II . BUSINESS COMMUNICATION & CORRESPONDENCE

Chapter - 1 : Business Communication

TOPIC

Business Communication: Meaning, Importance, Elements, Methods and Types

Revision Notes

- **Communication** is defined as a process of exchange of ideas, views, facts, feelings etc., between or among people to create common understanding.
- **Definitions:**
  - In the words of *Harold Koontz* and *Heinz Weihrich*, "Communication is transfer of information from the sender to the receiver with the information being understood by the receiver."
  - In the words of *Rogers*, "Communication is a process by which people create and share information with one another in order to reach common understanding."
- **Elements of Communication Process:**
  - **Sender:** Sender means person who conveys his thoughts or ideas to the receiver. The sender represents the source of communication.
  - **Message:** It is the content of ideas, feelings, suggestions, order, etc., intended to be communicated.
  - **Encoding:** It is the process of converting the message into communication symbols such as words, pictures, gestures, etc.
  - **Media:** It is the path through which encoded message is transmitted to receiver. The channel may be in written form, face-to-face, phone call, internet, etc.
  - **Decoding:** It is the process of converting encoded symbols of the sender.
  - **Receiver:** The person who receives communication of the sender.
- **Importance of Communication:**
  - Acts as a basis of coordination
  - Helps in smooth working of an enterprise
  - Acts as a basis of decision-making
  - Increases managerial efficiency
  - Promotes cooperation and industrial peace
  - Establishes effective leadership
  - Boosts morale and provides motivation
- **Methods of Communication:**
  - Oral
  - Written
  - Gestural
  - Visual
- **Oral Communication:** It is the process of verbally transmitting information and ideas from one individual or group to another. It includes individuals conversing with each other, by direct conversation or telephonic conversation. Speeches, presentations, discussions are all forms of oral communication.
  - **Advantages:**
    - It saves time. Contact can be established quickly.
    - The feedback is spontaneous in case of oral communication. Thus, decisions can be made quickly without any delay.
    - Oral communication can be best used to transfer private and confidential information/matter.

- It is economical. It saves money.
- It is flexible and changes can be made easily.
- There is high level of understanding and transparency in oral communication as it is interpersonal.
- Oral communication is effective for communication in meetings, conferences, gatherings, group discussions, interviews, face-to-face talks, telephonic talks, etc.

- **Disadvantages:**
  - It does not allow the listener much time to think, act and react.
  - As no records of oral communication are generally kept, denial is easy.
  - It has no legal validity unless it is tape-recorded or video-recorded.
  - Oral communication is less authentic than written communication as they are informal and not as organized as written communication.
  - There may be misunderstanding as the information is not complete and may lack essentials.
  - In oral communication, important and secret information may be disclosed.

- **Written Communication:** It means sending of messages, orders or instructions in writing through letters, circulars, manuals, reports etc.
  - **Advantages:**
    - Written communication has wide access.
    - Written messages are precise and accurate.
    - Written messages can be read again and again.
    - Message can be written and conveniently transcribed.
    - Written communication is suitable for transmitting lengthy messages.
    - Written message may be used as legal evidence in a court of law.
  - **Disadvantages:**
    - Written communication is more expensive than oral communication.
    - It is difficult to keep written messages completely secret.
    - Written communication lacks flexibility.
    - Written messages tend to be formal and there is lack of personal touch.
    - There is a delay in feedback in case of written communication.

- **Gestural Communication:** It means communication through gestures or various parts of human body. It is also called body language.
  - **Advantages:**
    - It is faster than oral and written communication.
    - It is less expensive.
    - Gestures can be used to supplement spoken words.
    - Gestural communication can be kept confidential more easily.
  - **Disadvantages:**
    - They can create misunderstanding.
    - It can be used only during face-to-face communication.
    - A person may not be good at communicating through gestures.
    - It is a complete method of communication.

- **Visual Communication:** Visual communication is basically described as communication through the use of visual aids. It is the transmission of information and ideas using symbols, graphs, charts, diagrams, imagery etc.
  - **Advantages:**
    - They give a bird's eye view of the entire data.
    - Information presented is easily understood.
    - It is more attractive to the eye.
    - Diagrams and graphs have a great memorizing value.
    - They facilitate comparison of data relating to different periods of time.
    - Graphs and diagrams have a visual appeal and are more impressive to laymen.

- **Disadvantages:**
  - Visual communication can present only limited information.
  - They give only approximate values rather than exact values.
  - They fail to represent qualitative information such as employee morale, goodwill etc.
  - It is time consuming.
  - Diagrams and graphs can be easily misinterpreted in advertisements etc.

➢ **Types of Communication:**
  - On the basis of area of Operation-Internal and External,
  - On the basis of Relationship –Formal and Informal,
  - On the basis of Direction–Horizontal, Vertical: Upwards, Downwards and Diagonal.

➢ **Internal Communication:** Internal communication is about promoting effective communication among people within an organization. Internal communication is the transmission of information within an organization. It is communication among employees. Internal communication is the sharing of the information, knowledge, ideas, and beliefs between the members of the company.

- **Advantages:**
  - It keeps different employees informed about what is happening in the organisation.
  - It helps in creating mutual trust among the employees.
  - It helps in creating teamwork among the employees.
  - It promotes cooperation and coordination among the employees.
  - It can be taken place through both spoken and written words.
- **Disadvantages:**
  - It prevents communication from outsiders.
  - It may spoil the work environment by gossiping and spreading rumours which are a part of communication.
  - It can lead to interruption in work when employees needlessly talk among themselves.

➢ **External Communication:** When there is a communication between members of the organization, with the outside party, it is said to be external communication. When a business organization exchanges information with other business organizations, government offices, banks, insurance companies, customers, suppliers, leaders and general people and so on, it is known as External Communication.

- **Advantages:**
  - It is used to communicate and provide valuable information to different stakeholders.
  - It helps in improving goodwill of the company.
  - It can be used to meet reporting requirements under different laws.
  - It can provide useful feedback about the views and expectations of stakeholders.
- **Disadvantages:**
  - It is time consuming.
  - It requires more planning.
  - It lacks secrecy.
  - It can spoil the company's image in case of unclear and ambiguous messages.

➢ **Formal Communication:** Formal Communication flows through official channels designed in the organization chart. This communication may take place between a superior and subordinate, a subordinate and superior or among employees or managers of the same unit.

- **Advantages:**
  - Formal communication facilitates the smooth transmission of official the messages.
  - Formal communication enhances the coordination by using the official channels.
  - It has documentary evidence which can be used for future references.
  - As it has documentary evidence, it is more reliable than other forms of communication.
  - As formal channel is used, chances of ambiguity decreases.
  - Through formal communication, coordination among different divisions of an organization increases. As a result, organizational efficiency is also enhanced.

- **Disadvantages:**
  - As information flows through the chain, it takes a long time to convey information from upper level to lower level.
  - As strict formalities or chain of command is maintained, it is not flexible.
  - More time and more formality increases the overall cost of the communication.
  - In case of formal communication, lower level employees cannot exchange their views freely with the executives by breaking the chain of command.
  - On the way of communication, messages can be distorted. Thus, chance of distortion increases in formal communication.

➢ **Informal Communication:** Communication that takes place without following the formal lines of communication is said to be informal communication. Informal system of communication is generally referred to as 'grapevine' because it spreads throughout the organization with its branches going out in all directions in utter disregard to the levels of authority.

- **Advantages:**
  - Informal communication transmits information very fast.
  - Informal channels provide feedback much faster than the formal channels.
  - Informal communication draws employees closer to each other and creates in them a sense of belongingness.
  - Informal communication is more flexible than formal communication because it is free from all types of formalities.
  - Cooperation and coordination in informal communication leads to improvement in interpersonal relationship.
- **Disadvantages:**
  - Informal communication may create misunderstanding.
  - Informal channels of communication enjoy less credibility.
  - Under informal communication system, no established rules or policy is obeyed. So, it is very much difficult to control the information.
  - In this system, rumours spread rapidly.

➢ **Horizontal Communication:** Horizontal or Lateral Communication takes place between one division and another. It is the transmission of information between people, divisions, departments or units within the same level of organizational hierarchy.

- **Advantages:**
  - It helps to create mutual understanding and trust among people and departments.
  - It facilitates cooperation and coordination between different departments.
  - Horizontal communication helps to reduce possible misunderstanding and conflicts.
  - Horizontal communication occurs between people at the same level in various departments. Therefore, interdepartmental communication occurs smoothly.
  - Horizontal communication is free from distortion.
- **Disadvantages:**
  - Rivalry within organization occurs. For example, when the different levels of an organization fail to collaborate with one another.
  - Sometimes too much horizontal communication creates problem for the management and controlling may become difficult as the horizontal communication increases.
  - As strict rules are not followed, organizational discipline can also be hampered in horizontal communication.
  - Sometimes horizontal communication is disrupted due to procedural problem.

➢ **Vertical Communication:** Vertical Communication occurs when information flows in vertical direction *i.e.*, up to down and down to up within an organization.

- **Advantages:**
  - It enables managers to explain the company's policies, procedures, rules etc. to the employees.
  - It can be used to educate and train employees to improve their knowledge and skills.
  - It helps managers to inform employees about their performance, achievements and rewards.
  - It provides valuable feedback to management in the form of suggestions, grievances etc.

- **Disadvantages:**
  - It is time consuming.
  - It suffers from delay particularly when there are several layers of authority.
  - Subordinates are reluctant to communicate freely with superiors due to fear of authority.
  - Due to huge gap between the authorities, vertical communication may not flow smoothly.

- **Downward Communication** is the communication where information or messages flow from the top of the organizational structure to the bottom of the organizational structure.
- **Upward Communication** is the communication where information or messages flow from down or bottom of the organizational structure to the top of the organizational structure.
- **Diagonal Communication** is the communication between people who are neither in the same department nor at the same level of organisational hierarchy. In this type, communication cuts across departmental lines.
- **Barriers to Communication:**

  (a) Semantic Barriers: Semantics is the branch of linguistics dealing with the meaning of words and sentences. Semantic barriers are concerned with problems and obstructions in the process of encoding and decoding of messages into words or impressions.

  (b) Psychological Barriers: Emotional or psychological factors act as barriers to communicators. For example, a worried person cannot communicate properly and an angry receiver cannot understand the real meaning of message.

  (c) Organisational Barriers: The factors related to organisation structure, authority relationships, rules and regulations may, sometimes, act as barriers to effective communication.

  (d) Physical Barriers: Communication is a two-way process, distance between the sender and the receiver of the message is an important barrier to communication. Noise and environmental factors also block communication.

- **Overcoming the Barriers to Communication:**
  - Clarify the ideas before communication
  - Consult others before communicating
  - Convey things of help and value to listeners
  - Communicate for present as well as future
  - Be a good listener
  - Communicate according to the needs of the receiver
  - Be aware of languages, tone and content of message
  - Ensure proper feedback
  - Follow up communications

Know the Terms

- **Chain of Command:** A chain of command is an organizational structure that documents how each member of a company reports to one another.
- **Efficiency:** Efficiency is defined as the ability to accomplish something with the least amount of wasted time, money, and effort or competency in performance.
- **Centralization:** Centralization refers to a setup in which the decision-making powers are concentrated in a few leaders at the top of the organizational structure.

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Chapter - 2 : Business Correspondence

TOPIC-1
Business Correspondence

Revision Notes

- **Correspondence** plays an important role in our daily life. It is one of the means through which we exchange our ideas, thoughts and other information with our friends, relatives and other people.
- **Business correspondence** means the exchange of information in a written format for the process of business activities. Business correspondence can take place between organizations, within organizations or between the

customers and the organization. The correspondence refers to the written communication between persons. Hence, oral communication or face-to-face communication is not a business correspondence.

- Communication through exchange of letters is known as correspondence. We communicate our feelings, thoughts etc. to our friends and relatives through letters that may be called personal correspondence. A businessman also writes and receives letters in his day to-day transactions, which may be called business correspondence.
- Business correspondence or business letter is a written communication between two parties. Businessmen may write letters to supplier of goods and also receive letters from the suppliers. Customers may write letters to businessmen seeking information about availability of goods, price, quality, sample, etc., or place order for purchase of goods.
- Thus, business letters may be defined as a media or means through which views are expressed and ideas or information is communicated in writing in the process of business activities.

➢ **Importance of Business Correspondence:**

- Helps in maintaining proper relationship
- Inexpensive and convenient mode
- Creates and maintain goodwill
- Serves as an evidence
- Helps in expansion of business

➢ **Elements of a business letter are:**

- Heading
- Date
- Reference
- Inside Address
- Salutation
- Body of the Letter
- Complimentary clause
- Signature
- Identification marks
- Enclosures
- Copy distribution
- Postscript

➢ **Types of Business Letters:**

- **Business Enquiry Letter:** Sometimes prospective buyers want to know the details of the goods which they want to buy, like quality, quantity, price, mode of delivery and payment, etc. They may also ask for a sample. The letter written to sellers with one or more of the above purposes is known as Enquiry Letter.
- **Quotation Letter:** After receiving the letter of enquiry from a prospective buyer, the sellers supply the relevant information by writing a letter that is called quotation letter. These letters are written keeping in view the information asked for like price list, mode of payment, discount to be allowed, etc. Businessman should reply to the inquiries carefully and promptly.
- **Order Letter:** The prospective buyer after receiving the reply to his enquiry letter, may decide to place an order with that business house which offers goods at minimum price and at favourable terms and conditions. Letters written by a buyer to the seller placing the order to purchase the goods is called Order Letter.
- **Complaint Letter:** A Complaint Letter is written when the buyer does not find the goods up to his satisfaction. It is normally written by the buyer when he receives wrong, defective or damaged goods or receives incorrect quantity of goods. It can also be written directly to the transit authority when the goods are damaged in transit. Thus, we may define a letter of complaint as the letter that draws the attention of the supplier or any other party on account of supply of defective or damaged goods.
- **Recovery Letter:** The letter written by the seller for collection of money for the goods supplied to the buyer is called recovery letter. The aim of recovery letter is to collect money without annoying the customers. The letter should include information regarding the amount of arrears, argument for payment, and last date for payment. The language of recovery letter should be polite, so that the customer is not offended and future transactions with him are not adversely affected.

➢ **Points to be kept in mind while writing letters of enquiry:**

- Letters of enquiry should clearly state the information required, which may be asking for a price list or a sample.
- Write specifically about the design, size, quantity, quality, etc., of the product or service in which the buyer is interested.
- The period or the date, till which information is required, may also be mentioned.

➢ **Points to be considered while writing a complaint letter:**

- Complaint letters should be written immediately after receiving the defective goods.
- Mistakes as well as difficulty due to mistake should be mentioned clearly.

- Proposal to correct the mistakes should be made.
- Suggestions on how the complaint should be dealt with, *i.e.,* mention of compensation, replacement, discount, cancellation, etc. should be made.
- Mention period in which the corrective action should be taken.
- Request to be careful in future.

➢ **Solicited Letter:** A Solicited Letter is in response to an advertisement/sales letter of a seller. Already the buyer has some information on the product or service. He requires further details. It is not as lengthy as an unsolicited enquiry. The questions relate to particular areas of a sale/service. A solicited enquiry may ask for a brochure/ bulletin/catalogue or for a clarification of the items mentioned in them.

➢ **Unsolicited Letter:** A job seeker may desire employment with a particular company that has not posted open job requisitions. In this case, an unsolicited application letter is used as an inquiry about possible openings and to gain a hiring managers attention.

➢ **Interview Call Letter:** An Interview Call Letter is a written invitation sent to a candidate, applicant, or a job aspirant inviting him/her for a 'face-to-face' interview at the employer's office or at the venue which an employer decides to conduct the interviews. This letter is very often called a Call Letter. During the recruitment process, once a candidate has sent in a resume, an HR representative of the company screens the candidates to see if they match the company's job requirement. If they find the candidate's profile fit or suitable for the required job position, the employer will issue a job interview letter.

An Interview Letter must have details of the exact date, time, contact person's name and place where the interview will be conducted. The company representative may also include specific details about the interview procedure, like how many rounds will be there, what documents to carry, etc.

➢ **Appointment Letter:** The letter written by the employer requesting the selected candidates to join in a specific position is known as Appointment Letter. Appointment letter is also called 'Job Offer letter' or 'Job Letter'.

An Appointment Letter is a legally binding document that confirms that an organization has offered a position to an employee and he has accepted the terms and agreement in exchange for a salary.

➢ **A Letter of Resignation** is a document that notifies an employer that the employee is leaving his/her job.

➢ **Report:** A Report may be defined as an organized statement of facts relating to a particular subject prepared after an inquiry or investigation and presented to the interested persons with or without recommendations.

- Report is a message presented before the management after making detailed inquiry or investigation with or without opinions or recommendations.
- *C.A. Brown* defines it as "A report is a communication from someone who has some information to someone who wants to use this information."
- Report is a self-explanatory statement of facts relating to a specific subject and serves the purpose of providing information for decision making and follow up actions. It is a systematic presentation of ascertained facts about a specific event.
- **Types of Reports:**
  - Statutory
  - Non-statutory
  - Private
  - Public
  - Informational
  - Interpretative
  - Routine
  - Periodic
  - Special

➢ A **Routine Report** is prepared at regular intervals in the routine course of business. It is prepared and presented as a routine work and at a regular period of time. A routine report contains some facts or information either in detail or in a summarized form without any opinion or recommendations.

➢ A **Special Report** is a report submitted by a committee or commission which is appointed for a specific purpose. A Special Report is prepared and presented not as a matter of routine. This is prepared on the basis of some enquiry or investigation either by a single individual or by a body or a committee or a sub-committee or a commission specially formed or entrusted with the duty.

➢ **Statutory Reports** are those which have to be prepared by a company under the provisions of the Companies Act or by a registered society registered under the Societies Registration Act or by a co-operative society registered under the Cooperative Societies Act and a copy of such report has to be submitted to the respective Registrar.

➢ **Non-Statutory Reports** are prepared and submitted to management to facilitate planning and control. These are those which have to be prepared formally but there is no compulsion under law to be submitted to any authorized person.

- An **Informational Report** presents the data collected or facts observed in an organized form. It does not contain conclusions or recommendations. An informative report is prepared and presented with the help of available information at the maximum with regard to an issue or situation.
- An **Interpretative Report** not only contains the facts, views and opinions of reporters and others but also includes the causes for an issue or an event and required remedial action with recommendations.
- A **Public Report** is a report which is made public or disclosed to the public.
- A report which is of a confidential nature and is meant for a particular individual is known as **Private Report**. Its contents are not disclosed or made public.
- It is a report which is prepared and submitted at regular periodical intervals known as **Periodic Report**.

Know the Terms

- **Complimentary Close:** A complimentary close is placed after the body of the message as a way to politely end the correspondence.
- **Shareholder:** A shareholder is an individual or institution that legally owns one or more shares of the share capital of a public or private corporation.
- **Probation Period:** Probation can be broadly defined as a trial period for newly recruited workers. Probation periods commonly last for three months, six months, or a year.

TOPIC-2
Current Trends in Business Communication

Revision Notes

- **E-mail** is a system of sending written messages electronically from one computer to another.
    - E-mail is an important method of business communication that is fast, cheap, accessible and easily replicated. Use of e-mail can greatly benefit businesses as it provides efficient and effective ways to transmit all kinds of electronic data.
    - E-mail in business can be used for intra-company communications, marketing purposes and coordinating with business partners, suppliers and customers. Some common advantages of business e-mail over traditional mail or telephone communications are cost reductions, lower overhead and speed. Email software is available for every size business, allowing for customized business and employee interactions.
- A **Video Conference** is a live, visual connection between two or more people residing in separate locations for the purpose of communication. At its simplest, video conferencing provides transmission of static images and text between two locations. At its most sophisticated, it provides transmission of full-motion video images and high-quality audio between multiple locations.
    - Video Conferencing is a technology that allows users in different locations to hold face-to-face meetings without having to move to a single location together. This technology is particularly convenient for business users in different cities or even different countries because it saves the time, expense and associated with business travel. Uses for video conferencing include holding routine meetings, negotiating business deals and interviewing job candidates.

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III. BUSINESS SIZE AND FINANCE

Chapter - 3 : Various Business Entities

Revision Notes

- **Sole Proprietorship** is a popular form of business organisation and is the most suitable form for small businesses, especially in their initial years of operation.
    - Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks. This is evident from the term itself.

- The word "Sole" implies "Only", and "Proprietor" refers to "Owner." Hence, a sole proprietor is the one who is the only owner of a business.
- This form of business is particularly common in areas of personalised services such as beauty parlours, hair salons and small scale activities, like running a retail shop in a locality.

➢ **Definitions:**

- In the words of *J.L. Hanson*, "Sole trader is a type of business unit where a person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of business."
- In the words of *L.H. Haney*, "The individual proprietorship is the form of business organisation at the head of which stands an individual as one who is responsible, who directs its operations and who alone runs the risk of failure."

➢ **Partnership** is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business, and share its profit. The persons who form a partnership are individually known as Partners and collectively a firm or Partnership firm.

- It is a type of business organization in which two or more individuals pool money, skills, and other resources, and share profit and loss in accordance with terms of the partnership agreement. In absence of such an agreement, a partnership is assumed to exist where the participants in an enterprise agree to share the associated risks and rewards proportionately.
- Partnership form of business organisation in India is governed by the Indian Partnership Act, 1932 which defines partnership as "the relation between persons who have agreed to share the profits of the business carried on by all or any of them acting for all."

➢ **Definitions:**

- According to *L. H. Haney*, "Partnership is the relation between persons competent to make contracts who have agreed to carry on a lawful business in common with a view to private gain."
- As per *The Indian Contract Act*, "Partnership is the relation which subsists between persons who have agreed to combine their property, labour or skill in some business and to share the profits there from between them."

➢ **A Private Company means a company which:**

- restricts the right of members to transfer its shares;
- has a minimum of 2 and a maximum of 200 members, excluding the present and past employees;
- does not invite public to subscribe to its share capital; and
- must have a minimum paid-up capital of ₹ 1 lakh or such higher amount which may be prescribed from time-to-time.
- It is necessary for a private company to use the word private limited after its name. If a private company contravenes any of the aforesaid provisions, it ceases to be a private company and loses all the exemptions and privileges to which it is entitled.
- A Private Ltd. company is one that is not listed on a stock exchange and is held privately by the members.

➢ **Public company** refers to a company that is listed on a recognised stock exchange and traded publicly.

➢ **A Public Company means a company which is not a private company. As per the Companies Act, 2013, a Public company is one which:**

- has a minimum paid-up capital of ₹ 5 lakh or a higher amount which may be prescribed from time-to-time;
- has a minimum of 7 members and no limit on maximum members;
- has no restriction on transfer of shares; and
- is not prohibited from inviting the public to subscribe to its share capital or public deposits.

➢ A Private company which is a subsidiary of a public company is deemed to be a public company.

Know the Terms

➢ **Share Capital:** Share capital denotes the amount of capital raised by the issue of shares, by a company.

➢ **Partnership Deed:** A partnership deed is an agreement between the partners of a firm that outlines the terms and conditions of partnership among the partners.

➢ **Public Deposits:** Public deposits refer to the unsecured deposits invited by companies from the public mainly to finance working capital needs.

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Chapter - 4 : Sources of Business Finance

Revision Notes

- **Introduction:** Business is concerned with the production and distribution of goods and services for the satisfaction of needs of society. For carrying out various activities, business requires money. Finance, therefore, is called the life blood of any business. The requirements of funds by business to carry out its various activities is called Business Finance.
- **Equity shares** are the most important source of raising long-term capital by a company. Equity shares represent the ownership of a company and thus the capital raised by issue of such shares is known as ownership capital or owner's funds. Equity share capital is a prerequisite to the creation of a company.
  - Equity shareholders do not get a fixed dividend but are paid on the basis of earnings by the company. They are referred to as 'residual owners' since they receive what is left after all other claims on the company's income and assets have been settled. They enjoy the reward as well as bear the risk of ownership. Their liability, however, is limited to the extent of capital contributed by them in the company. Further, through their right to vote, these shareholders have a right to participate in the management of the company.
- **Preference shareholders** enjoy a preferential position over equity shareholders in two ways: **(i)** receiving a fixed rate of dividend, out of the net profits of the company, before any dividend is declared for equity shareholders; and **(ii)** receiving their capital after the claims of the company's creditors have been settled, at the time of liquidation.
  - The capital raised by issue of preference shares is called **Preference Share Capital**.
  - The preference shareholders have a preferential claim over dividend and repayment of capital. Preference shares resemble debentures as they bear fixed rate of return. Also, as the dividend is payable only at the discretion of the directors and only out of profit after tax, to that extent, these resemble equity shares.
  - Thus, preference shares have some characteristics of both equity shares and debentures. Preference shareholders generally do not enjoy any voting rights.
- **Debentures** are an important instrument for raising long-term debt capital. A company can raise funds through issue of debentures, which bear a fixed rate of interest.
  - The debenture issued by a company is an acknowledgment that the company has borrowed a certain amount of money, which it promises to repay at a future date.
  - Debenture holders are, therefore, termed as creditors of the company. Debenture holders are paid a fixed stated amount of interest at specified intervals say six months or one year.
- A **Bond** is a fixed income investment in which an investor lends money to an entity which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies to raise money and finance a variety of projects and activities. Owners of bonds are debt holders, or creditors, or the issuer.
  - A company generally does not distribute all its earnings amongst the shareholders as dividends. A portion of the net earnings may be retained in the business for use in the future. This is known as **retained earnings**.
- **Retained earnings** are the source of internal financing or self-financing or 'ploughing back of profits'. The profit available for ploughing back in an organisation depends on many factors like net profits, dividend policy and age of the organisation.
  - The deposits that are raised by organisations directly from the public are known as public deposits. Rates of interest offered on public deposits are usually higher than that offered on bank deposits. Any person who is interested in depositing money in an organisation can do so by filling up a prescribed form.
- The organisation in return issues a deposit receipt as an acknowledgment of the debt. **Public deposits** can take care of both medium and short-term financial requirements of a business. The deposits are beneficial to both the depositor as well as to the organisation. While the depositors get higher interest rate than that offered by banks, the cost of deposits to the company is less than the cost of borrowings from banks. Companies generally invite public deposits for a period up to three years. The acceptance of public deposits is regulated by the Reserve Bank of India.
- **Trade credit** is the credit extended by one trader to another for the purchase of goods and services. Trade credit facilitates the purchase of supplies without immediate payment. Such credit appears in the records of the buyer of goods as 'sundry creditors' or 'accounts payable' or trade payable.

- Trade credit is commonly used by business organisations as a source of short-term financing. It is granted to those customers who have reasonable amount of financial standing and goodwill. The volume and period of credit extended depends on factors such as reputation of the purchasing firm, financial position of the seller, volume of purchases, past record of payment and degree of competition in the market.
- Terms of trade credit may vary from one industry to another and from one person to another. A firm may also offer different credit terms to different customers.

➢ A **bank loan** is an amount of money borrowed for a set period within an agreed repayment schedule. The repayment amount will depend on the size and duration of the loan and the rate of interest. Many businesses use bank loans as a suitable part of their financial structure.

- In fact, bank loans tend to be easily available for well-established and growing businesses rather than start-up businesses. The reason for this is risk: banks prefer to loan to businesses with an established track record of profitability, which makes them more likely to be able to repay the loan and interest on time.
- A company seeking to expand its business needs to sell to new customers, sometimes in new markets. For the treasurer, this raises two problems. Firstly, there is the risk that payment may not be received from the new counterparties. Secondly, as payment is being sought, working capital may remain tied up as credit terms are extended to these new counterparties. Using bills of exchange, when trading in foreign markets can help to solve both these problems.

➢ **Global Depository Receipts (GDRs):** The local currency shares of a company are delivered to the depository bank. The depository bank issues depository receipts against these shares. Such depository receipts denominated in US dollars are known as Global Depository Receipts (GDRs).

- GDR is a negotiable instrument and can be traded freely like any other security. In the Indian context, a GDR is a financial instrument (share) issued abroad by an Indian company to raise funds in some foreign currency and is listed and traded on a foreign stock exchange.
- A holder of GDR can convert it into the number of shares it represents at any time. The holders of GDRs do not carry any voting rights but receive only dividends and capital appreciation.

➢ **Angel investors** are wealthy individuals or groups of individuals who invest money or equity financing in start-up or early stage of small businesses. They are investors who usually provide private equity or second-round funding for growing, profitable small businesses that need money to continue to grow. After family and friends, as well as the small business owner, provides the seed money for start-up companies, the companies then have to turn to either debt or equity financing in order to survive and move forward.

➢ **Venture capital** is the financing in the form of seed capital to start-up companies and small businesses that are believed to have long-term growth potential.

- Venture capital generally comes from well-off investors, Investment Banks and any other financial institutions. However, it does not always take just a monetary form; it can be provided in the form of technical or managerial expertise as well.
- Venture capital provides long-term, committed share capital, to help unquoted companies grow and succeed. If an entrepreneur is looking to start-up, expand, buy-into a business, buy-out a business in which he works, turn around or revitalise a company, venture capital could help do this. Obtaining venture capital is substantially different from raising debt or a loan from a lender. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of the success or failure of a business.
- Venture capital is invested in exchange for an equity stake in the business. As a shareholder, the venture capitalist's return is dependent on the growth and profitability of the business.

➢ **Crowd-funding** is the use of small amounts of capital from a large number of individuals to finance a new business venture.

- Crowd-funding makes use of the easy accessibility of vast networks of people through social media and crowd-funding websites to bring investors and entrepreneurs together, and has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists.

➢ **Peer-to-Peer (P2P)** lending is a fast-growing way for businesses to raise loan finance without having to use the traditional banking sector. P2P lending involves raising a loan from a group of individuals or institutions and is a very flexible source of borrowing, with the minimum loan amount.

- Peer-to-Peer (P2P) lending is a method of debt financing that enables individuals to borrow and lend money without the use of an official financial institution as an intermediary. Peer-to-peer lending removes the middleman from the process, but it also involves more time, effort and risk than the general brick-and-mortar lending scenarios.

Know the Terms

- **Owners' Funds:** Owners' funds consist of the amount contributed by the owner and their profit reinvested in business.
- **Borrowed Funds:** These funds include funds available in the form of loans or credit.
- **Financial Institutions:** A financial institution is a company that focuses on dealing with financial transactions, such as investments, loans, and deposits.

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IV. GLOBALISATION AND RECENT TRENDS IN BUSINESS

Chapter - 5 : Globalisation and Outsourcing

TOPIC-1
Globalisation: Concept

Revision Notes

- **Globalisation** has different meanings to different people. Some thinkers view it as the process of advancement of human beings, while some view it as the process of social integration and human insecurity.
  - In simple economic terms, globalisation refers to the process of integration of the world into one huge market.
  - Globalisation refers to the integration of markets in the global economy, leading to the increased interconnectedness of national economies.
  - *The European Commission* has defined globalisation as "the process by which markets and production in different countries are becoming increasingly interdependent due to dynamics of trade in goods and services and flow of capital and technology."
  - Globalisation may be termed as the process driven by interconnectedness of the countries in the form of trade activities, flow of financial and human capital, transfer of technologies.
- **Nature of Globalisation:**
  - Liberalisation
  - Globalisation of Economic Activity
  - Privatisation
  - Economic Reforms
  - Borderless Globe
  - Free trade
  - Liberalisation of Import-Export System
  - Increased Collaborations
  - Connectivity
  - A Multi-dimensional Process
- **Opportunities from Globalisation:**
  - Exposes firms to international competition.
  - Helps the developing countries to improve the allocative efficiency of resources.
  - Helps to restructure the production and trade pattern in favour of labour intensive goods and technologies.
  - Helps in increasing in employment opportunities over a period of time.
- **Threats due to Globalisation:**
  - Globalisation has been linked to rising inequalities in income and wealth.
  - Globalisation leads to irreversible damage to ecosystems, land degradation, deforestation.
  - Downtrend in international economic activity causes greater damage to globalised economies.
  - Globalisation leads to redistribution of economic and political power.
  - Globalisation creates tremendous pressure for structural adjustment.
- **Transformation of business by Globalisation:**
  - Dominance of multi-nationals
  - Liberalisation of foreign investment

- Growing competition
- Globalisation of markets
- Globalisation of production
- Telecommunications

Know the Terms

- **Liberalisation:** Abolishing licensing requirements, simplifying export-import procedure as well as attracting FDI to India.
- **Privatisation:** Giving greater role to the private sector in nation building process.
- **Economic Reforms:** Economic reforms refer to the fundamental changes that were launched in 1991 with the plan of liberalising the economy and quickening its rate of economic growth.

TOPIC-2
Outsourcing: Concept

Revision Notes

- **Outsourcing:** It refers to a long-term contracting out, generally the non-core and of late even some of the core activities to captive or third party specialists with a view to benefiting from their experience, expertise, efficiency and, even investment.
  - This simple definition leads one to the salient features of the concept that are not peculiar to an industry or business or country, but have become a global phenomenon.
  - Outsourcing is the practice of having certain job functions done outside a company instead of having an in-house department or employees handle them; functions can be outsourced to either a company or an individual.
  - Outsourcing is the contracting out of a company's non-core, non-revenue producing activities to specialists. It differs from contracting in that outsourcing is a strategic management tool that involves the restructuring of an organization around what it does best—its core competencies.
  - The outside company, which is known as the service provider or a third-party provider, arranges for its own workers or computer systems to perform the tasks or services either on site at the hiring company's own facilities or at external locations.

Know the Terms

- **Outsourced:** The external agency which agrees to perform certain functions and processes it the outsourced.
- **Outsourcer:** A company that procures some of its goods or services form usually smaller specialized companies. It is called outsourcer.
- **Service provider:** The agency or the individual, who actually performs the function, is called service provider.

TOPIC-3
Types of Outsourcing

Revision Notes

- **Business Process Outsourcing (BPO)** is the contracting of non-primary business activities and functions to a third-party provider. (BPO) services include payroll, human resources (HR), accounting and customer/call center relations.

  Business Process Outsourcing or (BPO) is outsourcing of some of the business functions to a third party in order to save money. It usually consists of the back office or front office operations. While front office services are related to client interaction and customer support, back office services are related to finance and HR. If outsourcing is done to a company situated outside the parent company's country, it is known as offshore outsourcing.

- **KPO** is an extension of Business Process Outsourcing (BPO) because BPO Industry is shaping into Knowledge Process Outsourcing because of its advantageous and favourable future scope.

  Knowledge Process Outsourcing or (KPO) is a subset of BPO. KPO involves outsourcing of core functions which may or may not give cost benefit to the parent company but surely helps in value addition. The processes which are outsourced to KPOs are usually more specialized and knowledge based as compared to BPOs. Services included in KPO are related to R&D, capital and insurance market services, legal services, biotechnology, animation and design, etc., are the usual activities that are outsourced to KPOs.
- **Legal Process Outsourcing or (LPO)** is the exporting of legal services to low-wage markets overseas. An increasing number of companies, large and small, are outsourcing legal work to destinations across the globe. LPO or Legal Process Outsourcing is special type of KPO dealing with legal services.

  LPO is the industry in which in-house legal departments or organizations outsource legal work from areas where it is costly to perform, such as the United States or Europe to areas where it can be performed at a significantly decreased cost, primarily India. Legal Process Outsourcing is a high-end industry that has been growing rapidly in the recent years.

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Chapter - 6 : E-Business

TOPIC-1
e–Business

Revision Notes

- **e-Business:** If the term business is taken to mean a wide range of activities comprising industry, trade and commerce; e-business may be defined as the conduct of industry, trade and commerce using the computer networks. The network is the internet.
- **e-Business versus e-Commerce:** Though, many a times, the terms e-business and e-commerce are used interchangeably, yet more precise definitions would distinguish between the two. Just as the term 'business' is a broader term than 'commerce', e-business is a more elaborate term and comprises various business transactions and functions conducted electronically, including the more popular gamut of transactions called 'e-commerce'.
  - e-commerce covers a firm's interactions with its customers and suppliers over the internet. e-business includes not only e-commerce, but also other electronically conducted business functions such as production, inventory management, product development, accounting and finance and human resource management. e-business is, therefore, clearly much more than buying and selling over the internet, *i.e.*, e-commerce.
- **e-business** (electronic business) is the conduct of business processes on the Internet. These electronic business processes include buying and selling products, supplies and services; servicing customers; processing payments; managing production control; collaborating with business partners; sharing information; running automated employee services; recruiting; and more.
- **Electronic business** (e-business) refers to the use of the Web, Internet, intranets, extranets or some combination thereof to conduct business. E-business is similar to E-business, but it goes beyond the simple buying and selling of products and services online. E-business includes a much wider range of businesses processes, such as supply chain management, electronic order processing and customer relationship management. E-business processes, therefore, can help companies to operate more effectively and efficiently.
- **e-Business** is the term used to describe the information systems and applications that support and drive business processes, most often using web technologies.
- **e-Business** allows companies to link their internal and external processes more efficiently and effectively, and work more closely with suppliers and partners to better satisfy the needs and expectations of their customers, leading to improvements in overall business performance.
- **e-Business** can be defined as "the use of networks and information technology in order to electronically design, market, buy, sell and deliver products and services worldwide". e-Business, meaning 'electronic-business', deals with application of information and communication technologies, in short an electronic medium in support of all the activities of business.
- **Importance of e-Business:**
  - e-Business helps in cost reduction.
  - e-Business helps in customer satisfaction.

- e-Business helps to acquire just-in-time Information.
- e-Business helps in transaction efficiency.
- Ease of access to global market through e-business.

Know the Terms

- **Supply Chain Management:** Supply chain management is the management of the flow of goods and services and includes all processes that transform raw materials into final products.
- **Customer Relationship Management:** Customer relationship management is a process in which a business or other organization administers its interactions with customers, typically using data analysis to study large amounts of information.
- **ATM:** It stands for Automated teller machine. It is used to withdraw or deposit money anytime and anywhere without visiting the bank branch.

TOPIC-2
Online Means of Conducting Business

Revision Notes

- **B2B** refers to businesses that are focused on selling products or services to other companies through internet/ online medium are called B2B, or Business-to-Business.
- **B2C** is the type of commerce transaction in which businesses sell products or services to consumers through internet. More recently, the term B2C refers to the online selling of products, or e-tailing, in which manufacturers or retailers sell their products to consumers over the Internet.
- **C2C** is a business model that facilitates the transaction of products or services between customers. An example of C2C would be the classified section of a newspaper, or an auction. In both of these cases, a customer and not a business, sells goods or services to another customer.
- **Intra-B Commerce:** Here, parties involved in the electronic transactions are from within a given business firm, hence, the name intra-B commerce.
- **G2B** (Government to Business) is a term that refers to the relationship between organizations (subjects) of public administration and enterprises (businesses), *e.g.*, government website which supports auctions tenders, sending certificates and license, etc.
- **B2G** model is a variant of B2B model. Such websites are used by governments to trade and exchange information with various business organizations. Such websites are accredited by the government and provide a medium to businesses to submit application forms to the government, *e.g.*, paying taxes, filling reports, etc.

Know the Terms

- **e-Tailing:** Electronic retailing (E-tailing) is the sale of goods and services through the Internet.
- **Retailer:** A person or business that sells goods to the public in relatively small quantities for use or consumption rather than for resale is call retailer.
- **Marketing:** It refers to identifying a group of potential customers and finding out ways to convince them to buy the company's product.

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V. BUSINESS REGULATORS AND INTERMEDIARIES

Chapter - 7 : Business Regulators and Intermediaries

Revision Notes

- **Regulator:** A regulator is a person or an organization appointed by the government to regulate an area of activity such as banking or industry.

- **Intermediary:** Intermediary means the agent acting on behalf of investors in a Fund, including a company, partnership, limited partnership or individual, and including any appointed representative of such intermediary.
  - Firm or person (such as a broker or consultant) who acts as a mediator link between parties to a business deal, investment decision, negotiation, etc.
  - In money markets, for example, banks act as intermediaries between depositors seeking interest income and borrowers seeking debt capital. Intermediaries usually specialize in specific areas, and serve as a conduit for market and other types of information.
- The **Reserve Bank of India (RBI)** is the Central Bank of India. The Reserve Bank of India uses monetary policy to create financial stability in India, and it is charged with regulating the country's currency and credit systems.
- A **Non-Banking Financial Company (NBFC)** is a company registered under the Companies Act, 2013 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

  A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump-sum or in installments by way of contributions or in any other manner, is also a non-banking financial company. (Residuary non-banking company)
- **The Securities and Exchange Board of India (SEBI)** is the designated regulatory body for the finance and investment markets in India. The Board plays a vital role in maintaining stable and efficient financial and investment markets by creating and enforcing effective regulation in India's financial marketplace.
- A **Stock Exchange or Securities Exchange** is an exchange, where stock brokers and traders can buy and sell securities, such as shares or stock and bonds and other financial instruments.

  Stock exchanges may also provide facilities for the issue and redemption of such securities and instruments and capital events including the payment of income and dividends.
- **A Stockbroker** is a regulated professional individual, usually associated with a brokerage firm or broker-dealer, who buys and sells stocks and other securities for both retail and institutional clients through a stock exchange or over the counter in return for a fee or commission.
- **Depository** in simple terms is an institution which holds your securities in a dematerialized form. In this case a Depository is an institution which holds your Shares, Government Bonds, Mutual funds etc., on your behalf. Like a Bank is to your Fixed Deposits, Cash and Recurring Deposits, a Depository is to your Shares, Holdings, and Government Bonds, etc.
- A **Mutual fund** is an investment vehicle made up of a pool of savings collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets. Mutual funds are operated by professional money managers, who allocate the fund's investments and attempt to produce capital gains and/or income for the fund's investors.

  A Mutual fund collects money from investors and invests the money on their behalf. It charges a small fee for managing the money.
- A **Credit rating agency** is an entity which assesses the ability and willingness of the issuer company for timely payment of interest and principal on a debt instrument.
- **Insurance Regulatory and Development Authority of India (IRDAI)** is a statutory body formed under an Act of Parliament, *i.e.*, Insurance Regulatory and Development Authority Act, 1999 (IRDAI Act, 1999) for overall supervision and development of the Insurance sector in India.

  The powers and functions of the Authority are laid down in the IRDAI Act, 1999 and Insurance Act, 1938. The key objectives of the IRDAI include promotion of competition so as to enhance customer satisfaction through increased consumer choice and fair premiums, while ensuring the financial security of the Insurance market.
- An **Insurance company** is a company that offers insurance policies to the public, either by selling directly to an individual or through another source such as an employee's benefit plan. An insurance company is usually comprised of multiple insurance agents. An insurance company can specialize in one type of insurance, such as life insurance, health insurance, or auto insurance, or offer multiple types of insurance.

  An **Insurance broker** is a specialist in insurance and risk management. Brokers act on behalf of their clients and provide interests of their clients.

Know the Terms

- **Money Market:** The market where short-term securities are sold and purchased is called money market.
- **Capital Market:** A market where long-term securities are sold and purchased is called capital market.

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