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BUSINESS ORGANIZATION

Tutor Marked Assignment (TMA)

Course Code : ECO-01

Assignment Code :ECO-01/TMA/2012-13

Total Marks: 100

Attempt all the questions

1. What are the essential requisites of an ideal form of business organization? Explain the criteria for the selection of the form of organization. (20)

Solution: REQUISITES OF AN IDEAL FORM OF BUSINESS ORGANISATION:

Before we discuss how to select a particular form of business organisation in a given

situation, we should know the essentials of an ideal form of organisation. This may help you

in the evaluation of each form of organisation in the right perspective and take the final

decision about the choice of a particular form more judiciously. The requisites of an ideal

form of organisation are as follows :

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1. Ease of formation: An important factor for preferring a particular form of organisation to another is the ease with which a business can be brought into existence. The comparative ease of difficulty in forming a particular form of organisation mainly

depends on three factors: (i) formation expenses by way of registration fee, stamp duty, fees of legal experts, charges involved in the drafting of documents, obtaining licenses, etc., (ii) legal formalities, and (iii) procedural delays, etc. Unless it is very essential, it is better to go for an organisation which is easy to form.

2. Scope of raising capital: The choice of organisation mainly depends on the amount of capital required which is determined by the nature of business and the scale of operations. For example, if you want to open a retail shop in groceries, the amount of capital needed will not be much. But if you want to set up a sugar factory, you may require a large amount of capital. Ideal form of organisation is one which provides scope for raising the amount of capital as and when required.

3. Extent of liability: You know that the element of risk and uncertainty is prevalent in each business. In view of this, normally, the businessmen prefer limited liability. Obviously, limited liability is considered as an important feature of a good form of organisation. However, a certain amount of risk is also found to be important to provide the needed spur for initiative, drive, and involvement in business. Many times, the absence of such spur leads to weakness, inefficiency and even dishonesty on the part of management personnel.

4. Flexibility of operations: The form of organisation should be very flexible and adaptable to changing business conditions without much difficulty or complication. For example, if you want to expand your business, diversify or modernise the plant and equipment, the organisation should be able to meet all requirements.

5. Stability and continuity: Stability and long life of business is desirable from the point of view of owners, employees, and customers. Employees always prefer a stable and continuous employment. If the business is stable, the owner should be able to formulate plans for the

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future and to make investments paying for a considerable length of time. From the customers' point of view also, regular supply of goods and services is expected to meet their needs. An ideal form of organisation is one which provides reasonable amount of stability to the business.

6. Effectiveness of management: As you know that the success of any business enterprise depends on the efficiency of management. Managerial efficiency depends on skills, motivation, flexibility, adaptability, etc. It is difficult for an individual to possess all these qualities.

7. Extent of government control and regulations: If the governmental control and regulations are too many, the enterprise may have to divert a lot of time, money and energy for complying with legal formalities and instructions. In some cases there may be too much interference by the government officials in the day-to-day business of the firm. No doubt, the investors, creditors, and customers trust the business enterprises whose activities are properly regulated by the government. But too much government interference is not favoured by the entrepreneurs because it mars their initiative and disrupts the working of their business.

8. Business secrecy: In business, it is important to maintain business secrets without leaking them out to competitors. Therefore, a form of organisation which enables retention of business secrets is preferred to the one wherein business secrets are difficult to preserve.

9. Tax burden: Business taxes like sales tax, excise duty, and customs duty are charged on certain products and services. Hence, such taxes affect all forms alike and they will not affect the choice. But the income tax liability is different from one form of organisation to the other. Naturally, the form of organisation which attracts the minimum amount of this tax liability is considered as an ideal form. From this point of view company form of organisation is considered to be best because it enjoys a number of tax reliefs which are not available in case of other forms of organisation.

10. Ownership prerogatives: Some persons have a very strong desire to control the entire business activities themselves and place a great value upon their right of personal leadership. Some persons are desirous of

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sharing the responsibilities and risks of a business. Some people may want to own a part of the capital without; a strong desire to control the affairs of the business. You can also find some persons who are not ready to bear the business risk. An ideal form of organisation takes care of such prerogatives of the owners.

CRITERIA FOR THE SELECTION OF THE FORM OF ORGANIZATION:

Choice of a suitable form of business organisation assumes great importance at the time of initiating or launching a new business enterprise because it is the form of organisation which ultimately determines the power and responsibility of the entrepreneur. The choice is dependent on the following factors.

1. Nature of business: Choice of a suitable form of organisation is dependent on the nature of the proposed business. The organisational requirements are different for different types of business. For example, a big cement manufacturing activity and a retail cement shop cannot have the same form of organisation. Similarly, the form of organisation suitable for a textile mill is not suitable for a tailoring shop.

2. Volume of business: The expected volume of business also influences the decision about the suitable form of organisation. If the volume of business is small, you need small amount of capital and run less risk. In that case sole proprietorship may be quite suitable. But if the volume of business is large, you need more capital and run more risk which a single owner may find it difficult to cope with. So, partnership form or a company form would be considered more suitable.

3. Area of operation: The area of operation of the business also influences the choice of form of organisation. If the area is limited and confined to a particular locality, the suitable form of organisation may be sole proprietorship. If the area is widespread, the suitable form may be joint stock company.

4. Desire for control: The extent of control and supervision will also determine the choice of organisation. If it is desired to have a direct control over the business operations, a sole proprietorship or a partnership form of business should be adopted. If you feel that there is no need for direct control, the company form of organisation is the best.

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5. Capital requirements: The form of organisation will also depend on the extent of financial requirements of the business. A business which requires a small amount of capital can be organised on sole proprietorship or partnership basis. But if the financial requirements are huge, then the joint stock company form of organisation may be preferred.

6. Extent of risk and liability: You know business operations involve risk. If the promoters of a business enterprise are deterred by the risk involved, they will start the business on the basis of a limited liability. That means they can go for a company. In case they have capacity to bear the risk involved, it can be organised on sole proprietorship or partnership basis.

7. Government regulations: As you know the governmental controls and regulations are more in company form and cooperative form of organisations compared to the remaining two forms. If you do not want too much government control and regulation, you should choose either sole proprietorship or partnership form.

2. What is channel of distribution? Discuss the various factors which influence the choice of channel of distribution.

(20)

Solution:

Manufacturers produce the goods. In the distribution system this is the starting point for the goods. The second category of participants i.e., intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process they perform various functions like buying, selling, assembling, standardisation and grading, packing and packaging, risk bearing, etc. Facilitating agencies are the independent business organisations other than 'intermediaries'. They help the distribution of goods from originalors to users. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are advertising agencies, banking institutions, insurance companies, transportation agencies, and warehousing companies. You have learnt about these agencies as 'aids to trade' in Unit 1. The fourth category of participants in the distribution system, i.e. consumers, are the final destination for goods in the distribution system. Channel of distribution is mainly concerned with second participant i.e., the intermediaries. The term 'Channel of Distribution' refers to the route taken by goods as

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they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channel of distribution is mainly concerned with the transfer of title to a product which may be effected directly or through a chain of intermediaries. You know most producers do not sell goods directly to the consumer. They make use of a variety of intermediaries known as middlemen. These middlemen who take title to goods or assist in transferring the title to goods as they move from the producer to the consumer are called the channel of distribution. Thus, the channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.

FACTORS INFLUENCING THE CHOICE OF CHANNEL

We have learnt that there are a number of channels used for distributing the goods. There are direct channels and indirect channels, short channel as well as long channels. We also learnt that the different channels are used for different types of products. When there are alternatives available, the selection of an appropriate channel becomes a very important decision for the producers. The choice of channel for distribution of any product should be such that it effectively meets the need of customers in different markets at reasonable cost.

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

- 1 Distribution policy
- 2 Characteristics of the product
- 3 The target customers in view
- 4 Supply characteristics
- 5 Types of middlemen in the field
- 6 Channel competition
- 7 Potential volume of sales
- 8 Costs of distribution
- 9 Profits expected in the long-run

1. Distribution policy : Where the manufacturer is interested in distributing his products through all possible outlets, it is desirable to use more than one

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channel to reach the target customers. This is known as intensive distribution policy. The purpose in this case is to make the product available as near to the consumers as possible. Consumer goods of frequent use like pens, pencils, paper, soap, hair oil, etc., are distributed through a large number of wholesalers and retail traders. If goods are meant for customers who are very particular about their quality and usefulness, manufacturers adopt a selective distribution policy. In that case, few selective channels which can be relied upon for their efficiency of operation are used. For examples, goods like computers and TV sets, which require special services, are distributed through selected outlets like dealers with established reputation of dealing in those products and having a sound financial position. Sometimes, companies, manufacturing complex machinery, scientific instrument, etc., appoint particular agents for distribution of the products. In other words, the manufacturers prefer a single outlet. The agents or distributors become exclusive dealers of the items because of their technical knowledge and experience of dealing in that particular product line. This is known as exclusive distribution policy. Thus, the choice of the distribution channel is dependent on the distribution policy adopted by the producer of goods.

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

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

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4. Supply characteristics : Goods produced by a small number of producers concentrated in one region are generally distributed through short channels. Particularly this is more so if each producer controls a fairly large share of the market. Long channels are suitable if a large number of producers in different regions produce and supply the goods.

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

6. Channel competition : There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, other producers also do the same. Thus, selection of a channel may depend on the competition prevailing in the distribution system.

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

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

9. Long-run effect on profit : Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-

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run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time if competing products appear in the market. It may not be economical then to use long channels. So, while choosing a channel one should keep in mind the future market implications ad well.

3. (a) “One man control is the best in the world” comment.

Solution: One man control is best in the world if the man is big enough to manage everything. One man control is considered as best because of the following reasons: The formation of this form of business enterprise is very simple and easy because it does not require any legal formalities. The sole trader is not required to share business secrets with others and as such he can retain the secrecy of the business. The sole trader can exercise effective control over his business and therefore this form of organisation is considered to be best. It acts as a stimulation because of linking of reward and efforts. One man control or one man business (also called sole proprietorship) is the simplest form of business organization. The description ‘One man business’ or ‘one man control’ is sometimes con as misleading one, as there may be more than one persons working as employees in the business. The essential condition of one man control or one man business is that it i.e. a business owned by one person, managed and operated for one’s own profit.

Suitability of sole proprietorship :

The sole proprietorship form of organization is existing and competing quite successfully with other forms of organizations like partnership, Joint Stock Company. There are many reasons for it. Sole proprietorship is the most ancient form of business enterprise. It has a weight of tradition behind it. Moreover it is good to experiment with it. The circumstances favorable to sole proprietorship form of organization are:

(a) Where Market Is Local :

When the market for a good or service is local, the scale of business opera will be small. The amount of capital required will also be less. Under such circumstances, the sole proprietorship is considered the most suitable form of organization. For example most of

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the retail trading is controlled by the sole traders.

(b) When Personal Contract With Customers is Required :

There are certain businesses where goods or services are provided according to the individual tastes or liking of the customers. For example in the beauty parlours, the tailoring shops, cafeterias etc the sole proprietor has a direct link with his customers. He provides the goods and caters to the individual tastes of the customers. So in all these and other similar businesses, sole proprietorship is the most popular and suitable form.

(c) Where One Likes, Being His Own Boss :

There are many owners who cannot work with other persons or under someone else. They want to work hard and succeed in business. Being one's own boss and keeping all the profits with himself has a special attraction to run the business individually.

(d) Where Promptness is Required in Decision Making :

There are businesses where immediate decisions are required as warranted by the situation. The businessman has no time to consult others. For example, the prices of the shares change very rapidly in the stock exchange market. The businessman has to take prompt decisions. In such businesses where demand and prices of goods change quickly, sole proprietorship form of business is most suitable.

Professor L. H. Haney

Has summed up the future of sole proprietorship in the following words. "In case of enterprises requiring modest capital, limited managerial talent but greater personal attention to customers, sole trading is the ideal type of organization, viz retail shops, tailoring firms, medical practice, lawyer etc. In case of enterprises where fashions often change, or where demand and supply are influenced by seasonal trends, sole trading form of organization is most appropriate viz., winter goods dealers, ice cream factories, hair dressing firms, toilet dealers etc. When business expands and needs the services of experts for control and supervision, larger capital etc. then other forms of organizations will be more suitable and successful."

3. (b) What is stock exchange? Explain its various functions?

Solution: If you break up the expression 'Stock Exchange', you get two words: one is 'Stock'

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which means a part or fraction of the capital of a company, and the other is 'Exchange' which means a market for purchasing and selling. Thus, we can describe the stock exchange as a market or a place where different types of securities are bought and sold. It not only deals in shares and debentures but also in various other types of securities issued by central, state and local governments as well as institutions like Unit Trust of India, Steel Authority of India, National Thermal Power Corporation, etc. Therefore, it is also called 'securities market' or 'securities exchange'. It is a secondary market of securities because only the securities already issued are allowed to be dealt with on the floor of a stock exchange. This market is open only to members, most of whom are brokers acting as agents of the buyers and sellers of shares, debentures and bonds. A stock exchange is generally organised as an association or a society or a company. The membership of the stock exchange is restricted to a certain number, and new members are admitted only when there are vacancies. Every member has to pay the prescribed membership fee.

FUNCTIONS OF STOCK EXCHANGES:

Stock exchange, being a part of financial market, plays a very important role in the economic development of the country. Let us now examine the functions of stock exchanges from the economic point of view. These functions may be enumerated as

Primary functions

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1 Marketability and price continuity: The stock exchange provides for easy marketability of securities as securities can be bought and sold conveniently on the floor of the stock exchange. Since transactions take place regularly, there is continuity in the dealings. Prices quoted are duly recorded and reported in the newspapers for the benefit of investing public. Besides, price fluctuations are also moderated because of the continuity of buying and selling.

2 Mobilising surplus savings: Stock exchange is an integral part of the capital market of a country. It is because through stock exchanges the savings from all parts of the country are made available to the industrial and commercial undertakings for meeting their financial requirements.

3 Barometer of economic and business conditions: The intensity of buying and selling of securities and the corresponding rise or fall in the prices of securities reflect the investors' assessment of the economic and business conditions. Thus, during periods of economic and business prosperity prices of securities tend to rise. Conversely, prices tend to fall when there is economic stagnation or when business activities slow down as a result of depression in the markets. Indeed, change in security prices are known to be highly sensitive to changing economic, social and

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.political conditions. In the words of Alfred Marshall, the well known economist. stock exchanges are not merely the chief theatres of business transactions, they are also barometers which indicate the general conditions of the atmosphere of business.

4 Mobility of capital: Stock exchanges furnish an open and continuous market for securities. Savings invested in securities are converted into cash for reinvestment in other securities. Thus, stock exchanges provide mobility to capital and facilitate sound investment.

5 Contribution to capital formation: Savings are encouraged when people come to know about the avenues of investment. Stock markets educate investors as regards where and how to invest their savings for a fair return.

6 Shock absorber: Stock exchanges bring about equilibrium in the prices of securities which are bought and sold by speculators. Speculators generally buy securities in anticipation of rise in the prices. As a result of their buying, prices do not decline as low as might have been the case without their buying. Again when prices are high, speculators sell securities in anticipation of decline in the prices. Their selling prevents price rising too high. Thus, speculative activities regulate excessive price fluctuations.

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7 Sifting process: Investors generally prefer to invest their savings after proper assessment of the relative risks and returns associated with different securities.

The comparative advantages and disadvantages of investment in various types of securities may be grasped by investors from the dealings which take place on the stock exchanges. Hence they can pick and choose from among different securities and make investment decisions on a sound basis.

8 Facilitates resource allocation: As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises. Thus the existence of stock % exchange provides for mobility of funds i.e. movement or flow of funds in the economy as a whole. Industries which have potentials of growth are able to attract the savings of people towards their ventures relatively more than those which have no such prospects. Thus, financial resources of the economy are allocated on a reasonable basis. It is said that "without the stock exchange, the savings of the community, the sinews of economic progress and productive efficiency, would be used much less completely and be much more wasteful, than they are now".

Secondary Functions:

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1 Safety of investment and equity in dealings: The stock exchanges do not allow trading in each and every company's securities. Companies which want their securities to be traded on the floor of a stock exchange have to fulfil certain conditions. The stock exchange satisfies itself about the genuineness and soundness of the company to protect the investors from being cheated. There are a wide variety of securities. The investors have the opportunity to assess the relative advantages of investing in securities of companies dealing in various products (engineering goods, consumer goods, etc.) having wide markets and situated in different parts of the country. Every region or state and every industry gets a fair share of the investor's attention for investment of their savings.

2 Easy liquidity: The investors usually prefer liquidity of their investment i.e., easy conversion into cash, besides adequate return on their investment. The stock markets provide that assurance to investors. These are markets which facilitate buying and selling of securities. As such the investors readily come forward to subscribe to new issues. Thus, stock exchange assures liquidity of investments which goes to serve the investor's need.

3 Accurate and continuous report regarding sales: All stock exchanges maintain regular record of the securities traded each day and the prices at which deals are

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finalised. This information is supplied to newspapers and other information media alongwith the prices of important securities which ruled at closing time. The statistics relating to prices at which securities were traded are published in weekly bulletins for the information of the investors. This information helps in ascertaining the trend of price fluctuations and promotes healthy speculation.

4 Full information regarding listed companies: The organised stock exchanges - collect information about the companies listed with them and publish the information in the form of "Official Year Book". This proves very useful to the investors in making investment decisions.

5 Helpful in re-investment decisions: The investors sometimes want to switch their investments from one type of securities to others depending on which will be more rewarding. If shares or debentures of a company are in greater demand there is a rise in their market price indicating that the investors have assumed the company's performance and prospects to be better than others. On the other hand, if shares or debentures are offered for sale by many, the price tends to fall indicating that investors are not satisfied with the earnings and future prospects of the company.

Thus, changes in the prices of securities provide a fair index of demand and supply of securities of particular companies. The investors can make their investment decisions accordingly.

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6 Safeguards to investors: Every stock exchange has its own rules and regulations for the control of operations of the exchange. Only members are allowed to deal in securities and make transactions. As the members have to transact their business strictly according to the rules, the investors' interests are safeguarded against dishonesty or malpractices.

4. Distinguish between the following:

(a) Commerce and Industry:

Solution: Commerce:

All the activities which establish link between the producers of goods and consumers of these goods, and maintain a smooth and uninterrupted flow of goods between them come under commerce. A smooth and uninterrupted flow of goods and services from producer to consumer is beset with many barriers and hindrances. For instance, goods produced by one may be consumed by another. In such a case, unless the producer and consumer identify each other, there is no

scope for exchange of goods between them. This is the hindrance of person. Similarly, for

buying a product, consumers should have the knowledge about the existence of that

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product, its features, etc. Therefore, there is a need to provide such information to the consumers. This is the hindrance of knowledge. The hindrance of time arises out of the time gap between the time of production and the time of consumption. In many cases goods

are produced at one place while they are consumed at another place. So, the goods should be

carried from the place of production to the place of consumption. This gives rise for the hindrance of place. Commerce eliminates all these hindrances and *facilitates* the exchange

of goods between producers and consumers. Later, in this section, you will learn in detail how these hindrances are eliminated through various business activities which form Part of

commerce. In a nutshell, commerce is mainly concerned with the purchase and sale of goods, and also Nature and Scope of Business embraces all those functions which are essential for maintaining smooth and uninterrupted flow of goods and services between the buyers and sellers. Thus, there are two main aspects in commerce: i) purchase and sale of goods, and ii) activities essential for the smooth and uninterrupted flow of goods. Therefore, we can classify the whole range of commerce activities into two categories :

1) Trade-activities of purchase and sale.

2) Aids to Trade- activities which facilitate the smooth and uninterrupted flow of goods.

Industry:

It means that the industrial activity aims at ensuring the supply

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of goods in that form which suits the objects, needs and convenience of the persons expected

to use them. Thus, industry creates form utility to goods. For example, farms, factories,

mines, etc., make available a wide range of goods. These goods cater to the needs and .

convenience of the people. In a nut shell, the activities of human beings engaged in

extraction, production, processing, construction and fabrication of products come under

industry. There is another explanation for industry. Under this second explanation,

industry means a group of factories usually specialising in a particular product line. For example, all the

factories which produce fertilizer are collectively called fertiliser industry. Similarly, all

automobile factories together constitute automobile industry. but, in the present

context, this approach is not relevant. We adopt the first approach.

Classification of Industry:

There are various approaches of classifying industries. All these approaches are listed

below.

1 On the basis of the nature of activity

- a) Extractive industries
- b) Genetic industries
- c) Manufacturing industries
- d) Construction industries

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2 On the basis of the nature of goods produced

- a) Consumer goods industries
- b) Producer goods industries

3 On the basis of the level of investment

- a) Heavy industries
- b) Light industries

4 On the basis of size of the activity

- a) Small scale industries
- b) Large scale industries

5 On the basis of area of operations

- a) Regional industries
- b) National industries
- C) Multinational industries

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(b) Advertising and Publicity:

Solution: Advertising:

In advertising, we find three major participants: 1) media owners, 2) sponsors, and 3) Advertising agencies. The owners of different media may be regarded as the sellers of space or time for the respective media, while the buyers of the media space or time are the sponsors or advertisers. The advertisers and media owners in many cases directly deal with each other, The advertiser selects the medium and negotiates the terms and conditions with the media owners, who have prescribed rates depending on the size, design, duration, etc., of the advertisement. Large manufacturing companies often have expert staff of their own to design the advertisement and decide on the media according to budgetary allocation for advertising and sales promotion. Advertising agencies have developed to undertake the advertising function on behalf of the advertisers. The skill and expertise which characterize the Advertising agencies enable large companies to take advantage of their services on payment of a 'fee' or 'commission' besides the cost of preparing the layout, design, etc., of the advertisement. Most of the agencies handle all aspects of advertising including media selection on behalf of their clients. These agencies perform an important role in providing expert services as media specialists which the advertisers would not be able to develop in

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their own organisation. Some of the agencies are also enlisted with the media owners as recognised agencies for grant of discount on the contracts for space and time. A part of this

discount is shared with the client advertisers of the agencies. Thus, the area of contact between the advertisers and media owners is reduced.

Publicity is the deliberate attempt to manage the public's perception of a subject. The subjects of publicity include people (for example, politicians and performing artists), [goods](#) and services, organizations of all kinds, and works of art or entertainment.

From a [marketing](#) perspective, publicity is one component of [promotion](#) which is one component of marketing. The other elements of the *promotional mix* are [advertising](#), [sales promotion](#), direct marketing and [personal selling](#). Examples of promotional tactics include:

- Art exhibitions
- event sponsorship
- Arrange a speech or talk
- Make an analysis or prediction
- Conduct a poll or survey
- Issue a report
- Take a stand on a controversial subject
- Arrange for a testimonial
- Announce an appointment
- Invent then present an award
- Stage a debate
- Organize a tour of your business or projects
- Issue a commendation

The advantages of publicity are low cost, and credibility (particularly if the publicity is aired in between news stories like on evening TV news casts). New technologies such as weblogs, web cameras, web affiliates, and convergence (phone-camera posting of pictures and videos to websites) are changing the cost-structure. The disadvantages are lack of control over how your

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releases will be used, and frustration over the low percentage of releases that are taken up by the media.

Publicity draws on several key themes including birth, love, and death. These are of particular interest because they are themes in human lives which feature heavily throughout life. In television serials several couples have emerged during crucial ratings and important publicity times, as a way to make constant headlines. Also known as a [publicity stunt](#), the pairings may or may not be according to the fact.

(c) Departmental Organization and Public Corporation:

Solution:

DEPARTMENTAL ORGANISATION:

Departmental form of organisation is the oldest form of organizing public enterprises.

Under this form of organisation, business activities of the undertakings are conducted under the overall control of one of the departments of the government. In other words, when a public enterprise is organised, financed and controlled in much the same way as any other government department. it is known as 'departmental form of organisation.'

This form of organisation is generally, chosen for such undertakings which are important from the view point of public interest and national interest. This form is suitable for mo& of the undertakings which are not run on pure commercial principles. Departmental form of organisation, generally, is suitable under the following situations:

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- i) Where the basic purpose of an enterprise is to procure revenue for the government .
- ii) Where the government desires to have firm control over service sectors keeping in view public interest (e.g., posts and telegraph, broadcasting, etc).
- iii) Where maintenance of secrecy is regarded as a matter of strategic importance (e.g. atomic energy, defence industries, etc.).
- iv) Where projects are in earlier stage of initial planning and require constant efforts and , continuous funds that can be provided only by the government.

However, the latest trend seems to favour the participation of private enterprises even in defence industries. For instance, the Bharat Electronics Ltd., which is a state owned undertaking, is given a company form of management. A part of the telecommunication services was converted into two joint stock companies in 1981. One of them is called the Videsh Sanchar Nigam Ltd., which is responsible for the overseas telecommunication service; the other is the Mahanagar Telephone Nigam Ltd., which is responsible for telephone systems in Bombay and Delhi.

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Public Corporation:

Public corporation is corporate body created by the Parliament or State Legislature as the case may be, by a special Act which defines its powers, duties, functions, immunities and the pattern of management. Public corporation is also known as statutory corporation. The

capital is wholly subscribed by the government. It is managed by the management committee constituted according to the provisions of the Act. It is answerable to the Parliament or State Legislature as the case may be. As stated by Roosevelt, public corporation is an organisation which is clothed with the power of the government but is possessed of the flexibility of private enterprise. Herbert Morrison views a public corporation as a combination of public ownership, public accountability and business management for public ends. Thus the public corporation device is an attempt to combine public interest with the flexibility of operation most prominently found in a company form of organisation working in the private sector.' Normally, the public corporations are constituted for any of the following :

- i) To transfer the business of a nationalised undertaking to the corporation.
- ii) To facilitate the acquisition of undertakings belonging to an existing company.
- iii) To promote, develop and operate certain schemes.
- iv) To extend certain social services and utility-services.

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V) To provide for regulation and control of the working and operations of an institution or for other matters connected therewith or incidental thereto.

The development of the public corporation is largely a post-independence phenomenon. The first public corporation was the Damodar Valley Corporation which was established under a Parliament Act in 1948. It is a multi-purpose river project. In the same year, the government set up the Industrial Finance Corporation of India to provide finance for industries in the private sector. In 1953 when the Indian Airlines and Air India were set up, the Air Corporations Act was passed. In 1955 the State Bank of India was established through the State Bank of India Act and the Life Insurance Corporation of India was set up through the Life Insurance Corporation Act of 1956. Thus, we find that whenever the government wants to undertake a commercial activity, it goes to Parliament and gets approval to set up a distinct entity.

It may be noted that it is not necessary that each corporation will have an Act of its own. More than one statutory corporation can also be established under the same act of the legislature. For example, the State Electricity Boards have been established in most of the states under the Electricity (Supply) Act of 1948. Similarly, most of the States have State Financial Corporations set up under the State Financial Corporations Act of

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1951.

(d) Wholesalers and Retailers:

Solution: Wholesalers:

In the preceding section we have learnt that wholesalers perform limited functions or undertake a variety of functions. Actually, the functions of a wholesaler depend upon the nature of the products dealt with and the business policy of that particular wholesaler. Of course every wholesaler must carry out the minimum functions of buying, storing and supplying one or more products. Besides these primary activities, several other functions may also be performed by **wholesalers** Broadly, the functions of wholesalers may be **grouped as follows:**

1 Assembling products : The basic function of every wholesaler is that of procuring goods From manufacturers and holding large enough stocks for sale to the retailers.

2 Arranging storage : The wholesaler has to make arrangements for holding stocks to meet the needs of retailers from time to time. He must see that goods in stock are not

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spoiled or damaged. For proper storage he may have his own warehouse or hire one.

3 Grading and packaging : Wholesalers who usually purchase in bulk may have to do the grading of products, i.e., sort out the products according to quality or size or other factors. For the convenience, it may also be necessary for wholesalers to undertake packaging of goods.

4 Transporting goods : The wholesaler is generally required to arrange transportation of the goods procured from the place of manufacture to his godown. Often he is also to arrange delivery of the goods to retailers according to their needs.

5 Distribution of goods : Goods assembled and held in stock must be made available to the retailers who may be scattered in different parts of a city or region. For this purpose, advertisement and employment of salesmen must be undertaken by the wholesaler.

6 Financial : As a general practice wholesalers provide credit facility to retailers. Thus, payment can be made by retailers after goods have been sold by them or when their clients have cleared their accounts.

Financing of retail trade is a very common function of wholesalers. Sometimes, wholesalers also advance money to manufacturer against orders placed for purchase of

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goods. This is another type of financing done by wholesalers.

7 Risk-bearing : Procurement and holding large stocks of goods in anticipation of demand from retailers involves considerable risk of loss for the wholesalers. If market conditions change due to reduced demand or entry of competitors, the wholesalers end up with huge unsold stock.

8 Price fixation : The prices of goods which consumers have to pay depend upon the prices fixed by wholesalers and charged from retailers. This is an important function to be performed by wholesalers because a number of factors including prices of competing goods, effect of prices on demand, etc., have to be taken into account.

Retailers:

Like the wholesalers, retailers also perform a variety of functions connected with the buying

and selling of goods. Briefly stated, they perform the following functions.

1 Estimating the demand : All retailers-big or small-have to make an estimate of the demand for different products and have to determine the nature of products that consumers need to be supplied.

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2 Procurement of goods : Most retailers deal in a variety of products. So they may have to procure goods from different wholesalers. Besides, they must decide to buy from those wholesalers who supply goods suited to the requirements of consumers as to quality and price.

3 Transportation : Usually the retailers are to arrange the transportation of goods procured from the wholesalers' place. Sometimes delivery is also arranged by the wholesalers on the basis of orders placed with their salesmen.

4 Storing goods : Small-scale retailers have limited space for the goods to be kept in stock. Large retail stores often have godowns to store different varieties of goods in adequate quantities. But in all cases, goods have to be held in stocks so as to meet the customers' needs. For this purpose storage of goods must be so arranged that customers may be served without delay. They must be given an opportunity to select goods of their choice. This is often done by display of goods on shelves and in show-cases.

5 Grading and packaging : Large-scale retailers often have to sort out goods according to the quality and price to be charged. They also make convenient packages of goods for the benefit of consumers. For instance, fruit vendors purchase apples in containers (boxes), sort out on the basis of size and charge different rates for different sizes. Spices

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which are procured in bags, may be divided into small packets of 100 or 200 grams each.

6 Risk-bearing : Since goods are held in stock, the retailers are to bear the risk of loss on account of deterioration of quality, fire, theft, etc. Large retail stores are insured to cover the risks of theft or fire. But losses due to damage or deterioration of quality caused by improper storage cannot be insured.

7 Selling : The main function of retailers is selling the goods to ultimate consumers. They have to satisfy the needs and preferences of different types of customizers and deal with them tactfully and politely so as to make them regular buyers.

5. Write short notes on the following:

(a) Development Banks:

Solution: Among the institutions whose role in the development of the less developed regions is well recognized but inadequately emphasized are the development banks. Playing multiple roles,

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these institutions have helped promote, nurture, support and monitor a range of activities, though their most important function has been as drivers of industrial development.

All underdeveloped countries launching on national development strategies, often in the aftermath of decolonization, were keen on accelerating the pace of growth of productivity and

per capita GDP. This was the obvious requirement for alleviating poverty and reducing the

developmental gap that separated them from the developed countries. To realise this goal,

they considered industrialisation to be an important prerequisite. This stemmed from the

perspective that modern economic growth was a process characterised by an increase in the

share of employment in the non-agricultural sector, and within the latter by a change in the

scale of productive units, the growth of factory production and a shift from personal

enterprise to the impersonal organisation of economic firms. Besides the apparent universality of this trajectory across countries, a range of arguments were advanced to justify the centrality afforded to modern factory industry. First was the conclusion derived from trends in consumption styles across the globe and embodied in rudimentary form in Engels' Law that the demand for non-food commodities in general and manufactures in particular grows and diversifies as incomes increase. Growth must therefore be accompanied by a process of diversification of economic activity in favour of manufactures. Second was the belief that, given the barriers to productivity increase

characteristic of predominantly agrarian economies, the diversification in favour of industrial

production is an inevitable prerequisite for a rapid increase in per capita income. Third was

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the view that beyond a point even agricultural growth is predicated on the availability of a

range of manufactured inputs, particularly, chemical fertilisers. Fourth was the evidence that

dependence on primary production places a nation at the losing end of the shifting terms of

exchange in international trade, necessitating industrialisation as a device aimed at garnering

additional benefits from trade and overcoming external vulnerability. And, finally, the idea

that given the 'learning by doing' characteristics of industrial capability, delaying entry into

the spectrum of industrialisers makes entry more difficult as time goes by.

(b) Insurance:

Solution: Insurance is a device by which a loss likely to be caused by uncertain event is spread

over a large number of persons who are exposed to it and who voluntarily join to

insure themselves against such an event, Let us take the example of the peril of fire.

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It is a common knowledge that every year a certain number of houses are destroyed by fire, but no body can predict which particular house will be destroyed. Thus, all house owners run the risk of loss through' fire. If all of them pay a small sum into a fund every year, anyone who does lose his house can claim money from such fund to build a new house. In the absence of such a fund, the owner of the house has to bear the whole loss by himself. In the case of insurance, in the similar way, loss is being shared by a large number of persons instead of being borne by one. People are willing to lose a small sum in order to be certain that they will not lose a much bigger sum. In the above illustration the persons who got their houses insured are known as 'Insured'. The agency which helped them in entering into 'this arrangement is known as 'Insurer' or the Insurance Company. The agreement or contract between the insurer and insured is known as 'Policy'. The amount paid by the insured in retain of which the insurer undertakes to make good the loss is known as 'Premium'. To conclude, we may define insurance as a form of contract between two parties (insurer and insured) whereby one party (insurer) undertakes in exchange for a fixed amount of money (premium) to pay the other party (insured), a fixed amount of money on the happening of a certain event (death or attaining a certain age in case of life) or to pay the amount of actual loss when it takes place through the risk insured (in case of property).

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(c) Government Company:

Solution: The Government of India has registered and organised a large

number of its commercial and industrial undertakings mostly as private limited companies

even though their control and regulation actually rests with the government by virtue of its

owning majority of shares. But why does the government do like that? Government, normally, establishes the company form of organisation for the following reasons.

1) Public interest : Government sometimes acquires shares of the existing private enterprises when they are unprofitable or have become insolvent or are in financial crisis. Government acquires such companies in the interests of the country. Eastern Shipping Corporation and Hindustan Shipyard Ltd., are examples of the companies taken over by the Government of India.

2) Mixed-ownership : Sometimes, in order to secure capital, technical knowhow, expert guidance, etc., the government may be desirous of starting an enterprise in association with private entrepreneurs. In such situations, the government may set up mixedownership

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companies. The examples of mixed-ownership companies are Hindustan Machine Tools, Hindustan Shipyard Ltd., Heavy Engineering Corporation, Hindustan Cables, etc.

3) Industrial promotion : In order to encourage industrial promotion, sometimes, government may establish some companies. Such companies are not directly connected with any manufacturing activity, but they are expected to bring out commercially feasible projects to be eventually established in private or public sectors. National Industrial Development Corporation, and National Small Industries Corporation are some examples in this category.

4) Promotion of trade or commerce : Government may also establish some companies to promote trade or commerce. State Trading Corporation, Export Credit & Guarantee Corporation (ECGC), etc., are some examples.

5) Lack of incentive : The private entrepreneur does not come forward to establish enterprises because of certain risks such as longer gestation period, heavy investment outlay, lack of profit in the initial years of its formation, etc. In such cases the government may establish government companies.

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(d) Warehousing:

Solution: Warehousing refers to the storage of goods on a large scale and as a specialised function. It involves providing facilities for preservation of goods in proper condition so as to prevent Loss or

damage, and making the goods available to traders or dealers for sale. Warehouses are places

where storage facility exists. Thus, warehousing is an essential aid to trade or ancillary of trading

activity. It creates both time and place utilities, as goods stored in warehouses can be available

whenever and wherever needed by buyers. Manufacturers, wholesalers as well as dealers can

make use of warehousing facilities to bridge the gap between the time when goods are procured

or manufactured and the time they are demanded by customers. The warehousing also arises

from the modern systems of production and distribution of goods. Large scale production

generally takes place in anticipation of demand for goods, but not necessarily in response to

specific orders of customers. Such goods cannot be sold immediately after production. The

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manufacturers thus need adequate facilities for storage of their products to meet the demand

schedule of customers.

Again, there are certain products which have seasonal demand, but produced through out the year.

For example, woolen mills have to keep wool or woolen textiles in storage until the winter

season. Many agricultural crops like wheat, cotton, tobacco, rice, etc., are harvested during

specific seasons while they have continuous demand throughout the year. Thus, storage is

necessary in all such cases. Warehousing enables wholesalers to buy goods in bulk from

manufacturers and sell the same in small lots to retailers. Warehousing also performs the function

of price stabilisation. Prices normally go down due to excess supply and increase due to

shortage. Fall in price can be controlled by storing the excess supply and also price rise can be

minimised by supplying the product from storage. Storage may enable better prices to be

secured by the producer or wholesaler as supply can be adjusted to demand.
