for the purpose of transmission to the buyer, but the buyer has not acquired them, then the seller can stop the goods and regain the possession. In other words, goods must be neither with the seller nor with the buyer but should be in the hands of a carrier. Further, the buyer must have become an insolvent.

Termination of Right of Stoppage

This right to stop the goods comes to an end:

(a) When the goods are delivered to the buyer or his agent or

(b) When, on arrival of the goods at the appointed destination, the carrier communicates to the buyer or his agent that he is holding the goods on his behalf

c. Right of Resale

The unpaid seller can resell the goods

(i) Where they are of a perishable nature or

(ii) After exercising his right of lien or stoppage in transit, even though he has given intimation to the buyer of his intention to resell, buyer has not tendered the price within a reasonable time.

(iii) Where the seller has expressly reserved the right of resale in the contract itself

I. (b). Where the Property in the Goods does not pass to the Buyer

Right of an Unpaid Seller against the Buyer Personally

(i) Suit for price: Where the ownership in the goods has passed to the buyer and the buyer refuses to pay for the goods, the seller can file case against the buyer for the price

(ii) Suit for Damages for Non-acceptance: Where the buyer wrongfully refuses to accept the goods, the seller can sue him for damages for non-acceptance of the goods.

(iii) Suit for Cancellation of the Contract before the Due Date: Where the buyer cancels the contract before the date of delivery, the seller may either treat the contract as continuing or wait till the due date or he can file a case against buyer immediately.

(iv) Suit for Interest: Where there is a specific agreement between buyer and seller regarding charging interest on the price, the seller can recover interest from the buyer from the due date of contract till the date of payment of purchase price. If there is no specific agreement, the seller can charge interest from such day as he may notify to the buyer.

For Own Thinking

(a) Find out whether the following transactions can be included under the Contract of Sale:

i. X agreed to sell 100 shares to Y for Rs. 10,000.

ii. X agreed to sell his building for Rs. 1,00,000 to Y

iii. X agreed to exchange with Y 100 kg of rice valued at Rs. 20 per kg for 200 Kg of wheat valued at Rs. 12 per kg. and pay the difference in cash.

iv. X agreed to transfer some jewellery to his prospective wife out of love and affection.

v. X agree to buy a painting from an artist

vi. X supplied a piece of cloth to a tailor to stitch a suit for him. The tailor agreed to supply lining materials and buttons.

vii. X agreed to pledge his goods valued at Rs. 1,00,000 with Y

Clues: Students are advised to understand the meaning for goods and the essential elements of contract of sale.

(b) Find out whether the following contracts of sale amount to sale or agreement to sell:

i. X entered into a contract for sale entire crop of rice cultivated in his farm.

ii. A railway administration agreed to sell coal-ash that might accumulated during the period of the contract.

iii. X entered into a contract for sale of some goods in a particular ship to be delivered on the arrival of the ship

iv. X entered into a contract for sale of a painting only if Z, its present owner sells it to him.

For Own Thinking

(c) State whether the seller is an unpaid seller or not in the following cases:

i. X sold some goods to Y for Rs. 10,000. Y paid Rs. 9,900 but failed to pay the balance

ii. X sold some goods to Y for Rs. 10,000 and received a cheque for the full price as conditional payment. On presentment, the cheque was dishonoured by the bank.

iii. X sold some goods to Y for Rs. 10,000 on a credit of one month. One month has not yet expired.

iv. X sold some goods to Y for Rs. 10,000 on a credit of one month and one month has expired and the price remains unpaid.

v. X sold some goods to Y for Rs. 10,000 on a credit of one month. Y became insolvent during the period of credit.

Case Study

(i) X purchased a hot water bottle from Y, retail chemist. X asked Y if it would stand boiling water. The chemist told him that the bottle was meant to hold hot water. The bottle burst when water was poured into it and injured his wife. State whether seller is liable for the injury suffered by the buyer and the consequent compensation, give your reasons.

(ii) X asked a car dealer to suggest him car suitable for touring purposes. The dealer suggested a 'Buggati Car'. Accordingly, X purchased it but found it unsuitable for touring purpose. State whether the car dealer is liable for breach of condition?

(iii) X, a dealer sold a plastic catapult to B. While using the catapult in the usual manner, it broke due to the fact that the materials used in its manufacture were unsuitable. As a result, the boy who was using it, blinded in one of his eyes. State whether the seller is liable or not.

(iv) X bought from Y a heap of wheat the weight of which is 1000 kg at the rate of Rs. 8 per kg. and agrees to pay the price on the first day of the next month and the wheat is to be delivered at X's godown on the following day. A fire broke out and the entire quantity of wheat was destroyed. State whether X is liable to pay the price or not. Why?

(v) X bought from Y a heap of wheat (weight 100 kg) at the rate of Rs. 8 per kg. and Y had to put the wheat in bags to deliver it to X. Y filled some bags in X's presence, but before the remainder could be filled, a fire broke out and the entire quantity of wheat was destroyed. State whether X is liable to pay the price or not. Why?

(vi) X bought from Y a heap of wheat at a rate of Rs. 8 per kg and Y had to weigh the wheat. Before weighing was completed, the wheat was destroyed by fire. State whether X is liable to pay the price or not. Why?

Clues: Students are advised to read thoroughly the implied warranties and conditions for the cases 1 to 3 and rules relating to transfer of ownership for cases 4 to 6.

Key Words

Sale	Ownership	Property
Conditions	Warranties	Insolvency
Contingent	Lien	Suit

Exercise

NUU6SS

I. Choose the Correct Answers:

1. **Sale of Goods Act was passed in the year**
   a) 1940 b) 1997
   c) 1930 d) 1960
2. **Which of the below constitutes the essential element of contract of sale?**
   a) Two parties b) Transfer of property
   c) Price d) All of the above
3. **Which of the below is not a good?**
   a) Stocks b) Dividend due
   c) Crops d) Water
4. **In case of the sale, the _____ has the right to sell**
   a) Buyer b) Seller
   c)Hirer d) Consignee
5. **The property in the goods means the**
   a) Possession of goods
   b) Custody of goods
   c) Ownership of goods
   d) Both (a) and (b)

Answers:

1	c	2	d	3	b	4	b	5	c

II. Very Short Answer Questions:

1. What is a contract of sale of goods?
2. List down the essential elements of a contract of sale.
3. What is meant by goods?
4. What is a Contingent Goods?

III. Short Answer Questions:

1. Discuss in detail about existing goods.
2. Discuss the implied conditions and warranties in sale of goods contract.

IV. Long Answer Questions:

1. Explain in detail the elements of Contract of sale.
2. Distinguish between Conditions and Warranty.

UNIT VIII

THE SALE OF GOODS ACT 1930 AND THE NEGOTIABLE INSTRUMENTS ACT 1881

22 CHAPTER

THE NEGOTIABLE INSTRUMENTS ACT 1881

எனைத்தானும் நல்லவை கேட்க அனைத்தானும்
ஆன்ற பெருமை தரும்.

–குறள் 416

COUPLET

Let a man listen, never so little, to good (instruction), even that will bring him great dignity.

PAD1U4

Learning Objectives

To enable the students to understand the

- Negotiable Instruments
- Meaning, characteristics and Assumptions
- Bills of Exchange, Cheque, Promissory Note – comparison
- Crossing of cheque – types – endorsement types

Chapter Synopsis

22.01 Negotiable Instruments – Meaning, Characteristics, Assumptions

22.02 Negotiability & Assignability

22.03 Bills of Exchange, Cheque, Promissory Note – A Comparison

22.04 Crossing of Cheque

22.05 Endorsements

The word 'Negotiable' means transferable from one person to another in return for consideration. The word 'Instrument' means a written document by which a right is created in favour of certain person. Thus, a negotiable instrument is a document which entitles a person to a certain sum of money and which is transferable from one person to another by mere delivery or by endorsement and delivery. The terms delivery and endorsement has been explained subsequently in this chapter. The law relating to negotiable instruments is dealt in the Negotiable Instruments Act 1881. This Act speaks about promissory note, bills of exchange and cheques.

22.01 Negotiable Instruments– Meaning, Characteristics, Assumptions

In the words of Justice K.C. Wills, a negotiable instrument is one, the property in which is acquired by anyone who takes it bonafide and for value, and withstanding any defect to title in the person from whom he took it.

According to section 13 of the Negotiable instruments Act 1881, a negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer.

Characteristics of a Negotiable Instrument

1. Transferability

A negotiable instrument is transferable from one person to another without any formality, such as affixing stamp, registration etc., In other words, the property (the right of ownership) in the instrument can be transferred by mere delivery (in case it is payable to bearer) or by indorsement and delivery (in case it is payable in order).

2. Title of the holder free from all defects

A person taking the instrument in good faith and for value is known as holder in due course. When the instrument is held by holder in due course in the process of negotiation, it is cured of all defects in the instrument with respect to ownership. In other words, even though the right of the person who transferred the instrument to holder in due course is defective i.e. disentitled to transfer, the title of the holder in due course is superior. He/she need not return the bill to true owner. eg. A sold certain goods to B. B gives a Bills of Exchange to S for the price. Later B refuses to pay the Bills of Exchange on the ground that the goods supplied are defective. Meantime, A endorsed the bill to C. In this case, B's defence is of no value. C is a holder in due course. His title is not affected by certain defence like fraud or misrepresentation or any mistake.

3. Right of the transferee to sue

Though a bill, a promissory note or a cheque represents a debt, the transferee is entitled to sue on the instrument in his own name in case of dishonour, without giving notice to the debtor that he has become its holder.

Presumptions to Negotiable Instrument

Certain presumptions as briefly mentioned below:

I. Every negotiable instrument is presumed to have been drawn, accepted etc. for consideration.

II. A negotiable instrument is presumed to have been accepted.

III. Every negotiable instrument bearing, a date is presumed to have been made or drawn on such a date.

IV. It is presumed to have been accepted within a reasonable time after the date and before its maturity.

V. The transfer of a negotiable instrument is presumed to have been made before maturity.

VI. The endorsements appearing upon a negotiable instrument are presumed to have been made in the order to which they appear thereon.

VII. When a negotiable instrument has been lost, it is presumed to have been duly stamped.

VIII. The holder of a negotiable instrument is presumed to be a holder in due course.

22.02 Negotiability and Assignability

Negotiability

Negotiability refers to the transferability of all the rights and titles on an instrument by delivery or by endorsement and delivery, vesting with the bonafide transferee for value even better title that what the transferor had. This is the unique characteristics of a negotiable instrument. In short, transferability of negotiable instruments is called negotiability.

Assignability

Assignability refers to the transferability of personal properties and rights from one person to another as gift or sale or as security. The transferee gets the same as much title as the transferor has. In short, transferability of ownership of any goods other than negotiable instruments is called Assignability.

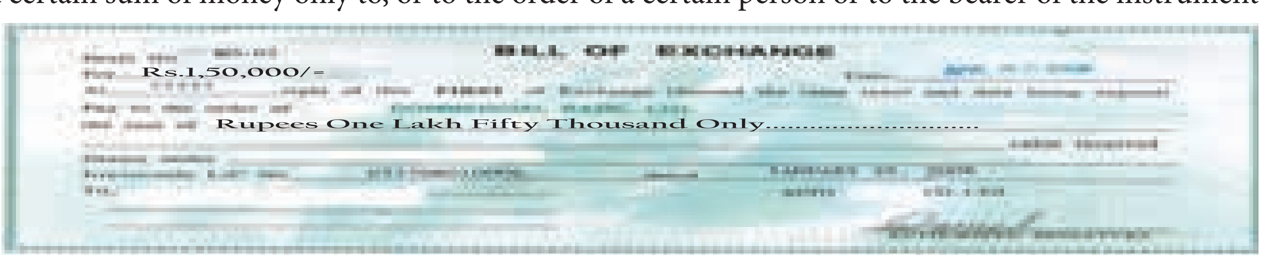
Difference between Negotiability and Assignability

Sl. No.	Basic of Difference	Negotiability	Assignability
1.	**Legal Ownership**	It passes to the transferee by mere endorsement in the case of a bearer instrument and by endorsement and delivery in the case of an order instrument.	An assignment can be made by observing certain formalities. For instance, an instrument is to be made in writing, duly stamped and signed by the transferor or his agent.
2.	**Notice**	Notice is not necessary for the holder of negotiable instrument to claim the payment from the debtor.	In case of actionable claim, notice of the assignment by the transferee regarding the transfer of debt to the debtor is necessary.
3.	**Nature of title**	Holder of negotiable instrument in due course gets a better title than even the transferor. It means that the transferee gets the instrument free from any defect existing in the title of the transferor or any prior party.	The transferee's title to the instrument is subject to the defects of the transferor's title. In other words, defects in the title of the transferor pass on to the transferee too.
4.	**Consideration**	Consideration is presumed	The assignee has to prove the consideration for the transfer.

22.03 Bills of Exchange, Cheque, Promissory Note – Comparison

Bill of Exchange – Definition

According to section 5 of the Negotiable Instruments Act, "a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".



Characteristics of a Bill of Exchange

i. A bill of exchange is a document in writing.

ii. The document must contain an order to pay.

iii. The order must be unconditional.

iv. The instrument must be signed by the person who draws it.

v. The name of the person on whom the bill is drawn must be specified in the bill itself.

vi. The drawer, drawee and payee must all be certain. A bill cannot be drawn on two or more drawees in the alternative because where liability lies, 'no ambiguity must lie'. However, alternative payees are permitted in the law.

vii. The amount that is required to be paid must also be specified in the bill.

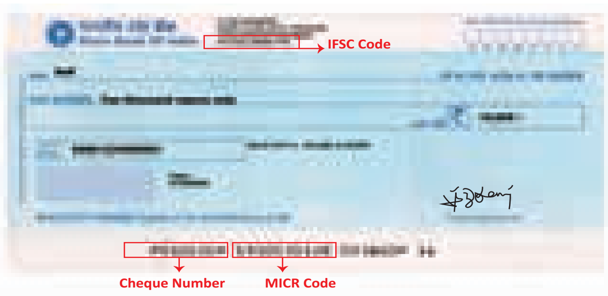
viii. The bill may be payable on demand or after a specified period.

ix. It must comply with formalities regarding date, consideration, stamps etc.,

A bill of exchange can be made payable on demand to a person. It can be made payable after a specified period. But it cannot be payable to bearer on demand.

Cheque - Definition

According to section 6 of the Negotiable Instruments Act, 1881 defines a cheque as "a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand".



Features of a Cheque

(i) Instrument in Writings

A cheque or a bill or a promissory note must be an instrument in writing. Though the law does not prohibit a cheque being written in pencil, bankers never accept it because of risks involved. Alternation is quite easy but detection impossible in such cases.

(ii) Unconditional Orders

The instrument must contain an order to pay money. It is not necessary that the word 'order' or its equivalent must be used to make the document a cheque. It does not cease to be a cheque just because the world 'please' is used before the word pay. Further the order must be unconditional. In other words, payment of money is made dependent on the happening of an event or on a fulfilment of a condition, the instrument loses the characteristics of a cheque.

(iii) Drawn on a Specified Banker Only

The cheque is always drawn on a specified banker. A cheque vitally differs from a bill in this respect as latter can be drawn on any person including a banker. The customer of a banker can draw the cheque only on the particular branch of the bank where he has an account.

(iv) A Certain Sum of Money Only

The order must be for payment of only money. If the banker is asked to deliver securities, the document cannot be called a cheque. Further, the sum of money must be certain.

(v) Payee to be Certain

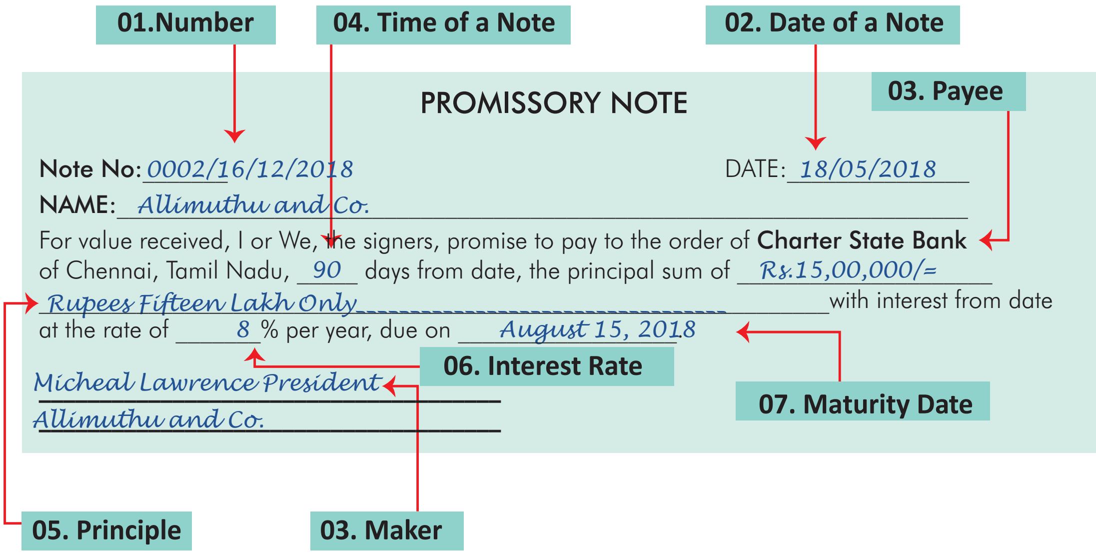
The cheque must be made payable to a certain person or to the order of a certain person or to the bearer of the instrument. The word, person includes bodies corporate, local authorities, associations, holders of office of an institution etc.,

(vii) Signed by the Drawer

The cheque is to be signed by the drawer. Further, it should tally with specimen signature furnished to the bank at the time of opening the account.

(viii) Payable Always on Demand

A cheque is always payable on demand. The words on demand are not used when the drawee bank is asked to pay and the time for its payment is not specified, it is considered to be payable on demand.



Promissory Note

According to Section 4 of the Negotiable Instruments Act, "a promissory note is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking singed by the maker, to pay a certain sum of money only to or to the order of, a certain person or to the bearer of the instrument.

Characteristics of a Promissory Note

1. A promissory note must be in writing. An oral promise to pay does not constitute a promissory note.

2. It must contain a promise or undertaking to pay a mere acknowledgement of indebtedness will not make it a promissory note.

3. The promise to pay must be unconditional. In other words, the promise to pay must not depend upon the happening of any uncertain event.

4. It must be signed by the maker. The signature must be in any part of the instrument and it need not be at the bottom.

5. The maker of the note must be a certain person. Where there are two or more makers, they may bind themselves jointly or jointly and severability. But alternative promissors are not permitted in law because where liability lies no ambiguity must lie.

6. The payee must be certain. A note is valid even if the payee is misnamed or indicated by his official designation only. Alternative payees are permissible in law. But is must be made payable to order originally.

7. A promissory note originally made payable to bearer is illegal.

8. The promise must be for payment of money only. For eg. a note containing a promise to deliver 50 bags of rice is not a promissory note.

9. The sum payable must be certain and must be specified in the note itself.

10. The amount payable must be in legal tender money of India and a note containing a promise to pay a certain amount of foreign money is not a promissory note.

11. A bank note or a currency note is not a promissory note.

12. A promissory note must be sufficiently stamped.

Difference between a Bill of Exchange and a Cheque

Sl. No.	Basic of Difference	Bill of Exchange	Cheque
1.	**Drawn**	A bill of exchange can be drawn on any person including a banker	A cheque can be drawn only on a particular banker.
2.	**Payability**	It is payable on demand or on the expiry of a certain period.	It is payable on demand only.
3.	**Validity**	A bill made payable to bearer on demand is void by virtue of section 31 of the RBI Act.	A cheque drawn payable to bearer on demand is perfectly valid.
4.	**Acceptance**	In case of time bill, acceptance by the drawee is necessary before he can be made liable on it.	A cheque does not require any acceptance.
5.	**Grace period**	Three days of grace are allowed while calculating the maturity date in the case of time bill.	No days of grace are allowed in the case of a cheque for the simple reason that is always payable on demand.
6.	**Notice**	When a bill is dishonoured, notice of dishonour is necessary.	Notice is not necessary for a cheque.
7.	**Sets**	Foreign bills of exchange are drawn in sets of three.	It is not so in case of cheque.
8.	**Discounting**	A bill can be discounted with a bank.	A cheque cannot be discounted.
9.	**Stamping**	Bills are to be sufficiently stamped	Cheques need not be stamped
10.	**Currency**	A bill can be drawn and payable in any currency.	A cheque is payable only in home currency.
11.	**Crossing**	A bill cannot be crossed	A cheque can be crossed either generally or specially so as to ensure payment to the rightful owner.
12.	**Dishonour**	On dishonour of a bill there is a practice of noting and protesting	No such thing is done on the dishonour of a cheque.
13.	**Discharge from Liability**	The drawer of bills is discharged from liability if it is not duty presented for payment.	The drawer of a cheque is not discharged by delay of the holder in presenting it for payment unless because of the delay his interest have been damaged owing to bank's failure meanwhile.

Distinction between a Cheque and Promissory note

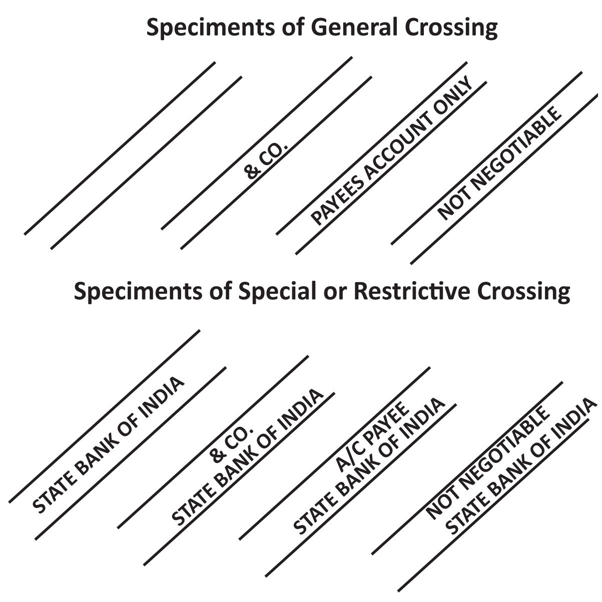
Sl. No.	Basic of Difference	Cheque	Promissory Note
1.	**Nature of order**	A cheque contains an order to pay money	A promissory note contains an undertaking to pay money.
2.	**No. of Parties**	There are three parties in a cheque – drawer, drawee and payee	In a promissory note there are only two parties – the maker and the payee.
3.	**Creator of the instrument**	The drawer of a cheque is a creditor	The maker of a note is a debtor
4.	**Identity of the parties to instrument**	The drawer and the drawee can be one and same person	This cannot be so in a promissory note
5.	**Payableness**	A cheque is always payable on demand	A promissory note, on the other hand is payable either on demand or after a specified period.
6.	**Crossing**	A cheque can be crossed	A pronote cannot be crossed
7.	**Stamping**	A cheque need not be stamped	A promissory note has to be sufficiently stamped
8.	**Discounting**	A cheque cannot be discounted	A promissory note can be discounted with a banker
9.	**Grace Period**	No days of grace are allowed for payment of a cheque	Three days of grace are allowed for calculating the due date of promissory note
10.	**Bearer**	A cheque is payable to order or to bearer	A promissory note cannot be made payable to bearer

Distinction between a Bills of Exchange and Promissory note

Sl. No.	Basic of Difference	Bill of Exchange	Promissory Note
1.	**Nature of Undertaking**	A bill of exchange contains an unconditional order to pay money.	A promissory note contains an unconditional undertaking to pay money.
2.	**No. of Parties**	There are three parties in a bill of exchange drawer ,drawee and payee.	In a promissory note there are only two parties the maker and the payee.
3.	**Drawer of the instrument**	A creditor draws a bill on a debtor.	A debtor executes a promissory note in favour of a creditor.
4.	**Identity of the parties**	In a bill of exchange, both the drawer and the payee can be one and the same person.	In a promissory note, the maker himself cannot be the payee because the same person cannot be both the promisor and the promisee.

5.	**Order of Liability**	The liability of the drawer of a bill is secondary. In other words, when the acceptor dishonours the bill, the liability of the drawer arises as a surety.	The liability of the maker of a pronote is primary.
6.	**Bearer Instrument**	A bill of exchange can be drawn payable to bearer	A promissory note cannot be drawn payable to bearer.
7.	**Acceptance**	A time bill must be accepted by the drawee.	No acceptance is necessary in the case of a promissory note as it is made by the debtor himself.
8.	**No. of sets**	Foreign bills are drawn in sets of three.	Promissory notes are not drawn so.
9.	**Conditionality**	A bill may be accepted conditionally.	A note cannot be made conditional.
10.	**Notice of dishonour**	On dishonour of a bill, notice of dishonour must be given to the drawer and other endorsers.	No notice of dishonour is necessary in case of a promissory note.

22.04 Crossing of Cheque



Crossing a cheque refers to the practice of drawing two parallel transverse lines across the faceof a cheque with or without the words 'and Co'. The effect of this crossing is that the drawee bank will pay the amount of a cheque only to the banker.

Types of Crossing

1. General Crossing
2. Special Crossing

1. General Crossing

According to section 123 of the Negotiable Instruments Act, 1881,

"Where a cheque bears across its face an addition of the words "and company" or any abbreviation thereof, between to parallel transverse lines or of two paralleltransverse lines simply, either with or without the words "not negotiable" that addition shall be deemed a crossing and the cheque shall be deemed to be crossed generally".

The lines should be drawn across the face of a cheque and not on the reverse thereof. Further, they must by parallel and transverse. Cross marks such as 'X' does not constitute crossing. The words 'and company' or any abbreviation thereof are not an integral part of a crossing and their omission does not affect the validity of crossing.

Significance of General Crossing

A crossed cheque should not be paid across the counter. Even if the payee of a crossed cheque is well-know, the paying banker is directed to make payment only through another banker. If the payee does not have a bank account, he can collect it only through someone who is having a bank account. As a result, even if a crossed cheque has been stolen and collected for party not entitled to it, the person for whom it has been collected can be easily traced. Thus crossing ensures safety and prevents payment intro wrong hands.

2. Special Crossing

According to section 124 of the Negotiable Instruments Act, 1881,

"Where a cheque bears across its face an addition of the name of a banker with or without the words "not negotiable", that addition shall be deemed a crossing and the cheque shall be deemed to be crossed specially and to be crossed to that banker".

Here that parallel transverse lines are not essential. But the name of banker to whom the payment should be made is to be necessarily written on the face of the cheque. Thus it must be noted that while drawing of two parallel transverse lines is a 'must' for a general crossing, the addition of the name of a banker constitutes the essential part of special crossing.

Significance of Special Crossing

Here the paying banker should make payment only to the particular banker named as a part of special crossing or to his agent for collection. Thus special crossing is safer than general crossing.

22.05 Endorsements

Section 15 of the Negotiable instruments Act 1881 defines endorsement as follows:

"When the maker or holder of a negotiable instrument signs the name, otherwise that as such maker for the purpose of negotiation, on the back or face thereof, or on a slip of paper annexed thereto or so signs for the same purpose a stamped paper intended to be completed as a negotiable instrument, he is said to endorse the same and is called the endorsee".

In other words, when the person signs on the back of (or face of) the instrument with a view to transferring his interest therein, he is said to be endorsing it. Though endorsement can be made on the face of the instrument also, it is usually make on its back. If the space on the back is insufficient, a piece of paper can be attached to the instrument for this purpose. This piece of paper is called Allonge.

Requisites of a Valid Endorsement

If an endorsement is to be valid, it must possess the following requisites:

1. Endorsement is to be made on the face of the instrument or on its back. It is usually made on the back of a negotiable instrument.
2. When there is no space for making further endorsements a piece of paper can be attached to the negotiable instrument for this purpose. This piece of paper is called 'Allonge'.
3. If the endorsee's name is wrongly spelt, the endorsee should sign the same as spelt in the instrument and write the correct spelling within brackets after his endorsement.
4. Endorsement for only a part of the amount of the instrument is invalid. It can be made only for the entire amount.

5. Where, however, the instrument has been partly paid, a note to that effect can be given on the instrument and endorsement made for the balance amount.

6. Endorsement is complete only when delivery of the instrument is made. On the death of the endorse who has endorsed an instrument but has not delivered it to the endorsee, the endorsement becomes invalid.

7. It is presumed that the endorsements appearing on a negotiable instrument were made in the order in which they appear thereon.

8. Signing in block letters does not constitute regular endorsement.

9. The prefixes or suffixes added to the names of the payees or endorsees must be omitted in the endorsement.

10. Endorsement must be in link

11. If the payee is an illiterate person, he can endorse it by affixing his thumb impression on the instrument. But it must be duly attested by somebody who should give his full address thereon.

DO YOU KNOW?

Why emergency holidays are declared under Negotiable Instruments Act?

Where the maturity date of the negotiable instrument falls on notified public holiday, it is to be paid on the preceeding working day. When emergency holidays are declared for reasons like death of a leader in power, natural calamities, strike, election day and so on, day should be made a public holiday. So that negotiable instruments maturing on the day can be paid on the next working day. In other words, it implies that negotiable instruments maturing on the date of emergency holiday should be paid on the next day.

12. A person duly authorised to endorse a cheque or a bill must indicate that he is signing in it on behalf of his principal by using such words as "for", "on behalf of" or "per pro".

DO YOU KNOW?

MICR – Magnetic Ink Character Recognition

MICR code is a character - recognition technology used mainly by the banking industry to ease processing and clearance of cheques and other documents. It is found at the bottom of the cheque. It includes bank code, bank account number, cheque number, cheque amount and a control indicator. The MICR code helps the banker to ensure the legitimacy or originality of paper documents. The special ink used in the MICR code is sensitive to magnetic fields. It prevents the crime of printing counterfeit cheques or documents using technology. The magnetic ink will help discover fake documents.

DO YOU KNOW?

IFSC – Indian Financial System Code

IFSC code is an alphanumeric code which facilitates electronic fund transfer in India. This code uniquely identifies each bank branch participating in the two main Payment and Settlement systems in India. The Real Time Gross Settlement(RTGS) and the National Electronic Fund Transfer (NEFT) systems. IFSC is a 11 character code. The first 4 alphabetic characters represent the bank name and the last 6 characters (usually numeric) represent the branch. The fifth character is 0 and reserved for future use. This code routes the messages to the destination banks or branch. The format of IFSC code is given below:

<table>
<tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>10</td><td>11</td></tr>
<tr><td colspan="4">Bank Code</td><td>0</td><td colspan="6">Branch Code</td></tr>
</table>

Kinds of Endorsements

Types of Endorsement	Meaning	Specimen
1. Endorsement in blank or general endorsement	When the endorser puts his mere signature on the back of an instrument without mentioning the name of the person to whom the endorsement is made, it is called Blank Endorsement or General Endorsement. Eg. A cheque is drawn in favour of Pallavan and Pallavan who is entitled to get the amount of the cheque desires to transfer it to Paari. If Pallavan just puts his signature without mentioning the name of Paari to whom he wants to endorse it is called Blank Endorsement.	"Pallavan "
2. Endorsement in full or special endorsement	Where the endorser, in addition to his signature, specifies the person to whom or to whose order the instrument is payable, the endorsement is called endorsement in full. In the above example, if Pallavan writes as follows and puts his signature, it becomes a full endorsement. Any holder can convert a blank endorsement into special endorsement by writing above the signature of the endorser a direction to pay to himself or to some other person. When he makes it payable to some other person and delivers it to that person, he does not endorse it himself and therefore he assumes no liability thereon as an endorser. When a cheque is drawn payable to a bearer, even a subsequent endorsement in full cannot make it payable to order.	Pay to Paari "Pallavan"
3. Conditional or qualified endorsement	Where the endorser of a negotiable instrument makes his liability dependent upon the happening of an event which may or may not happen, it is called conditional endorsement. Similarly where the right of the endorsee to receive the amount is made dependent upon the happening of an event which may or may not happen, then also the endorsement is called conditional or qualified endorsement. Here Paari, the endorsee is entitled to receive payment only on the fulfilment of the specified condition, namely his return from Delhi within three months. Conditional endorsement does not affect negotiability. Such endorsements are not usually made	Pay Paari, if he returns from Delhi within three months. "Pallavan"

4. **Restrictive endorsement**	When an endorsement restricts or prohibits further negotiability of the instrument, it is called Restrictive Endorsement. The omission of the words "or order" does not render the endorsement restrictive.	Pay Sundar only "Pallavan" Pay Sundar for my use "Pallavan"
5. **Sans recourse endorsement**	Ordinarily the endorser becomes liable to subsequent parties in the event of dishonour of the instrument. But if he makes it clear that the subsequent holders should not look to him for payment in case it is dishonoured, the endorsement is called Sans Recourse Endorsement.	Pay to Varsha or order sans recourse "Pallavan" Pay to Shalini or order without recourse to me "Hemakumar"
6. **Facultative Endorsement**	To make an endorser liable on the instrument, notice of dishonour must be given to him. But if the endorser waives this right by a writing "Notice of dishonour waived" at the time of endorsing, it is called Facultative Endorsement. Even though Radha gives up her right to receive notice of dishonour he remains liability for non-payment.	Pay to Aruvi or order, Notice of dishonour waived "Radha"
7. **Partial Endorsement**	Where the endorsement seeks to transfer only a part of the amount payable under the instrument, the endorsement is called Partial Endorsement. Partial endorsement does not operate as a negotiation of the instrument. If however, part of the amount has already been paid or settled, a note to that effect may be made on the instrument which may then be negotiated for the balance.	"Pay Rs. 700 to Sanjay or order out of the bill originally drawn for Rs. 1000" (Rs. 300 has been settled out of Rs. 1000) Note: to the effect of settlement of Rs. 300 is to be given in the instrument "Pay Rs. 700 to Sanjay or order out of bill of Rs. 1000 the whole amount of which is outstanding (The above endorsement is invalid)

Key Words

Negotiability	Instrument	Crossing	Assignability	Cheque
Bill of exchange	Endorsement	Promissory note	Dishonour	Bearer

For own Thinking

I. Find out the type of instrument and the reason?

(a) A bill is drawn payable to X or bearer

(b) Bill drawn in London upon a merchant in Chennai and accepted and payable in Bangalore

(c) Bill drawn in Delhi upon a merchant in London and accepted and payable in London

(d) Bill drawn in London on a merchant in Agra and endorsed in Delhi

(e) A Bill drawn by Bajaj Auto Agent on Bajaj Auto Ltd.

(f) Bill drawn by A on Y (an imaginary person not in existence) and endorsed to B

(g) X gives a blank cheque to Y or gives undated cheque to Y

(h) X signs stamped and blank promissory note and keep it locked in his drawer

II. Find out which of the following is a promissory note?

(i) X promises to pay a sum of Rs. 500 on telephone.

(ii) Mr. Y, I owe you Rs. 500

(iii) I promise to pay Y Rs. 500 + some other charge

(iv) I promise to pay Y Rs. 500 on Z's death

(v) I promise to pay Y (myself) Rs. 500

(vi) I promise to pay Y Rs. 500 and to deliver to him my black horse on first January next.

Clues: Answer should be given after reading the characteristics of Promissory note

III. Classify the following endorsement with reasons

(i) No other words except B's signature

(ii) Pay C

(iii) Pay C or order

(iv) Pay C only

(v) Pay C or order for the account of B

(vi) Pay C or order being the unpaid residue of the bill

(vii) Pay C or order on safe receipt of goods

(viii) Pay C Sans Recourse

(ix) Pay C, notice of dishonour dispensed with

For own Thinking

Students may watch youtube videos relating to Negotiable Instruments

Exercise

I. Choose the Correct Answers:

1. **Negotiable Instrument Act was passed in the year ______.**

   a. 1981 b. 1881
   c. 1994 d. 1818

2. **Number of parties in a bill of exchange are**

   a. 2 b. 6
   c. 3 d. 4

3. **Section 6 of Negotiable Instruments Act 1881 deals with**

   a. Promissory Note b. Bills of exchange
   c. Cheque d. None of the above

4. **_______ cannot be a bearer instrument.**

   a. Cheque b. Promissory Note
   c. Bills of exchange d. None of the above

5. **A cheque will become stale after _____ months of its date:**

   a. 3 b. 4
   c. 5 d. 1

Answers:

1	b	2	c	3	c	4	b	5	a

II. Very Short Answer Questions:

1. What is meant by Negotiable Instrument?
2. List three characteristics of a Promissory Note.
3. What is a meant by Cheque?

III. Short Answer Questions:

1. Distinguish between Negotiability and Assignability. (any 3)
2. What are the characteristics of a bill of exchange? (any 3)
3. Draw the two different types of crossing.

IV. Long Answer Questions:

1. Distinguish a cheque and a bill of exchange. (any 5)
2. Discuss in detail the features of a cheque. (any 5)
3. What are the requisites for a valid endorsement? (any 5)

References:

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23 CHAPTER
ELEMENTS OF ENTREPRENEURSHIP

பொருள்கருவி காலம் வினையிடனொடு ஐந்தும்
இருள்தீர எண்ணிச் செயல்.

–குறள் 675

COUPLET

Do an act after a due consideration of the (following) five, viz. money, means, time, execution and place.

Q55UV4

Learning Objectives

To enable the students to understand the

- Entrepreneurship – Meaning, Concept & Definition
- Intrapreneur And Manager - A Comparison
- Women Entrepreneurs – Opportunities and Challenges
- Entrepreneurial Functions
- Promotional Functions, Managerial Functions, Commercial Functions,
- Entrepreneur Characteristics
- Importance Of Entrepreneurship

Chapter Synopsis

The term entrepreneurship denotes the process of setting up one's own business venture as distinct from pursuing any other economic activity or any employment or practicing some profession. The person who establishes business is termed as entrepreneur. The output of an entrepreneurial process ends up in establishing an enterprise. The process of entrepreneurship has been depicted in the following diagram.

23.01 Entrepreneurship – Meaning, Concept and Definition

Entrepreneurship generates employment opportunities to many people besides providing self employment to the entrepreneur. Any business venture started triggers a variety of economic activities like purchasing raw material, creating employment opportunities and so on. Thus, entrepreneurship become crucial for overall economic development of a nation.

Entrepreneurship can be regarded as one of the four major factors of production besides the other three namely land, labour and capital. It is generally believed that entrepreneurs are born. But no country or society can afford to wait for the birth of entrepreneurs to pursue its development agendas. The pace of economic development of any country cannot be accelerated without creating a sense of awareness about entrepreneurship among the people. The latter should be made to take a pride in claiming to be a job provider rather than a job seeker. The Government and various other agencies involved in promoting entrepreneurship should carry on the noble task of engendering a spirit of entrepreneurship among the people who otherwise seek job.

Concept of Entrepreneur

The term 'entrepreneur' has been derived from the French language which originally denotes designation of an organiser of musical or other entertainments. Oxford Dictionary (1897) defines an entrepreneur as the director or a manager of a musical institution which organises musical performance. In the early sixteenth Century, the term was applied to refer to those who were engaged in military expeditions. Subsequently, in the seventeenth century it was extended to cover civil engineering activities such as construction and fortification. It was only in the beginning of the eighteenth century, that the term entrepreneurship was used in the realm of economics. Since then the term entrepreneur is used in many ways and various views about entrepreneur began to surface. Accordingly, entrepreneurs are now broadly classified into three groups namely risk bearer, organiser and innovator.

(i) Entrepreneur as a Risk Bearer

Richard Cantillon, an Irish man described the entrepreneur to be a person who assumes risk inherent in the venture started by him. Entrepreneur acts as an agent combining all factors of production to produce a product or service in order to sell at uncertain price in future. Knight also describes an entrepreneur to be an economic functionary who undertakes the risk of uncertainty which cannot be insured or capitalised or salaried. In nutshell, entrepreneur is described to be a risk taker.

(ii) Entrepreneur as an Organiser

According to Jean Baptize, entrepreneur is one who brings together various factors of production and creates an entity to produce product or service and supervises and co-ordinates several functions in the process. He further elaborates that an entrepreneur faces a great deal of obstacles and misfortunes and undergoes mental agony and anxieties in the process of organising any venture. In sum, entrepreneur is described to be an organiser.

(iii) Entrepreneur as an Innovator

Joseph A Schumpeter in the year 1934 used innovation as a criterion to define an individual as entrepreneur. According to him, entrepreneur is one who

i. Introduces a brand new product in the market
ii. Institutes new technology to produce a product
iii. Discovers new course of supply of raw materials
iv. Discovers new product hitherto untapped
v. Puts in place a new form of organisation by establishing a monopoly or by dismantling existing monopoly.

In all the concept of entrepreneur is intimately connected with three core elements namely risk bearing, organising and innovating.

Definition of Entrepreneur

According to J.A. Schumpeter Joseph A. Schumpeter, "Entrepreneurship is essentially a creative activity. It consists of doing such things as are generally not done in ordinary course of business. An entrepreneur is one who innovates, i.e. carries out new combination or enterprise."

23.02 Characteristics of Entrepreneur

1. Spirit of Enterprise

Entrepreneur should be bold enough to encounter risk arising from the venture undertaken. Entreprenuer should not get discouraged by setbacks or frustrations emerging during the course of entrepreneurial journey.

2. Self Confidence

Entrepreneur should have a self confidence in order to achieve high goals in the business. The negativities like inconvenience, discomfort, disappointments, rejections, frustrations and so on should not weaken his steely resolve to make the venture a grand success.

3. Flexibility

Entrepreneur should not doggedly stick to decisions in a rigid fashion. Entrepreneur should change the decisions made already in the light of ever-changing business environment.

4. Innovation

Entrepreneur should contribute something new or something unique to meet the changing requirements of customers namely new product, new method of production or distribution, adding new features to the existing product, uncovering a new territory for business, innovating new raw material etc.,

5. Resource Mobilisation

Entrepreneur should have the capability to mobilise both tangible inputs like manpower, money materials, technology, market, method etc., which are scattered over a wide area and certain intangible inputs like motivation, morale and innovativeness cannot be purchased in the market outright. Entrepreneur has to marshal all these tangible and intangible inputs to produce a product successfully. Thus entrepreneurship is a function of gap filling and input completion.

6. Hard work

Entrepreneur should put in strenuous efforts and constant endeavours to accomplish the goals of the venture successfully. They have to courageously face uncertainties, risks and constraints. They should not blame the uncontrollable factors for the misfortunes experienced during the course of their entrepreneurial venture. They should spend their energy in addressing the issues to stay successful.

7. Leadership

Entrepreneur should be able to influence team members by showing sympathy and empathy so as to enable them to contribute positively towards the goals of the venture. Entrepreneur should lead others from the front and by personal example and should walk the talk and effectively take all the followers to activate the goals of the venture.

8. Foresight

Entrepreneur should have a foresight to visualise future business environment. In other words, Entrepreneur should foresee the likely changes to take place in market, consumer attitude, technological developments etc., and take timely actions accordingly.

9. Analytical Ability

Entrepreneurs should not make decisions on the basis of own prejudice or personal likes and dislikes. Entrepreneur should be able to objectively analyse the situation and act accordingly. They should abstain from taking emotional or hasty decisions when they are overwhelmed by emotions. In simple words Entrepreneur should take rational decisions after examining the various aspects of a problem.

10. Decision Making

Entrepreneur has to take timely and correct decision with regard to nature and type of product to be produced, type of technology to be adopted, type of human assets to be employed, location of the enterprise, size of the unit, volume of production and so on. The very success of any enterprise hinges on prompt, correct and relevant decisions made by the entrepreneur. Entrepreneur should rationally examine the various factors influencing the decision and take appropriate decisions after giving due weight to all the risks embedded in various factors.

23.03 Importance of Entrepreneurship

Entrepreneurship plays a pivotal role in the economic development of a country. The following points highlight the significance of entrepreneurship.

1. Innovation

Entrepreneurship and innovation are closely intertwined with each other. It is no exaggeration to say that innovation cannot happen in any country without entrepreneurship. Entrepreneurs have contributed in no small measure to economic development of any country by innovation. They bring about innovation by building a brand new product or by constantly upgrading existing product or by tapping new market for existing product in a new territory or by inventing a new technology to produce a product or service and so on. All these innovative exercise ensures rise in income and output in the economy.

2. Contribution to Gross Domestic Product (GDP)

Promotion of entrepreneurship all across the country would undoubtedly add to Gross Domestic Product and National Income of a country. It is stated that the countries like America, Japan, Germany and so on have recorded a phenomenal increase in the GDP, per capital income and national income, due to stupendous growth of entrepreneurship.

3. Balanced Regional Development

Encouragement of entrepreneurship in under developed and undeveloped regions of a country through various incentives and concessions is more likely to promote balanced regional development across the country. Besides, essentially it checks the migration of rural population to urban centres in pursuit of employment.

4. Export Promotion

Entrepreneurship helps a country not only earn precious foreign exchange but also preserve it. If entrepreneurship is encouraged to produce export oriented goods, it can significantly add to foreign exchange reserve of a country. Similarly, if entrepreneurship is encouraged to produce products which are usually imported from foreign countries i.e. import substitute goods, it can help the country save precious foreign exchange. The comfortable foreign exchange reserve position is more likely to address the adverse balance of payment position if any.

5. Full utilisation of Latent Resource

Promotion of entrepreneurship across the country leads to better utilisation of economic, human, material and natural resources which would remain otherwise unutilised in a country. In other words, establishment of small, medium and micro enterprises all over the country paves way for harnessing all latent resources in the country.

6. Reduction of Concentration of Economic Power in Few hands

Promotion of entrepreneurship by encouraging small, medium and micro enterprises prevents the concentration of economic power in the hands of few large entrepreneurs. It promotes faster industrialisation and brings about equitable distribution of wealth in the society.

7. Better Standard of Living

Entrepreneurs provide a lot of well being measures to their employees besides paying salaries and wages. This unmistakably helps employees upgrade their standard of living. Some of entrepreneurs who have genuine concern for the welfare of the general public, supply goods of good quality at fair price. This in turn helps consuming public save more money and spends liberally on comfort and convenience goods which are supposed to enhance the standard of living of the general public. Higher standard of living brought about by entrepreneurship narrows down the gap between haves and have nots.

23.04 Entrepreneur, Intrapreneur and Manager – a Comparison

Intrapreneur

Intrapreneur is one who thinks and acts like an entrepreneur for the firm's development during the course of employment in an organisation. An Intrapreneur is described to be an inside entrepreneur or an entrepreneur within a large firm who uses entrepreneurial skills without incurring the risk associated with those activities. Intrapreneurs are usually employees of a company who are assigned to a particular project or who are assigned to work on a special idea. Intrapreneur usually use the resources and capabilities of the firm to work on the project or on the idea.

Following are the differences between Entrepreneur and Intrapreneur:

Differences between Entrepreneur and Intrapreneur

Basis	Entrepreneur	Intrapreneur
Thinking	Entrepreneur is a free thinker	Intrapreneur is forced to think independently but within scope of business activities undertaken in the enterprise.
Dependency	Entrepreneur is an independent person	Intrapreneur is dependent on the entrepreneur. He is an employee.
Fund Mobilization	Entrepreneur has to mobilize funds to finance the venture.	Intrapreneur does not engage in fund mobilization. But can access funds mobilized by the entrepreneur.

Reward	Entrepreneur is rewarded by profit for the risk bearing exercise.	Intrapreneur does not share in profits of venture. But gets perquisites, salary, incentives etc., for the service.
Risk Bearing	Entrepreneur bears the risk involved in the venture undertaken.	Intrapreneur does not bear any risk in the venture and does not even share the risk inherent in the project or work assigned. However Intrapreneur is accountable for the task or project assigned.
Status	Entrepreneur is owner, and doesn't report to anybody in the venture.	Intrapreneur is a salaried employee. Intrapreneur works within control put in place in the organization and is made accountable for the activities undertaken.
Operation	Entrepreneur operates mostly outside the enterprise.	Intrapreneur operates within the enterprise.

Difference between 'Entrepreneur' Vs.'Manager'

Basis of difference	Entrepreneur	Manager
Motive	The very motive of an entrepreneur is to start a venture by setting of an entity.	The very motive of manager is to render service in an entity setup for execution of venture.
Status	Entrepreneur is owner of the entity	Manager is a salaried employee in the entity set up for carrying on the venture.
Risk Bearing	Entrepreneur bears the eventual risk and uncertainty in operating the enterprise	Manager doesn't bear any risk in the venture where the venture is unsuccessful he/she simply quits the enterprise.
Rewards	Entrepreneur is rewarded by profit for the risk bearing exercise. The reward for entrepreneur is totally uncertain.	Manager's reward salary, bonus, allowance is certain and regular.
Skills	An entrepreneur requires creative talent, intuition and urge for innovation.	Manager requires conceptual skills and human relations skills.

23.05 Women Entrepreneurs

Women entrepreneurship has been getting growing recognition over the past two decades across the world. Women entrepreneurs not only generate new jobs for themselves but also for others. They provide society with different solutions to management, organisation and business problems. Women owned businesses are playing a pivotal role in the upsurge of entrepreneurial activity in the United States. It is reported that the highest number of self employed women are in Sweden followed by England, France and USA. In general, women are attracted to retail trade, restaurants, hotels, education, insurance and manufacturing. In our country, women constitute only 5.2 per cent of the total self employed persons in India. Majority of them opted for agriculture, agro based industries, handicrafts, handlooms, cottage industries but in 2011 (2011 census) it has improved to 25 percent.

Women entrepreneurship is gaining importance in India in the wake of economic liberalisation and globalisation. The policy and institutional framework for nurturing entrepreneurial skills, imparting vocation education and training has widened the horizon for economic empowerment of the women. However, women constitute one third of the economic enterprise. There are scores of successful women entrepreneurs both in economic and social fields in India.

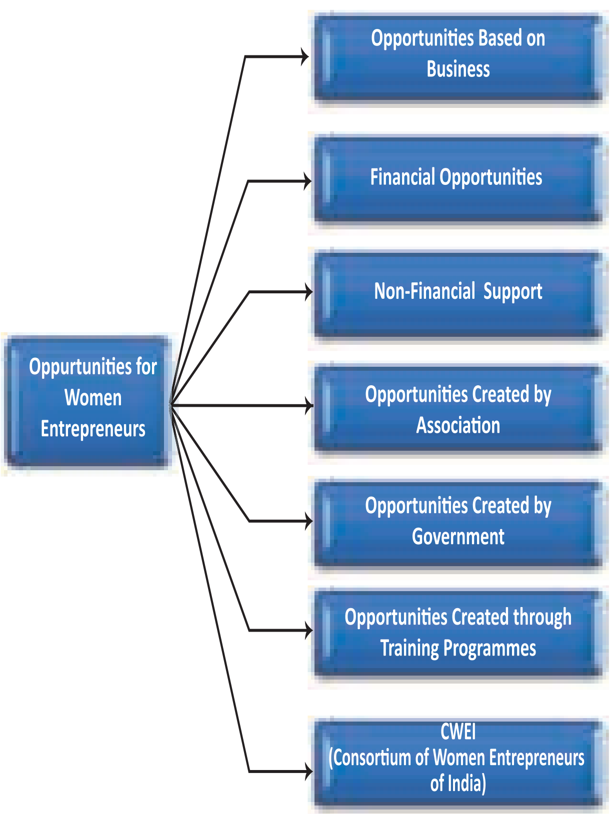
Thus, a stage has been already set for social take-off of women from a low development path to an accelerated pace in achieving higher level of self sustaining economic growth in the wake of new economic policy 1991.

Definition

According to Schumpeter's concept, "Women who innovate, imitate or adopt a business activity are known as women entrepreneurs".

Government of India based on women participation in equity and employment of business enterprise has defined women entrepreneurs as "An enterprise owned and controlled by a women having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women."

Opportunities for Women Entrepreneurs



I. Opportunities Based on Business

Women entrepreneurs are bestowed with numerous business opportunities depending upon their area, choice of industry, capacity to invest, technical and non-technical skills etc.,

When a woman decides to become an entrepreneur she has extensive opportunities to tap into. The following are the opportunities unfolding in different spheres of commerce.

i. In the sphere of manufacturing

In the sphere of manufacturing women can start ventures like Agarbathi manufacturing, papad making, bedspread making, embroidery, export of handicrafts, apparel manufacturing, sweet stalls, manufacturing soft drinks, pickle making , manufacturing garments, handicrafts, printing press etc.

ii. In the sphere of service

In the sphere of service industries, women entrepreneurs may try their hand in ventures like catering service, computer centres, tutorial centres, Typewriting institutes, beauty parlours, dry cleaning, small restaurants, tailoring, crèche, florist shops, event management etc.,

iii. In the sphere of commerce

In the realm of trading ventures, women can enter the ventures like fancy stores, diagnostic centres, milk distribution, sweet stalls, drug stores, grocery stores, textile retailing, cool drinks parlour, coffee parlour, cell phone repairs, photo studios, photocopier firms, working women's hostel etc.,

iv. In the sphere of large business

Highly educated, experienced and broadly exposed women technocrats can start larger venture like running hospitals, coaching centres, diagnostic laboratories, manufacturing activities, suited to their field of specialisation, advertisement and media firms, call centres, hotels etc.,

II. Financial Opportunities

All Banks in India provide financial support to the women Entrepreneur, in the form of micro small loans to buy Raw Materials and Equipments.

III. Non-Financial support

Women entrepreneurs are provided with the following non-financial support in the form of :

i. Putting in Policies, regulations and legal structures suitable to women entrepreneurs

ii. Financial counselling and training

iii. Business advisory service

iv. Handling legal barriers

v. Establishing Commercial linkages

vi. Client research

vii. Profitability and Efficiency analysis

viii. Offering and designing the products based on their needs

ix. Lower rate of interest

x. Collateral free loans

xi. Simplified processing system

xii. Flexible repayment system based on business nature

IV. Opportunities Created by Associations

There are various associations like Self Help Groups (SHG), Federation of Indian Women Entrepreneurs (FIWE), Women's India Trust (WIT), Small Industries Development organisation (SIDO), National Bank for Agriculture and Rural Development (NABARD), Self Employed Women's Association (SEWA), Association of Women Entrepreneurs of Karnataka (AWAKE), The International Centre for Entrepreneurship and Career Development, TiEStree Shakti (TSS), Tamilnadu Corporation for Development of Women Ltd. (TNCDW), Marketing Organisation of Women Enterprises (MOOWES), Women Entrepreneurs Promotion Association (WEPA), Women Entrepreneurs Association of Tamil Nadu (WEAT)andWeoW by Google are aggressively promoting women entrepreneurship in India.

Similarly, MSE cluster development programme bear a substantial portion of the project cost in respect of ventures owned and managed by women entrepreneurs. The percentage of guarantee given by Credit Guarantee Fund Scheme for Micro and Small Enterprises extend upto 80% for MSEs owned and operated by women.

V. Opportunities Created by Government

Government both Union and Central have put in a number of schemes exclusively for promotion of women entrepreneurship namely:

i. Stand-Up India Scheme for Women Entrepreneurs

ii. Trade related Entrepreneurship Assistance and Development (TREAD) Scheme for Women
iii. Mahila Coir Yojana
iv. Mahila E-haat
v. Magalir Udavi Scheme
vi. Prime Minister's RozgarYojana (PMRY)
vii. Development of Women and Children in Rural India (DWCRA)
viii. Mudra Yojana Scheme for Women
ix. Udyogini Scheme
x. TRYCEM

VI. Opportunities Created through Training Programme

Government of India has introduced National Skill Development Policy and National Skill Development Mission in 2009 in order to provide skill training, vocational education and entrepreneurship development to the emerging work force. This has been catalysing the emergence of women entrepreneurs in India. The following training schemes are being implemented for promoting self employment of women by Government of India.

1. Support for Training and Employment Programme of Women (STEP)
2. Development of Women and Children in Rural Areas (DWCRA)
3. Small Industry Service Institutes
4. State Financial Corporations
5. National Small Industries Corporations
6. District Industrial Centres

VII. Consortium of Women Entrepreneurs of India (CWEI)

Consortium of Women Entrepreneurs of India (CWEI) was registered as a civil society in the year 1996 which is a non-profit organisation in New Delhi. It is accredited by Government of India. It is a member of National Board, Ministry of MSME and is working closely with Ministry of Rural Development in the Public Private Partnership to support below poverty line families in India. They are rendering the following functions:

i. They are acting as a springboard for enterprises started by the women.
ii. It is helping women achieve high economic empowerment.
iii. It is acting as a catalyst to improve the access of womenfolk to natural resources.
iv. It is providing technological support in the sphere of product design and development in the case of women owned enterprises.
v. It is providing quality control, marketing and technological supports to women owned enterprises.
vi. It is spreading knowledge to women entrepreneurs about various government schemes.

In sum, it can be stated that women consortium is an agency providing a comprehensive service of various types to women owned enterprises.

Challenges of Women Entrepreneurs

Though there is a tremendous growth in the women entrepreneurship in India, a number of research studies conducted in India have brought out the following problems and challenges encountered by women entrepreneurs during the course of their entrepreneurial journey.

1. Problem of Finance

The access of women to external sources of funds is limited as they do not generally own properties in their own name. Financial institutions too do not consider women in general creditworthy as they are sceptical of their entrepreneurial capabilities of women. They impose stringent condition which discourages women to avail themselves of loan assistance from banks. In this context, they are pushed to rely on their own savings and small loans from friends and relatives. Because of the limited funds, women entrepreneurs are not able to effectively and efficiently run and expand their business.

2. Limited Mobility

Indian women cannot afford to shed their household responsibilities towards their family even after they plunge into the venture started by them. This restricts the mobility of women entrepreneur significantly. The domestic responsibilities do not allow women entrepreneurs to freely move out of business enterprises in connection with business activities.

3. Lack of Education

Illiterate and semi-literate women entrepreneurs encounter a lot of challenges in their entrepreneurial journey with respect to maintaining accounts, understanding money matters, day-to-day operations of the company, marketing the products, applying technology etc., This reduces the efficiency of operating the business successfully.

4. Lack of Network Support

The successful operation of any venture irrespective of the size depends upon the network of support extended by various constituencies like family members, friends, relatives, acquaintances, neighbours, institutions and so on. Women entrepreneurs need much needed psychological support and wiser counselling especially during the time they actually encounter challenges. But it is reported that women entrepreneurs get very limited support in times of crisis from most of these constituencies.

5. Stiff Competition

Women entrepreneurs have to face acute competition for their goods from organised sector and from their male counterparts. Since they are not able to spend liberally due to financial constraints, they are not able to compete effectively and efficiently in the market.

6. Sensitivity

Women are more prone to a variety of emotions. Being mother, women are vulnerable to many emotions. They tend to have sympathy and empathy for others. This trait does not allow women entrepreneurs to take objective decisions in many contexts during the course of running the entrepreneurial venture. Besides, the weak emotions do not allow them to tolerate failures and disappointments arising during the normal course of their entrepreneurial journey. This inherently tone downs the effectiveness of their functioning.

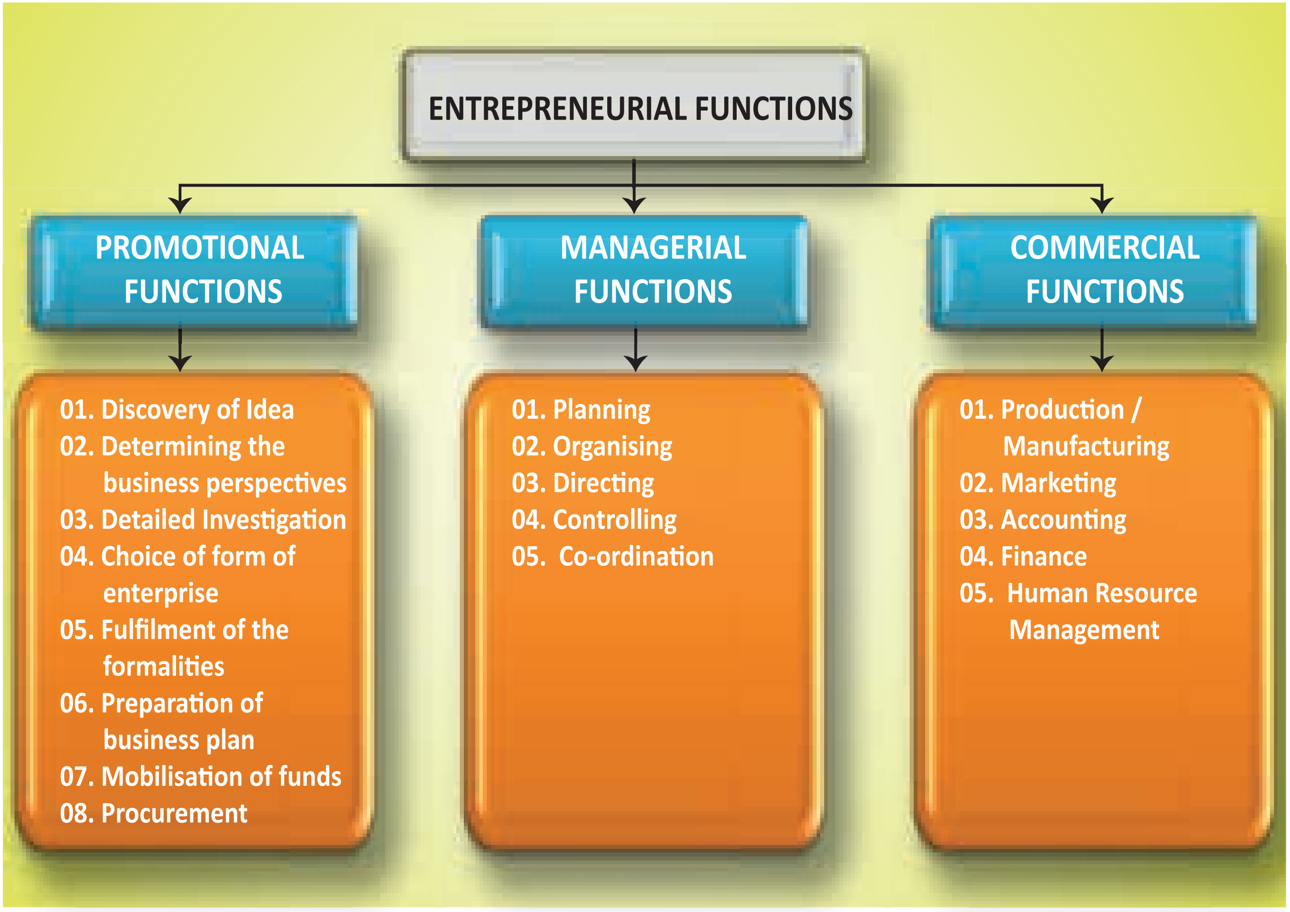
7. Lack of Information

Women entrepreneurs are reported not to be generally aware of subsidies and incentives available for them due to their poor literacy levels or due to their pre occupation with household responsibilities. This lack of knowledge or limited knowledge about subsidies prevents them from availing themselves of special concessions, benefits and incentives awarded by Government and other agencies.

8. Dependent culture

In India, women however educated and talented are groomed to be dependent on their parents, life partners and children during the various phases of their life cycle. They could not take decisions on their own in many contexts due to this dependency factor. They have to take permission from their support groups to engage in any purposeful and gainful activity. They are not treated as equals unlike women in western countries. This cultural barrier does not allow them to start and manage their ventures according to their free will and pleasure.

23.06 Entrepreneurial Functions



I. Promotional Functions

(1) Discovery of Idea

The first and foremost function of entrepreneur is idea generation. A person may conceive his own ideas or develop the ideas contributed by others. Ideas can be generated through several ways like own experience and exposure of entrepreneur, keen observation of environment, education, training, market survey, environmental scanning and so on. After the ideas were collected, entrepreneur has to weigh objectively each and every idea and finally select an idea which is worth pursuing commercially.

(2) Determining the business objectives

Entrepreneur has to develop business objectives in the backdrop of nature of business and type of business activity i.e. nature of business, manufacturing or trading, type of business organisation chosen so that he/she can organise the venture in accordance with the objectives determined by him/her.

(3) Detailed Investigation

Entrepreneur has to analyse in detail the product proposes to produce. In other words, Entrepreneur should investigate commercial feasibility of the product proposed to be produced and conduct market study to ascertain the potential demand for the product. Besides, Entrepreneur has to probe the sources of supply of various inputs required for manufacturing the proposed product, their respective prices and other terms and conditions.

(4) Choice of form of enterprise

Entrepreneur has to choose the appropriate form of organisation suited to implement the venture. There are various forms of organisation namely sole proprietor, partnership, company and co-operatives etc. which are in existence. The selection of appropriate form of organisation is made after considering the factors like nature of product to be produced, size of investment, nature of activities, size of organisation, nature of liability of owners, retention of control, degree of risk involved, scale of operations, stability and so on.

(5) Fulfilment of the formalities

Having chosen the appropriate type of organisation, entrepreneur has to take necessary steps to establish the form of organisation chosen. As regards sole trader, the formalities are barest minimum. In the case of partnership firm, entrepreneur has to arrange for partnership deed and he has to get the deed registered. There are lot of formalities to be fulfilled in the case of registration of company and co-operative form of organisation. Promoter has to take all necessary steps for establishing the form of organisation.

(6) Preparation of Business Plan

Entrepreneur has to prepare a business plan or project report of the venture that he is proposing to take up. This plan helps entrepreneur to achieve various objectives formulated within a specified period of time.

(7) Mobilisation of funds

Entrepreneur has to take steps to mobilise capital needed to implement the venture. Entrepreneur has to estimate the fixed capital and working capital required for running the project. Then the entrepreneur has to initiate steps to build funds from various channels like own funds, borrowing from close circles, banks, financial institutions, venture capitalists, issue of shares and debentures, term loans and so on to finance his fixed capital requirement.

(8) Procurement of Machines and Materials

Entrepreneur has to locate the various sources of supply of machineries and equipments and materials. Entrepreneur has to collect details from the various sources of supply and screen them for selecting the best source of supply.

II. Managerial Functions

(1) Planning

Under planning, entrepreneur has to lay down the objectives, goals, vision, mission, policies, procedures, programmes, budget, schedules etc., for enabling the venture to proceed towards established destinations.

(2) Organising

Entrepreneur puts in place suitable organisational structure to perform various managerial functions namely choosing the type of organisation, creating department, fitting the human resources to appropriate organisation slots, defining and delegating authority, distributing responsibility and creating accountability for efficient performance of activities.

(3) Directing

In the realm of directing, entrepreneur has to motivate, lead, guide and communicate with subordinates on an ongoing basis in order to accomplish pre-set goals. The process of directing involves issuing orders and instructions, guiding, counselling and mentoring of employees, supervising employees, maintaining discipline, motivating employees and providing leadership.

(4) Controlling

Entrepreneur has to put in mechanism to evaluate the performance of employees across the organisation. The various steps involved in control function includes fixing performance standards, measuring the actual performance, comparing actual performance with standards, finding out causes for deviation if any, undertaking corrective measures to bring actual performance to standards set. He/she may use various control techniques like account, auditing, management information system, network analysis, cost control, financial tools etc.,

(5) Coordination

Entrepreneur has to evolve mechanism to pull together the diverse functions performed by various departments or teams and direct them towards the established goals of the organisation for accomplishment.

III. Commercial Functions

(1) Production or Manufacturing

Under production function, entrepreneur has to take decision relating to selection of factory site, design and layout, type of products to be manufactured, research and development, product design etc., The efficient and effective performance of production function depends on the proper production planning and control to a major extent.

(2) Marketing

Entrepreneur has to carry out following functions pertaining to marketing aspect namely consumer research, product planning and development, standardisation, packaging, pricing, warehousing, distribution, promotion etc., The very success of marketing function is very much linked with selection of appropriate marketing mix. The term marketing mix denotes the combination of four components namely product, price, promotion and physical distribution in the case of physical products and three more components are included in the case of service products namely people, process and physical evidence.

(3) Accounting

Entrepreneur has to arrange to prepare trading and profit and loss account in order to know the profit or loss incurred out of operation of the business and prepare balance sheet to know the financial status of business at a particular day. Besides, cash flow and fund flow statements are prepared to ensure the adequacy of funds and cash for meeting various working capital needs of the business.

(4) Finance

In the sphere of financial function, an entrepreneur has to take decisions like choosing the right type of financing, framing the best dividend policy, acquiring of funds, efficiently managing fixed and current assets, maximising shareholders wealth and investing of funds efficiently and effectively.

(5) Human Resource Management

Entrepreneur has to estimate the manpower needs of the enterprise and accordingly decide the size of manpower required for various slots of organisational structure. After determining the required man power the entrepreneur has to organise the performance of following functions pertaining to human resources namely arranging for recruitment, selecting manpower, induction and training, determining compensation structure and incentives, designing motivation programmes, structuring well being measures for employees, putting in place safety mechanism at work place, performance evaluation and career advancement and structuring social security programmes.

For Own Thinking

After the completion of the academic career, which engagement would you like to opt for after considering the following factors:

Dimension	Salaried Employment	Self Employment
Income	Dependable and probably higher income during the initial stages but limited by promotion opportunities	Fluctuation of income depending upon economic conditions and endeavours of the entrepreneur
Working Hours	Fixed Working Hours	Absolute freedom in choosing the working time.
Job Security	Fixed tenure jobs in respect of public sector appointments and absolute unstable job in private sector appointments.	Stable job till the business is solvent
Financial Risk	There is no financial risk in salaried employment as the employee does not invest in the capital of the employer organisation	There is high degree of risk of losing the investment due to continuous loss.
Personal Satisfaction	An employee may derive job satisfaction. The efforts put in by the employee reward more the employer.	Owner derives a sense of personal satisfaction. In other words, the efforts putin by the owner directly reward him.
Responsibility	The size of responsibility increases as an employee moves up the organisational ladder.	The size of responsibility is always higher to various stakeholders.

Case Study

GoliVadaPav 1
(Indian Street-food Vendor)

Challenge: Handmade patties are not uniform in quality and have a short span of shell life. Decrease in the profit margin due to acute increase in the price of ingredients. Bank which rendered loans to Mr. Venkatesh insisted to stop the losses which arose due to these problems or repay the bank loans

Inception:

VenkateshIyer co-founded GoliVAdaPav with Shiv Menonto 2004 in Kalyan, near Mumbai for selling affordable, clean, ethnic fast good to lower income customers in India.

Product - Vadapav:

A typical Mumbai street-food dish of a spicy vegetable patty in a bun. The goal was to sell hygienically prepared food with an authentic touch.

GOLI

Vada Pav No. 1

Strategy:

Outsourcing the supply chain and operations from Vista Processing foods, a US company to supply frozen vegetables and patties to GoliVAdaPav which ensures consistency in quality and short shell life. Installation of automated fryer machines in their outlets improved their business. Decision to penetrate the second-tier cities in western and southern cities for their marketing.

Success Story:

i. GoliVadaPav has 300 stores in 100 cities across 20 states of India.

ii. Goli fast food chain products are prepared in fully automated 'HACCP' certified hands free plant frozen at -18 degree Celsius.

iii. GoliVadaPav was set up in over 40 cities with 150 outlets with a success rate of sale of 75,000-100,000 vadapavs per day.

Key Words

Entrepreneurship	Investigation	Innovator	Mobilisation	Controlling
Leadership	GDP	Intrapreneur	Manager	Coordination

Exercise

QJNPWF

I. Choose the Correct Answers:

1. Which of the below is a factor of production?

(a) Land (b) Labour

(c) Entrepreneurship (d) All of the above

2. Entrepreneur is not classified as

(a) Risk Bearer (b) Innovator

(c) Employee (d) Organizer

3. What are the characteristics of an entrepreneur?

(a) Spirit of enterprise (b) Flexibility

(c) Self Confidence (d) All of the above

4. Which of the below is not classified into managerial functions?

(a) Planning (b) Marketing

(c) Organizing (d) Controlling

5. Which of the below is a commercial function?

(a) Accounting (b) Coordination

(c) Discovery of idea (d) Planning

Answers:

1	d	2	c	3	d	4	b	5	a

II. Very Short Answer Questions:

1. Mention any two characteristics of entrepreneurs.
2. List down the managerial functions of entrepreneurs. (any 2)
3. List down the promotional functions of entrepreneurs. (any 2)
4. List the challenges faced by the women entrepreneurs. (any 2)

III. Short Answer Questions:

1. Distinguish between entrepreneur and Manager. (any 3)
2. List down the commercial functions of Entrepreneur and explain them shortly. (any 3)
3. Explain the promotional functions of entrepreneur. (any 3)

IV. Long Answer Questions:

1. What are the characteristics of an entrepreneur? (any 5)
2. Distinguish between an Entrepreneur and an Intrapreneur. (any 5)
3. Discuss the challenges faced by Women Entrepreneurs. (any 5)

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24 CHAPTER
TYPES OF ENTREPRENEURS

ஒல்வ தறிவது அறிந்ததன் கண்தங்கிச்
செல்வார்க்குச் செல்லாதது இல்.

–குறள் 472

COUPLET There is nothing which may not be accomplished by those who, before they attack (an enemy), make themselves acquainted with their own ability, and with whatever else is (needful) to be known, and apply themselves wholly to their object.

REGIXF

Learning Objectives

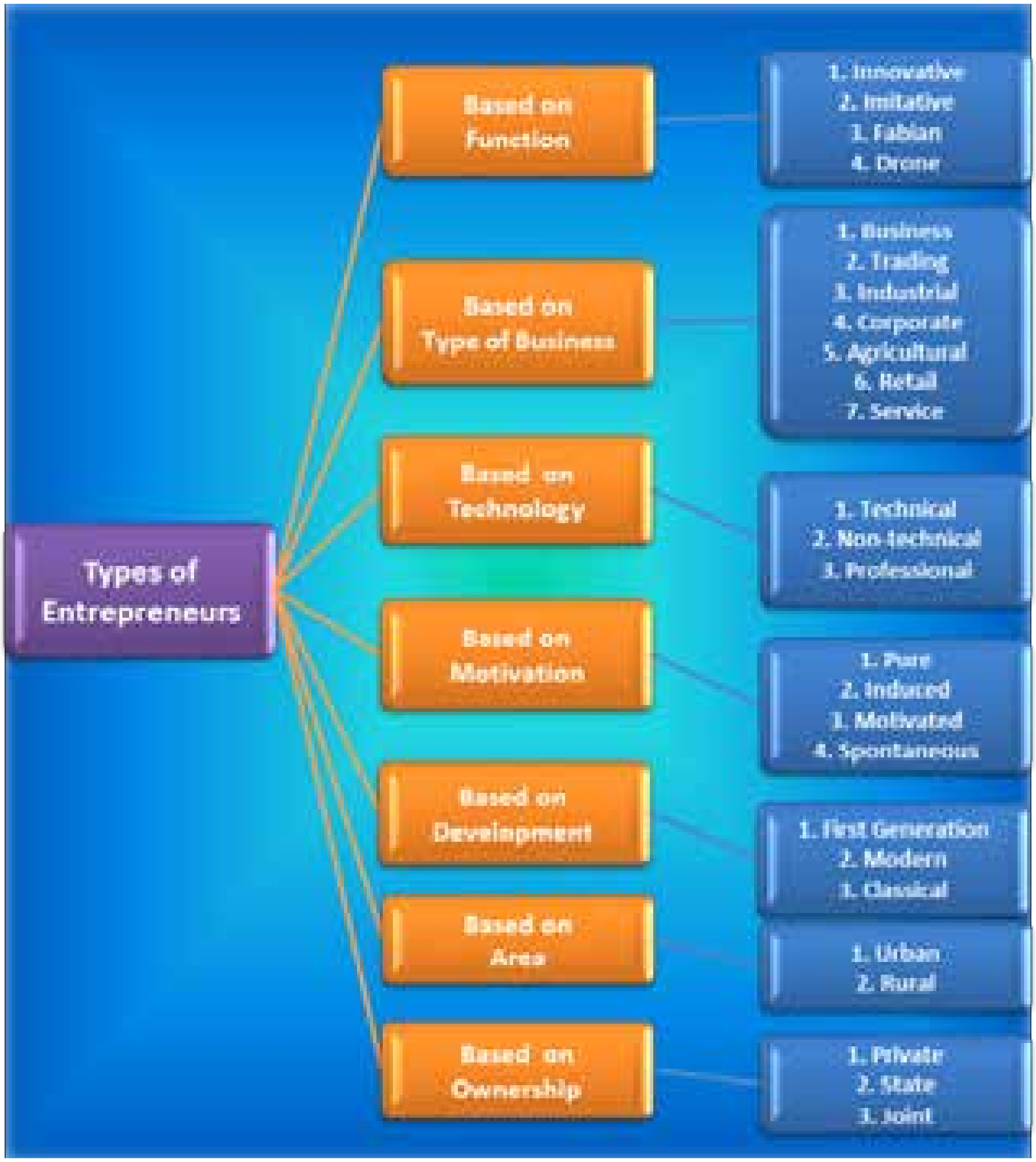
To enable the students to understand the

- Based on Function - Innovating, Imitative, Fabian, Drone
- Based on Type of Business - Business, Trading. Industrial, Corporate, Agricultural, Retail, Service
- Based on Technology - Technical, Non-technical, Professional
- Based on Motivation - Pure, Induced, Motivated, Spontaneous
- Based on Development - First Generation, Modern, Classical
- Based on Area - Urban, Rural
- Based on Ownership - Private, State, Joint

Chapter Synopsis

Entrepreneurs in business are different according to the type of activity undertaken by him/her. Though the word entrepreneur is a general term, they are called by different names depending upon the function they perform; business they engaged in; technology they adopt; the area they start the venture; the level of development they achieve in the venture; type of ownership held and motivation given to them. Besides each of the above type is sub classified as shown in the chart.

24.01 Types of Entrepreneurs



24.02 Classification According to Function

1. Innovating Entrepreneur

Innovative entrepreneur is one who is always focussed on introducing a new project or introducing something new in the venture already started. They constantly observe the environment around them; collect information and analyse them in order to contribute something a new in the venture. Their innovation may take the form of brand new product, upgraded product, discovering untapped market, new method of production, reengineering of existing product, new method of distribution of product, simplification of complex process, adoption of a distinct process and so on.

2. Imitative Entrepreneur

Imitative entrepreneur is one who simply imitates existing skill, knowledge or technology already in place in advanced countries. A simply reengineer or redesign the products developed in advanced countries and produce a version suited to their local conditions. For example, many electronic products invented in advanced countries are simply reengineered in developing countries. Similarly expensive medicines developed in advanced countries are simply reengineered by changing the composition of elements or changing the process of production.

3. Fabian Entrepreneur

These entrepreneurs are said to be conservatives and sceptical about plasticising any change in their organisation. They are of risk-averse type. They do not simply change to the changes happening in the environment. But they adapt themselves to the changes only as a last resort when they fear that non adaptability to changes will inevitably lead to loss or collapse of the enterprise. Their dealings are governed by customs, religion, tradition and past practices handed down to them by their ancestors. They would like to follow in the footsteps of predecessors. Example; Nursus coffee

4. Drone Entrepreneur

Drone entrepreneurs are those who are totally opposed to changes unfolding in the environment. They used to operate in the niche market. They are similar to fabian entrepreneur in doggedly pursuing their conventional practices. The main difference between fabianentrepreneur and drone entrepreneur lies in the fact that while fabian entrepreneur adapts to changes eventually as a last resort, drone entrepreneur never adapts himself or herself to change, Example; Gopal Tooth powder

24.03 Classification According to Type of Business

1. Business Entrepreneur

Business entrepreneur is called solo entrepreneur. He/she is the one who conceives an idea for a new product/ service and establishes a business enterprise to translate his idea into reality. He/she may establish small or large enterprise to commercially exploit his/he idea. He/she takes up production, operations and pursues marketing activities.

2. Trading Entrepreneur

Trading entrepreneurs are those who restrict themselves to buying and selling finished goods. They may be engaged in domestic and international trade. Their core strength lies in distribution and marketing. They get their income by way of commission and marketing.

3. Industrial Entrepreneur

These are entrepreneurs who manufacture products to cater to the needs of consuming public after identifying the need left unfulfilled by the manufacturer hitherto. They may be small, medium and large entrepreneurs. Industrial entrepreneurs mobilise the resources of various types and create an entity to manufacture the products or service. They add utility to products rolled out by them which is termed as value addition.

4. Corporate Entrepreneur

Corporate entrepreneur is called promoter. He/she takes initiative necessary to start an entity under corporate format. He/she arranges to fulfil the formalities to start a corporate entity under Company law. Corporate entrepreneur assembles all the resources and put in place organisation to run the business on a day-to-day basis. In corporate form of organisation, ownership and management are separated. Corporate entities are registered under the Companies Act or under the Trust Act. Corporate entrepreneurs install a team of experts to manage the entity on a day to day basis.

5. Agricultural Entrepreneur

Agricultural entrepreneurs are those entrepreneurs who raise farm products and market them. They use the various inputs like labour, fertilizer, insecticide, water technology etc. to raise the products and market their products either directly or through co-operative entities or through brokers or through tie up with large retailers. Those who raise allied products like poultry, meat, fish, honey, skin, agricultural implements, flower, silk, fruits, prawn etc., are called agricultural entrepreneur. In short these entrepreneurs pursue their venture in agriculture and allied sector.

6. Retail Entrepreneurs

Retail entrepreneurs are those who enter into venture of distributing the end-product to final consumer while wholesale entrepreneurs take up the venture of distributing the product to retailer. They used to buy the goods in small quantities from numerous wholesalers and make it available different products of different brands under one roof to end consumer.

7. Service Entrepreneurs

Service entrepreneurs enter into the venture of supplying service products to end consumers. Hoteliers, airlines, banking, insurance and financial service providers, repair service organisation, bus operators, train service, advisory organisation, advertising firms, manpower supplier etc., come under service entrepreneur's category.

24.04 Classification based on Technology Adopted

1. Technical Entrepreneur

Technical entrepreneurs are such of those craftsmen like welder, fitter, moulder, draughtsman, turner, carpenter, goldsmith, tailor, photographer, repairer, weaver, sculptor, potter, wiremen or so on who start small ventures. They turnout products/service of high quality. They simply focus on production rather than on marketing. This type of entrepreneur demonstrates their creative talents by producing innovative products. Their strength lies in skill or knowledge of producing specialised product.

2. Non-technical Entrepreneur

Non-technical Entrepreneurs are those who do not possess any technical competence to produce the goods or service but have special talents to market the products successfully or expertise to distribute the products produced by technical entrepreneur effectively to channel members and end consumers.

3. Professional Entrepreneur

Professional entrepreneur is one who is having a rich expertise in starting a venture but lack interest in continuing the venture as a manager or as a owner. He/she simply sells out the venture started by him to someone else after its successful take-off. They keep on conceiving new ideas to develop alternative projects. In short, these entrepreneurs have got professional expertise in starting the venture and exiting it after the establishment.

24.05 Classification in Terms of Motivation

1. Pure Entrepreneur

Pure entrepreneurs are individuals who are propelled to enter into venture by psychological and economic motives. Their egos do not permit them to work for somebody else. They nurture desire of starting a particular venture and earning high profit there from and thus attaining a social status. They apply their knowledge, skill and insight in making the venture a great success in order to earn maximum profit out of the venture. Example Dhirubai Ambani, Jamshadji Tata, T.V. Sundaram Iyengar, Seshadriji, Birla, Narayanamurthi, Aziz Premji and so on.

2. Induced Entrepreneur

An induced entrepreneur is one who is inspired to take up entrepreneurial activity thanks to entrepreneurship friendly policies put in place by the Government. In other words, concessions, incentives and soaps provided by the government drive them to enter into venture. Government provides a great deal of support in the form of loans, subsidies, nominal rate of interest, tax breaks, tax holidays, training, import of technology from abroad, concessions for export oriented item, allotment of sheds, and lands at subsidised price etc. impel the potential entrepreneurs to start the venture.

3. Motivated Entrepreneur

Motivated entrepreneurs are those motivated to take up venture by the desire for self fulfilment. They are motivated to produce and market product or service by sheer prospect of making huge profit. They are further motivated to develop the venture to a saleable stage so that he/she can sell the venture at a super profit to certain entrepreneurs(buyers) who do not like to take risks in setting up a new venture but desire to buy well developed venture promising great profit prospects.

4. Spontaneous Entrepreneur

These entrepreneurs have natural inclination to start venture. They are supposed to be bold, optimistic and enterprising persons. They have passion for meeting the challenges. Their inner urge and inborn traits drive them to commence their ventures.

24.06 Classification Based on Development Stage

1. First Generation Entrepreneur

First generation entrepreneur is one who starts venture by virtue of his knowledge, skill, talent and competence. He/she innovates a product/service by technical expertise possessed by him/her. These entrepreneurs do not have any family background or prior exposure to the venture initiated by them. They are self made entrepreneurs.

2. Modern Entrepreneur

Modern entrepreneur is one who keenly observes the dynamics of the market with eagle eye and identify the unfilled gaps, if any in product/service marketed. He/she takes initiative in starting the venture to cater to the unmet needs of the market.

3. Classical Entrepreneur

Classical entrepreneur is one who starts his own venture as a family business. They are called life timers. They engage in business as a matter of routine. Their prior exposure to business environment impels them to commence venture of their own. Entrepreneurs from the business families are called classical entrepreneurs. For instance where son of provision merchant start his own provision shops, the former is called classical entrepreneur.

24.07 Classification According to Area

1. Urban Entrepreneur

Entrepreneur who commences his entrepreneurial activity in urban areas like State Capital, District Headquarters, Towns, Municipalities etc., They may be industrial entrepreneur or corporate entrepreneur or retail entrepreneur.

2. Rural Entrepreneur

These are people who start venture in rural locations. They are provided a lot of economic and fiscal incentives to start their venture in rural and semi urban areas in order to check the exodus of rural people to urban centres in pursuit of employment opportunity. Thanks to their immediate access to material, labour or other facilities at low cost. As a result the cost of operation of rural ventures tends to be low. Agricultural and trading entrepreneurs prefer to set up their venture in rural areas.

24.08 Classification According to Ownership

1. Private Entrepreneur

Ventures started by individual either singly or collectively at their own risk after mobilising various resources in order to earn profit are called private entrepreneurship.

2. State Entrepreneurship

Trading/industrial ventures started by Government under various formats like company, corporation, departments, board denotes state entrepreneurship.

3. Joint Entrepreneurship

Ventures started and owned by both private individuals and government denote joint ownership.

Key Words

Entrepreneur	Spontaneous	Innovative
Induced	Imitative	Motivate
Fabian	Drone	

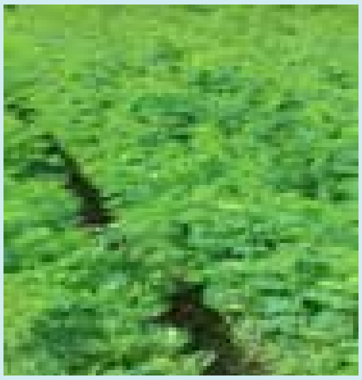
For Own Thinking

- Consider yourself as a young aspiring entrepreneur to create an enterprise that manufactures chocolates. Make a detailed analysis for the success of your enterprise after considering the leading competitors in the market in terms of pricing, variety and quality.
- A started and running a textile showroom business in your area for the past one year. He was not very successful and not in a position to have customers. Design him an appropriate strategy to attract new customers of various age groups.
- Your friend wants to start a business with Rs. 10 lakhs from his ancestral property. Make an analysis for your friend to suggest him suitable business in your locality.
- Identify products which are exclusively utilised by kids under the age group of 1-5 years, 5-10 years,10-15 years.
- Critically examine an industry of your choice based on its current demand and supply of products.
- Imagine yourself as a successful entrepreneur in Chennai city. You have decided to enter into foreign markets. What are all the factors to be considered before entering the international market?
- As an entrepreneur, you have developed an APP for games with the latest technology. Answer the following questions:
  - (i) List down the prospective customers for this APP.
  - (ii) How will you get more information from your prospective customers?
  - (iii) How you will update your app when the technology transforms?
  - (iv) Discuss about the pricing and marketing strategy for the APP?

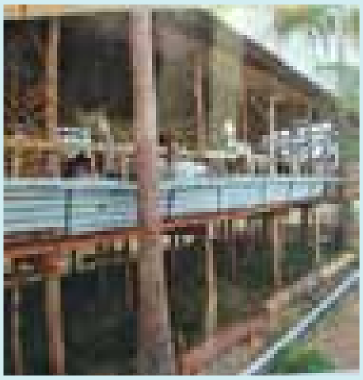
Case Study

Sri Krishna Integrated Farm	
Founder: Mr. R. Govindaraj, Sri Krishna Integrated Farm, Neppathur Village, Sirkazhi T.K. Nagapattinam.	**Products:** Supply of produced items like Cattle Farm, Fish Farm, Rabbit Breeder, Country chicken, Organic Paddy, Organic Fertiliser, Organic Vegetables, Eggs, Milk, Livestock Feed and organic grass seeds, Vellimasal, Hedgelucem and Concentrating maggots for fish and poultry. **Achievements:** i. Giving training to SHG ii. Supply of Farm Products to Star Hotels and many traders for Breeding Purpose iii. Supply to other states like Andhrapradesh, Karnataka and Kerala iv. Above 15 lakhs Turnover v. Size of Employment vi. Training to unemployed Youth vii. To reduce migration

A glimpse of Sri Krishna Integrated Farm








Exercise

RTZDYR

I. Choose the Correct Answers:

1. Which of the following is the Activity of a Business Entrepreneur?

a. Production b. Marketing
c. Operation d. All of the above

2. Find the odd one out in context of Trading Entrepreneur.

a. Selling b.. Commission
c. Buying d. Manufacturing

3. Corporate Entrepreneur is also called as ______

a. Intrapreneur b. Promoter
c. Manager d. Shareholder

4. Which of these is based on Technology?

a. Modern b. Professional
c. Corporate d. Industrial

5. Which of the below is not a Characteristic of a Fabian Entrepreneur?

a. Conservative b. Risk averse
c. Sceptical d. Adaptive

Answers:

1	d	2	d	3	b	4	b	5	d

II. Very Short Answer Questions:

1. What is the other name of business entrepreneur?
2. Mention the other name for corporate entrepreneur.
3. Who are agricultural entrepreneur?
4. Give some examples of pure entrepreneurs.

III. Short Answer Questions:

1. Who is a private entrepreneur?
2. Explain about the imitative entrepreneur.
3. Write about Fabian entrepreneur.

IV. Long Answer Questions:

1. Explain in detail on classification according to the type of business. (any 5)
2. Discuss the nature of functional entrepreneurs.

UNIT IX

ENTREPRUNERIAL DEVELOPMENT

25
CHAPTER

GOVERNMENT SCHEMES FOR ENTREPRENEURIAL DEVELOPMENT

வினைத்திட்பம் என்பது ஒருவன் மனத்திட்பம்
மற்றைய எல்லாம் பிற.

-- குறள் 661

COUPLET

Firmness in action is (simply) one's firmness of mind; all other (abilities) are not of this nature.

SNS7ZR

Learning Objectives

To enable the students to understand the

- India's efforts at promoting entrepreneurship
- Specific entrepreneurship schemes
- Steps in promoting an entrepreneurial venture
- Women entrepreneurial schemes
- Government of Tamil Nadu entrepreneurial schemes

Chapter Synopsis

25.01 India's efforts at promoting Entrepreneurship and Innovations

25.02 Specific Entrepreneurship Schemes

25.03 Steps in promoting an entrepreneurial venture

25.04 Government of Tamil Nadu entrepreneurial schemes

Government of India's Support for Innovation and Entrepreneurship in India

The Government of India has undertaken several initiatives and instituted policy measures to foster a culture of innovation and entrepreneurship in the country. Job creation is a foremost challenge facing India. With a significant and unique demographic advantage, India, however, has immense potential to innovate, raise entrepreneurs and create jobs for the benefit of the nation and the world.

In the recent years, a wide spectrum of new programmes and opportunities to nurture innovation have been created by the Government of India across a number of sectors namely,Agriculture, Chemicals, and Fertilizers, Finance, Commerce and Industry, Communication and Information Technology, Corporate Affairs, Culture, Food Processing, Housing & Urban Poverty Alleviation, and Science & Technology etc.

Financial assistance, insurance, subsidy, training, helps early stage tech start-up and business loans, special incentive is provided to set up new enterprises for entrepreneurs.

25.01 India's efforts at Promoting Entrepreneurship and Innovations

1. Startup India:

Through the Startup India initiative, Government of India promotes entrepreneurship by mentoring, nurturing and facilitating startups throughout their life cycle. Since its launch in January 2016, the initiative has successfully given a head start to numerous aspiring entrepreneurs. A 'Fund of Funds' has been created to help startups gain access to funding.

2. Make in India:

This scheme is designed to transform India into a global design and manufacturing hub, the Make in India initiative was launched in September 2014. It came as a powerful call to India's citizens and business leaders, and an invitation to potential partners and investors around the world to centralize information about opportunities in India's manufacturing sector. This has in turn helped procure investments, foster innovation, develop skills, protect intellectual property and build best-in-class manufacturing infrastructure.

3. Atal Innovation Mission (AIM):

AIM is the Government of India's endeavour to promote a culture of innovation and entrepreneurship, and it serves as a platform for promotion of world-class Innovation Hubs, Grand Challenges, start-up businesses and other self-employment activities, particularly in technology driven areas.

4. Support to Training and Employment Programme for Women (STEP):

STEP was launched by the Government of India's Ministry of Women and Child Development to train women who have access to formal skill training facilities, especially in rural India. The Ministry of Skill Development & Entrepreneurship and NITI (National Institution for Transforming India formally it is called as planning commission) Aayog recently redrafted the Guidelines of the 30-year-old initiative to adapt to present-day needs. The programme imparts skills in several sectors such as agriculture, horticulture, food processing, handlooms, traditional crafts like embroidery, travel and tourism, hospitality, computer and IT services.

5. Jan Dhan-Aadhaar - Mobile (JAM):

JAM, for the first time, is a technological intervention that enables direct transfer of subsidies to intended beneficiaries and, therefore, eliminates all intermediaries and leakages in the system, which has a potential impact on the lives of millions of Indian citizens.

6. Digital India:

The Digital India initiative has been launched to modernize the Indian economy to make all government services available electronically. The initiative aims at transforming India into a digitally-empowered society and knowledge economy with universal access to goods and services.

7. Stand-Up India:

It was launched in 2015, Stand-Up India seeks to leverage institutional credit for the benefit of India's underprivileged. It aims at enabling economic participation of, women entrepreneurs, Scheduled Castes and Scheduled Tribes and share the benefit of Indian growth with the above mentioned categories. Towards this end, at least one women and one individual from the SC or ST communities is granted loans between Rs.10 lakshs to Rs.1 crore to set up greenfield enterprises in manufacturing, services or the trading sector.

8. Trade related Entrepreneurship Assistance and Development (TREAD):

This schemes envisages to address the critical issues of access to credit among India's underprivileged women, the TREAD programme enables credit availability to interested women through non-governmental organizations (NGOs). As such, women can receive support of registered NGOs in both accessing loan facilities and receiving counselling and training opportunities to kick-start proposed enterprises, in order to provide pathways for women to take up non-farm activities.

9. Pradhan Mantri Kaushal Vikas Yojana (PMKVY):

A flagship initiative of the Ministry of Skill Development and Entrepreneurship (MSDE). This is a Skill Certification initiative which aims to train youth in industry-relevant skills to enhance employment opportunities for livelihood creation and employability.

10. National Skill Development Mission:

This scheme was unveiled in July 2015. The mission aims at building synergies across the sectors in terms of skill training activities. With a vision to build a 'Skilled India' it is designed to expedite decision-making across the sectors to provide skills at scale, without compromising on quality or speed.

11. Science for Equity Empowerment and Development (SEED):

SEED aims to provide opportunities to motivated scientists and field level workers to undertake action-oriented, location specific projects for socio-economic gain, particularly in rural areas. SEED emphasizes equity in development, so that the benefits of technology accrue to a vast section of the population, particularly the disadvantaged.

25.02 Other Specific Entrepreneurship Schemes

In order to support and strengthen the Start-up culture in India, the Government has launched various schemes in the past few years. They are as follows:

1. Modified Special Incentive Package Scheme (M-SIPS)

The M-SIPS scheme provides capital subsidy of 20% in SEZ and 25% subsidy in non-SEZ for business units engaged in manufacturing of electronics in the fields of the Internet of Things, aeronautics/aerospace and defence, automotive, renewable energy, non-renewable energy, technology, green technology and nanotechnology.

2. New Gen Innovation and Entrepreneurship Development Centre (New Gen IEDC)

New Gen IEDC provides a limited one-time, non-recurring financial assistance to entrepreneurs up to ₹25 Lakhs in the fields of chemicals, technology hardware, healthcare and life sciences, aeronautics/aerospace & defence, agriculture, AI (artificial intelligence), AR/VR (augmented + virtual reality), automotive, telecommunication and networking, computer vision, construction, design, non-renewable energy, renewable energy, green technology, fin-tech, Internet of Things, nanotechnology, social impact, food and beverages, pets and animals, textiles and apparel.

3. Dairy Entrepreneurship Development Scheme

Dairy Entrepreneurship Development Scheme aims at helping entrepreneurs in the field of Agriculture, pets and animals, and social impact to set up small dairy farms and incentives are provided to cover the cost of the required equipment or establishment of the facility.

4. Single Point Registration Scheme (SPRS)

A great scheme for Micro and Small Enterprises, which provides an exemption from payment of Earnest Money Deposit (EMD). Under this scheme, the tenders are issued free of cost.

5. Atal Incubation Centres (AIC)

The Government of India has setup the Atal Innovation Mission (AIM) at NITI Aayog in 2016 with the over arching purpose of promoting a culture of innovation and entrepreneurship in the country. This has been setup to provide high class incubation facilities across various parts of India in terms of capital equipment, operating facilities along with sectoral expert for monitoring start-ups, especially in transport. manufacturing health, energy, water, agriculture and construction sectors.

For Own Thinking

25.03 Steps in Promoting an Entrepreneurial Venture.

The various steps involved in starting a venture have been highlighted.

1. Selection of the product

An entrepreneur may select a product according to his aspiration, capacity and motivation after a thorough scrunity of micro and macro environment of business. He/she may select a brand, new product or may like to select imitation one or he/she may improve upon an existing product in terms of additional features like comforts, convenience, ease of operation, lower price etc. An entrepreneur has to conduct economic viability of the project.

2. Selection of form of ownership

Entrepreneur has to choose the form of organisation suitable and appropriate for his venture namely family ownership, partnership and private limited company. Family ownership and partnership forms of organisation are suited for exercising unified control over the venture while the company form of organisation may be preferred for pooling of more financial resources, managerial and technical skills and business experience for carrying on medium to large venture.

3. Selection of Site

Entrepreneur has to choose suitable plot for accommodating his venture. He has four options open to him for housing his venture. These have been mentioned below.

- State Development Corporation like SIDCO, SIPCOT, MMDA, TNHB and Directorate of Industries may allot plot to entrepreneur
- Entrepreneur can have a factory sheds constructed by State Industrial Development Agency
- Entrepreneur can start ventures in the land developed by private developers
- Entrepreneur may buy private land and develop it for industrial use.

Following things may be considered in choosing the site namely:

- Nearness to Native Place
- Incentives provided by the Govt.
- Nearness to Market
- Availability of Labour and Raw Materials in a particular area.
- Infrastructure Facilities

4. Designing Capital Structure

Entrepreneur has to determine the source of financé for funding the venture. He/she may mobilise funds from his own savings, loans from friends and relatives, term loans from banks and financial institutions.

5. Acquisition of Manufacturing know-how

Entrepreneur can acquire manufacturing know-how from Government research laboratories, research and development divisions of industries, and individual consultants. At times, main units may supply manufacturing know-how to entrepreneurs starting ancillary units or plant and machinery suppliers may provide this facility to entrepreneurs. Besides, manufacturing know-how can be obtained by foreign technical collaboration.

6. Preparation of project report

Project reports needs to be prepared according to the format prescribed in the loan application form of term lending institutions. An entrepreneur can get the report prepared either by technical consultancy organisation or by auditors or by consultants or by development agencies. This report should cover aspects like sources of finance, technical know-how, sources of labour and raw materials, market potential and profitability. The project report should include the following

- **Technical Feasibility.**

  It should mention the following

  - Description of product specification
  - Raw materials availability
  - Manufacturing process
  - Quality control measures
  - Availability of water, power, transport and communication facilities

- **Economic Viability**

It essentially involves compilation of demand for domestic and export market, installed capacity of machines, market share, revenue expected, and suitable price structure.

- **Financial Viability**

  It should cover the aspects like

  - Non-recurring cost such as Land and Building, Plant and Machinery etc.
  - Recurring expenses like wages, salaries, and overheads etc.
  - Probable cost of production
  - Profit on expected sales

- **Managerial Competency**

Entrepreneur has to include the mechanism for managing the venture in the project report. In the case of small sized ventures, the owner or partners may take care of managerial activities while a team of managerial personnel is to be brought in for manning various managerial positions across different levels of management in the case of corporate form of organisation. He has to provide details of the organisational structure contemplated in the project report for implementing the venture.

- **Provisional Registration Certificate**

Entrepreneur has to apply for Provisional Registration certificate. It will be issued to entrepreneur after the fulfilment of certain conditions for a period of one year subject to renewal of two periods of six months duration. If an entrepreneur is not able to commence production beyond the extension period, further extension will not be granted.

- **Permanent Registration Certificate**

Once the venture has commenced production or when it is ready to commence production, it is eligible to get permanent registration certificate.

- **Statutory Licence**

Entrepreneur has to obtain Municipal License from the authority concerned. Then the Entrepreneur has to register the unit with the Central and Sales Tax Department. If a unit comes within the provisions of Factories Act, he/she has to register it with Inspector of Factories or it has to register the unit under the Shops and Establishment Act.

- **Power Connection**

Entrepreneur has to make application to Assistant Divisional Engineer of State Electricity Board for power connection after paying Security Deposit and fulfilling the official formalities prescribed.

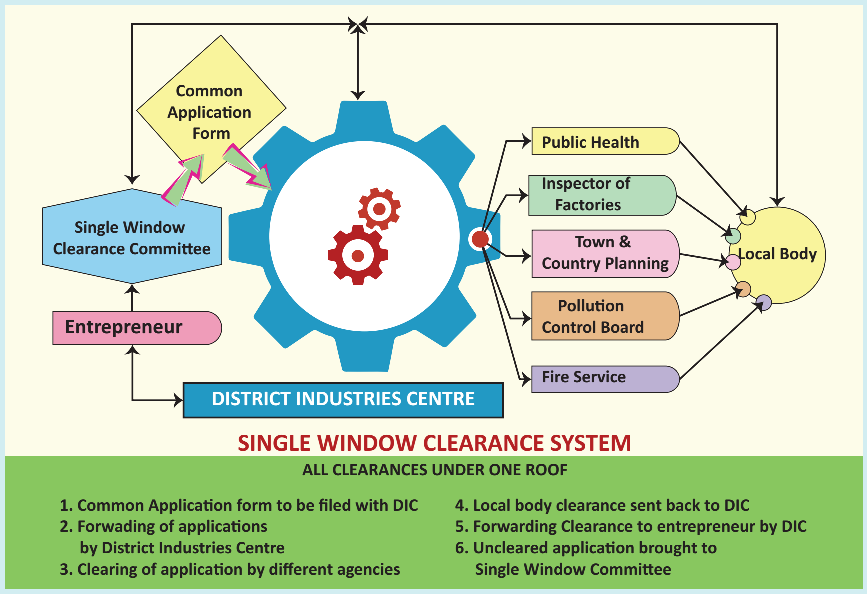
- **Arrangement of Finance**

Entrepreneur requires two types of finance namely long term and short term. While long-term requirements are needed for acquiring fixed assets, short-term requirement are meant for meeting working capital needs. Entrepreneur has to bring in promoters contribution (seed capital) prescribed by financing agencies.

25.04 Government of Tamil Nadu – Entrepreneurial schemes

For Future learning

How an Entrepreneur will make use of the various schemes of Governments?!



DO YOU KNOW?

ANGEL INVESTORS

01 Also known as Business Angels or Investment angels.

02 An Investor who provides financial backing for small startups or entrepreneurs.

03 Angel investors are usually found among an entrepreneur's family and friends.

04 The capital they provide can be a one-time injection of seed money or ongoing support to carry the company through difficult times.

05 Angel investors give more favorable terms than other lenders, as they are usually investing in the person rather than the viability of the business.

Key Words

Seed Capital, STEP, TREAD, JAM, AIC

Exercise

T4B323

I. Choose the Correct Answers:

1. **The ___________ initiative was launched to modernize the Indian economy to make all governments services available electronically.**

   a) Standup India   b) Startup India
   c) Digital India   d) Make in India

2. **________ is designed to transform India to a global design and manufacturing hub.**

   a) Digital India   b) Make in India
   c) Startup India   d) Design India.

3. **___________ is the Government of India's endeavour to promote culture of innovation and entrepreneurship.**

   a) AIM   b) STEP
   c) SEED   d) AIC

4. **___________ should cover aspects like sources of finance, technical know-how, source of labour and raw material, market potential and profitability.**

   a) Technical Report   b) Finance Report
   c) Project Report   d) Progress Report

5. **____________has to include the mechanism for managing venture in the project report.**

   a) Banker   b) Government
   c) Lending Institutions   d) Entrepreneur

Answers:

1	c	2	b	3	a	4	c	5	d

II. Very Short Answer Questions:

1. Name any two Governmental Entrepreneurial schemes.
2. Give a note on 'Digital India'.
3. List down the two types of finance for Entrepreneur.

III. Short Answer Questions:

1. What is 'Startup India'?
2. Expand the following:

   i) STEP   ii) JAM   iii) SEED

IV. Long Answer Questions:

1. Explain any five Government Entrepreneurial schemes.
2. Describe the steps promoting Entrepreneurial venture.

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UNIT 10 COMPANY LAW AND SECRETARIAL PRACTICE

26 CHAPTER COMPANIES ACT 2013

சிறப்பீனும் செல்வம் பெறினும் பிறர்க்குஇன்னா
செய்யாமை மாசற்றார் கோள்.

-- குறள் 311

COUPLET

It is the determination of the spotless not to cause sorrow to others, although they could (by so causing) obtain the wealth which confers greatness.

TITX3E

Learning Objectives

To enable the students to understand the

- Developments in company law and the logic of the company law.
- Elementary ideas on the Formation of Company
- Role of Promoters
- Meaning of Shares and Debentures.
- Basic idea on Share Certificate and Share warrants

Chapter Synopsis

The concept of 'Company' or 'Corporation' in business is not new, but was dealt with, in 4th century BC itself during 'Arthashastra' days. Its shape got revamped over a period of time according to the needs of business dynamics. Company form of business has certain distinct advantages over other forms of businesses like Sole Proprietorship, Partnership etc. It includes features such as Limited Liability, Perpetual Succession etc.

26.01 Evolution & History of Company Law in India

The earliest business associations in England were the "Merchant Guilds". Some of the merchant Associations or guilds who have regulated the companies.

(i) A Royal Charter established the East India Company in the year 1600.

(ii) In England the Joint Stock Companies Act was passed for the first time in 1844.

(iii) In the year 1850, taking the English Joint Stock Companies Act 1844 as a base, a provision was made for registration of joint stock companies in India.

(iv) The Joint Stock Companies Act was passed in India by introducing the concept of limited liability in the year 1857.

(v) In 1913, the Indian Companies Act of 1913 was passed. The Act introduce the institution of private companies in the corporate sector in India. After Independence. Based on the recommendation of the Shri.H.C.Baba committee in 1950 and the provisions of the English Companies Act 1948, the Companies Act 1956 was introduced in the parliament.

The Companies Act 1956 came into force on 1st April, 1956. The main objectives of the Company Law 1956 are:

(i) To sustain trust and faith of Shareholders

(ii) To protect and preserve the rights of Share holders

(iii) To have drastic control over all the activities of company

(iv) To make regulation of an effective Annual Meeting,

(v) The investment of general public should be used for the development of society or social welfare activities.

The Companies Act 1956 has been amended from time to time. From 2006 to 2009 some important Changes was made.

(i) The Company Law Board (CLB) has been abolished and National Company Law Tribunal (NCLT) is formed.

(ii) The rehabilitation of sick companies will be undertaken by the NCLT and not by the Board for Industrial & Financial Reconstruction (BIFR).

(iii) Earlier the BIFR was entrusted with the rehabilitation of sick companies as the matter came under the jurisdiction of the Sick Industrial Companies Act 1985 (SICA) but now the Sick Industrial Companies Repeal Act 2003 has replaced SICA and the work of revival and rehabilitation has been entrusted to NCLT.

Again the Companies Act has been amended in the year 2013 and has introduced several new concepts and definitions.

26.02 The Companies Act 2013

The New 2013 Companies Act got the ascent of President on 29th August, 2013 but it was passed in the Lok sabha on 18th December, 2012 and in Rajya Sabha on 8th August, 2013. The Act 2013 consists of 29 Chapters 470 Sections and 7 Schedules as against 13 chapters 658 Sections and 15 Schedules in 1956 Act. Separate Chapters for Registered Valuers, Government Companies, Furnish information or Statistics, Nidhis, National Company Law Tribunal & Appellate Tribunal and Special Courts are introduced in Companies Act 2013.

Some Important Basic changes made in the new Companies Act 2013 are as follows:

S. No	CHANGES		CHANGES MADE
1	**Incorporation of Company**	Types of Companies	Public company Private company One Person company (OPC)
		Maximum no of members for private companies	A private company can have maximum of 200 members
		One person Company	New Concept Introduced
		Commencement of business	Now applicable to all companies having share capital
2	**Memorandum of Association (MOA)**	Object Clause	MOA to contain the objects for which the company is proposed to be incorporated and any matter considered necessary in furtherance thereof
3	**Key Managerial Person (KMP)**	Section 2 (51)	KMP Includes: • CEO or MD or Manager; • Company Secretary; • WTD; • CFO; and Such other officers as may be prescribed
4	**APPOINTMENT OF WHOLE TIME KMP**	Section 203	States that Every Company belonging to class or classes of companies as may be prescribed shall have KMPs • MD or CEO or Manager and in absence of a WTD • Company Secretary • Chief Financial Officer
5	**Regarding Issue of Share Capital**	Issue of Shares at a discount	Shares, other than sweat equity shares, cannot be issued at a discount
		Issue of preference shares for more than 20 years	Preference shares have to be redeemed within 20 years of issue except for the shares issued for prescribed infrastructure projects, provided a certain percentage of shares are redeemed annually at the option of shareholders
		Notice of alteration of share capital	Company shall file a notice in the prescribed form with the Registrar within a period of thirty days of redemption of redeemable preference shares.
		Consolidation and division of shares	Consolidation and division which results in changes in the voting percentage of shareholders shall require approval of the Tribunal to be effective.

26.03 Meaning and Definition of a Company

The word 'company' is derived from the Latin word (Com=with or together; pains =bread), and it originally referred to an association of persons who took their meals together. A company is a corporate body and a legal person having status and personality distinct and separate from the members constituting it.

It is called a body corporate because, the persons composing it are made into one body by incorporating it according to the law and clothing it with legal personality. The word 'corporation' is derived from the Latin term 'corpus' which means 'body'.

Accordingly, 'corporation' is a legal person created by a process other than natural birth. It is, for this reason, sometimes called artificial legal person. As a legal person, a corporate is capable of enjoying many of the rights and incurring many of the liabilities of a natural person.

An incorporated company owes its existence either to a special Act of Parliament or to company law. Public corporations like LIC, RBI, SBI etc., have been brought into existence through special Acts of Parliament, whereas companies like Tata Steel Ltd., Reliance Industries Limited have been formed under the Company law i.e. Companies Act, 1956 which is being replaced by the Companies Act, 2013

In the **legal sense**, a company is an association of both natural and artificial persons and is incorporated under the existing law of a country.

In terms of the Companies Act, 2013 [Section 2(20)] "company" means a company incorporated under this Act or under any previous company law.

Lord Justice Lindley has defined a company as "an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business and who share the profit and loss arising there from.

The common stock so contributed is denoted in money and is the capital of the company. The persons who contributed in it or form it, or to whom it belongs, are members. The proportion of capital to which each member is entitled is "share". The shares are always transferable although the right to transfer them may be restricted."

From the above definition, it can be concluded that a company is registered association, having its own corporate and legal personality distinct which is separate from its members with a perpetual succession, a common seal for its signatures, a common capital comprised of transferable shares and carrying limited liability. (These aspects are discussed in 11th std)

Body Corporate

Body corporate means a corporate entity which has a legal existence. According to section 2(11) "body corporate" or "corporation" includes a private company, public company, one personal company, small company, Limited Liability Partnerships, foreign company incorporated outside India, but does not include

1. a co-operative society registered under any law relating to co-operative societies; and
2. any other body corporate (not being a company as defined in this Act),

26.04 Formation/Incorporation of a Company

Section 3(1) of the Act states that a company may be formed for any lawful purpose by-

(a) seven or more persons, where the company to be formed is to be a public company;

(b) two or more persons, where the company to be formed is to be a private company; or

(c) one person, where the company to be formed is to be One Person Company that is to say, a private company by subscribing their names or his name to a memorandum and complying with the requirements of this Act in respect of registration:

The process of formation of company consists of different stages, which starts when a person envisage an idea to form a company and ends when a company gets a certificate from the Registrar of Companies after complying with the various provisions relating to the formation of a company. 'Formation of a Company' has been divided into four stages:

1. Promotion
2. Registration
3. Capital Subscription and
4. Commencement of Business.

Out of the four stages, the first two stages 'Promotion and Registration' are necessary for both public and private companies. A private company can start operating its business immediately after registration, but a public company has to pass through two more stages- capital subscription and commencement of business.

A public company can raise funds from the public by issuing shares. After following all the legal provisions of public issue, which are specified in The Company's Act, a public company can start operating of its business.

26.05 Share and Share Capital

The term "Capital" is viewed by a layman as the money, which a business persons invest in the business and in case of company raise the capital by issue of shares. They uses this money to meet its requirements by way of acquiring business premises and stock-in-trade, which are called the fixed capital and the circulating capital respectively. The phrase "loan or borrowed capital" is sometimes used to mean money borrowed by the company and secured by issuing debentures. This, however, is not the proper use of the word "capital".

In case of company limited by shares, the word "capital" means the share capital i.e., the capital in terms of rupees divided into specified number of shares each having fixed rupee value. For e.g. share capital of a company is Rs.10,00,000 which can be divided into 10,000 shares of Rs.100 each or 1,00,000 shares of Rs.10 each, whichever is reasonable to the company.

Share

The term Share is viewed by a layman as a fraction or portion of total capital of the company which have equal denomination. In simple, the total capital of the company is shared by many person and each share is having equal value.

According to Section 2(84) of the Companies Act, 2013, share means share in the "Share Capital of a company and includes stock except where a distinction between stock and share is expressed or implied"

Kinds of Share Capital

According to Section 43 of the Act, a company which is limited by shares can issue two classes of shares they are:

(i) Equity Share Capital:

a) With Voting rights or

b) With differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed.

(ii) Preference Share Capital

Meaning of Equity Share

Those shares which are not called as preference share are known as Equity share or the share of a company which do not have any preferential rights with regard to dividend and repayment of share capital at the time of liquidation of a company.

Meaning of Preference Share

Section 42 of the Companies Act, 2013 the term 'preference shares' mean that part of the share capital the holders of which have a preferential right over payment of dividend (fixed amount or rate) and repayment of share capital in the event of winding up of the company.

Kinds of Preference shares

There are eight types of preference shares. In case of dissolution of the company, any of the eight types would be paid out before other types of equity.

Cumulative Preference shares: As the word indicates, all dividends are carried forward until specified, and paid out only at the end of the specified period.

Non-cumulative Preference shares: The opposite of cumulative, obviously. Dividends are paid out of profits for every year. There are no arrears carried over a time period to be paid at the end of the term

Redeemable Preference shares: Such preference shares can be claimed after a fixed period or after giving due notice.

Non-Redeemable Preference shares: Such shares cannot be redeemed during the lifetime of the company, but can only be obtained at the time of winding up (liquidation) of assets.

Convertible Preference shares: The shares can be converted into equity shares after a time period or as per the conditions laid down in the terms.

Non-convertible Preference shares: Non-convertible preference shares cannot be, at any time, converted into equity shares.

Participating Preference shares: Such shares have the right to participate in any additional profits, after paying the equity shareholders. The surplus of profit is apart from the fixed dividend paid up for preference shares.

Non-Participating Preference shares: Non-participating preference shares do not possess any right to participate in surplus profits or any surplus gained at the time of liquidation of the company.

Tenure of Preference Shares

Tenure of Preference Shares continued as 20 years except for “Infrastructural Projects” Companies having "infrastructural projects" can issue Preference Shares for more than 20 years but up to 30 years subject to minimum 10% redemption of such preference shares from 21st year onward or earlier.

26.06 Issue of shares, Bonus shares and Right shares

There are various ways by which shares can be issued.

Issue of shares at Par

Normally shares are issued at their face value or par value i.e at a price mentioned on the face of share certificate concerned. There is no legal restrictions on issuing shares at par / face value.

Issue of Shares at Premium

When shares are issued at a price above the face or nominal value, they are said to be issued at a premium. For example, a share having the face value of Rs.10 is issued at Rs.12. Here, Rs.2 is the premium. The amount of share premium has to be transferred to an account called the ‘Securities Premium Account’. This account is capital in nature and can only be utilized for the purposes specified by the Act under Section 78 viz; Issue of fully paid bonus shares to members of the company.

(i) To write off preliminary expenses.

(ii) To write off the expenses of issue, or commission paid, or discount allowed, on issue of shares or debentures of the company.

(iii) To provide for the payment of premium on the redemption of any redeemable preference shares or debentures of the company.

Thus, the Securities Premium Account cannot be treated as a revenue reserve for distributing dividends. It can only be used for the above mentioned purposes and also for buying back of securities (section 77A). It must be noted that Security premium is not available for distribution of dividend.

Issue of Securities at Discount

When the shares are issued at a price below the face value they are said to be issued at a discount. For example, a share having the face value of Rs 10 is issued at Rs 8. The companies act 2013, prohibits the issue of shares at discount (Section 53), except sweat Equity share.

Sweat Equity Shares

Under section 54 of the Companies Act 2013, Sweat Equity Shares can be issued at Discount. Sweat Equity Shares means issue of shares to employees or directors at a lower price for cash or other than Cash, in lieu of providing know-how or making available rights in the nature of intellectual property rights or any value additions.

Bonus Shares

A company may, if its Articles provide, capitalize its profits by issuing fully-paid bonus shares. The issue of bonus shares by a company is a common feature. In simple, Bonus share means to utilize the company's reserves and surpluses, issue of shares to existing shareholders without taking any consideration is known as Bonus Shares. It can be issued by:

(i) Making partly paid up shares as fully paid

(ii) Issuing new shares

Right Shares

Right shares are the shares which are issued by the company, with the aim of increasing the subscribed share capital of the company by further issue, if it is authorized by its Articles. The right shares are primarily issued to the existing equity shareholders through a letter of an issue, on pro rata basis.

26.07 Share Certificate and Share Warrant

A share certificate is an instrument in writing, that is a legal proof of the ownership of the number of shares stated in it. Every company, limited by shares, whether it is public or private must issue the share certificate to its shareholders except in case, where shares are held in dematerialization system.

According to Section 45 of the Companies Act, 2013 each share of the share capital of the company shall be distinguished with a distinct number for its individual identification. However, such distinction shall not be required, if the shares are held by a person whose name is entered as holder of beneficial interest as per the records of a company.

The share certificate contains the following details in it, they are:

(i) Company name

(ii) Date of issue

(iii) Details of the member

(iv) Shares held

(v) Nominal value

(vi) Paid up value

(vii) Definite number

The share certificate is issued by the company within three months of the allotment of shares to the applicants, which is issued under the common seal of the company. Normally, the holder of the share certificate is regarded as the member of the company.

Share Warrant

A share warrant is a negotiable instrument, issued by the public limited company only against fully paid up shares. It is also termed as a document of title because the holder of the share warrant is entitled to the number of shares mentioned in it. There is no compulsion of the issue of share warrants by the company. Although if the public company wants to issue share warrants, then prior approval of the Central Government (CG) is required. Further the issue of a share warrant must be authorized in the articles of association of the company.

The holder of the share warrant can take a share certificate only if holder surrenders the share warrant and pays the required fee for the issue of share certificate. Thereafter, the company will cancel the warrant and issue a new share certificate to him as well as the company will enter his name as the member of the company in the register of members, after which he will become a member of the company.

Generally, the holder of the share warrant is not the member of the company, but if the articles of association of the company provide it, then the bearer is deemed to be the member of the company.

26.08 Share and Stock

The definition of the term 'Share' under the Companies Act, 1956 (Section 2(46)) includes 'Stock'. A company can convert its shares into stock and vice versa by following the provisions of Table A (Articles 36-39). Stock is created from fully paid shares by passing an ordinary resolution in the general meeting. The Articles of Association of the company must permit this conversion.

26.09 Debentures

Adequate amount of capital is necessary to run a business effectively/successfully. In some cases capital arranged through internal resources i.e. by way of issuing equity share capital or using accumulated profit is not adequate and the organisation is resorted to external resources of arranging capital i.e. External Commercial borrowing (ECB), Debentures, Bank Loan, Public Fixed Deposits etc.

When a company needs funds for extension and development purpose without increasing its share capital, it can borrow from the general public by issuing certificates for a fixed period of time and at a fixed rate of interest. Such a loan certificate is called a debenture.

Debentures are offered to the public for subscription in the same way as for issue of equity shares. Debenture is issued under the common seal of the company acknowledging the receipt of money.

According to Section 2(30) of Companies Act 2013 "debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not; It is evident from the definition that the term debentures covers both secured and unsecured debentures.

Features of Debentures

The important features of debentures are as follows:

1. It is issued by the Company in the form of a certificate under the common seal.
2. Debenture holders are the creditors of the company
3. Debentures carry a fixed rate of interest.
4. Debenture is redeemed after a fixed period of time.
5. Debentures may be either secured or unsecured.
6. Interest payable on a debenture is a charge against profit and hence it is a tax deductible expenditure.
7. Debenture holders do not enjoy any voting right.
8. Interest on debenture is payable even if there is a loss.

Kinds of Debentures

Debentures are generally classified into different categories on the basis of:

(1) Convertibility of the Instrument

(2) Security of the Instrument

(3) Redemption ability

(4) Registration of Instrument

1. On the basis of convertibility, Debentures may be classified into following categories:

(i) **Non Convertible Debentures (NCD):** These instruments retain the debt character and cannot be converted into equity shares.

(ii) **Partly Convertible Debentures (PCD):** A part of these instruments are converted into Equity shares in the future at notice of the issuer. The issuer decides the ratio for conversion. This is normally decided at the time of subscription.

(iii) **Fully convertible Debentures (FCD):** These are fully convertible into Equity shares at the issuer's notice. The ratio of conversion is decided by the issuer. Upon conversion the investors enjoy the same status as ordinary shareholders of the company.

(iv) **Optionally Convertible Debentures (OCD):** The investor has the option to either convert these debentures into shares at a price decided by the issuer/agreed upon at the time of issue.

2. On the basis of Security, debentures are classified into:

(A) **Secured Debentures:** These instruments are secured by a charge on the fixed assets of the issuer company. So if the issuer fails on payment of either the principal or interest amount, such fixed assets can be sold to repay the liability to the investors.

(B) **Unsecured Debentures:** These instrument are unsecured in the sense that if the issuer defaults on payment of the interest or principal amount, the investor has to be included as unsecured creditors of the company.

3. On the basis of Redeemability, debentures are classified into:

(A) **Redeemable Debentures:** It refers to the debentures which are issued with a condition that the debentures will be redeemed at a fixed date or upon demand, or after notice, or under a system of periodical drawings. Debentures are generally redeemable and on redemption these can be reissued or cancelled.

(B) **Perpetual or Irredeemable Debentures:** A Debenture, in which no specific time is specified by the companies to pay back the money, is called an irredeemable debenture. The debenture holder cannot demand repayment as long as the company is a going concern. Issuing company has to pay interest periodically. But all debentures, whether redeemable or irredeemable become payable on the company going into liquidation. However, after the commencement of the Companies Act, 2013, now a company cannot issue perpetual or irredeemable debentures.

4. On the basis of Registration, debentures may be classified as

(A) **A Registered Debentures:** Registered debentures are issued in the name of a particular person, whose name appears on the debenture certificate and who is registered by the company as holder on the Register of debenture holders.

(B) **Bearer debentures:** Bearer debentures on the other hand, are issued to bearer, and are negotiable instruments, and so transferable by mere delivery like share warrants.

26.10 Distinction Between Debentures and Shares

S. No	DEBENTURES	SHARES
1.	Debentures constitute a loan.	Shares are part of the capital of a company.
2.	Middle and Lower Level	Top level
3.	Debenture holder gets fixed rate of Interest which carries a priorities over dividend.	Shareholders gets dividends with a varying rate.
4.	Debentures generally have a charge on the assets of the company.	Shares do not carry any such charge.
5.	Debentures can be issued at a discount without restrictions.	Shares cannot be issued at a discount.
6.	The rate of interest is fixed in the case of debentures	Whereas on equity shares, the dividend varies from year to year depending upon the profit of the company and the Board of directors decision to declare dividends or not.
7.	Debenture holders do not have any voting right	Shareholders enjoy voting right.
8.	Interest on debenture is payable even if there are no profits i.e. even out of capital.	Dividend can be paid to shareholders only out of the profits of the company and not otherwise.
9.	Interest paid on debenture is a business expenditure and allowable deduction from profits.	Dividend is not allowable deduction as business expenditure.
10.	Return of allotment is not required for allotment of debentures.	Return of allotment in e-Form No. 2 is to be filed for allotment of shares.

DO YOU KNOW?

Navratnas Companies

1. Bharat Electronics Limited (BEL)
2. Container Corporation of India (CONCOR)
3. Engineers India Limited (EIL)
4. Hindustan Aeronautics Limited (HAL)
5. Hindustan Petroleum Corporation Limited (HPCL)
6. Mahanagar Telephone Nigam Limited (MTNL)
7. National Aluminium Company (NALCO)
8. National Buildings Construction Corporation (NBCC)
9. National Mineral Development Corporation (NMDC)
10. Neyveli Lignite Corporation Limited (NLCIL)
11. Oil India Limited (OIL)
12. Power Finance Corporation
13. Power Grid Corporation of India Limited
14. Rashtriya Ispat Nigam Limited
15. Rural Electrification Corporation
16. Shipping Corporation of India (SCI)

Do You Know? Maharatnas Companies

1. National Thermal Power Corporation (NTPC)
2. Oil and Natural Gas Corporation (ONGC)
3. Steel Authority of India Limited (SAIL)
4. Bharat Heavy Electricals Limited (BHEL)
5. Indian Oil Corporation Limited (IOCL)
6. Coal India Limited (CIL)
7. Gas Authority of India Limited (GAIL)
8. Bharat Petroleum Corporation Limited (BPCL)

Do You Know? How to propose the Name for a Company

1. Plural version of any of the words appearing in the name of an existing company is not allowed.

   Example: Suppose a company exists in the name of "Eswar equipment Private Limited Company", then the name of "Eswar equipments Private Limited Company" will not be proposed.

   Similarly, The following changes in existing company name is also not allowed
2. Changes in Type, Letter Case, Spacing or Punctuation marks
3. Joining words or separating words before or after the company name
4. Different tense or number of the same word
5. Different phonetic spellings or spelling variations
6. Intentionally misspelled words
7. Addition of internet related designation
8. Addition of common names or titles
9. Addition of name of place
10. Different combination of the same words
11. Translation of a word

Key Words

One Person company (OPC)	Promoter
Misrepresentation of facts	Incorporation
Share and Share Capital	Shares
Sweat Equity Shares	Bonus Shares
Right Shares	Share Certificate

Exercise

UDLR4E

I. Choose the Correct Answers:

1. **The Company will have to issue the notice of situation of Registered Office to the Registrar of Companies within _____ days from the date of incorporation.**

   (a) 14 days (b) 21 days
   (c) 30 Days (d) 60 Days

2. **How does a person who envisages the idea to form a company called?**

   (a) Director (b) Company Secretary
   (c) Registrar (d) Promoter

3. **Which of the following types of shares are issued by a company to raise capital from the existing shareholders?**

   (a) Equity Shares (b) Rights Shares
   (c) Preference Shares (d) Bonus Shares

4. **The shares which are offered to the existing shareholder at free of cost is known as ___________.**

   (a) Bonus Share (b) Equity Share
   (c) Right Share (d) Preference Share

5. **The shares which are offered first to the existing shareholder at reduced price is known as ______________.**

   (a) Bonus Share (b) Equity Share

   (c) Right Share (d) Preference Share

Answers:

1	c	2	d	3	b	4	a	5	c

II. Very Short Answer Questions:

1. What are the four stages of formation of a company?
2. What is Bonus Shares?
3. What is Right Shares?
4. What is Debentures?

III. Short Answer Questions:

1. What do you understand by Issue of Securities at Premium?
2. Explain different kinds of Preference shares. (any 3)

IV. Long Answer Questions:

1. Write the differences between Shares and Debentures. (any 5)
2. What are the various kinds of Debentures? (any 5)

UNIT 10

COMPANY LAW AND SECRETARIAL PRACTICE

27

CHAPTER

COMPANY MANAGEMENT

முறைசெய்து காப்பாற்றும் மன்னவன் மக்கட்கு
இறையென்று வைக்கப் படும்.

–குறள் 388

COUPLET

That king, will be esteemed a God among men, who performs his own duties, and protects (his subjects).

UT5L5Q

Learning Objectives

To enable the students to understand the

- The concept of Company Management
- The meaning of Director and Qualification of Director
- Concept of Board of Director, legal position of Directors
- Removal of director from a company
- Other Managerial personnel involved in the Company Management.

Chapter Synopsis

27.01 Introduction, Meaning and Definition of Director

27.02 Key – Managerial Personnel of a Company

27.03 Board of Directors

27.04 Types of Directors as per Companies Act 2013

27.05 Number of Directors

27.06 Legal position / Status of Director

27.07 Appointment of Director

27.08 Qualification of Director

27.09 Disqualification of Director

27.10 Removal of Director

27.11 Remuneration of Director

27.12 Power of Director

27.13 Rights of Director

27.14 Duties of Director

27.15 Liabilities of Director

27.16 Directorial Register

27.17 Manager Vs Director

27.18 Managing Director Vs Whole time Director

INTRODUCTION

The concept and nature of Company was explained in the previous lesson. It has a endless life span and the life of the company is not affected due to changes in the members i.e any member may come and go but the company lives till its death according to the provisions of the Act. In this lesson, how this artificial person is managed is discussed. It is managed by a group of human beings.

The group of human beings who undertake the responsibility to run the business of the company are known as Board of Directors and the members of the Board individually called as Director. The Directors play a vital role in the functioning of the company by controlling, guiding, directing and managing the affairs of the company. The overall performance of any company is vested with the directors. So they are responsible for it. The every person in the Board individually or collectively is responsible for achieving the objectives prescribed in the Memorandum of Association of the Company. The appointment of Directors and their qualifications are specified in the Companies Act 2013 Chapter XI.

In the Company Management, Board of directors gets nucleus position and their selection is according to the procedure prescribed lay down in the Act and the Articles of Association.

Since the Success of any company depends on the efficient functioning of its Directors, they can be called as eyes, ears, brain, hands, nerves and other essential parts of a company. The directors formulate policies and establish organizational set up for implementing those policies, in order to achieve the objectives contained in the Memorandum of association of the company.

27.01 Meaning and Definition of Directors

The person one who takes active interest in the well being of a company and one of the Members of Board of Directors is called as Director of a company. A Director is a person from a Board of Directors who leads or supervises the functioning of a company.

The Companies Act 2013 section 2 (34) defines a director appointed to the board of a Company is

"A Person who is appointed or elected member of the Board of Directors of a company and has the responsibility of determining and implementing policies along with others in the board. It is not necessary to, hold any shares in the company or be an employee. Directors act on the basis of resolutions made in the Board of Directors meeting according to their powers stated in the Articles of Association of the company."

Minimum/Maximum Number of Directors in a Company- Section 149(1) Section 149(1) of the Companies Act, 2013 requires that every company shall have a minimum number of 3 directors in the case of a public company, two directors in the case of a private company, and one director in the case of a One Person Company. A company can appoint maximum 15 fifteen directors. A company may appoint more than fifteen directors after passing a special resolution in general meeting and approval of Central Government is not required.

A period of one year has been provided to enable the companies existing on or before the commencement of Companies Act, 2013 to comply with this requirement.

General duties are not mentioned in the Companies Act and therefore are not obligatory for the directors to perform. Some of them are mentioned below:

To act in good faith: The directors are expected to act in good faith i.e. they should always act in the best interest of the company. The directors should not make any secret profits.

To act with utmost care: The directors should conduct their work with utmost care. They should act with prudence.

Not to delegate work: The directors are supposed to perform all their work by themselves. They are not expected to delegate their work to anyone else.

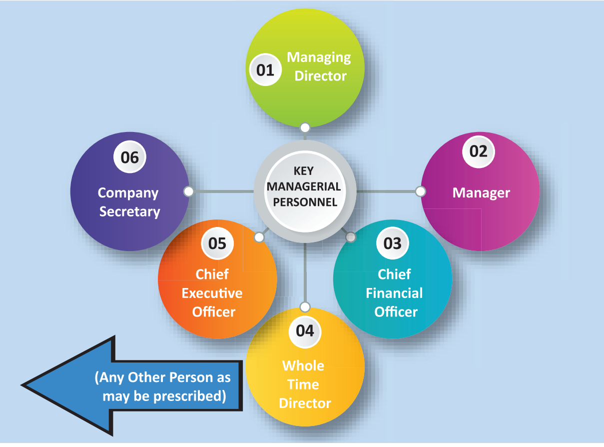
However in the following cases the directors may choose to delegate the work to someone else:

If it is permitted in the Companies Act or in the Articles of Association.

If the directors cannot perform certain work that demands specialized expertise, such work can be delegated in such a case.

27.02 Key- Managerial Personnel of a Company

Companies Act, 2013 (Act) has introduced many new concepts and Key Managerial Personnel (KMP) is one of them. KMP covers the traditional roles of managing director and whole time director and also includes some functional heads like Chief Financial Officer and Chief Executive Officer and Company Secretary.



WHO ARE THE KEY MANAGERIAL PERSONNEL ?

The definition of the term Key Managerial Personnel is contained in Section 2(51) of the Companies Act, 2013. This Section states:

(i) the Chief Executive Officer

(ii) the Managing Director or the Manager;

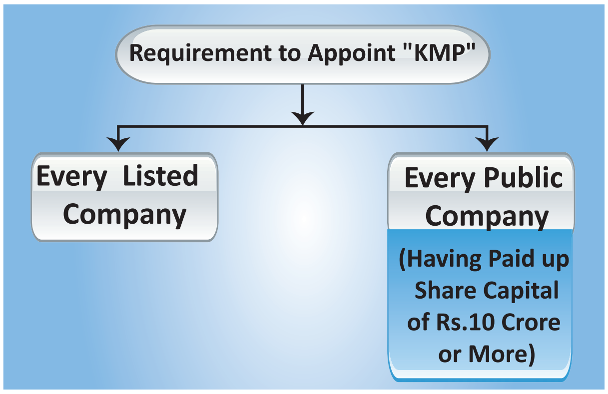
(iii) the Company Secretary;

(iv) the Whole-time Director;

(v) the Chief Financial Officer; and

(vi) such other officer as may be prescribed;

Following Companies are required to appoint KMP



27.03 Board of Directors

The Governing body of a Company incorporated under Companies Act called Board. It is a group of individuals called directors, elected to represent the views of shareholders of a public limited company and to manage the company affairs by establishing policies and implementing them to achieve the goal. They are empowered to take decisions on the major issues to lead the company in the right way. In General the Board is empowered to

(i) Set the Policies

(ii) Restructure the objectives

(iii) Evaluate the performance of Managing Director and Senior Executives.

(iv) Exercise overall Direction

(v) Adopt bylaws

(vi) Determine and pay the dividend

(vii) Issue additional shares.

In General, the Board is responsible for assisting the company in setting broad goals, supporting the management, ensuring the adequate resources available in the company and its utilisation.

COMPOSITION OF THE BOARD OF DIRECTORS:

a) General Optimum Combination:

Board of Directors shall have an optimum combination of executive and non-executive directors with at least one woman director and not less than fifty percent of the board of directors shall comprise of non-executive directors.

b) **When the non-executive Director is the Chairperson:**

In this case, at least one-third of the board of directors shall comprise of independent directors and where the company does not have a regular non-executive chairperson, at least half of the board of directors shall comprise independent directors.

c) **when the non-executive chairperson is a promoter or is related to any promoter or person occupying management positions at the level of board of director or at one level below the Board of Directors:**

In this case, at least one half of the board of directors of the company shall consist of Independent Directors (ID).

A director is appointed to the Board of a Company. Such Directors have a different role to play to attain the goal of the company. According to their role they are differently classified in accordance with the provision of the Companies Act 2013.

Whole Time Director: A Director is one who devotes whole of his time of working hours to the company and has a significant personal interest in the company as the source of his income.

Managing Director: A Director is one who is employed by the company and has substantial powers of management over the affairs of the company subject to superintendence, direction and control of the board.

Executive Director

An executive director is a **Chief Executive Officer** (CEO) or Managing Director of an organization, company, or corporation, who is responsible for making decisions to complete the mission and for the success of the organisation. In the globalised business world the title of President or of Chief Executive Officer is used instead of Managing Director.

Non - Executive Director

A non-executive director typically does not engage in the day-to-day management of the organization, but is involved in policy making and planning exercises. In addition, non-executive directors' responsibilities include the monitoring of the executive directors and acting in the interest of the company stakeholders.

Difference Between Executive and Non-Executive Director

An Executive Director can be either a whole-time Director of the Company or a Managing Director. But a Non- Executive Director is a Director who is neither a Whole-time Director nor a Managing Director.

27.04 Types of Directors as per Companies Act 2013

1. Residential Director: – According to Section 149(3) of Companies Act 2013, Every company should appoint a director who has stayed in India for a total Period of not less than 182 days in the previous calendar year.

2. Independent Director: According to Section 149(6) an independent director is an alternate director other than a Managing Director who is known as Whole Time Director Or Nominee Director. The following type of companies has to appoint minimum Two independent directors:-

a) Public Companies which have Paid-up Share Capital- ₹10 Crores or More; –

b) Public Companies which have Turnover- ₹100 Crores or More:-

c) Public Companies which have total outstanding loans, debenture, and deposits of ₹50 Crores or More.

3. Small Shareholders Directors: Small shareholders can appoint a single director in a listed company. But this action needs a proper procedure like handing over a notice to at least 1,000 Shareholders or 1/10th of the total shareholders.

4. Nominee Director: "A director nominated by any financial Institution in pursuance of the provisions of any law for the time being in force, or of any agreement, or appointed by any Government , or any other person to represent its interests".

From the above,

a) should be nominated by any financial Institution in pursuance of any law or in terms of an agreement entered into by the company

b) could be appointed by the Government or by any other person.

c) The person so appointed shall represent the interests of the organization /Institution which he represents.

5. Women Director: As per Section 149 (1) (a), there are certain categories according to which there should be at least one woman as a director on the Board. The following class of companies shall appoint at least one woman director

(i) every listed company;

(ii) every other public company having:

(a) paid–up share capital of one hundred crore rupees or more; or

(b) turnover of three hundred crore rupees or more.

6. Additional Directors: Any Individual can be appointed as Additional Directors by a company.

7. Alternate Directors: Alternate director is appointed by the Board of Directors, as a substitute to a director who may be absent from India, for a period which is not less than three months. The appointment must be authorised either by the Articles of Association of the company or by a passing a resolution in the General Meeting. The alternative director is not a representative or agent of Original Director.

8. Shadow Director: A person who is not the member of Board but has some power to run it can be appointed as the director but according to his/her wish.

27.05 Number of Directors Required

Under section 149 (1) of the Companies Act, 2013 states that the requirement of Minimum/ Maximum Number of Directors in a Company

Minimum Number of Directors

a) Public Company: Every Public company shall have a minimum number of 3 directors and

b) Private company

In case of One Person Company: The requirement of directors is one.

Other Private Companies: The minimum requirement of Directors is two.

Maximum Number of Directors:

A company can appoint maximum 15 fifteen directors out of which one must be resident of India and after passing special resolution in general meeting, the company can appoint more than fifteen directors, for which the approval of Central Government is not required.

Number of directorships:

Under Section 165 of the Companies Act 2013 A person can hold the position of Directorship in different companies up to maximum of 20. The number of directorships in public companies/ private companies that are either holding or subsidiary company of a public company shall be limited to 10. Further the members of a company may restrict above mentioned limit by passing a special resolution.

If a person holds Directorship in more than the limit specified above he/she has to resign the excess, according to his / her choice.

If a person accepts an appointment as a director in excess of above mentioned limit is punishable with a fine of not less than Rs. 5,000 but which may extend to Rs. 25,000 for every day after the first day for the period of Directorship hold by the person.

27.06 Legal Position of Director

Directors are the persons duly appointed by the Company to lead and manage its affairs and their legal position. At times they have to act as agents, managing partner, trustees, Employee, and Officer.

Directors as Agents: A company as an artificial person, acts through directors who are elected representatives of the shareholders and who execute decision made for the benefit of shareholders. Hence directors share a relationship of an agent and a principal with the company.

Example 1: XYZ is Chennai based private limited Company which has two directors, Agi and Logu. The company wants to start its business operation in state of Karnataka and for that they need an office accommodation. Agi goes to Karnataka and buys a property in Bangalore to house the office. Although the purchase has been made by Agi the property belongs to the company. Agi has just acted as an agent of the company.

Directors are appointed to lead the company in relation to third parties. They can enjoy the rights and privileges of an agent. There is no personal liability on any contracts entered by them, if it is within the powers stated in the memorandum and articles of the company. If it is not so they have personal liability.

It is also considered that directors are not a full fledged agents of the company because they are elected person but agents are appointed persons.

Directors as Managing Partners

The management of company is vested in the hands of many executives. So, the directors are virtuals managing partners and the Directors elected by shareholders are like partners to the shareholders. However, substantial powers may be entrusted with the directors or to an outsider, such a person has to act under the superintendence, control and direction of the board of Directors. Therefore, unlike in a partnership firm, no power can be delegated to a single director as a managing partner.

Example 2: The same company due to negligence of its Directors fails to pay sales tax to the government. The government files a case against the directors for the recovery of tax payable by the company. As the fault is that of the directors, they are personally liable for the payment of the taxes.

Directors as trustees

Directors are trustees of the company's money and property and they have to safeguard them and use them for the sake of the company and on behalf of the company. According to Law of trust, the equitable ownership of the trust property is vested with the beneficiary only, Hence directors cannot act as a full-fledged trustee.

Example 3: Eswar Company has two directors Deepa and Mani. The directors issue 1,000 shares to the public and receive Rs.100 each per share from the shareholders as share application, share allotment and share first call money. However they themselves do not pay Rs.100 for each of the shares taken by them. This amounts to breach of trust and hence they are required to pay Rs.100 each for the shares held by them.

Directors as employees

Directors are professionals who manage the company for the benefit of themselves and for the benefit of the shareholders. However, if a director accepts employment in the same company under a separate contract of service, then, in addition to the directorship, he is also treated as an employee or servant of the company. In other words, when the director is appointed as whole time employee of the company, then that particular director shall be considered as employee director or whole time director.

Example 4: Gunalan is a director of a company who has also taken an extra charge to act as a manager of the company. But as per the contract of service as a manager he is entitled to receive a remuneration. Hence he is a director who also happens to be an employee of the company.

Directors as officers

"**Officer**" includes any director, manager or key managerial personnel or any person in accordance with the directions or instructions the Board of Directors or any one or more of the directors who is or are accustomed to act. Therefore Director is treated as officers of an company. Sometimes, they may be also liable for punishments in form of penalties, under Companies Act, when the provisions of the Act are not strictly complied with.

27.07 Appointment of Directors under Companies Act 2013 - Section 152

Generally, in a public company or a private company subsidiary of a public company, two-thirds of the total numbers of Directors are appointed by the shareholders and the remaining one-third's appointment is made as per Articles and failing which, shareholders shall appoint the remaining one-third.

In a private company, which is not a subsidiary of a public company, the Articles can prescribe the manner of appointment of any or all the Directors. In case the Articles are silent, the Directors must be appointed by the shareholders.

Any company which wants to follow the principle of Proportional representation, the Companies Act also permits the Articles to provide for the appointment of two-thirds of the Directors accordingly.

Nominee Directors can be appointed by a third party or by the Central Government in the event of oppression or mismanagement.

General provisions relating to appointment of directors

1. Every director should be appointed by the company in general meeting as per the provision of the Act.
2. Director Identification Number is compulsory for appointment of director of a company.
3. Every person proposed to be appointed as a director shall furnish his Director Identification Number and a declaration that he is not disqualified to become a director under the Act.
4. A person appointed as a director should give his consent to hold the office of director in physical form on or before his appointment i.e., Consent to act as a director of a company.

5. Company should file Form with the Registrar of Companies mentioning particulars of appointment of directors and Key Managerial Persons along with the Consent form signed by Directors, as an attachment within 30 days of the appointment of a director with necessary fee.
6. Articles of the Company may provide the provisions relating to retirement of the all directors. If such provision relating to retirement are not made in the articles. Provision in the Act will be applicable.

First Director

"First directors" mean those directors who hold office from the date of incorporation of the company. The first directors are usually named in the articles of association or are appointed by the directors.

In the case of a One Person Company, an individual being a member shall be deemed to be its first director until the director(s) are duly appointed by the member in accordance with the provisions of Section 152.

27.08 Qualifications of Director

As regards to the qualification of directors, there is no direct provision in the Companies Act, 2013. In general, a director shall possess appropriate skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, technical operations or other disciplines related to the company's business. According to the different provisions relating to the directors; the following qualifications may be mentioned:

1. A director must be a person of sound mind.
2. A director must hold share qualification, if the article of association provides such.
3. A director must be an individual.
4. A director should be a solvent person.
5. A director should not be convicted by the Court for any offence, etc.

27.09 Disqualifications of a director

Section 164 of Companies Act, 2013, has mentioned the disqualification as mentioned below:

a) A person shall not be capable of being appointed director of a company, if the director is
   - (a) Of unsound mind
   - (b) An undercharged insolvent;
   - (c) Has been convicted by a court for any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months
   - (d) Has not paid any call in respect of shares of the company held by him, whether alone or jointly with others.
   - (e) An order disqualifying him for appointment as director has been passed by a court in pursuance of section 203
   - (f) He has been convicted of the offence dealing with related party transactions under section 188.
   - (g) He has not got the Director Identification Number.

27.10 Removal of Director

A Director of Company can be removed from his Office before the expiry of his term by

a) the Shareholders
b) the Central Government
c) the Company Law Board

A director can be removed from his office in any of the following three ways:

a) Removal by shareholders 169

A company (whether public or private) may, by giving a special notice and passing an ordinary resolution, remove a director before the expiry of his period of office without the proof of mismanagement, breach of trust, misfeasance or other misconduct on the part of the director. If the shareholders feel that the policies pursued by the director are not appropriate, then director can be removed. The shareholders can do so by passing an ordinary resolution in a general meeting.

b) Removal by the Central Government

The Central Government has been empowered to remove managerial personnel from office on the recommendation of the Company Law Board under the following circumstances.

(i) Where a person concerned in the conduct and management of the affairs of a company has been guilty of fraud, misfeasance, persistent negligence in carrying out his obligations.

(ii) Where the business of a company has not been conducted and managed by such a person, in accordance with sound business principles or prudent commercial practices;

(iii) Where the business of a company has been conducted and managed by such a person in a manner which is likely to cause injury or damage to the interest of the trade, industry or business.

(iv) Where the business of the company has been conducted and managed by such a person with the intent to defraud its creditors, members or any other persons.

c) Removal by the Company Law Board

If an application has been made to the Company Law Board against the oppression and mismanagement of the company's affairs by a director, then the Company Law Board may order for the termination of the director's tenure or set aside any agreement that has been entered into between the company and the director. Such order can effect the removal of the director from his office.

27.11 Remuneration of Director

Managerial Persons covered are Managing Director, Whole-time Director, Part time Directors and managers who shall be paid remuneration in accordance with provisions of Section 197 of the Companies Act, 2013.

Managerial Remuneration

The Managerial remuneration is payable to a person's appointed u/s 196 of the Act. The Term remuneration means any money or its equivalent given or passed to any person for services rendered by him and includes perquisites.

1. Value of rent-free or concession accommodation
2. Value any other items provided at free of cost or at concessional rate. .
3. value of securities / sweat equity shares allotted or transferred by the employer or former employer to the employee.
4. a contribution made by an employer to an approved superannuation fund.
5. Value of any other fringe benefit or amenity.
6. Stock options would be part of remuneration for all directors.

Forms of Managerial Remuneration

1. Based on Profit of the company
2. Based on Shareholders' recommendations
3. Based on Shareholders' and Central Government recommendations.

Remuneration Allowed to Managerial Person in case of Company's having adequate profits:

A Public Company can pay remuneration to its directors including Managing Director and Whole-time Directors, and its managers which shall not exceed 11% of the net profit and it may also be noted, when a Company has only one Managing Director or Whole-time Director or manager the remuneration payable shall not exceed 5% of net profits if it is more than one 11% as calculated in a manner laid down in section 198 of the Companies Act, 2013.

Remuneration Payable by a company in case where is no profit or inadequacy of profit without Central Government and to pay remuneration in excess of the above limit is detailed below:

Where Effective Capital is	Limit of yearly Remuneration payable shall not exceed (Rupees)
(i) Negative or less than ₹5 Crore	₹30 lakh
(ii) ₹5 Crore and above but less than ₹100 Crore	₹42 lakh
(iii) ₹100 Crores and above but less than ₹250 Crore	₹60 lakh
(iv) ₹250 Crore and above	₹60 lakh plus 9.91% of the effective capital in excess of ₹250 Crore.

27.12 Powers of Director

Directors should have a vision to frame policies to achieve high level of performance. To achieve high level of performance, they must set the goals of the company. They must have powers to carry on objectives of the company. The power of the Directors grouped into four different heads viz.,

(i) Statutory Powers of Directors
(ii) Managerial Powers of Directors
(iii) Powers only with a resolution
(iv) Other Powers

Statutory Powers of Directors

In the General Body Meeting of the Company the following powers must be exercised by the Board of Directors by passing a resolution.

(i) Power to make calls on shareholders in respect of money unpaid on their shares
(ii) Power to issue debentures
(iii) Power to borrow moneys otherwise than on debentures
(iv) Power to invest the funds of the company
(v) Power to make loans
(vi) Power to diversify the company business
(vii) Power to approve amalgamation, Merger or reconstruction
(viii) Power to approve Financial Statement and Board reports.

Managerial Powers of Directors

(i) Power to contract with the third party.
(ii) Power to allot, forfeit or transfer shares of company
(iii) Power to decide the terms and conditions to issue debentures.
(iv) Power to frame new policies and to issue instructions for the efficient running of the business.
(v) power to appoint Managing Director, Manager, Secretary of the company.
(vi) power of Control and supervision of work of subordinates.

Powers only with a resolution

(i) To sell or lease any asset of the company
(ii) To allow time to the director for repayment of the loan
(iii) To borrow money in excess of paid up Capital and free reserves
(iv) To appoint a sole agent for more than 5 years.

(v) To issue bonus shares and for reorganization of share capital

(vi) To contribute money for charitable purposes exceeding ₹50,000 or 5% of the average profits of 3 years whichever is greater.

Other Powers

(i) Power to fill casual vacancy

(ii) Power to appoint the first auditor of the company

(iii) Power to appoint alternative directors, additional directors and Key managerial personnel.

(iv) Power to remove Key managerial personnel

(v) Power to recommend the Interim and final dividend to shareholders.

(vi) Power to declare solvency position of the company.

(vii) Power to make political contribution

27.13 Rights of Director

Rights can be categorized into individual rights and collective rights.

Individual rights are such as

(i) Right to inspect books of accounts

(ii) Right to receive notices of board meetings

(iii) Right to participate in proceedings and cast vote in favour or against resolutions

(iv) Right to receive circular resolutions proposed to be passed

(v) Right to inspect minutes of board meetings.

Collective rights are as follows

(i) **Right to refuse to transfer shares:** Directors of private companies and deemed public companies are entitled to refuse registration of transfer of shares to a person whom they do not approve.

(ii) **Right to elect a Chairman:** The directors are entitled to elect a chairman for the board meetings.

(iii) **Right to appoint a Managing director:** The Board has the right to appoint the managing director/ manager of the company.

(iv) **Right to recommend dividend:** The Board is entitled to decide whether dividend is to be paid or not. Shareholders cannot compel the directors to pay dividend. However they can reduce the rate of recommended dividend. Payment of dividend is the prerogative of the board

27.14 Duties of Director

Directors act as agents of the shareholders and act as a trustees of shareholders. Thus they have a fiduciary duty to protect the property of the company. Simply stated the following are the duties of Directors.

Collective Duties of Directors: Directors as a part of Board perform certain duties collectively. The following are some of those duties exercised collectively:-

(i) Approval of annual accounts and authentication of annual accounts

(ii) Directors report to shareholders highlighting performance of the company, transfers to reserves, investment of surplus funds, borrowings

(iii) Appointment of First Auditors

(iv) Issuance of Notice and Holding of Board meetings and shareholders meetings

(v) Passing of resolutions at board meetings or by circulation.

General duties of Directors:

(i) Structuring or new policy to reach the objectives of a company.

(ii) Delegating power to any committee if the Articles Permits for well being of the company

(iii) Issuing instructions to employees for implementation of policy to review company's progress.
(iv) Appointing their subordinates like Managing director, Manager, Secretary and other employees.
(v) Acting in accordance with the Articles of the company
(vi) Act in Good faith in order to promote the objects of the company
(vii) Perform duties with due and reasonable care and diligence.

Specific Duties of Directors

(i) Duty to disclose his name, address and occupation
(ii) Duty to disclose his shareholding and interest in Contracts of the company.
(iii) Duty to hold minimum qualification shares within two months after his appointment.
(iv) Duty to issue prospectus and fix the minimum subscription.
(v) Duty to take care that prospectus should not contain any false or misleading statement.
(vi) Duty to confirm the required disclosure in the prospectus as required by the Act.
(vii) Duty to sign in the prospectus before submitting it to the Registrar of Companies
(viii) Duty to deposit application money in a scheduled Bank and its utilisation in accordance with the specification given in the Act.
(ix) Duty to file Return of Allotment of Securities with the Registrar.
(x) Duty to arrange for making payment of Dividend declared.
(xi) Duty to forfeit and transfer shares.
(xii) Duty to file all the reports and resolutions as required by the Act with the Registrar of Companies.
(xiii) Duty to carry out all other activities as specified in the Act in time.
(xiv) Duty to call on an Extraordinary General Body Meeting, if necessary.
(xv) Duty to call statutory and annual general meeting of the company

27.15 Liabilities of director

The liabilities of directors may be discussed under three heads:

1. Liability to outsiders:

The directors are not personally liable to outsiders if they act within the scope of powers vested in them. The general rule in this regard in that wherever an agent is liable, those directors would be liable, but where the liability would attach to the principal only, the liability is the liability of the company. The directors are personally liable to third parties of contracts in the following cases:

a. They contract with outsiders in their personal capacity
b. They contract as agents of an undisclosed principal
c. They enter into a contract on behalf of a prospective company.
d. When the contract is ultra-vires the company.

In default of statutory duties, the directors shall be personally liable to third parties in the following cases:

1. Mis-statement in prospectus.
2. Irregular allotment.
3. Failure to repay application money if the minimum subscription is not received.
4. Failure to repay application money if allotment of shares and debentures is not dealt in on the stock exchange as specified in the prospectus.

2. Liability to company

The directors shall be liable to the company for in the following cases:

(a) Where they have acted ultra-vires the company

For example, where they apply the funds of the company to objects not specified in the memorandum of association or when they pay dividends out of capital.

(b) Where there is a breach of trust

Directors being the trustees of the company, they should discharge their duties in the best interest of the company; Where they commit a breach of trust resulting in a loss to the company, they are bound to make good the loss. For example, where the directors of the companies utilise company's property for their own benefit, they are guilty of breach of trust.

(c) Misfeasance

Directors are liable to the company for misfeasance. The word misfeasance covers willful negligence. However mere failure on the part of the director to take necessary steps for recovery of debts due to the company does not constitute misfeasance.

3. Criminal liabilities of directors:

Directors will be liable with a fine and imprisonment or both for fraud of non-compliance of any statutory provisions in the following situations where

(i) There is mis-statement in Prospectus

(ii) There is failure to file return on allotment with the registrar

(iii) There is failure to give notice to the registrar for conversion of share into stock

(iv) There is failue to issue share Certificate and Debenture certificate

(v) There is failure to maintain register of the members and register of debenture holders

(vi) There is default in holding Annual General Meeting

(vii) There is failure to provide Financial Statements

27.16 Directorial Register or Register of directors and KMPs (Rule 17)

In corporate law, the **directors register** refers to a list of the **directors** elected by the shareholders, generally recorded in the company's minute book. By law, companies are required to keep this list up to date to remove those directors who are deceased or resign, and to add those who have been elected by the shareholders.

(1) Every company shall keep at its registered office a register of its directors and key managerial personnel containing the following particulars, namely:—

(i) Director Identification Number (optional for key managerial personnel);

(ii) present name and surname in full;

(iii) any former name or surname in full;

(iv) father's name, mother's name and spouse's name(if married) and surnames in full;

(v) date of birth;

(vi) residential address (present as well as permanent);

(vii) nationality (including the nationality of origin, if different);

(viii) occupation;

(ix) date of the board resolution in which the appointment was made;

(x) date of appointment and reappointment in the company;

(xi) date of cessation of office and reasons therefor;

(xii) office of director or key managerial personnel held or relinquished in any other body corporate;

(xiii) membership number of the Institute of Company Secretaries of India in case of Company Secretary, if applicable; and

(xiv) Permanent Account Number (mandatory for key managerial personnel if not having DIN);

(2) In addition to the details of the directors or KMPs, the company shall also include in the aforesaid Register the details of securities held by them in the company, its holding company, subsidiaries, subsidiaries of the company's holding company and associate companies relating to—

(i) the number, description and nominal value of securities;

(ii) the date of acquisition and the price or other consideration paid;

(iii) date of disposal and price and other consideration received;

(iv) cumulative balance and number of securities held after each transaction;

(v) mode of acquisition of securities;

(vi) mode of holding – physical or in dematerialized form; and

(vii) whether securities have been pledged or any encumbrance has been created on the securities.

(3).Apart from the above the following Registers must be available in the company Registrar Office:

1. Register of loans, guarantee, security and acquisition made by the company
2. Register of investments not held in its own name by the company
3. Register of contracts with related party and contracts and Bodies etc. in which directors are interested
4. Register of directors and key managerial personnel
5. Register of details of securities held by Directors and Key Management Personnel
6. Register of members
7. Register of debenture holders/ other securities holders
8. Notice of situation or change of situation or discontinuation of situation, of place where foreign register shall be kept
9. Declaration by the registered owner of shares who does not hold the beneficial interest in such shares
10. Declaration by the beneficial owner who holds or acquires beneficial interest in shares but whose name is not entered in the register of members

27.17 Differences betweeen Manager Vs Director:

BASIS	MANAGER	DIRECTOR
Nature of work	A person who is in charge for the particular department of the Company and is responsible for the performance of that department is called as manager.	A person appointed by the shareholders to lead the company to achieve its goal is known as Director
Nature of work	A manager allocates works to the Subordinate according to their nature of appointment and decided by whom the particular job has to be done and provide necessary guidelines regarding what to do, when to do and how to do.	A director implements policies and provides fundamental guidelines to carry out a job to the concerned manager and direct them to work accordingly.

Level of management	A manager comes under executive level i.e at the Middle-level management	Directors comes under Top-level management and play important role in Decision making.
Responsibility	Managers are responsible for implementation of plans and policies approved by the Board of Directors	Directors responsible for formulation of plans and policies time to time to achieve the goal of the company.

27.18 Differences betweeen Managing Director Vs Whole time Director

Differentiate between managing director and whole-time directors of a company.

BASIS	MANAGING DIRECTOR	WHOLE-TIME DIRECTOR
Power	Managing Director is entrusted with substantial powers.	The Power is stated in the term of employment.
Prohibition	Section 197 Prohibits to act both a managing director and a manager simultaneously.	Sometimes a whole-time director may be appointed as manager and director of a company.
Appointment	Consent of the shareholders of the company by means of resolution is not necessarily for the appointment of managing director	Consent of shareholders of the company by a special resolution is must for the appointment of a whole- time director
Duration of Appointment	No individual can be appointed for more than five years at a time.	There is no such restriction regarding the appointment of a whole-time director.

DO YOU KNOW?

As the salary of an average Indian CEO at top listed private companies is doubling from Rs. 10 crore to Rs. 20 crore in just two years, it's bound to trigger interests as we hope for a legitimate raise in our paychecks this year. The analysis of CEOs salaries in top listed companies for FY 2015-16 shows that the average remuneration paid to the top executives was approximately Rs. 19 crore.

The payment includes their salary, commissions, allowances, value of all prerequisites and ESOPs **(Employee Stock Ownership Plans)** exercised during the year and all other benefits.

Key Words

Board of Directors Management Managers Managing Director Promoter

Wouldn't it be interesting to know who are these highest paid CEOs in India?

Name	Annual Salary in Crores	Company Name
M. Naik	Rs. 66.14	L&T
Vishal Sikka	Rs. 48.73	Infosys
Desh Bandhu Gupta	Rs. 44.80	Lupin Ltd.,
Chandrasekaran	Rs. 25.60	TCS
Rahul Bajaj	Rs. 22.32	Bajaj Group
Yogesh Chander Deveshwar	Rs. 15.15	ITC Ltd.,
Mukesh Ambani	Rs. 15.00	RIL,
Sanjiv Mehta	Rs. 13.87	Hindustan Unilever Ltd.,
Abidali Neemuchwala	Rs. 11.96	Wipro
Gopal Vittal	Rs. 10.40	Bharti Airtel

Exercise

VMXF6Q

I. Choose the Correct Answer:

1. A person Shall hold office as a director in _________ companies as per the Companies Act, 2013.

(a) 5 companies (b) 10 companies

(c) 20 companies (d) 15 companies

2. A Private Company shall have a minimum of _________.

(a) Seven directors (b) Five directors

(c) Three directors (d) Two directors

3. A Public Company having a paid up Share Capital of Rs. ____________ or more may have a Director, elected by such small shareholders.

(a) One crore (b) Three crores

(c) Five crores (d) Seven crores

4. What is the statue of Directors who regulate money of the company.

(a) Banker (b) Holder

(c) Agent (d) Trustees

5. According to Companies Act, the Directors must be appointed by the.

(a) Central Government

(b) Company Law Tribunal

(c) Company in General Meeting

(d) Board of Directors.

Answers:

1	c	2	d	3	c	4	d	5	c

II. Very Short Answer Questions:

1. Name the companies required to appoint KMP.
2. Who is whole time Director?
3. Who is called as Managing Director?
4. Who can be Executive Director?

III. Short Answer Questions:

1. When are alternative directors appointed ?
2. Who is a shadow director?
3. State the minimum number of Directors for a Private company.

IV. Long Answer Questions:

1. Who are the KMP?
2. Brief different types of Directors. (5)
3. State the qualification of Directors.

UNIT 10

COMPANY LAW AND SECRETARIAL PRACTICE

28 CHAPTER

COMPANY SECRETARY

அறனறிந்து ஆன்றமைந்த சொல்லான்எஞ் ஞான்றுந்
திறனறிந்தான் தேர்ச்சித் துணை.

– குறள் 635

COUPLET

He is the best helper (of the king) who understanding the duties, of the latter, is by his special learning, able to tender the fullest advice, and at all times conversant with the best method (of performing actions).

W3GA82

Learning Objectives

To enable the students to understand the

- Meaning and Definition of company secretary
- Qualifications of the Secretary
- Appointment and Dismissal
- Functions of Company secretary
- Rights and L iabilities
- Company Meetings –Meaning and Types
- Resolutions – Meaning and Types
- Voting – Meaning and Methods

Chapter Synopsis

28.01 Company Secretary

A company is an artificial being, though a company is a legal entity; it has no physical personality such as neither a mind nor body of its own. Though not visible, company having an image or appearance exists only with its rules and by laws. Any company cannot act by itself; it needs one or group of people to operate it. Besides operating the company there are numbers of functions holding responsibility and need to take care such as directing the work force towards productivity, managing the smooth functioning, supervising the overall performance of the company. The person who is responsible for the general performance of an organization is called company secretary. The Key Managerial Personnel (KMP) who run a company is called with different titles viz, directors, managers, or secretary.

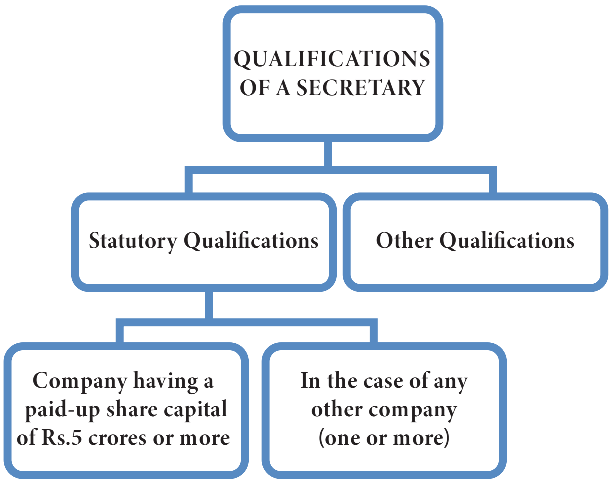
The word secretary has originated in Latin. The Latin word 'Secretarius' which means secret. As we know secret refers to something, which is not disclosed and kept as confidential. Some Information should be kept very confidential in all the companies. Hence, a person is appointed to perform activities which are confidential in nature and manage the day-to-day business of the company. The person who steers the company holding the administrative, financial, and overall performance of the company is called company secretary.

According to Section 2(24) of the Companies Act, 2013 defines "Company Secretary" or "Secretary" means any individual possessing the prescribed qualifications, appointed to perform the duties which may be performed by a secretary under this Act and any other ministerial or administrative duties".

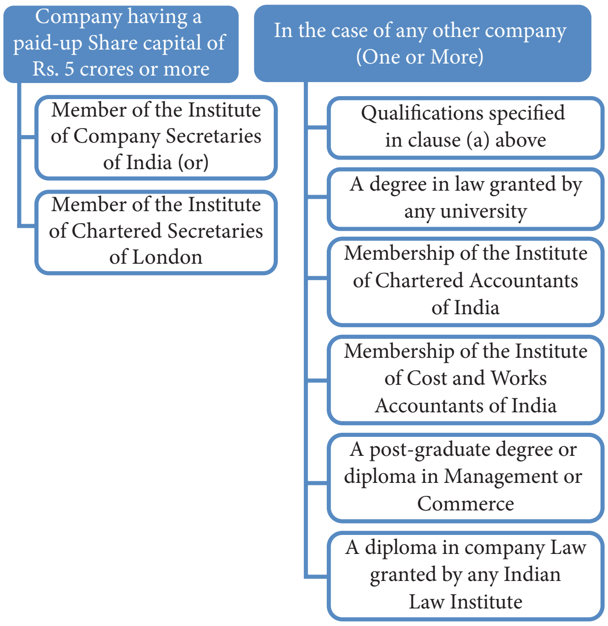
According to explanation from Oxford Dictionary, "a secretary is a person who is employed to conduct correspondence on behalf of an individual or a company and also to execute filing, documentation and administrative functions".

28.02 Qualifications of Company Secretary

Since the amendment of the Companies Act in 1994, only a person having prescribed qualifications can be appointed secretary of a company. Apart from the statutory qualifications, he should also have other qualifications as may be necessary to conduct the affairs of the company.



28.02.01 Statutory Qualifications



According to Section 2(45) of the Companies Act 2013, a Company Secretary must possess the qualifications prescribed by the Central Government from time to time.The qualifications prescribed by the Companies Secretary's Qualifications) Rules 1975, for the Secretary of a Company are:

A (i) In case of a company having a paid-up share capital of ₹5 crore or more, the Secretary must be a member of the Institute of Company Secretaries of India incorporated under the Companies Act, 1956, and licensed under Sec. 25 of that Act.

(ii) A person who is a member of the Institute of Chartered Secretaries of London shall also be eligible for appointment as Secretary of such a company.

(B) In the case of any other company, one or more of the following qualifications shall have to be possessed by the Secretary:

(i) Qualifications specified in clause (a) above;

(ii) A degree in law granted by any university.

(iii) Membership of the Institute of Chartered Accountants of India.

(iv) Membership of the Institute of Cost and Works Accountants of India.

(v) A post-graduate degree or diploma in Management or Commerce granted by any university or the Indian Institute of Management.

(vi) A diploma in Company Law granted by any Indian Law Institute.

28.02.02 Other Qualifications

The Secretary also hold the following qualifications.

28.03 Appointment of Company Secretary

As per section 2(24), 203, 204 of Companies Act 2013 the provisions regarding appointment of company secretary are Every listed Company must have full-time Company Secretary.

Every unlisted company and every private company having a paid up capital of ₹5 crore or more must also have a full time secretary.

Only an individual who is a member of institute of company secretaries of India can be appointment as a company secretary.

a) By the Promoters: The first secretary of a company is appointed by the promoters at pre-incorporation stage and such name is mentioned in the Articles of Association.

b) By the First board of Directors: After the company has been registered, the first board of directors appoints the secretary at the first board meeting. The board of directors can continue the existing secretary appointed by promoters or can appoint a new company secretary.

28.04 Functions/ Duties of Company Secretary

Functions of the Company Secretary may be discussed under two headings:

(i) Statutory Functions or Duties and (ii) Non-statutory Functions or Duties.

28.04.01 Statutory Functions

As the principal officer of the company, the secretary must observe all the legal formalities in respect of the provisions of the Companies Act and other laws (e.g., Income-tax Act, Stamp Act, Sales-tax Acts, etc.) which have a bearing on the activities of the company.

According to Companies Act 2013

(i) To sign document and proceedings requiring authentication by the company

(ii) To maintaining share registers and register of Directors and of contracts

(iii) To give notice to register for increase in the share capital

(iv) To deliver share certificate of allotment within 2 months after transfer

(v) To sign and send annual return

(vi) To make a statutory declaration for receiving certificate of commencement of business

(vii) To send notice of general meeting to every member of the company

(viii) To make statutory books

(ix) To prepare minutes of every general meeting and board meeting within 30 days

(x) To file a resolution with the registrar

(xi) To assist in preparing the statement of affairs in a winding up

Under the Income-tax Act: He is responsible for deduction of requisite income tax from salaries of employees, dividends and interests payable. He has to ensure that the tax deducted is deposited at government treasury. Secretary has to submit and verify various forms for timely filing of income tax returns to the authorities in accordance with the law. He has to see that the certificate of Tax Deducted at Source (TDS) is issued to every employees and shareholders.

Under Indian Stamp Act: The company secretary has to ensure that whether proper stamps are affixed on the company's documents like letter of allotment and share certificate or not. He is also complying with Minimum Wages Act, Industrial Disputes Act, Employee State Insurance Act etc.

Under the Sales-Tax Act: He must ensure timely submission of tax returns to the Sales-tax authorities and payment of tax.

Under Other Acts: He must see that the provisions of any other Act applicable to the company, e.g., Foreign Exchange Regulation Act, Industries (Development and Regulation) Act, and Rules, are also complied with. Where the company is carrying on manufacturing business, he must also comply with the provisions of the Factories Act, Payment of Wages Act, Industrial Disputes Act and other labour laws.

28.04.02 Non-Statutory Functions

Secretary has to discharge non-statutory functions in relation to directors, shareholders and office and staff. These functions are briefly mentioned.

(1) Functions as agent of directors;

(2) Functions towards shareholders;

(3) Functions towards office and staff.

1. Functions in Relation to Directors

A company secretary acts under the full control of the board of directors and carry out the instructions of the directors. The secretary provides necessary advice and information to the board to formulate company policy and arrive at decisions. It is the secretary's duty to implement the decisions taken by the board of directors.

The duties of the secretary includes arranging board meetings, issuing notice and preparing agenda of such meetings, recording the attendance of the directors and the minutes and resolutions of the meeting in consultation with the Chairman. He maintains all important correspondence, files, documents and records in the board office.

2. Functions in Relation to Shareholders

The company secretary must serve in the best interests of the shareholders. He also must safeguard the shareholders' interest. Under the Companies Act 2013, secretary should act as link between the board of directors and the shareholders and also ensure that the shareholder's rights are violated. He has to arrange the issue allotment letters, call letters, letters of regret, share certificates, share warrants to Shareholders. Besides he has to issue notices and agenda of all meeting of shareholders and also send replies to the inquiries and complaints of the shareholders on behalf of the board of directors.

3. Functions in Relation to Office and Staff

The Secretary is the kingpin of the whole corporate machinery. He is responsible for smooth functioning of the office work. He exercises an overall supervision, control and co-ordination of all clerical activities in the office.

28.05 Powers and Rights of Company Secretary

A Company secretary is a high level officer. He enjoys certain rights and power as per contract made with the company, which are as follows:

a) **Supervision and Control:** As a head of the office, a company secretary has the rights to supervise, direct and control all office activities of subordinate offices.

b) **Signing authority:** Being a principal officer, a company secretary can sign contracts, proceedings of the company meeting, files and documents on behalf of the company.

c) **Exercising power:** He has the right to exercise powers as granted by board of directors.

d) **Issuing testimonial:** A company secretary can issue testimonials to employees on behalf of the company.

e) **Claiming salary and damages:** As per contract, he has the right to claim his salary and other allowances. He can also take legal action against the company if there is any breach of contract. Before his services are terminated, he can demand a reasonable notice and claim damages for his wrongful dismissal.

f) **Preferential creditor:** During winding up of a company, company secretary can claim his legal dues on a preferential basis.

g) **Attending meeting:** He has the right to be physically present in the meetings of the shareholders and board of directors.

28.06 Removal / Dismissal of Company Secretary

In accordance with the law governing relationship between a master and servant, company secretary may be dismissed like an ordinary servant of a company. The Board of directors of a company has absolute discretion to remove a company secretary or to terminate his services at any time for any reason or without any reason. Generally secretary may be terminated under the following situations:

1. when his term of appointment has expired;
2. when he is given a proper notice of dismissal as per the terms of agreement of employment;
3. when he makes a secret profit;
4. when he misconducts himself ;
5. where he is found to be guilty of moral turpitude, negligence, disobedience, incompetence.
6. where he suffers from permanent mental and physical disabilities.

28.07 Company Meetings

A company meeting must be convened and held in perfect compliance with the various provisions of the Act and the rules framed thereunder. It is essential that the business dealt with at the meetings, should be validly transacted and not liable to be questioned later due to any irregularity.

28.08 Kinds of Company Meetings

Under the Companies Act, 2013, Company meetings can be classified as under:

1. Meetings of Shareholders:

(a) Statutory Meeting

(b) Annual General Meetings (AGM)

(c) Extraordinary General Meetings (EGM)

2. Meetings of the Directors

(a) Board meetings

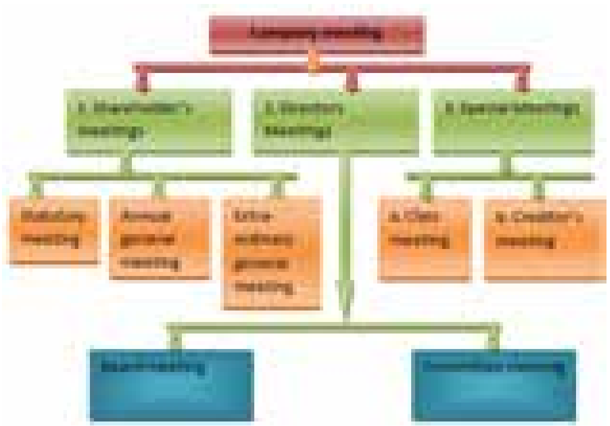
(b) Committees meetings

3. Special Meetings

(a) Class Meetings.

(b) Creditors and of Debenture/bond holders meetings

The following picture shows the different types of company meetings



28.08.01 Shareholders Meetings

The meeting held with the shareholders of the company is called shareholders meeting. The shareholders meeting can be classified as statutory meeting, annual general meeting and extra ordinary general meeting.

a) Statutory Meeting

According to Companies Act, every public company, should hold a meeting of the shareholders within 6 months but not earlier than one month from the date of commencement of business of the company. This is the first general meeting of the public company is called the Statutory Meeting. This meeting is conducted only once in the lifetime of the company. A private company or a public company having no share capital need not conduct a statutory meeting. The company gives the circular to shareholders before 21 days of the meeting.

b) Annual General Meeting [AGM]

Every year a meeting is held to transact the ordinary business of the company. Such meeting is called Annual General Meeting of the company (AGM). Company is bound to invite the first general meeting within eighteen months from the date of its registration. Then the general meeting will be held once in every year. The differences between two general meetings should not be more than fifteen months. Every Annual General meeting shall be held during business hours, on a day which is not a public holiday, at the Registered Office of the company or at some other place within the town or village where the Registered Office is situated. AGM should be conducted by both private and public Ltd companies.

c) Extra-Ordinary General Meeting

Both Statutory meeting and annual general meetings are called as ordinary meetings of a company. All other general meetings other than statutory and annual general meetings are called extraordinary general meetings. If any meeting conducted in between two annual general meeting to deal with some urgent or special or extraordinary nature of business is called as extra-ordinary general meetings.

28.08.02 Meeting of the Directors

Since the administration of the company lies in the hands of the board of directors, they should meet frequently for the proper conduct of the business and to decide policy matters of the company.

a) Board Meetings

Meetings of directors are called Board Meetings. Meetings of the directors provide a platform to discuss the business and take formal decisions. First meeting of directors should be convened within 30 (Thirty) days from the date of incorporation of the company.

b) Committee Meetings

Every listed company and every other public company having paid up share capital of ₹10 crore is required to have audit committee. This committee should meet at least four times in a year. In case of other companies, the board of directors shall nominate a director to play the role of audit committee which is functioning as a vigil mechanism.

28.08.03 Special Meeting

a) Class Meeting (Meetings of Particular Share or Debenture Holders)

Meetings, which are held by a particular class of share or debenture holders e.g. preference shareholders or debenture holders is known as class meeting. The debenture holders of a particular class conduct these meetings. These meetings are held according to the rules and regulations laid by the Trust Deed or Debenture Bond, from time to time, where the interests of the debenture holders play vital role at the time of re-organisation, reconstruction, amalgamation or winding-up of the company.

b) Meetings of the Creditors

Strictly speaking, these are not meetings of a company. Unlike the meetings of a company, there arise situation in which a company may wish to arrive at a consensuses with the creditors to avoid any crisis or to evolve compromise or to introduce any new proposals.

28.09 Resolution

As per the Companies Act 2013, for taking any decision or executing any transaction, the consent of the shareholders, the Board of Directors and other specified is required. The decisions taken at a meeting are called resolutions. In other words a motion, with or without the amendments which is put to vote at a meeting and passed with the required quorum becomes resolution.

28.09.01 Kinds of Resolution

There are broadly three types of resolutions, namely ordinary resolution, special resolution and resolution requiring special notice.

a) Ordinary Resolution:

An ordinary resolution is one which can be passed by a simple majority. i.e. if the members of votes cast by members, entitled to vote in favour of the resolution is more than the votes cast against the resolution.

Ordinary Resolution is required for the following Matters

(i) To change or rectify the name of the company

(ii) To alter the share capital of the company

(iii) To redeem the debentures

(iv) To declare the dividends

(v) To approve annual accounts and balance sheet

(vi) To appoint the directors

(vii) To increase or decrease the number of directors within the limits prescribed

(viii) To remove a director and appoint another director in his place

(ix) To make inter corporateinvestment, within the limits

(x) To approve voluntary winding up if the articles authorise

(xi) To fill up the vacancy in the office of liquidator, etc.,

b) Special Resolution

A special resolution is the one which is passed by a not less than 75% of majority. The number of votes, cast in favour of the resolution should be three times the number of votes cast against it. The intention of proposing a resolution as a special resolution must be specifically mentioned in the notice of the general meeting.

Special Resolution is required for the following Matters

(i) To change the registered office of the company from one state to another

(ii) To change the objectives of the company

(iii) To change the name of the company

(iv) To alter the Articles of Association

(v) To reduce the share capital subject to the confirmation of the court

(vi) To commence any new business

(vii) To appoint the auditor for the company

(viii) To appoint the sole selling agents in specified cases

(ix) To determine the remuneration of the Director and the Managing Director

c) Resolution requiring Special Notice:

There are certain matters specified in the Companies Act, 2013 which may be discussed at a general meeting only if a special notice is given at least 14 days before the meeting.The intention to propose any resolution must be notified to the company. The following matters require special notice before they are discussed in the meeting:-

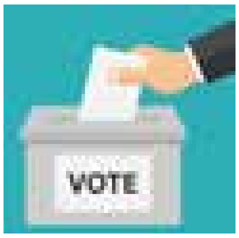
(i) To appoint an auditor, a person other than a retiring auditor

(ii) To provide expressly that a retiring Auditor shall not be reappointed

(iii) To remove a director before the expiry of his period of office

(iv) To appoint a director in the place of a director so removed

28.10 Voting



The word 'Vote' originated in Latin word 'Votum' indicating one's wishes or desire. By casting his vote one formally declaring his opinion or wish in favour of or against a proposal or a candidate to be elected for an office. The proposals passed across the table of any company depend mainly on the votes cast by the board of directors. Every motion or proposal is subject to the approval of the majority of the members or shareholders can cast their votes only on the occasions in which they want establish their rights according to the section 47 of the company Act, 2013.

Procedures of Voting

There are two distinct procedures of voting viz., Open and Secret procedures.

I. Open Procedure

This type of voting has no secrecy as the all the members assembled can see voting. There are two popular methods of open voting namely voice voting and voting by show of hands.

(a) By Voice:

Voice voting is a popular type of voting in which the chairman allows the members to raise their voice in favour or against an issue 'Yes' for approval and 'No' for rejection. Chairman announces the result of voice voting on the basis of strength of words shouted. It is an unscienfic method. It cannot be employed for deciding complex issue.

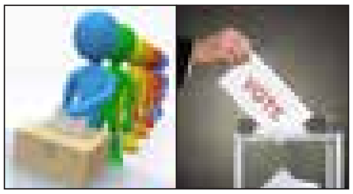
(b) By Show of Hands:

Under this method the chairman, requests the members to raise their hands of those who are in favour of the proposal or candidate and then requests those are against. Then the chairman counts the number of hands raised for Yes and No respectively can announce the result on the basis of hands counted.

II. Secret Procedure

Secret procedure is adopted to decide certain vital issues. It is a popular voting method that could maintain the secrecy of the voter.

a) By Ballot



Under this system, ballot paper bearing serial number is given to the members to record their opinion by marking with the symbol or Shareholders have to cast their vote in a secret chamber and put the ballot paper into the ballot box. The chairman opens the ballot box in the presence of tellers or scrutinizers and counts the votes. He rejects the defective or wrongly marked ballot papers. The votes are counted and the results are announced.

b) Postal Ballot

Big companies or big associations having members scattered all over the country follow this method of voting. Under this method serially numbered ballot papers are sent by post in sealed covers to the members,who, living at a distant place, are unable to attend the meeting physically. The members or voters fill in the ballot papers and return them in sealed covers which are opened when the ballot box is opened for counting the votes.

QUORUM

There is another requirement of quorum. A single person does not contain a meeting so it has to be seen that the required number of people are present. Requisite number of person at the meeting is called as quorum.

PROXY

Proxy means a person being the representative of a shareholder at the meeting of the company who may be described as his agent to carry out which the shareholder has himself decided upon. Proxy can be present at the meeting and he cannot vote.

Key Words

Secretary Meetings Committee
Motion Resolution

For Future learning

1. Study the websites which are related to company functions

Case Study

1. Mr R, as the secretary of the Muraliviki Co., signed a letter to its bank, forwarding a 'resolution' of the board of directors. The resolution named three directors and instructed the bank to pay cheques signed by any two of them and countersigned by the secretary. Specimen signatures were attached. The instruction was entirely in accordance with the company's memorandum and articles. However, there had never been any proper appointment of directors or a secretary by the company. Those who had formed the company had assumed their roles. Following the letter, the bank had honoured cheques in accordance with the instructions contained in the letter. The question was, whether, the company was bound by the cheques. Comment.

2. A contract between Muthumani Ltd and Mr. V, one of its director is referred to a general meeting for its approval. At the meeting, Mr. V voted for the resolution and all others against it. But as V held majority of shares and was entitled to majority of votes, the resolution was passed. Is the contract binding on the company?

DO YOU KNOW?

Stakeholders of the company include shareholders, employees, customers, suppliers, financiers, governments and the society.

Exercise

WHZ59D

I. Choose the Correct Answer:

1. **Mention the status of a Company Secretary in a company.**
   a) A member b) A director
   c) An independent contractor d) An employee
2. **Who can become a secretary for a company?**
   a) Individual person b) Partnership firm
   c) Co-operative societies d) Trade unions
3. **Which meeting will be held only once in the life time of the company?**
   a) Statutory b) Annual General
   c) Extra - ordinary d) Class General
4. **Who is not entitled to speak at the annual general meeting of the company.**
   a) Auditor b) Shareholder
   c) Proxy d) Directors
5. **From the date of its incorporation the First Annual General Meeting is to be conducted within __________ months.**
   (a) Twelve (b) Fifteen
   (c) Eighteen (d) Twenty one

Answers:

1	d	2	a	3	a	4	c	5	c

II. Very Short Answer Questions:

1. Who is a Secretary?
2. What is meant by Meeting?
3. Write short note on 'Proxy'?
4. What is Voting?

III. Short Answer Questions:

1. What is Special Resolution?
2. What do you mean by Statutory Meeting?
3. Give any three cases in which an ordinary resolution need to be passed.

IV. Long Answer Questions:

1. Briefly state different types of company meetings.
2. Explain different types of open and secret types of voting.

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3. Secretarial Practice - M C Kuchhal – Vikas Publishers.
4. Company Law - Dr. S.R. Myneni - Asia Law House Publishers.

Specimen Notice of Statutory Meeting

NITHILAN MANUFACTURING LIMITED

Regd. Office Address

Notice is hereby given that the statutory meeting of the company will be held at the registered office of the company at _______ on _______ 2018 at _______ a.m./p.m. for considering the statutory report and for conducting any other business which ought to be considered at that meeting.'

Please find enclosed a copy of the statutory report.

By order of the board

for Nithilan Manufacturing Limited

Date:

Place

Note:

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him and a proxy need not be a member. The instrument appointing a proxy should be deposited at the registered office of the company not less than 48 hours before the commencement of the meeting.

Specimen of Resolution for Appointment of Secretary

"Resolved that the appointment of ShriJayabharathi who possesses the requisite qualifications under the Companies (Appointment and Qualifications of Secretary) Rules, 2013 be and is hereby, confirmed as secretary of the company; on a salary of Rs. 55,000 per month exclusive of allowances, the appointment being subject to three months' notice of termination on either side.

Specimens of some Special Resolutions of General Meetings

1) Alteration of the name of the company.

"RESOLVED that the name of the Company be, and is hereby, altered from Vijaiya Limited to Vijayalakshmi Limited and that the Central Government be Informed accordingly to secure its consent to such alteration."

2) Reduction of share capital.

"RESOLVED that the capital of the Company be reduced from ₹1,00,000 divided into 1,000 fully paid Equity Shares of ₹100 each to ₹50,000 divided into 5000. Shares which have been subscribed and by reducing the nominal value of each share of ₹100 each to ₹10 each fully paid."

Specimen of Proxy form

ABISHNAVI COMPANY LTD
Registered Office: 45 Cuddalore Road, Chidambaram

I/We ______ of ______ in the district of ______ being a member/members of the above named Company hereby appoint--------in the district of--------or failing him______of______in the district of______as my/our proxy to vote for me/us on my/our behalf at the 25th Annual General Meeting of the Company to be held at 3 p.m. on Monday, the 12th July 2018 and at any adjournment thereof.

1 Rupee Revenue Stamp

Signed this ______ day of ______ 2018

Signature ______________

Address ______________

N.B. (i) The proxy need not be a member.

(ii) The proxy form duly signed and stamped should reach the Company's office at least 48 hours before the time of the meeting.

GLOSSARY

Administration	நிர்வாகம்
Application	விண்ணப்பம்
Appraisal	மதிப்பிடல்
Aptitude	திறனாய்வு
Assignability	உரிமை மாற்றம்
Assurance	அறுதியிடல்
Attitude	அணுகுமுறை
Auctioning	ஏலமிடுகை
Bearer	கொணர்பவர்
Bills of Exchange	மாற்றுச் சீட்டு
Blank	வெற்று
Board of Directors	இயக்குநர் குழுமம்
Bonus shares	மிகையுதிய பங்குகள்
Brokers	தரகர்கள்
Capital Market	மூலதனச் சந்தை
Capitalistic Economy	முதலாளித்துவ பொருளாதாரம்
Cash memo	ரொக்க குறிப்பு
Cash receipt	ரொக்க ரசீது
Caveat Emptor	வாங்குவோரே விழித்திரு தத்துவம்
Caveat venditor	விற்பனையாளரே விழித்திரு தத்துவம்
Certificate of Deposits	வைப்புச் சான்றிதழ்
Change	மாற்று
Cheque	காசோலை
Clearing House	தீர்வகம்
Commercial Bills	வணிகச் சீட்டு
Commercial Papers	வணிகத் தாள்
Committee	குழு
Commodity Exchange	பொருள் மாற்றியம்
Completion	பூர்த்தி செய்தல்
Conflict	முரண்பாடு
Consumer	நுகர்வோர்
Consumer Awareness	நுகர்வோர் விழிப்புணர்வு
Consumer duties	நுகர்வோர் கடமைகள்
Consumer Grievances	நுகர்வோர் குறைபாடுகள்
Consumer movement	நுகர்வோர் இயக்கம்
Consumer protection	நுகர்வோர் பாதுகாப்பு
Consumer responsibilities	நுகர்வோர் பொறுப்புகள்
Consumer rights	நுகர்வோர் உரிமைகள்
Consumer welfare fund	நுகர்வோர் நலநிதி

Consumerism	நுகர்வோரியல்
Consumption	நுகர்வு
Content Marketing	கருத்து சந்தை
Contingent	நிகழ்தகவு
Contribution	பங்களிப்பு
Control	கட்டுப்படுத்துதல்
Co-ordination	ஒருங்கிணைப்பு
Crossing	கீறலிடுதல்
Debentures	கடனீட்டுப் பத்திரம்
Debt Market	கடன் சந்தை
Decision-Making	முடிவெடுத்தல்
Demat-account	புறத்தோற்றமற்ற பத்திரக் கணக்கு
Dematerialization	மின்பொருளாக்கம்
Demography	மக்களியியல்
Depository	வைப்பகம்
Determined	தீர்மானித்தல்
Development	மேம்பாடு
Director	இயக்குநர்
Directorial Register	இயக்குநரக பதிவேடு
Dishonour	அவமதிப்பு
Distribution	பகிர்வு
District Forum	மாவட்ட குறைதீர்வு மன்றம்
Dominant	மேலாதிக்கம்
Drone	சோம்பலான தொழில்முனைவோர்
Electronic marketing	மின்னணு சந்தையிடல்
Endorsement	மேலெழுதுதல்
Entrepreneur	தொழில் முனைவோர்
Entrepreneurship	தொழில் முனைவு
Environment	சுற்றுச்சூழல்
Equity Market	பங்கு சந்தை
e-tailing	மின்னணு வர்த்தகம்
Evaluation	மதிப்பீடு
Fabian	காலம் கடத்தும் பழமைவாதம்
Financial Market	நிதிசார் சந்தை
Fiscal policy	வரிக் கொள்கை
GDP	மொத்த உள்நாட்டு உற்பத்தி
Government Bonds	அரசுப் பத்திரம் (முறி)
Grading	வகைப்படுத்துதல்
Green marketing	பசுமைச் சந்தை
Grievance Redressal Mechanism	குறைதீர்ப்பு செயல்முறை
Harmonise	ஒத்திசைவு

Human Resource	மனித வளம்
Imitative	மாதிரியை பின்பற்றுபவர்
Incorporation	கூட்டுருவாக்கம்
Induced	தூண்டப்பட்ட
Innovation	புதுமை
Insolvency	நொடிப்பு
Instrument	ஆவணம்
Interview	நேர்காணல்
Intrapreneur	அகத்தொழில் முனைபவர்
Investigation	புலனாய்வு
Investors	முதலீட்டாளர்கள்
Job offer	பணி முனைவு
Jobbers	தனி வணிகர்கள்
Lien	பற்றுரிமை
Loyalty	விசுவாசம்
Management	மேலாண்மை
Management	மேலாண்மை
Managing Director	மேலாண்மை இயக்குநர்
Micro and Macro Environment	நுண்ணிய மற்றும் பேரின சுற்றுச்சூழல்
Misrepresentation of Facts	உண்மைக்கு புறம்பான அறிவிப்பு
Mixed Economy	கலப்பு பொருளாதாரம்
Monetary policy	பணக் கொள்கை
Money Market	பணச் சந்தை
Motion	முன்மொழிதல்
Motivation	செயலூக்கம்
Necessity	தேவை / அவசியம்
Negotiability	மாற்று முறைத்தன்மை
New Issue Market	புதிய வெளியீட்டுச் சந்தை
One Person Company	ஒரு நபர் நிறுமம்
Optimistic	நேர்மறைச் சிந்தனையாளர்
Organisation	அமைப்பு
Perishable	அழுகும் தன்மையுள்ள
Personality	ஆளுமை
Pessimistic	எதிர்மறைச் சிந்தனையாளர்
Placement	பணியமர்த்தல்
Poaching	வேட்டையாடுதல்
Potential	தகுதியான
Preservation	பாதுகாத்தல்
Procurement	கொள்முதல்
Profession	தொழில்
Promissory Note	வாக்குறுதித் தாள்
Promoter	நிறுமத் தோற்றுவிப்பாளர்
Quasi-Executive	பகுதி செயலாக்கம்
Quasi-Judicial	பகுதி நீதித்துறை

Quasi-Legislative	பகுதி சட்டத்துறை
Rechristended	மாற்றுப் பெயரிடப்பட்ட
Recruitment	பணியமர்த்தல்
Referral Marketing	பரிந்துரை சந்தை
Registered Office	பதிவு அலுவலகம்
Relocation	மறுஇடஅமைவு
Resolution	தீர்மானம்
Right shares	உரிமைப் பங்குகள்
Rural marketing	ஊரகச் சந்தை
Satisfaction	திருப்தி
Scalar Chain	அதிகார சங்கிலி
Secretary	செயலர்
Seed capital	விதை முதல்
Selection	தேர்வு
Services marketing	சேவை சந்தையிடுகை
Share capital	பங்கு மூலதனம்
Share certificate	பங்கு சான்றிதழ்
Share warrant	பங்காணை
Social marketing	சமூகச் சந்தை
Socialistic Economy	சமதர்ம பொருளாதாரம்
Span	வீச்சு எல்லை
Speculators	ஊகவணிகர்கள்
Spontaneous	தன்னிச்சையான
Stabilize	நிலைப்படுத்து
Stock Exchange	பங்கு மாற்றம்
Structured	கட்டமைப்பு
Surplus	உபரி
Sweat Equity shares	உழைப்புக்கான சாதாரணப் பங்குகள்
System	முறை
Terminate	நீக்குதல்
Tests	தேர்வு (சோதனை)
Three Tier Court	மூன்றடுக்கு நீதிமன்றம்
Training	பயிற்சி
Treasury Bills	கருவூலச் சீட்டு
Turnover	சுழற்சி
Turnover	தொழிலாளர்கள் இடம் பெயர்தல்
Unique	தனித்தன்மை
Unsolicited	வேண்டப்படாத
Utility	பயன்பாடு
Value system	மதிப்பு முறை
Voting Rights	வாக்குறுரிமை
Warranties	நம்புறுதி
Workforce	ஆற்றல்மிக்க பணியாளர்கள்
Wrapping	உறையிடுதல்

COMMERCE – Class XII
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